DBSA

Development Bank
of Southern Africa

INTEGRATED ANNUAL REPORT 2013

Growing a focused, sustainable and developmental DBSA

CONTENTS

ABOUT THIS REPORT

The Development Bank of Southern Africa (DBSA) is pleased to publish its first Integrated Annual Report, compiled and presented in line with the requirements of the King Code and Report on Governance for South Africa (King III). King III has introduced new standards of global best practice in reporting, and we are on a journey to implement these standards within our organisation. We aim to improve our disclosure year-on-year, providing our stakeholders with a balanced and transparent understanding of our business. We also aim to give a comprehensive report on the financial performance and position of the DBSA Group, its material issues and opportunities, and how these underpin and inform our strategic objectives. In so doing, we aim to communicate to our stakeholders how we create value as an integral component of the South African development agenda and how we will ensure that our value creation is sustainable in the long run.

We hope that this Integrated Annual Report will give you a better understanding of our business – who we are, how we do business, and where we hope to be in the future. We are committed to improving on this report and would appreciate your feedback in this regard. Any comments can be emailed to Bathobile Sowazi, our Company Secretary, at corporatesecretariat@dbsa.org, or submitted to the DBSA premises at 1258 Lever Road, Headway Hill, Midrand.

SCOPE

This report covers the financial performance, operational highlights and strategic objectives of the DBSA and the DBSA Development Fund, a not-for-profit organisation. It should be noted that the Development Fund's Board of Directors has agreed to wind down the operations of the Fund during 2013/14. Consequently, with effect from 1 April 2013, the Fund's functions that are aligned to the mandate of the DBSA will be managed through the DBSA, and all financial support to the Fund will cease. Key operational highlights of the Fund have been incorporated into this report. The approved annual financial statements of the Fund are available from the registered offices of the DBSA.

This report covers the period 1 April 2012 to 31 March 2013. Except for changes in the presentation of the segment report to reflect the new structure of the Bank, there have been no restatements of financial information in respect of prior periods. The principle of materiality has been applied in determining the content and extent of disclosure in the Integrated Annual Report.

FORWARD LOOKING INFORMATION

This Integrated Annual Report contains certain forward looking statements on the financial performance and position of the DBSA. All forward looking statements are based solely on the views and considerations of the Directors. These statements involve risk and uncertainty, as they relate to possible events and circumstances in the future. Factors that could cause actual results to differ materially from those in the forward looking statements include, but are not limited to, global and national economic and market conditions, competitive conditions and regulatory factors. These forward looking statements have not been reviewed or reported on by the external auditors.

The DBSA's annual financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and the requirements of the Public Finance Management Act (PFMA) and the Companies Act, where appropriate.

EXTERNAL ASSURANCE

The Board is ultimately responsible for overseeing the integrity of the Integrated Annual Report. The Audit and Risk Committee assists in this task. The Board was further supported by DBSA management, which convened internal teams with the relevant skills and experience to undertake the reporting process and provided management oversight.

A combined assurance approach will be developed in future to ensure that integrated reporting principles are applied appropriately. This year, external assurance was limited to the audit opinion on the DBSA's annual financial statements.

SUSTAINABILITY REPORT

The Integrated Annual Report also includes the Bank's sustainability report and covers topics and indicators reflecting the DBSA's significant economic, environmental, social and labour practices and impacts that could substantively influence the assessment and decisions of important stakeholders.

PROFILE

The story of the DBSA is an unfolding one, which draws on a pedigree and wealth of skills that stretch back nearly three decades. It is an organisation rooted in southern Africa and respected among its peers for its commitment to its values of Ubuntu (human respect and interconnectedness), professionalism, a passion for development and knowledge sharing.

OUR VISION

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

OUR MISSION

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

The DBSA, owned by the government of South Africa, is one of several development finance institutions in South Africa and southern Africa. Its purpose is to accelerate sustainable socio-economic development to improve the quality of life of the people of the Southern African Development Community (SADC) by driving financial and non-financial investments in the social and economic infrastructure sectors. Social and economic infrastructure is defined as follows:

- Social infrastructure: Infrastructure aimed at addressing backlogs and expediting the delivery of essential social services to support sustainable living conditions and a better quality of life within communities.
- Economic infrastructure: Infrastructure aimed at addressing capacity constraints and bottlenecks in order to optimise economic growth potential.

As at 31 March 2013, the DBSA had development assets of R47.1 billion, spread across 13 SADC countries, mainly in energy, roads and drainage, sanitation, water, information and communications technology (ICT).

During the year under review, the DBSA embarked on an extensive organisational review process, which focused on improving the impact and effectiveness of the organisation. As a result, the Board of Directors adopted a new strategy and the structure of the Bank was fundamentally changed. Going forward, the Bank will accelerate its infrastructure to municipalities, state-owned enterprises, regional partners and public-private partnerships. It will seek opportunities to work with the private sector and diversify its product offerings. In addition, the Bank will provide direct infrastructure delivery support to the government in implementing important programmes in education, health, housing, the Jobs Fund and the Green Fund. Further details are provided in the strategy overview section from pages 20 to 24.

TIMELINE

1979

On 22 November 1979, the idea of a development bank was first mooted at a meeting of government officials at the Carlton Centre in Johannesburg.

1983

On, 1 September 1983, the DBSA was formally established. Its original objective was to perform a broad range of economic development functions within the homeland political dispensation that prevailed at this time.

1984

On 1 February 1984, the Bank took over the administration of 79 loan agreements to the value of R352 million, which the homeland states had concluded with the minority rule South African government. By 31 March 1984, the DBSA had 198 staff. For this first year of operation, it had 132 projects and three divisions: the General Manager's Division (Operations), the Programme and Project Management Division, and the Research and Strategic Planning Division. During September 1984, the DBSA signed its first loan agreement appraised internally by the Bank.

1990

This year, the Bank prepared for the first time to raise loans actively on the local and international markets. The target was to raise R175 million as the first part of R300 million of private sector funds to finance projects during 1990/91.

1993

As the DBSA celebrated 10 years in business, the focus was shifting towards becoming more effective and doing more to meet national development challenges head-on.

1994

South Africa's major political transition from minority rule to a constitutional democracy saw the emergence of the DBSA as a new entity with a new role in the new South Africa.

On 23 April 1997, Parliament passed the DBSA Act. This Act formally established the DBSA as a statutory body and set it up as a financier for infrastructure development and capacity support to the government.

1997

This year, DBSA loans and equity totalled R23 billion. The Bank was a well-established development finance institution within South Africa and across the sub-Saharan Africa region. There were growing expectations for the Bank to do more in support of the government's development agenda.

2000

The DBSA conducted an organisational review. The mandate was sharpened to concentrate on the DBSA's core business of providing finance for infrastructure development, as stipulated in section 3 of the DBSA Act. Investment activities were refocused on infrastructure funding and delivery.

2012

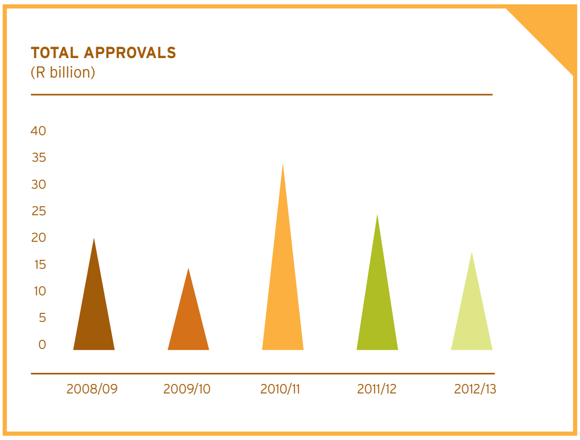
The National Treasury approved a R7.9 billion capital injection for the Bank over a period of three years, starting from April 2013 until March 2016. This is specifically aimed at supporting the DBSA's refocused mandate to drive its infrastructure funding by supporting municipal lending, the infrastructure plans of state-owned enterprises, regional lending and funding for public-private partnerships.

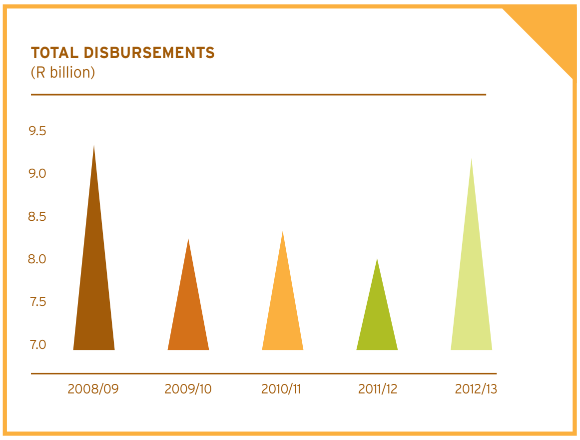
2013

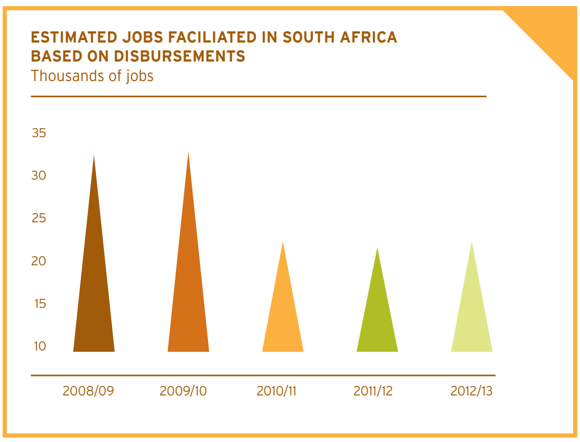
BUSINESS PERFORMANCE OVERVIEW

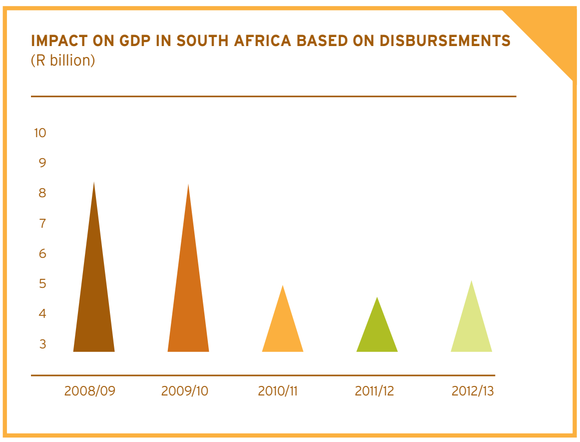
		2008/09	2009/10	2010/11	2011/12	2012/13
Total DBSA approvals[1]	R million	20 480	15 000	34 101	24 796	**18 135**
Average value per approval	R million	87.1	110.1	509.0	467.8	**267.7**
Number of investment approvals in period	Number	235	137	67	53	**68**
Disbursements	R million	9 306	8 257	8 336	8 034	**9 158**
Technical assistance grants disbursed	R million	82.5	67.5	65.2	58.8	**34.9**
Number of employees (excluding contractors, etc.)[2]	Number	608	680	703	629	**566**
Potential impact on direct employment[3, 5]	Number	31 200	31 600	22 200	21 200	**22 100**
Impact on GDP[4, 5]	R million	8 193	8 032	4 994	4 554	**5 184**

1. *Excludes technical assistance grants and terminations.*
2. *Details on contract employees are reflected on page 123.*
3. *Based on the DBSA's disbursements within South Africa only.*
4. *Based on the DBSA's disbursements within South Africa only, at constant 2012 prices.*
5. *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 figures are estimates of the average annual impact on the economy over the medium term. The model specifically incorporates the sectoral investment focus of the Bank.*







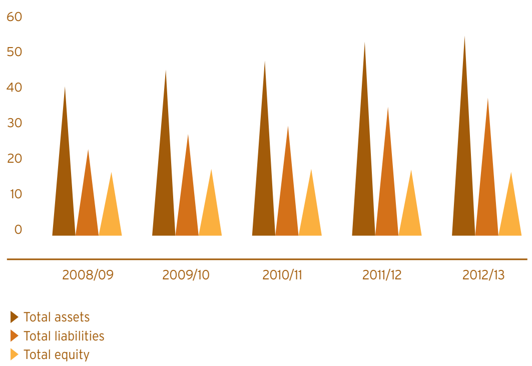


FINANCIAL PERFORMANCE OVERVIEW

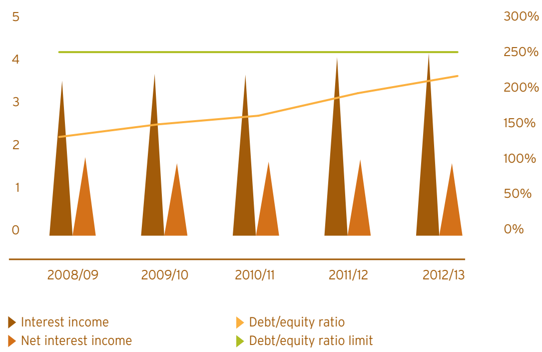
	2008/09	2009/10	2010/11	2011/12	2012/13
Financial position (R million)					
Cash and cash equivalents	2 475	2 707	1 180	2 113	**1 252**
Financial market assets	5 321	5 521	4 159	4 842	**4 859**
Investment in development activities[1]	31 997	36 133	41 323	44 432	**47 075**
Other assets	589	695	736	950	**754**
Total assets	40 382	45 056	47 397	52 337	**53 940**
Financial market liabilities[2]	22 405	26 327	28 588	33 612	**36 159**
Other liabilities	741	943	957	1 198	**1 075**
Total liabilities	23 146	27 270	29 546	34 810	**37 234**
Total equity	17 236	17 786	17 851	17 528	**16 706**
Financial performance (R million)					
Interest on development loans	2 784	3 077	3 119	3 514	**3 631**
Interest on investments	677	525	469	468	**437**
Total interest received	3 461	3 602	3 588	3 982	**4 068**
Interest expense	1 705	1 971	1 945	2 286	**2 442**
Net interest income	1 756	1 631	1 642	1 697	**1 626**
Operating income[3]	1 857	1 751	1 794	1 950	**1 938**
Operating expense[4]	669	716	758	779	**948**
Sustainable earnings/(loss)[5]	871	807	808	677	**(615)**
Profit/(loss) for the year	1 426	518	29	(371)	**(826)**
Financial ratios (%)					
Total capital and reserves to development loans	58.5	53.9	47.2	43.4	**39.2**
Long-term debt to equity	131.3	149.4	161.6	193.8	**217.4**
Debt/equity (including callable capital)[6]	131.3	117.6	127.4	152.2	**169.5**
Cash and cash equivalents to total assets	6.1	6.0	2.5	4.0	**2.3**
Total capital and reserves to assets	42.7	39.5	37.7	33.5	**31.0**
Financial market liabilities to investment in development activities	70.0	72.9	69.2	75.6	**76.8**
Non-performing book debt as a % of gross book debt	5.4	4.9	4.2	4.9	**7.3**
Return/(loss) on average total equity	8.6	3.0	0.2	(2.1)	**(4.8)**
Return/(loss) on average total assets	3.9	1.2	0.1	(0.7)	**(1.6)**
Interest cover (times)	2.0	1.8	1.8	1.7	**1.7**
Net interest income margin[7]	50.7	45.3	45.8	42.6	**40.0**
Cost-to-income ratio	36.0	40.5	42.2	39.9	**48.9**

1. *Development activities, development loans and equity investments.*
2. *Financial market liabilities comprise debt securities, lines of credit, funding under repurchase agreements, and derivative assets held for risk management.*
3. *Operating income excludes net foreign exchange gain/(loss), net gain/(loss) from financial assets and liabilities, and impairments.*
4. *Operating expense comprises personnel expenses, general and administration expenses, and depreciation.*
5. *Sustainable earnings/(loss): Net profit/(loss) before grants, and adjustments to foreign exchange and revaluation of financial assets and liabilities.*
6. *Measure includes R4.8 billion callable capital.*
7. *This ratio is calculated as net interest income (interest income less interest expense) over interest income.*

BALANCE SHEET GROWTH
(R billion)



INTEREST AND NET INTEREST INCOME VS DEBT/EQUITY RATIO
(R billion)



GOVERNOR'S MESSAGE

"In spite of these achievements, the challenge we continue to face as a country and a region is to transform the gains made into sustainable growth for the poor and unemployed."

South Africa has made remarkable progress in the transition to democracy. In nearly every facet of life, advances are being made in building an inclusive society and broadening opportunities for all. Notwithstanding our remarkable achievements, inequality in South Africa prevails and the quest to transform our economy remains a challenging, long-term project which must enhance human capital, productive capacity and infrastructure development. It is widely recognised that higher investment, supported by better public infrastructure and skills, will enable the economy to grow faster and become more productive. Similarly, increased employment and productivity will lead to rising incomes and living standards and consequently reduced inequality.

Over the next three years, the government will invest R827 billion in building new and upgrading of existing infrastructures. These investments will improve access by South Africans to healthcare facilities, schools, water, sanitation, housing and electrification. Simultaneously, investment in the construction of ports, roads, railway systems, power plants and bulk water schemes will contribute to faster economic growth. As one of the leading infrastructure development finance institutions the DBSA will support the government's delivery on these critical development imperatives.

PRAVIN GORDHAN
Governor of the DBSA
and Minister of Finance

Repositioning for greater impact

Over the years, the scope of activities of the DBSA has grown substantially. Following a comprehensive review of the DBSA's operations and strategy, the Board of Directors and I agreed on the need to focus on the core areas of infrastructure financing and the facilitation of infrastructure development. In addition, the operational model was also assessed and aligned accordingly. The government supports this process and trusts it will enhance the DBSA's efforts to establish itself as a centre of excellence for infrastructure development.

In support of the DBSA's core mandate, the government has committed to capitalise further the Bank. It is envisaged that this will strengthen the DBSA's contribution to municipal lending and regional efforts. Funding to state-owned enterprise infrastructure plans and public-private partnerships will also be supported.

Supporting infrastructure delivery

The economic environment is beset by challenges and increased investments are required to stimulate growth. In this regard, I am pleased to report total infrastructure funding disbursements of R9.2 billion for the 2012/13 financial year in favour of municipalities, state-owned enterprises and entities in the region to support key infrastructure projects. Capital is being provided to develop national roads, electricity generation and transmission, bulk water and numerous other projects. It is estimated that 22 100 job opportunities could be created in South Africa over the medium term.

Sustained support for infrastructure development and regional integration remain central to the Bank's efforts within SADC and the wider continent. During the year, the DBSA invested R1.5 billion in projects across southern and central Africa. It also sought to utilise opportunities for partnerships and actively participated in the financial cooperation mechanisms established within the BRICS structure with a view to mobilising resources for development and regional integration endeavours on the continent.

The Bank has continued to support the direct delivery of infrastructure in the sphere of education, job creation and the transition to a sustainable, green economy. The construction of 49 schools commenced in January 2012 as part of the Accelerated Schools Infrastructure Delivery Initiative (ASIDI), which seeks to provide decent school infrastructure through the eradication of mud schools and other inappropriate structures. In total 17 schools reached practical completion by the end of March 2013, with the remainder scheduled to be completed in the financial year ahead. On completion of the 49 units, an estimated 12 420 learners stand to benefit, 2 800 employment opportunities created and 109 small enterprises supported in the surrounding areas.

Supporting job creation

The DBSA remains the key implementing agency of the Jobs Fund. After two funding rounds, 66 projects has been approved for funding, R3.4 billion allocated to these projects, R3.5 billion in matched funding leveraged from project partners and R249 million disbursed. It is estimated that 100 524 jobs will be created by these projects and almost 56 194 work seekers placed. I have asked the DBSA and officials from the National Treasury to expedite the job creation process facilitated by the Jobs Fund by significantly ramping up the process and ensuring a rapid processing of applications and the allocation of funds.

In line with the government's objective to progress to a low-carbon and sustainable economy, the implementation of the Green Fund, which seeks to provide finance for high-quality, high-impact, job-creating green economy projects around the country, is showing considerable progress. As part of the first call-for-proposals, the Fund received a total of 590 applications to the value of R10.9 billion from organisations across South Africa, including non-profit entities, the private sector and government departments. Proposals received indicated significant market interest in renewable energy projects, new technologies for converting waste into energy, systems for efficient water management, biodiversity conservation, testing cleaner manufacturing technologies, and modelling for sustainable city planning. For the year ended 31 March 2013, the Green Fund approved projects to the value of R330 million and disbursed R35.1 million.

Despite our achievements, the challenge we face as a country and a region is to transform our gains into sustainable growth for the poor and unemployed. Institutions such as the DBSA become critical in addressing our complex socio-economic growth and development challenges. I would like to take this opportunity to express my support for the DBSA in the execution of its mandate. I am confident that the DBSA will deploy its resources in a responsible manner that will help achieve the development solutions we so urgently require.

Finally, I would like to thank the Chairman, Mr Jabu Moleketi and the Board, the new Chief Executive Officer, Mr Patrick Dlamini, and his executive management team, together with the dedicated staff of the DBSA for their continued support of the government's delivery objectives. The challenges ahead are considerable and we need a sense of urgency to deliver on our mandate to ensure a better quality of life for the people of South Africa.

Pravin Gordhan

Pravin Gordhan MP
Governor of the DBSA
and Minister of Finance

CHAIRMAN'S STATEMENT

"The DBSA has consistently strived to promote economic development and growth, human resources development and institutional capacity building in South Africa and the wider southern African region."

Since 1994, the DBSA has transformed itself into a development finance institution that leads and champions national and regional infrastructure development and integration. As such, the Bank has consistently strived to promote economic development and growth, human resources development and institutional capacity building in South Africa and the wider southern African region. Between March 1995 and March 2013, the DBSA's total asset base grew from R6.3 billion to R53.9 billion, whilst also expanding the nature and extent of its non-recoverable developmental expenditure. This was achieved without any additional capital injection from the state; rather, the Bank increased the amount of borrowing from private capital markets against its core equity. The growth was driven mainly by the Bank's developing reputation and its strong governance mechanisms.

Although the DBSA has sought to play a counter-cyclical role, it has not been immune to the impact of the economic climate, particularly given its dependence on the financial markets as a source of financing. Furthermore, in recent years, the Bank has experienced increased competition in the key areas of municipal, state-owned entity and regional infrastructure funding. While this has had a positive impact on the overall cost of infrastructure funding, it has negatively affected the financial position of the DBSA.

PHILLIP J MOLEKETI
DBSA Chairman of the Board

The turbulent international economic and financial environment in recent years has brought some challenges and risks for African economies seeking to grow and expand their operations across the continent. The negative impact of the economic downturn is likely to continue for some time and may even deepen. This is likely to dampen export markets and stifle capital flows not only in advanced economies but, also among emerging markets. Hence, the ability of South Africa and Africa to capitalise on infrastructure development and intra-continental trade to facilitate higher levels of industrialisation and economic growth is a priority. This means leveraging infrastructure investments not only to improve connectivity and trade flows within the continent, but also to boost the development of local industries, markets and skills. Increasing regional infrastructure integration and deepening continental markets are particularly important for South Africa's own sustainable growth path. However, progress in this regard continues to be impeded by institutional weaknesses and inadequate planning capabilities, alongside regulatory barriers, limited sovereign fiscal space and thin capital markets in many African countries. The result is a widening gap between infrastructure needs, access to infrastructure finance and the rate of infrastructure delivery.

Expediting infrastructure funding and development

Regarding our overall business performance in 2012/13, I am pleased to note that the DBSA has achieved satisfactory results in its funding operations, despite the many challenges in its operating environment. Project approvals for the year reached R18.1 billion, of which R12.6 billion is attributable to projects within South Africa. The approvals provide a good base for future funding activities. Total commitments of R13.2 billion and disbursements of R9.2 billion, close to the record level of R9.3 billion achieved during 2008/09, attest to the Bank's concerted efforts to expedite infrastructure funding and development.

The Bank's financial position remains sound. Growth in total assets of 2.7% (from R52.3 billion to R53.9 billion) was lower than anticipated. Near-record disbursements were, however, negated by higher-than-expected impairment charges and unexpected early repayments by a few large borrowers. The overall quality of the development loan book remains acceptable and the Board believes the Bank is well positioned for growth.

With regard to non-financing implementation support activities, the Bank performed satisfactorily. The shifting of responsibility for certain programmes from the DBSA Development Fund to the DBSA resulted in some disruption that affected delivery on the agreed targets. However, I have requested the DBSA to accelerate its implementation support for the delivery of key infrastructure programmes during the new financial year and to meet our targets in this regard.

Realigning strategy

As an organisation that strives for excellence in infrastructure development, the DBSA must continuously assess and adapt its strategy to address changes in its operating environment and fulfil shareholder expectations. Hence, during the year, the Board of Directors assessed the operations of the Bank, undertaking an extensive organisational review. This review helped to ensure that the core activities of the Bank were realigned and focused on its mandate. These core operations include infrastructure financing, infrastructure delivery and programme implementation support. To date, the DBSA has been playing a relatively small, ad hoc role in managing the design and construction of infrastructure projects. The Bank now has an opportunity to use its wide-ranging experience in the infrastructure space and its intellectual and human capital to help improve the quality and pace of infrastructure delivery. Further details are provided in the Chief Executive Officer's report and the strategic overview on pages 14 to 24.

As part of the organisational review, the relationship between the DBSA and the DBSA Development Fund was also assessed. The Fund supported the DBSA in providing technical, operational and capacity development support directly to different levels of the government's delivery value chain. During the year, some of the functions of the Fund were absorbed into government departments, while others were incorporated into the DBSA. Financial assistance to the DBSA Development Fund will now be discontinued. I would like to take this opportunity to thank the DBSA Development Fund Board, under the recent leadership of Prof Brian Figaji, for their cooperation, loyalty, dedication and skill in supporting the DBSA in achieving its capacity building and implementation objectives.

Finalising a new operating model

In order to take the strategy forward, the DBSA is finalising a new operating model, strengthening internal systems and processes, and enhancing its culture, skills and competencies. The Board mandated the executive team to implement a new organisational structure that will deliver on the strategy and to embark on initiatives to improve the operations of the Bank. The confidence the shareholder has shown in us will be repaid through effective and efficient delivery across the DBSA as an organisation.

Closing remarks

The Governor of the Bank, Minister Pravin Gordhan, has provided invaluable strategic guidance and support to the Bank during this challenging year. For this we are sincerely grateful. I wish to express my heartfelt appreciation to the new DBSA Chief Executive Officer, Mr Patrick Dlamini, and his dedicated management team and staff, for their hard work during the course of this year.

I am confident that even more will be achieved in 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.

I would like to thank Prof David Everatt, Prof Vivian Taylor and Dr Rivka Kfir, who provided valuable expertise in their role as co-opted members of the Development Planning Committee during the year.

Last, but not least, a special word of appreciation must also go to Ms Wendy Lucas-Bull for her dedicated support to the DBSA Board over the last seven and a half years as a Non-executive Director of the DBSA. I wish her all of the best in her new position as Chairperson of Absa Group Limited.

Phillip J Moleketi
DBSA Chairman of the Board

BOARD OF DIRECTORS

as at 31 March 2013

1 MR PHILLIP JABULANI MOLEKETI (56)

Director of Companies

DBSA Non-executive and Independent Director as from: 1 January 2010.

Chairman of the DBSA Board as from: 1 September 2010.

Academic qualifications:
- Advanced Management Programme, Harvard Business School, Boston.
- Masters of Science in Financial Economics, University of London.
- Postgraduate diploma in Economic Principles, University of London.

Other directorships:
- Brait Société Anonyme: Chairman (Non-executive).
- Harith Fund Managers (Pty) Limited: Non-executive Director.
- MMI Holdings: Non-executive Director.
- Remgro (Pty) Limited: Non-executive Director.
- Vodacom: Non-executive Director.

2 MR FRANS MSOKOLI BALENI (53)

General Secretary: National Union of Mineworkers

DBSA Non-executive and Independent Director as from: 1 January 2010.

Deputy Chairman of the DBSA Board as from: 1 September 2010.

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

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

3 MR PATRICK KHULEKANI DLAMINI (43)

Chief Executive Officer: DBSA

DBSA staff member and Chief Executive Officer as from: 1 September 2012.

Academic qualifications:
- Advanced Executive Programme, Kellogg School of Management.
- EDP, University of the Witwatersrand's Business School.
- Business Studies Unit, Natal Technikon.
- BCom, University of KwaZulu-Natal.

Other directorships:
BOPHYLD: Director.
Bridges Worldwide SA: Director.
Xcargo: Director.

4 DR LUNGILE BHENGU-BALOYI (55)

Founder and Director: Development and Leadership Consulting

DBSA Non-executive and Independent Director as from: 1 August 2011.

Academic qualifications:
- Doctorate (Public Administration), University of KwaZulu-Natal.
- MA (Social Policy), University of KwaZulu-Natal.
- LLM (Public Health Law), University of KwaZulu-Natal.
- Advanced University Diploma (Adult Education), University of KwaZulu-Natal.
- BSc (Dietetics), MEDUNSA.

Other directorships:
- AIDS Foundation of Southern Africa: Chairperson (Non-executive).
- DBSA Development Fund: Non-executive Director.

5 MR ANTHONY FRANK JULIES (48)

Chief Director: Strategy and Risk Management, National Treasury

DBSA Non-executive Director as from: 1 January 2013.

Academic qualifications:
- MBA Banking, University of London.
- Master of Arts (Economics), Wesleyan University.
- Bachelor of Education (BEd), University of Western Cape.
- Higher Diploma in Education (HDE), University of Western Cape.

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

6 MS THEMBISA DINGAAN (40)

Consultant and Director of Companies

DBSA Non-executive and Independent Director as from: 1 August 2007.

Academic qualifications:
- HDip Tax, University of the Witwatersrand.
- LLM, Harvard University, Boston.
- LLB, University of KwaZulu-Natal.
- BProc, University of KwaZulu-Natal.

Other directorships:
- Adapt IT Holdings Limited: Non-executive Director.
- Afripack (Pty) Limited: Non-executive Director.
- Apollo Tyres South Africa (Pty) Limited: Non-executive Director.
- Cardiac Mobile (Pty) Limited: Non-executive Director.
- Imperial Holdings Limited: Non-executive Director.
- Mustek Limited: Non-executive Director.
- Skweyiya Investment Holdings (Pty) Limited: Executive Director.
- Ukhamba Holdings: Non-executive Director.
- University of KwaZulu-Natal: Member of Council (Governing Body).
- Zeigler Investments (Pty) Limited: Non-executive Director.

7 MR ANDREW BORAINE (54)

Chief Executive: Cape Town Partnership;
Adjunct Professor: African Centre for Cities, University of Cape Town;
Acting Chief Executive: Western Cape Economic Development Partnership

DBSA Non-executive and Independent Director as from: 1 August 2005.

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

Other directorships:
- Cape Town International Convention Centre Company (Pty) Limited (Convenco): Director.
- DBSA Development Fund: Non-executive Director.

BOARD OF DIRECTORS continued

Note
Non-executive Director during the year:
Mr Kenneth Brown's term as shareholder representative ended 31 December 2012.

MS ALBERTINAH KEKANA (40)

8

Chief Executive Officer: Royal Bafokeng Holdings

DBSA Non-executive and Independent Director as from: 1 August 2011.

Academic qualifications:
- AMP, Harvard Business School, Boston.
- Chartered Accountant (SA).
- Postgraduate Diploma in Accounting, University of Cape Town.
- BCom, University of Cape Town.

Other directorships:
- Destiny Springs Investments: Director and Shareholder.
- Quoin Fund Manager: Non-executive Director.
- Vodacom Group: Non-executive Director.

MR OMAR ABOOBAKER LATIFF (59)

9

Director/Partner: PricewaterhouseCoopers

DBSA Non-executive and Independent Director as from: 1 August 2007.

Academic qualifications:
- Executive Programme: Financing Infrastructure in a Market Economy, Harvard Kennedy School, Harvard University.
- HDip Tax, University of KwaZulu-Natal.
- Chartered Accountant (SA).
- BCompt (Hons), University of South Africa.
- BCom (Accounting), University of KwaZulu-Natal.

Other directorships:
- DBSA Development Fund: Non-executive Director.
- HASMA Investments (Pty) Limited: Non-executive Director.
- Jodya cc: Member.
- PricewaterhouseCoopers Advisory Services (Pty) Limited: Director.
- PricewaterhouseCoopers Incorporated: Director.
- PricewaterhouseCoopers Partnership: Partner.

MS WENDY LUCAS-BULL (60)

10

Executive Director: Peotona Group Holdings (Pty) Limited

DBSA Non-executive and Independent Director between: 1 August 2005 and 31 March 2013.

Academic qualifications:
- BSc, University of the Witwatersrand.

Other directorships:
- Afrika Tikkun NPC: Non-Executive Director.
- Anglo Platinum (Pty) Limited: Non-executive Director.
- Peotona Development NPC: Executive Director.

MS BUSISIWE MABUZA (50)

11

Director of companies

DBSA Non-executive and Independent Director as from: 1 August 2011.

Academic qualifications:
- BA (Mathematics), City University of New York (Hunter College).
- MBA, Stern School of Business, New York University.

Other directorships:
- Afgri Limited: Non-executive Director.
- Airports Company South Africa: Non-executive Director.
- CEF (Pty) Limited: Non-executive Director.
- DBSA Development Fund: Non-executive Director.
- Forbes Africa: Non-executive Director.
- Industrial Development Cooperation: Non-executive Director.

DR CLAUDIA MANNING (47)

12

Managing Director: DAI Johannesburg

DBSA Non-executive and Independent Director as from: 1 August 2005.

Academic qualifications:
- DPhil, University of Sussex.
- MPhil, University of Sussex.
- BA Hons (Economic History), University of KwaZulu-Natal.
- BA, University of KwaZulu-Natal.

Other directorships:
- Basil Read Holdings: Non-executive Director.
- DBSA Development Fund: Non-executive Director.
- Sangena Investments: Non-executive Director.

MS DAWN MAROLE (53)

13

Chairman: Executive Magic (Pty) Limited Consulting

DBSA Non-executive and Independent Director as from: 1 August 2011.

Academic qualifications:
- Executive Leadership Development Programme, Gordon Institute of Business Science.
- MBA, NEU Boston Massachusetts.
- Diploma in Tertiary Education, University of South Africa.
- BCom (Accounting), University of Zululand.

Other directorships:
- Eyomhlaba Investment Holdings (Pty) Limited: Non-executive Director.
- Govhani Resources (Pty) Limited: Non-executive Director.
- JP Morgan Sub-Saharan Africa: Non-executive Director.
- MTN Group Ltd: Non-executive Director.
- Richards Bay Minerals (Pty) Limited: Non-executive Director.
- Santam Limited: Non-executive Director.

MS KAMESHNI NAIDOO (39)

14

Chief Financial Officer

DBSA staff member and Group Executive as from: 1 September 2012.

Academic qualifications:
- Chartered Accountant (SA).
- Advanced Certificate in Auditing University of Johannesburg.
- Certificate in the Theory of Accounting Science, University of KwaZulu-Natal.
- BCom Hons (Accounting) University of KwaZulu-Natal.

Other directorships:
None

MS MARY VILAKAZI (36)

15

Independent Consultant

DBSA Non-executive and Independent Director as from: 1 August 2011.

Academic qualifications:
- Chartered Accountant (SA).
- HDip Auditing, University of Johannesburg.
- BCom Hons (Accounting), University of the Witwatersrand.

Other directorships:
- Holdsport Limited: Non-executive Director.
- Kagiso Media Limited: Non-executive Director.
- MMI Holdings Limited: Non-executive Director.
- Zenzele Development Trust: Trustee.

MS Bathobile Sowazi

DBSA Corporate Secretariat

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

CHIEF EXECUTIVE OFFICER'S REPORT

"The DBSA Board of Directors initiated an organisational review during the year to ensure alignment with shareholder expectations which resulted in a strategy that aims to respond to growing funding needs."

PATRICK K DLAMINI
Chief Executive Officer

My appointment as Chief Executive Officer of the DBSA has come at a challenging time. Global economic developments continue to affect South Africa and the region negatively. Even the DBSA, which must play a counter-cyclical role through the development and funding of key infrastructure programmes, has not been immune to these adverse economic conditions.

As reflected in the Governor's foreword and the Chairman's report, the DBSA Board of Directors initiated an organisational review during the year to ensure alignment with shareholder expectations, respond to growing funding needs in national network infrastructure and adapt to changes in the operating environment. The review was also aimed at addressing the deteriorating performance in the Bank, and to ensure that the organisation remains operationally efficient, effective and financially sustainable. I cannot emphasise enough the need for the Bank to adapt to the changes in our operating environment and become more agile and more focused on our core business. Opportunities abound for leveraging infrastructure investments domestically, across SADC and, indeed, across the rest of our African continent. This is essential for our country's growth path as well as that of the continent.

Refining our strategy

Consequently, the DBSA strategy, as adopted by the DBSA Board during the year, will henceforth be premised on the following four pillars:

- Providing project preparation fund(s) to support infrastructure deal pipeline flow in favour of, among others, public-private and public-public partnerships and regional projects, such as the North-South Corridor.
- Financing operations, covering the municipal market, state-owned enterprises, public-private and public-public partnerships, private sector intermediaries and financing beyond South Africa, with a focus on supporting social and economic infrastructure.
- Ensuring project-implementation and capacity-building support to the government (non-financing-related support) to promote accelerated infrastructure delivery, focusing on the Jobs Fund and Green Fund as well as key infrastructure delivery programmes in the education, housing and health sectors.
- Maintaining financial sustainability with the objective of generating and sustaining inflation-linked growth.

Benefiting from recapitalisation

I am pleased to report that the National Treasury approved a R7.9 billion recapitalisation facility over a period of three years, starting from 2013/14. This facility will enable us to improve the scale of our development impact and bridge the infrastructure gap in order to enhance the prosperity and wellbeing of people in South Africa and on the continent. I am also encouraged by the Treasury's commitment to the Bank's new strategy, which seeks to maintain its presence in the metropolitan market, while significantly increasing its funding capacity in secondary and under-resourced municipalities, state-owned enterprises, public-private partnerships and the rest of the continent.

Focusing on core activities

During the period under review, various non-financing activities undertaken by the Bank were also comprehensively reviewed to enable the Bank to refocus on its most critical core activities. With effect from 1 April 2013, the Bank will transfer out or cease all activities that do not serve either the financing or the project implementation and service delivery elements of the core strategy. This is likely to include activities related to administrative support for certain external agencies, management services, non-municipal technical assistance grants, as well as any research or policy work unrelated to the core focus areas of the Bank. As most of these activities were previously managed through the DBSA Development Fund, the DBSA will cease to finance the activities of the Fund, while other activities are being transferred to the Bank.

The successful implementation of the strategy depends on the DBSA significantly improving operational efficiencies and strengthening core capabilities in the key areas of new business development, deal structuring, understanding the competitive landscape, and municipal pre- and post-financing support. The private sector plays an important role in infrastructure development through its various capital expansion programmes and the DBSA will, where appropriate, continue to work with the private sector in this regard.

The review also highlighted some inefficiencies and lack of alignment in the Bank's systems and processes. This analysis led to the identification of important areas for the improvement of capabilities, organisational culture and all operations. It is imperative that these improvements be rolled out successfully and sustainably. In order to assist the organisation with managing and monitoring the execution of the transformation programme and associated initiatives, a Transformation Office was established. The Office will work with teams across the business to help establish a dynamic and vibrant new workplace. The aim is for every employee to give his and her best, for us together to excel and achieve our corporate targets and our national development objectives, and bring to life our vision of a region progressively free of poverty and dependency.

Operations review

In the context of the organisational review and the continuing uncertain economic climate, the performance of the DBSA in the year under review was mixed. Performance by the funding divisions was strong, but it was lower than expected in non-financing activities and financial results, owing to revaluations and non-performing loans. Comprehensive information for each performance area is provided in the respective divisional sections. I will reflect on some of the key highlights for the year.

Infrastructure financing support

The Bank recorded approvals of R18.1 billion (2011/12: R27.5 billion) and commitments of R13.2 billion (2011/12: R8.4 billion) during the year. The R9.2 billion disbursed was pleasing, as it was marginally below the R9.3 billion record level achieved during 2008/09. Transaction flows were largely driven by the Bank's continued efforts to support energy generation capacity in South Africa, a strategic priority for the country. It is estimated that the funds disbursed across the various sectors could create 22 100 job opportunities in South Africa and contribute R5.2 billion to the gross domestic product (GDP) during the lifespan of the projects funded. The higher disbursements enabled the Bank to grow its loan book from R40.4 billion in 2011/12 to R42.6 billion in 2012/13, an increase of 5.5%.

Notable disbursement transactions in South Africa included R4.0 billion (2011/12: R2.0 billion) to Eskom, the first tranche of R1.4 billion to the government's Renewable Energy Independent Power Producers Procurement (REIPPP) programme and R163 million to the Trans-Caledon Tunnel Authority (TCTA) for the Mooi-Mgeni Water Augmentation Scheme.

Following the successes of previous financial years, the Bank this year faced a challenging trading environment outside South Africa. Total approvals amounted to R5.6 billion (US$603 million), as against the R3.8 billion achieved during the previous financial year, whilst disbursements totalled R1.6 billion (US$176 million), down from the R3.2 billion (US$441 million) achieved during 2011/12.

Supporting municipalities

In the area of municipal infrastructure delivery, which is critical to the Bank's mandate, challenges continued during the year. Institutional and human capacity constraints, weak governance, ageing infrastructure, and flawed and inadequate maintenance significantly affected the ability of many municipalities to fulfil their obligations. After a difficult 2011/12, disbursements to municipalities totalled R1.2 billion, up from the R879 million in the previous financial year, with R817.6 million disbursed to the metros. The mobilisation of funding to smaller secondary and under-resourced municipalities remained limited, in view of their poor credit absorption and implementation capacity. This contributed to the decline in disbursements to secondary

The DBSA and the National Treasury will continue to discuss options to expedite infrastructure delivery in under-capacitated areas

Eight municipalities were supported with the development of turnaround strategies

12 420

learners will benefit from the completion of 49 schools in the Eastern Cape

municipalities to R211.1 million (R797 million during 2011/12). Disbursements to under-resourced municipalities, however, doubled from R63.0 million in 2011/12 to R127.2 million. More still needs to be done in under-resourced municipalities. The DBSA and the National Treasury will continue to discuss options to expedite infrastructure delivery in under-capacitated areas.

Our non-financial assistance to local government focused largely on building the institutional capacity of municipalities to deliver services to households and the business community. Through the Municipal Capacity Support and Implementation Programme, the DBSA provides capacity building support to under-resourced municipalities. Support is targeted towards projects funded through the Municipal Infrastructure Grant (MIG) and capital allocation in order to reduce infrastructure backlogs and increase households' access to basic services. During the year, the DBSA Development Fund supported the Ngaka Modiri Molema District Municipality with technical and planning expertise to implement eight MIG-frontloading water and sanitation projects. A further eight municipalities were supported with the development of turnaround strategies.

Operations and maintenance experts continued to support the Dipaleseng, Kannaland and Hessequa municipalities and completed 24 projects during the year. Through the programme, the DBSA provides capacity support to assist municipalities in planning and executing infrastructure maintenance activities, with the overall objective of improving the condition of municipal infrastructure.

In line with the decision to shift from non-core activities, the Bank experienced a marked decline in the number of learners trained through the Bank's Vulindlela Academy, with 6 385 (2011/12: 19 000) municipal councillors and delegates from DBSA intermediaries and development finance institutions trained in the priority skills areas of planning, finance, management and leadership.

Progress on development mandates

Various development mandates were supported during the year, including the Jobs Fund, ASIDI and the Elliotdale Rural Sustainable Human Settlements Pilot Project. Implementation of the Jobs Fund continued, albeit at a slower pace than anticipated. This year, the Fund approved R1.7 billion in grant funding for 36 projects and disbursed R249 million across the four funding windows of enterprise development, infrastructure investment, support to work seekers, and institutional capacity building. An estimated 55 895 jobs will be created on the various projects. The third round of calls for proposals closed for applications on 15 March 2013 and a total of 605 concept applications were received. Eligibility assessments and impact scoring are currently underway. By the end of March 2013, 2 960 actual job opportunities were created as result of funding initiatives and 2 504 beneficiaries were placed with project partners.

The DBSA facilitated the implementation of the Eastern Cape ASIDI programme to eradicate unhealthy and unsafe school structures. This strategic initiative seeks to address the backlog of 539 unsafe schools in one programme. The Bank acted as the implementing agent for the construction of 49 schools in the Eastern Cape during 2012/13. The construction of the schools began in January 2012 and 17 schools reached practical completion by the end of March 2013, while R553 million of the total R689 million construction budget was spent. An estimated 12 420 learners will benefit from the completion of the 49 units. The DBSA has also been requested to assist the Department of Basic Education in the construction of an additional 70 units over the next two years.

The Elliotdale Rural Sustainable Human Settlements Pilot Project is a partnership between the Eastern Cape Department of Human Settlements and the DBSA to construct 1 000 housing units in the Elliotdale region.

The immediate objective is to model innovative approaches that address the overwhelming lack of adequate shelter in Elliotdale, one of the poorest administrative areas in the country. During the year, this housing project helped facilitate the construction of 110 houses, bringing the total number of units completed since inception to 200. The first tranche of 400 units of Phase II will be completed during 2013/14 and the final 400 units in 2014/15.

Financial performance

The Bank's financial position remains sound, with its credit ratings maintained in line with the sovereign rating. Its financial performance for the year continued to be affected by the adverse national, regional and international economic conditions, with total impairments of R1.6 billion and net revaluation losses on financial instruments of R403 million. These two factors were key contributors to the net loss of R825.9 million for the year. The underlying financial performance of the Bank remains satisfactory, with operating income generated for the year (excluding adjustments for foreign exchange and the revaluation of financial instruments) reaching R1.94 billion, in line with the R1.95 billion recorded during the previous financial year. Cash flow from operating activities remained strong, with R1.0 billion of cash generated, as against R805.1 million in the previous financial year. The debt-to-equity ratio of 217.4% remains well within the statutory limit of 250%.

I would like to express my sincere appreciation to the Governor, Minister Gordhan, for his continued leadership and support to the DBSA. The Chairman of the Board, Mr Jabu Moleketi, has been a source of invaluable strength and guidance. I would also like to express my sincere appreciation to all members of the Board for their dedication and direction during the year.

To my DBSA team (management and staff); I would like to acknowledge your contribution and commitment during a very difficult year. I look forward to an exciting year in which we deliver on the path set for the DBSA. None of us must ever forget why we are here. We exist to implement programmes that result in visible and tangible improvements in people's lives in South Africa and the broader African region. We dare not fail in our delivery of this crucial mandate for our organisation, country and continent.

Patrick K Dlamini
Chief Executive Officer

We exist to implement programmes that result in visible and tangible improvements in people's lives in South Africa and the broader African region

Operating income

R1.94

billion

Cash flow from operating activities remained strong

EXECUTIVE MANAGEMENT

as at 31 March 2013

Group Executive during the financial year:

- *Mr Ravindra Naidoo resigned 31 January 2013.*
- *As part of the organisational review, with effect from 1 January 2013, Ms Romeshni Govender, Mr Ernest Dietrich, Mr Luther Mashaba and Dr Paul Kibuuka, assumed different management roles within the DBSA.*

MR PATRICK KHULEKANI DLAMINI (44)

1

Chief Executive Officer: DBSA

DBSA staff member and CEO as from:
1 September 2012.

Academic qualifications:
- Advanced Executive Programme, Kellogg School of Management.
- EDP, University of the Witwatersrand's Business School.
- Business Studies Unit, Natal Technikon.
- BCom, University of KwaZulu-Natal.

Directorships:
BOPHYLD: Director.
Bridges Worldwide SA: Director.
Xcargo: Director.

MR PAUL CURRIE (52)

2

Group Chief Risk Officer

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

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

Directorships:
None.

MR MICHAEL HILLARY (43)

3

Group Executive: Financing Operations

DBSA staff member and Group Executive as from: 1 October 2012.

Academic qualifications:
- MBA, University of Witwatersrand.
- BCom Hons, University of Witwatersrand.
- CAIB (SA), Institute of Bankers.

Directorships:
None.

MS DOLORES MASHISHI (45)

4

Group Executive: Corporate Services

DBSA staff member and Group Executive as from: 1 September 2011.

Academic qualifications:
- General Management Programme, Harvard Business School.
- Strategic Management: Human Resources, Wits Business School.
- Management Advancement Programme, Wits Business School.
- MSc Ed: Development Psychology, University of Illinois, Chicago.
- BEd: Psychology, Wits University.
- BA Ed: Education and Psychology, University of North West.

Directorships:
None.

MS KAMESHNI NAIDOO (39)

5

Chief Financial Officer

DBSA staff member and CFO as from:
1 September 2012.

Academic qualifications:
- Chartered Accountant (SA).
- Advanced Certificate in Auditing University of Johannesburg.
- Certificate in the Theory of Accounting Science, University of KwaZulu-Natal.
- BCom Hons (Accounting) University of KwaZulu-Natal.

Directorships:
None.

MR TSHOKOLO PETRUS NCHOCHO (46)

6

Group Executive: South Africa Financing

DBSA staff member as from:
1 February 2002.

Group Executive as from:
1 April 2010.

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

Directorships:
- Africa Agricultural Fund: Advisory Board member.
- New Africa Mining Fund: Trustee (DBSA nominee).
- Old Mutual Housing Impact Fund: Trustee (DBSA nominee).
- Shanduka Value Partners Fund: Trustee (DBSA nominee).

MR RIEAZ (MOE) SHAIK (54)

7

Group Executive: International Financing

DBSA staff member and Group Executive as from: 13 August 2012.

Academic qualifications:
- Advanced Management Programme, Harvard Business School, Boston.
- Masters degree in Optometry (cum laude) University of KwaZulu-Natal.
- B Optometry, University of KwaZulu-Natal.
- BSc (Computer Science), University of KwaZulu-Natal.

Directorships:
None.

MS SINAZO SIBISI (46)

8

Group Executive: Infrastructure Delivery

DBSA staff member as from:
1 November 2007.

Group Executive as from:
1 April 2012.

Academic qualifications:
- Partner Development Programme, Gordon Institute of Business Science.
- Executive Development Programme, IMD, Lausagne.
- Post-Graduate Diploma in HRM, University of Cape Town.
- BA Hons in History with Economic and Social History, Birmingham University, UK.

Directorships:
None.

STRATEGIC OVERVIEW

Organisational review and new strategy

Context

The turbulent international economic and financial environment continues to bring challenges and risks to economies of both South Africa and SADC. Whilst Sub-Saharan Africa remains one of the fastest growing regions in the world, the development challenges within the region and the continent as a whole remain extensive. Hence, the ability of South Africa and Africa to capitalise on infrastructure development and intra-continental trade to spur higher levels of industrialisation and economic growth becomes critical. Within this context, the DBSA has sought to grow its infrastructure financing support domestically and in the region, whilst also expanding the nature and extent of its non-recoverable developmental expenditure.

Although the DBSA has striven to play a counter-cyclical role, the Bank has not been immune from the impacts of the economic environment as well as its dependency on financial markets as a source of financing. Furthermore, in recent years, the Bank has experienced increased competition from the commercial sector in the key areas of municipal, state-owned enterprises and regional infrastructure funding. Whilst this has had a positive impact on the overall cost of infrastructure funding, it has negatively impacted the overall financial performance position of the DBSA.

During the last couple of years, the DBSA has also supported government extensively in accelerating the implementation of a number of programmes through the provision of project management support in key priority sectors critical to the achievement of various national objectives of economic growth, job creation and infrastructure delivery. Overlapping mandates and broad focus meant that these activities have not always achieved the requisite outcomes and, as unfunded initiatives, also contributed to the decline in the surplus available for reinvestment to support future growth.

Consequently, these factors have eroded the capital base of the DBSA, leading to an estimated R2.4 billion growth gap in shareholders' equity since 2007. Hence, during the 2013 financial year, the shareholder and the DBSA Board agreed to refocus and restructure the Bank's activities. The new strategy responds to various internal and external elements, and is based on a comparative analysis of key international development finance institutions, a review of current market trends to identify opportunities for growth and impact, alignment with the National Development Plan and the Presidential Infrastructure Coordinating Commission, as well as consultations with important external stakeholders and staff.

Focused strategy

At the core of its mandate, the DBSA seeks to play a pivotal role in delivering developmental infrastructure in South Africa and the SADC region. Consequently going forward the DBSA will:

- Provide developmental and sustainability funding and/or investment services (debt and/or equity) to the social and economic infrastructure markets on terms and conditions ranging from subsidised to fully commercial:
  - Social infrastructure: Infrastructure aimed at addressing backlogs and expediting essential social service delivery in support of sustainable living conditions and improved quality of life within communities in sectors such as health, water and sanitation.
  - Economic infrastructure: Infrastructure aimed at addressing capacity and bottleneck constraints which unlocks optimal economic growth potential in sectors such as industrial transportation, telecommunications and energy.
- Grow its development asset portfolio by focusing on the core sectors of energy, transport, water and telecommunications.

- Support infrastructure financing to municipalities, state-owned enterprises, other public entities, public-private partnerships and private sector intermediaries.
- Provide project preparation support, including scoping, pre-feasibility and feasibility work to develop a strong pipeline of projects and crowd-in other funders.
- Reintegrate financing and non-financing support activities to achieve strong overall developmental impact.
  - Focus infrastructure knowledge development on actionable priorities.
  - Focus non-financing municipal support in the form of pre- and post-financing services to secondary and under-resourced municipalities as potential future loan recipient clients.
  - Support, on a fully funded basis, infrastructure delivery and programme implementation support such as the Jobs Fund and Green Fund, as well as various education and health initiatives.
- Seek to remain financially sustainable by generating sufficient net surplus to grow the Bank's shareholders' equity by at least inflation annually.

Focused strategy

National imperatives
National Development Plan
Presidential Infrastructure Coordinating Commission

Achieve financial sustainability as foundation for future growth

The DBSA to achieve financial sustainability over the medium term (grow equity greater than inflation) within acceptable risk framework:

- Revenue maximisation.
- Non-interest income growth, operational cost and impairments management.
- Direct delivery: activities agreed with the shareholder and undertaken on a full cost recovery basis.

Provision of development finance and delivery capacity to deliver infrastructure

Infrastructure funding

Drive investments focusing on:

- Core sectors: energy, transport, water, ICT.
- South Africa (municipalities, state-owned enterprises, other public entities, public-private partnerships, private sector intermediaries).
- SADC.

- Grow development assets.
- Leverage third-party funds.
- Diversify product offering in support of infrastructure development.

Infrastructure delivery support and programme implementation

Support key government priorities: local government, health, education and regional integration.

STRATEGIC OVERVIEW continued

Priority markets and activities

Services			
Project development advisory services	Project finance	Accelerating infrastructure delivery	Programme implementation
• Project identification • Feasibility assessments • Technical assistance • Financial structuring • Project preparation funds	• Debt • Mezzanine finance • Limited and non-recourse lending • Guarantees	Managing the design and construction of key projects in the education, health and housing sectors	Project management support, including to the Jobs and Green Funds
• Municipalities • Public-private partnerships • Public-public partnerships • Regional integration	South Africa: • Municipalities • State-owned enterprises • Public-private partnerships • Public-public partnerships • Private sector intermediaries Outside South Africa: • State-owned enterprises • Sovereign • Private sector intermediaries	National and provincial government departments	National government departments
Target markets			

Key risks and challenges

We see the biggest risks and challenges to the successful delivery of our strategy as:

- An inability to adapt quickly to changes in the business environment.
- An inability to finance and execute our mandate while remaining financially sustainable.
- A lack of critical skills and capabilities in key areas.
- A failure to adequately manage the overall quality of our assets.

All of these challenges are well within our control. We are confident that the accurate and timely implementation of our strategy will make a marked difference to our delivery to the satisfaction of our clients and stakeholders and enable us to improve the efficiency of our business. Further details on the Bank's approach to enterprise risk management are provided on pages 42 to 43.

Stakeholder engagement

In all its activities, the DBSA maintains an open dialogue with its stakeholders. We believe that dialogue with stakeholders and the development of strategic partnerships are not only fundamental sources of information but are also important for responsible corporate governance. Stakeholder dialogue provides a vital impetus for the effective execution of the DBSA mandate.

The DBSA's stakeholders are those entities or individuals who may be significantly affected by the Bank's activities, products and services, and who may be expected to affect the ability of the DBSA to carry out its mandate successfully. The DBSA's stakeholder map is shown in the table on the right.

Stakeholder engagement-driven strategy

DBSA stakeholder map

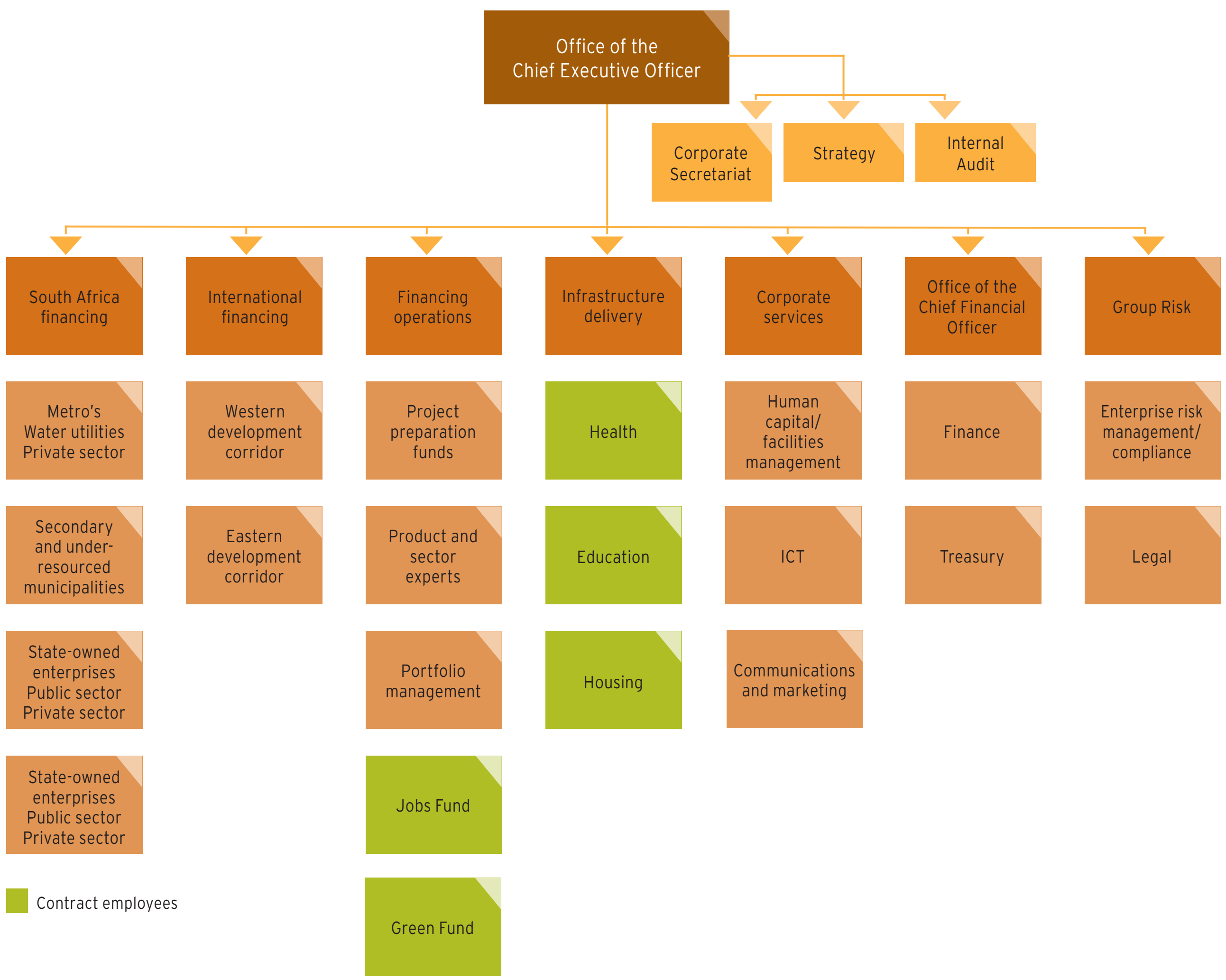
Stakeholders and why we engage	How we engage	On what we engage
Government (shareholder representative) To facilitate alignment of the DBSA to national priorities	Regular meetings with the Governor and the National Treasury	The DBSA's developmental role Long-term sustainability Financial performance
National and local government To meet legislative requirements	Regular communication and meetings with, inter alia: • Department of Cooperative Governance and Traditional Affairs • Standing Committee on Finance • Select Committee on Finance	Compliance requirements Needs and expectations Feedback on performance
Clients and partners To understand our clients and partners' needs and enhance our development impact	Client and partner surveys Client and partner meetings Marketing campaigns	Client needs (funding and non-funding support) Implementation support (non-funding support) Perceptions and expectations Job creation Environmental impact
Providers of finance To inform perceptions and create a positive investment environment	Meetings with analysts and rating agencies Investor road shows Announcement of results Group website	Financial performance Market trends and issues Future prospects Organisational sustainability
Employees To enhance employees' engagement and commitment and align their work with the corporate strategy	Staff engagements at numerous levels Training and development needs analysis Results presentations Performance reviews Internal media Whistle-blower's hotline Staff surveys	Strategy Financial performance People development and training Transformation and employment equity Code of Conduct
Community To identify social responsibility expectations, including job creation and environmental impact	Project implementation Community surveys Marketing campaigns Group website Corporate social investment	Investment in socio-economic development Access to basic services Local labour opportunities

STRATEGIC OVERVIEW continued

Organisational structure

To improve operational efficiencies, the Bank also reviewed and aligned its operating structure by reducing the number of divisions from 12 (including the DBSA Development Fund) to seven. All lending operations in South Africa were consolidated into the *South Africa Financing Division*. Lending operations outside South Africa were retained in the *International Financing Division*. In support of these two financing divisions, a new division was created, *Financing Operations*. The purpose of this portfolio is to support the two lending divisions with project preparation, product and sector expertise, and portfolio management services. It will also oversee the Jobs Fund and the Green Fund. The *Infrastructure Delivery Division* was established for the delivery of important infrastructure development programmes, such as in the health and education sectors (hospitals and schools). Finally, support functions were reconfigured into three divisions: *Finance, Corporate Services and Risk*.

Organisational structure as at 31 March 2013



SOUTH AFRICA FINANCING

Strategic overview

The South Africa Financing Division provides a mix of financial and non-financial products and services to a range of public and private sector clients in South Africa. It seeks to support:

- Service delivery infrastructure projects aimed at eliminating backlogs and expediting essential services in order to support sustainable living conditions and a better quality of life within communities: These projects support service delivery in sectors such as health, higher education, water and sanitation, energy, roads and passenger transportation. Support is provided to municipalities, water boards, other public entities and selected state-owned enterprises. The Division also provides non-financial support to prioritised clients to accelerate infrastructure delivery through providing end-to-end solutions across the full value chain, from long-term planning to project implementation.
- Infrastructure projects aimed at unlocking economic growth potential: These projects support growth in sectors such as transportation, telecommunications, energy, bulk water, and oil and gas in favour of state-owned enterprises and other public entities through the funding of public-public or public-private partnerships and private sector intermediaries.

Operating environment

South Africa's economy continued to grow during the year, but remained well below its potential. Strong capital investment by the public sector, the continued development of electricity-generating capacity, relatively stable inflation and low interest rates are expected to support improved growth rates over the medium term. A far higher rate of growth is needed, particularly in the private sector, to address poverty, draw unemployed South Africans into economic activity, and generate the revenue needed to support the government's long-term development plans.

In recent years, we have seen unprecedented investment in infrastructure projects by all spheres of government in South Africa. Following estimated spending of R642 billion over the last three years, planned spending on infrastructure projects by the public sector totals R827 billion over the Medium-Term Expenditure Framework period.

Despite the massive investments already made, more funding is still required. Infrastructure investments are seen as critical to the ability of the economy to grow in an inclusive manner while improving the delivery of basic services to all citizens. To support these investment objectives, the national infrastructure programme, coordinated by the Presidential Infrastructure Coordinating Commission, contains a pipeline of projects under consideration to address infrastructure backlogs. The National Development Plan policy framework provides clear guidelines for capital investment priorities and the sequence of decisions required to ensure that the country's infrastructure needs are provided for in a sustainable, equitable, affordable and practical manner.

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

The country's municipal infrastructure asset base remained under strain, owing to low levels of investment and poor maintenance. The electricity and water sectors in particular face acute needs and challenges. The neglect in these sectors has a direct bearing on the development of sustainable communities and the direction and level of economic growth. Backlogs in bulk infrastructure remained critical. In addition, the higher education and health sectors are also experiencing pressure in meeting the ever-growing demand for infrastructure and the maintenance of the asset base.

Demand for infrastructure funding outside the municipal sphere continued to be driven by the capital investment programmes of Eskom, Transnet, the South African National Roads Agency Limited (SANRAL) and the Passenger Rail Agency of South Africa (PRASA). The implementation of the REIPPP programme, which the Division aimed to bring to a financial close during the year, also provided good opportunities.

Operations review

During 2012/13, the Division recorded approvals of R12.6 billion, commitments of R12.5 billion and disbursements of R7.5 billion (2011/12: R4.9 billion). Of the R12.6 billion approved, R3.2 billion was allocated to municipalities and R7.5 billion to energy projects. The higher disbursements enabled the Division to grow its total asset book from R34.7 billion in 2011/12 to R36.3 billion in 2012/13, an increase of 4.6%.

New investment opportunities in the education and bulk water sectors were limited. The R791 million approved in these sectors was substantially lower than the previous year's R2.7 billion. Approvals comprised R641 million for bulk water programmes and R150 million in the higher education sector.

Given the DBSA's objective to support social and economic infrastructure development, investment that generates economic growth and job creation remained a priority during the year. It is estimated that the funds disbursed across the various sectors could create 22 100 job opportunities in South Africa and contribute R5.2 billion to GDP during the lifespan of the projects funded.

Supporting social development and service delivery through investment loans

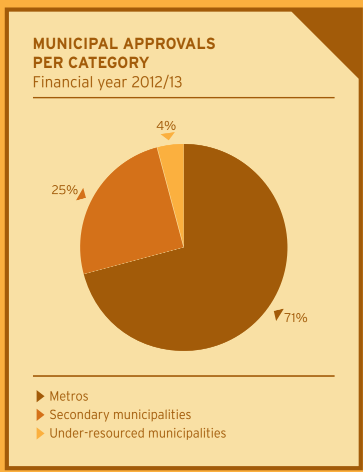
Municipal sector

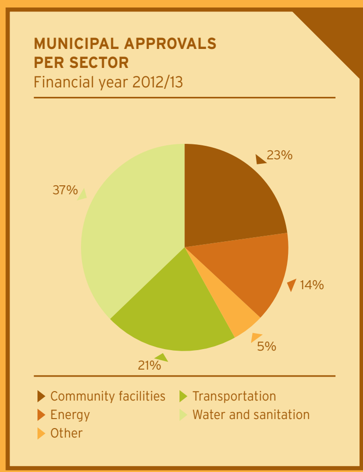
Investment support to the municipal market remains an important focus area for the DBSA. Infrastructure backlogs within municipalities over the next five years are estimated at R250 billion. While the unfunded requirement is estimated at more than R66 billion, municipal borrowing capacity is estimated at around R44 billion over the same period. The importance of the participation of financial and capacity building intermediaries across the full investment spectrum can therefore not be overemphasised. Approvals to metros of R2.3 billion contributed the largest portion of support to the municipal market in 2012/13, while support to secondary and under-resourced municipalities totalled R927 million. Key sectors included electricity (R466 million), roads and drainage (R678 million), community facilities (R735 million) and water and sanitation (R1.2 billion).

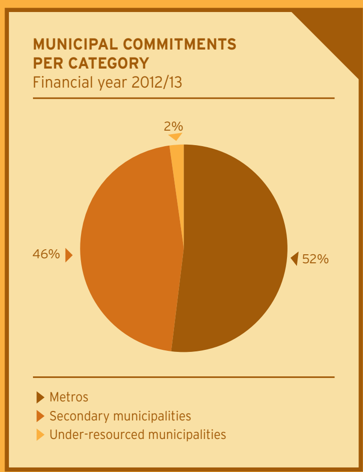
The conversion rate from approvals to commitments remained under pressure, with total commitments to the municipal market (R1.3 billion) largely influenced by the price-sensitive metro market. The credit appetite among commercial institutions for municipal debt, especially that of metros and good-quality secondary municipalities, has increased over the last few years, as municipal debt provided a relatively good source of lower-risk investment returns. However, the Division was able to disburse R1.2 billion during the year, 36.4% higher than in 2011/12. Going forward, the Division will be working with the National Treasury and other stakeholders to support the review of the local government fiscal framework in order to find innovative solutions for municipalities to bridge funding gaps in terms of social and economic infrastructure.

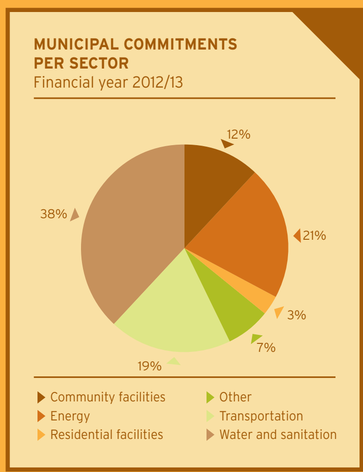
Affordable housing and student accommodation

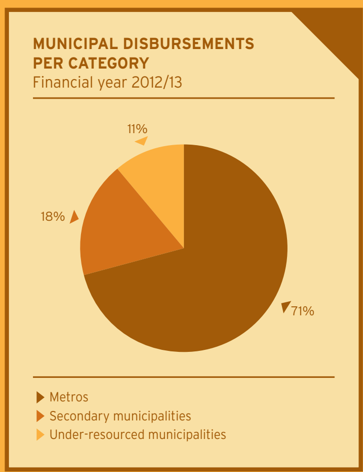
Given the backlogs in affordable housing and student accommodation, the Division continues to seek investment opportunities in a variety of student accommodation and affordable housing schemes, as well as externally managed funds with mandates congruent with that of the DBSA. During the year, R50.2 million was disbursed to support the development of the student village at the University of Western Cape, while a further R233 million was invested in the Old Mutual Housing Funding Fund, which is mandated to provide funding for housing in the affordable housing market.

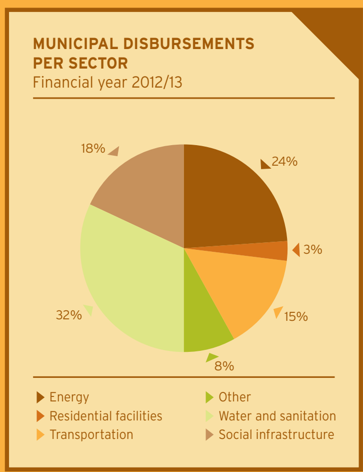




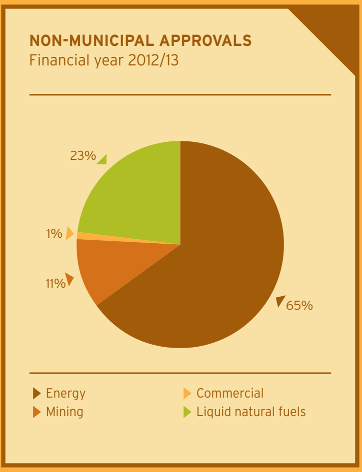


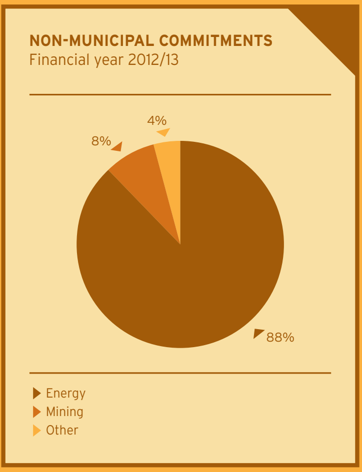


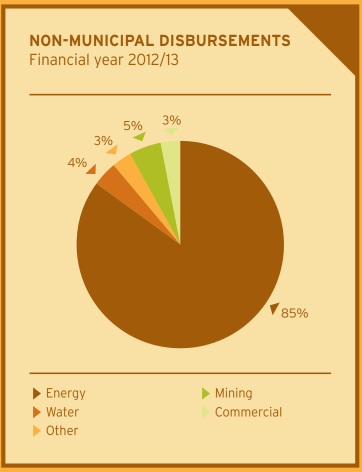




SOUTH AFRICA FINANCING continued







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 and the origination of project support. The Health Public-Private Partnership programme is among the initiatives to be pursued under the Memorandum, as the improvement of South Africa's healthcare infrastructure is of paramount importance to realising the goals of the National Health Strategic Plan. Five academic hospitals in four provinces were identified as flagship projects, namely:

- 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.

Implementation of the various projects has proved challenging, mainly as a result of the required redesign of the health public-private partnership model. The Division is confident that once Cabinet has approved the modified model, the appointment of the project manager and the finalisation of the feasibility studies will commence and be completed during 2013/14.

Economic infrastructure and growth

Development is multi-sectoral in nature and an integrated approach is required to maximise the impact of investments. Investments in social infrastructure, such as health, housing and education, must be supported by investments in bulk enabling infrastructure, such as energy, water and transport.

Energy

The Division targets priority economic sectors for investment, based on national infrastructure requirements. A key focus area during the year was the support for energy generation capacity, including renewable energy and the development of liquid natural gas resources in the country, a strategic imperative given current supply constraints. The Division continued to support Eskom's long-term capital expenditure programme to commission additional capacity of 16 000MW by 2017. An amount of R4.0 billion was committed and disbursed to the programme during the financial year (2011/12 disbursement: R2.0 billion).

Renewable Energy Independent Power Producers Procurement (REIPPP) programme

The DBSA, together with the National Treasury, is supporting the Department of Energy in creating an enabling environment for private sector investment in renewable energy in the form of solar and wind energy from independent power producers as part of the Integrated Resource Plan. The support programme involves contracting and managing transaction advisors, who assist in designing and developing documentation and related inputs for procuring at least 3 825MW of renewable energy from independent power producers.

Through the programme, the Department of Energy and the National Treasury seek to optimise the involvement of broad-based black economic empowerment (BBBEE) parties and, in particular, to ensure that their capacity is built to participate competitively in future programmes in the energy sector. The DBSA's role in the funding of the programme includes debt financing as well as the equity portion required by BBBEE entities to participate in project structures.

During the year, the financial close for Round 1 of the REIPPP programme was reached, with the Division committing R5.6 billion and disbursing R1.4 billion. Of these amounts, R937 million was committed and R172 million disbursed in favour of BBBEE enterprises.

Following the successful closure of Round 1 projects, the DBSA team has begun appraising Round 2 projects and holding early discussions with potential bidders in the third window. The Round 2 projects are scheduled to reach financial close early in the new financial year.

Liquid natural fuels

As part of its energy support programme, the Division identified various projects within the liquid natural gas sector to develop proven gas reserves as an alternative source of energy. The development of these projects could provide significant energy security and diversification benefits to the country.

Water

Investment in bulk water projects is an important enabler to support broader social and economic development. As part of the Division's bulk water funding strategy, it disbursed R163 million to the TCTA for the Mooi-Mgeni Water Augmentation Scheme. The government mandated the TCTA to procure project finance to develop important bulk water projects for municipalities and industry.

Transport

The government is focusing on industrial transport in order to support the movement of freight from road to rail, reduce the carbon footprint, create jobs, grow the mineral and mining sector, increase localisation and BBBEE, and position South Africa as a regional trans-shipment hub for sub-Saharan Africa. In terms of this objective, the DBSA is continuing to pursue opportunities where it is best able to support Transnet, especially in its Private Sector Participation programme with the provision of technical and financial support towards the development of the projects and potential funding thereof.

Financial overview

The operating environment in South Africa remains challenging. Increased pricing competition, especially in the metro and state-owned enterprises markets, as well as the impact of the downturn in the economic environment in some parts of the client segments led to disappointing financial results for the year. The Division recorded a net loss of R189.3 million (2011/12: profit of R372.6 million).

Interest income earned from development loans remained under pressure with a marginal increase of 0.6% from R2.92 billion to R2.94 billion for the year under review. Interest expense increased by 1.5% to R1.81 billion in line with the increase in the debt-to-equity ratio. This contributed to the decline in the net interest income ratio from 39.8% to 38.5%.

Operating expenses at R128.2 million (2011/12: R116.3 million) remained managed with the cost-to-income at 9.4% marginally higher than the 8.8% of the previous financial year.

The impairment loss of R1.3 billion for the year was significantly higher than the R256 million recorded during the previous financial year. Management is of the view that the overall quality of the loan book remains acceptable and that the recent deterioration is concentrated mainly in the non-public sector investments book in South Africa, which is more susceptible to changes in economic conditions. Valuable lessons have been learned and will be incorporated into future decision making and credit review processes to strengthen management of the book going forward.

The year ahead

In the coming year, the Division will focus on consolidating its structure, integrating people, processes and systems to enable effective implementation of the divisional strategy.

The DBSA will collaborate with the National Treasury to increase support to the municipal market, especially those municipalities with limited borrowing and institutional capacity. Non-financial support will be provided (project planning, preparation and packaging) to facilitate projects, and project implementation support will be provided to ensure development impact and reduce infrastructure backlogs. These initiatives will also assist in unlocking conditional grant funding to accelerate service delivery.

The Division will continue to support the financing of metros. These areas have experienced average annual population growth rates of more than double the national rate (1.44% nationally, compared to 2.5% to 3.5% in most metros) owing to urbanisation and immigration. The Division will expand and accelerate its lending into the market segment for social and economic infrastructure, while helping to capacitate the metros to play a leading role in providing infrastructure to support industrialisation. It will also participate in investments and activities to ensure that all surrounding communities can access the benefits of an expanded economy.

The Division, with support from the Financing Operations Division, will seek to play a significant part in early-stage project development. Where appropriate, it will crowd in private sector funders in financing the underlying programmes and potentially generate additional fees. The Division also intends to pursue major project initiatives aggressively, guided by the national imperatives of job creation and economic development. The further development of the energy sector through the REIPPP programme as well as the development of large-scale transport programmes will provide the Division with significant growth opportunities over the medium term.

3 825MW

of renewable energy from independent power producers

Development is multi-sectoral in nature and an integrated approach is required to maximise the impact of investments

INTERNATIONAL FINANCING

Nature and scope of the DBSA's regional operations

The International Financing Division supports the South African government's vision and the DBSA's strategy to leverage infrastructure development opportunities and stimulate economic growth in the southern African region beyond South Africa. The Division provides a mix of financial and non-financial products and services to a range of public and private sector clients and partners. Financing and investment operations are focused on the southern African region, but extend selectively to multi-country infrastructure projects and initiatives and selected pan-African private equity funds that cut across the continent.

Financing infrastructure and economic development in the region is a complex task that requires creativity and responsiveness to the challenges of the region. The DBSA's strategy for the continent builds on the development strategies of the region and its countries. These strategies place a high priority on infrastructure development; the lack thereof is one of the leading constraints to socio-economic development and regional economic integration. Operations are guided by sector and country-based engagement principles in support of sustainable infrastructure development. The Division's strategy draws on the guiding principles of the New Partnership for Africa's Development (NEPAD) and the Regional Indicative Sustainable Development Plan (RISDP), as well as evolving developments in the region and among the Regional Economic Communities in identifying priority infrastructure and development finance sectors for the region. The Bank's priorities are broadly aligned with the South African government's Medium-Term Strategic Plan for its international relations and cooperation in the region.

The International Financing Division has historically been a provider of senior debt, and this emphasis remains. In certain instances, technical assistance grant funding to support project development or feasibility studies may be given to suitable clients. The primary focus of technical assistance products is on specific and direct project preparation and related upstream business origination and development that feed into the investment pipeline of the Division, consistent with its strategy of deal origination. The secondary focus of the grants is a targeted research and information approach, as well as capacity development of intermediaries and strategic operational partners. Going forward these project development and feasibility studies will be managed by the project preparation team in the Financing Operations Divisions.

Within infrastructure development, the Division places a high priority on the infrastructure subsectors of energy, transport and water, which are critical enablers of economic development.

Regional context and operating environment

The continent of Africa is experiencing a new commercial vibrancy and its growth acceleration has resulted from more than its natural resource endowments. In the aftermath of the financial crisis, the International Monetary Fund expects sub-Saharan Africa to grow by 5.8% during 2013. The key reasons behind Africa's growth surge were improved political and macroeconomic stability arising from the economic reforms of the late 1990s and early 2000s. Initially, several African countries saw a cessation of deadly hostilities, creating the political stability necessary to foster economic growth. Governments then took actions to lower inflation, trim foreign debt and shrink budget deficits. Finally, policies to stimulate economic activity and deepen markets were adopted. These included privatising state-owned enterprises, reducing trade barriers, cutting corporate taxes and strengthening the regulatory and legal systems.

Such economic growth and expansion have attracted significant interest from investors across the globe and introduced new competitive and complementary dynamics on the continent. These dynamics, as well as the high cost of funding in capital and lending markets, make it more difficult for projects to meet the required hurdle rate. This is particularly challenging for infrastructure sectors and projects that have long-term goals and offer relatively low financial returns.

Operations review

Following the successes of the previous financial year, the International Financing Division faced a challenging trading environment. Total approvals amounted to R5.6 billion (US$603 million), compared to the R3.8 billion achieved during 2011/12. It is anticipated that most of these projects will be concluded during 2013/14 and support the pipeline for future disbursements. The Division is particularly pleased about the inroads made into the strategic sectors of energy and transport in Angola, Mozambique and Zambia, with R2.9 billion (US$344.6 million) approved for projects in these countries.

Despite the high level of approvals, the Division recognises that the development of bulk infrastructure is extremely complex and time-consuming, and can take a number of years to reach financial close. Consequently, both commitments and disbursements were lower than during 2011/12. Total commitments amounted to R665 million (US$75 million), as against R2.9 billion (US$395 million) in the previous financial year. Disbursements totalled R1.6 billion (US$176 million), as against R3.2 billion (US$441 million) in 2011/12.

Notable disbursements included R712 million (US$83.8 million) towards the US$206 million roads rehabilitation programme developed with the Zimbabwe National Roads Administration (ZINARA) to support much-needed improvements of the Harare–Plumtree and Harare–Mutare road links. Together with the previous year's disbursements, R1.2 billion (US$141 million) has been disbursed on the programme to date.

Investments in Zambia continue to constitute approximately a third of the Division's loan portfolio, but strong growth has been recorded particularly in Zimbabwe and Angola. Although the energy sector still sees extensive investment flows, the Division's commitment to the development of the North-South Corridor has resulted in the roads sector constituting 31% of the portfolio. A diagrammatic representation of the country and sector distribution of the Division's loan portfolio is presented overleaf.

Although the Division is primarily a provider of senior debt, strategic equity investments continue to play an important role in the product mix of the Bank. The Division made its second investment towards the development of a satellite network by providing R114.7 million (US$13.6 million, 2011/12: US$19.3 million) in equity funding during 2012/13.

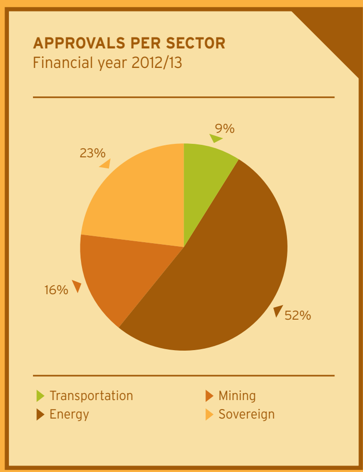
Development of the North-South Corridor

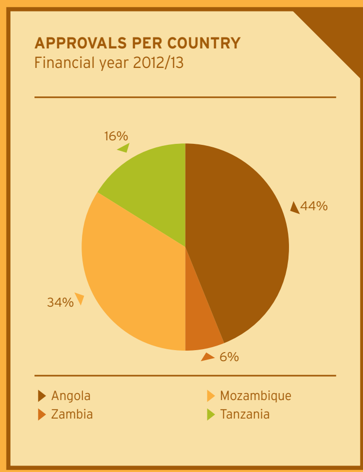
Regional integration is critical to the growth of the South African economy as well as that of the broader continent. To promote regional integration, the Bank supports key infrastructure corridors, such as the North-South Corridor. This development corridor was established under the auspices of the Tripartite Alliance of the SADC, the Common Market for Eastern and Southern Africa (COMESA) and the East African Community (EAC), and endorsed by the African Union. The programme is directed towards regional economic integration through the upgrade and extension of transport links (road, rail, ports and one-stop border posts) in southern and east Africa. South Africa champions this initiative through the Presidential Infrastructure Champions Initiative, which President Jacob Zuma chairs. The DBSA has been engaging with the various African governments, the South African government, regional economic communities, regional development finance institutions and other roleplayers in the region to develop this corridor. Furthermore, dedicated capacity has been established to support the preparation of projects within the corridor.

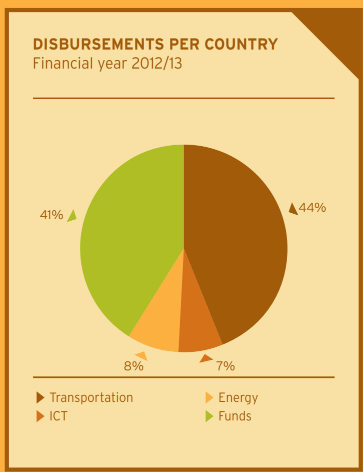
Project origination and resource mobilisation

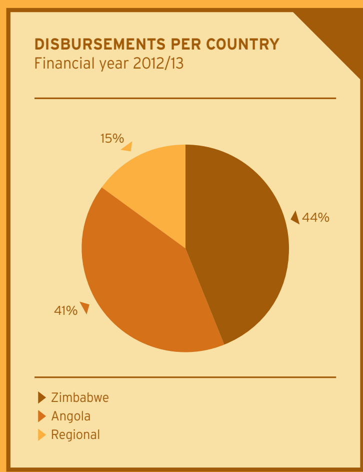
In the past year, the Division continued to focus on project origination and development as an important initiative for generating business and improving development impact. While the initiative supports the development of infrastructure solutions for the region, it is also a competitive business strategy that enables the Division to play a proactive role in shaping projects and securing financing opportunities. Decisions 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.

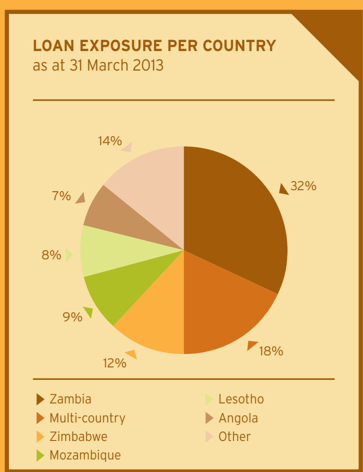
The initiative seeks to unlock important cross-border infrastructure projects by utilising the Bank's own risk capital and mobilising funding from partners. It is also strongly supported by a related initiative on resource mobilisation,

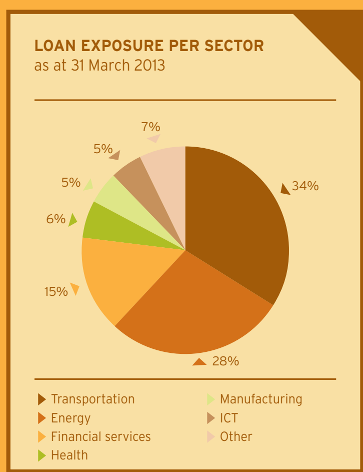












INTERNATIONAL FINANCING continued

Net profit growing from R18.3 million to

R294.4

million

The initiative seeks to unlock important cross-border infrastructure projects by utilising the Bank's own risk capital and mobilising funding from partners

The DBSA will continue to leverage its relationships with the leading infrastructure agencies from Europe, Asia and the BRIC nations to secure co-financing on regional projects

which seeks to utilise grant resources from international partners as a means of reducing both cost and risk for the Division.

During the year, the Division continued to lead the management of several multi-partner technical and grant assistance facilities, involving the Agence Française de Développement (AFD), the United Kingdom's Department for International Development (DFID), the European Investment Bank (EIB), the German agency Kreditanstalt für Wiederaufbau (KfW) and the United Nations Office for Project Services (UNOPS). Together with these partners, the Division successfully managed various facilities that enhance regional integration on the continent.

A number of projects are being converted from project origination to appraisal. Of note is the Ruzizi III Hydro Dam along the Ruzizi river bordering the Democratic Republic of Congo and Rwanda, which will generate electricity to serve those countries and Burundi, as well as the project preparation of the Zizabona Energy Interconnector, which connects Zambia, Botswana and Namibia to energy sources in Zimbabwe. A significant achievement is the approval by the European Union of £100 million for the South Africa-European Union Infrastructure Investment Programme to be managed by the DBSA on behalf of the South African government.

The Division has also advanced discussions with DFID and other partners to manage the preparation of other priority projects in the region.

Financial overview

Following 2011/12, the Division had a successful financial year with net profit growing from R18.3 million to R294.4 million, mainly driven by favourable gains of R141.9 million (2011/12: loss of R342.5 million) from the revaluation of financial assets and liabilities.

On the back of the increase in assets from R12.5 billion to R14.3 billion, interest income from development loans increased by 16.8% to R693.0 million (2011/12: R593.2 million). The net interest margin increased marginally from 60.7% to 60.5%. Going forward, it is expected that pricing pressures will increase as more institutions, looking for higher income yields, enter the African infrastructure market.

Non-interest income of R44.0 million was well below the R134.1 million recorded during the previous financial year due to additional dividend income and realised gains on certain equity investments recognised during the prior year.

The Division's cost-saving programme continues to bear fruit with operating expenses directly attributable to the Division reducing to R25.9 million (2011/12: R27.9 million).

The impairment loss of R277.0 million was higher than the R236.7 million recorded during the previous financial year, but was mainly driven by the increase in the overall development loan book and the decision to fully provide for certain old non-performing exposures. Overall the credit profile of the loan book is well managed.

The year ahead

In the next three years, sub-Saharan Africa is forecast to grow by between 4.1% and 5.2%, while global growth rates are expected to be between 2.4% and 3%. Africa offers a significant opportunity for investment, as foreign direct investment is set to grow from US$37.7 billion in 2012 to possibly US$54 billion in 2015. Areas of rapid growth include services and infrastructure, particularly roads, rail, ports and airports, water and sanitation, and energy.

The DBSA will continue to leverage its relationships with the leading infrastructure agencies from Europe, Asia and the BRIC nations to secure co-financing on regional projects.

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

NON-FINANCING OPERATIONS

In addition to the DBSA's infrastructure financing roles, the Bank also provides strategic non-financing infrastructure-related services. These include capacity building assistance, direct infrastructure delivery support, as well as infrastructure planning and research.

In line with the new strategy of the DBSA, all non-financing activities were reviewed during the year as part of the organisational review process. Consequently, funding towards the DBSA Development Fund and the operating model of the Development Planning Division were revised and many activities were either incorporated into other divisions or entirely discontinued.

As part of the 2012/13 Integrated Annual Report, the key highlights for the two divisions are provided separately below.

Operational review

DBSA Development Fund

Through the DBSA Development Fund, the Bank sought to improve the quality of life of communities by supporting capacity building, sustainable service delivery and economic development within municipalities and local communities. These services included:

- *Expertise:* The Fund supported the implementation of various national and provincial mandates, including overall strategic management, scoping and planning, technical implementation, monitoring and reporting, as well as capacity building and systems development.
- *Agency management services:* The Fund assisted with, and acted on behalf of, local and international development funding partners that did not have the institutional presence or sufficient permanent capacity to implement their development programmes.
- *Grant and leveraged funding:* The Fund provided grants to development projects that sought to build sustainable capacity in people, processes and systems at municipal or community level and unlock or crowd in other partners with access to financial resources.
- *Development facilitation:* The Fund formulated a shared vision with developmental partners through sharing knowledge with and offering development support to partners and stakeholders.

The Development Fund carried out its mandate to provide these products and services through four programmes, namely National and Provincial Mandates Implementation Support, Municipal Capacity Building and Implementation, Operations and Maintenance Programmes and the Jobs Fund. Complementing these programmes, the Fund also supported three enabling programmes, namely Programme Implementation Management, Agency Management Services and the Vulindlela Academy.

The annual financial statements of the DBSA Development Fund, a not-for-profit company, are available from the registered offices of the DBSA.

The main highlights for the year under review are outlined below.

National and Provincial Implementation Support Programme

Education

During 2011/12, the Department of Basic Education appointed the DBSA as the implementing agent for the construction of 49 schools in the Eastern Cape under ASIDI. The objective of ASIDI is to provide decent school infrastructure through the eradication of mud schools and inappropriate structures in mainly rural areas. The deliverables of the programme are:

- *Establishment of a Programme Support Unit within the Department:* The Fund appointed suitably qualified professional service providers to establish a Programme Support Unit based at the Department. The unit started operating in September 2011 and is assisting the department with performance monitoring and reporting on the overall ASIDI programme and the Education Infrastructure Grant in all nine provinces.
- *Implementation of the school-building programme (ASIDI):* The construction of 49 schools began during January 2012 and 17 schools reached practical completion by the end of March 2013. Up to R553 million of the total R689 million construction budget was spent during the year. The technical completion of the remaining 32 schools will take place in 2013/14. On completion of the 49 units, an estimated 12 420 learners will benefit, 2 800 employment opportunities created, and up to 109 small enterprises in the surrounding areas will have been engaged. Various on-site difficulties were experienced during the first phase of the programme, such as planning for difficult terrain or slopes, physical features such as graves, and under-performance by some contractors. Many lessons were learnt, which will assist the DBSA in expediting the delivery of units as part of Phase II of the programme.
- *Project planning and preparation for schools infrastructure delivery in 2013/14 and 2014/15:* The Department appointed the DBSA on 28 November 2012 to construct 70 additional schools (20 schools in 2013/14 and 50 schools in 2014/15). The 70 schools are spread across five provinces: Eastern Cape (50 schools), Free State

Dakhile School completed and opened by Minister Angie Motshekga, 3 October 2012

Mphatiswa School completed and opened by President Zuma, 2 October 2012

(10 schools), Limpopo (3 schools), Mpumalanga (5 schools), Northern Cape (1 school) and North West (1 school). The Department approved the Infrastructure Project Implementation Plan in March 2013 and the procurement of professional consultants for the design and tender documentation for the appointment of contractors is underway.

Housing

The Eastern Cape Department of Human Settlements mandated the DBSA Development Fund to act as an implementing agent for the Elliotdale Rural Sustainable Human Settlements Pilot Project. The project is part of the Enhanced Peoples' Housing Process. This project presents an ideal case study for the DBSA and the Eastern Cape and national Departments of Human Settlement to design and pilot a programme that would provide an innovative development solution to a sector of the economy where there is persistent market failure. The project is unique, as it addresses housing backlogs through an integrated approach.

As part of Phase 1, the Fund completed 110 houses during the year, bringing the total number of units completed since inception to 200.

The Elliotdale Rural Sustainable Human Settlements Pilot Project has received three awards, which acknowledged the role of the DBSA:

- Provincial Govan Mbeki Human Settlement Awards 2012: Best ePHP Project of the Year.
- National Govan Mbeki Human Settlement Awards 2012: Best ePHP Project of the Year.
- South African Housing Foundation Project of the Year (under R120 000 per unit).

Health

The national Department of Health launched the Infrastructure Unit Support Systems programme during October 2010 to address delays in the delivery of health infrastructure. The programme is a structured collaboration between the Department, the DBSA, the Council for Scientific and Industrial Research (CSIR) and other stakeholders. The overall objective is to optimise the acquisition, operation and management of South Africa's public healthcare infrastructure. Under this programme, the DBSA is providing the following:

- *Assessment of health capital projects:* The project aims to obtain physical, contractual and financial status information on all current public sector health projects and identify potential progress blockages and budget shortfalls, so that remedial action can be initiated if required. During the year, 2 280 projects were assessed and all project data was migrated onto the Department's reporting system.
- *Establishment of a Programme Management Support Unit:* The unit, established at the Department in 2011/12, continued to monitor and provide technical capacity to the Department to improve the quality and quantity of spending in the delivery of health infrastructure.
- *Hospital Revitalisation Programme:* During 2012/13, the Fund assisted the Department in developing a master plan for the construction or refurbishment of various nursing colleges across the country. The Fund also finalised a nursing college feasibility study to inform the detailed scope and budget for the various projects.

As part of the Gauteng Hospital Revitalisation Programme, the Department and the Gauteng Department of Health and Social Development appointed the DBSA as the implementing agent for the upgrading and refurbishment of six priority health infrastructure projects in Gauteng. These included:

- Emergency repair and refurbishment of Chris Hani Baragwanath Hospital.
- The refurbishment of Khayalami District Hospital in Kempton Park, Lenasia South Level 1 and Discoverers Level 1 Hospital for reopening.
- The construction of a new or upgraded Johannesburg forensic pathology mortuary.
- The construction of the new Bronkhorstspruit forensic pathology mortuary.

The Gauteng Department of Health and Social Development approved the procurement of the professional service providers for the conversion of the Discoverers and the Lenasia primary healthcare facilities to Level 1 district hospitals. The DBSA will appoint and manage the professional service providers for scoping, project formulation, registration, design, tendering, construction, commissioning and handover in 2013/14.

Municipal capacity building and support

Through the Municipal Capacity Support and Implementation Programme, the DBSA provides capacity building support to various under-resourced municipalities. Support is targeted towards projects funded through the MIG and capital allocation to reduce infrastructure backlogs and increase household access to basic services. During the year, the Fund supported the Ngaka Modiri Molema District Municipality with technical and planning expertise to implement eight MIG-frontloading water and sanitation projects.

The Fund also supported eight municipalities with the development of turnaround strategies, including Indaka, Mafube, Nxuba, Naledi, Ventersdorp, Lesedi, Matlosana and Lekwa-Teemane. These interventions resulted in Indaka and Mafube settling their loan repayment arrears with the Bank.

Operations and maintenance

During the year, the Fund continued to implement an Operations and Maintenance programme. The programme provides capacity support to municipalities to plan and execute infrastructure maintenance activities, with the overall objective of improving the condition of municipal infrastructure and enhancing service delivery. Operations and maintenance experts supported Dipaleseng, Kannaland and Hessequa with the completion of 24 projects during the year.

Jobs Fund

On 7 June 2011, the Minister of Finance officially launched the R9 billion Jobs Fund announced by the President during the State of the Nation address on 9 February 2011. The DBSA was entrusted with the responsibility of establishing and managing the Jobs Fund on behalf of the government. The objective of the Jobs Fund is to co-finance projects by public, private and non-governmental organisations that will contribute significantly to job creation. This involves the use of public money to catalyse innovation and investment on behalf of a range of economic stakeholders in activities that directly enhance employment creation. Through this programme, government seeks to create 150 000 jobs over the life of the programme.

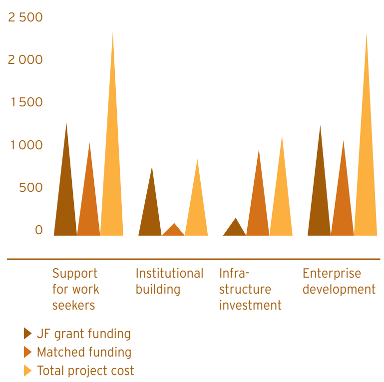
During the 2012/13 financial year, the Jobs Fund worked on three rounds of applications across the four project stages; origination, approval, contracting and implementation. The portfolio of approved projects increased from R1.8 billion on 31 March 2012, to R3.4 billion on 31 March 2013.

As at 31 March 2013, 36 clients had signed grant agreements with the DBSA. The R3.4 billion grant approved will co-fund public (R1.4 billion for 17 projects), private (R1.2 billion for 18 projects) and NGO/NPO projects (R0.8 billion for 31 projects) across the four funding windows to create an estimated 100 524 new permanent jobs and facilitate the placement of 56 194 beneficiaries in existing jobs over the implementation period. Jobs Fund grants are matched by R3.5 billion contributions from project partners.

The second call-for-proposals (CFP) opened on 31 March 2012 and closed on 31 May 2012 and the team assessed 840 eligible applications. The Investment Committee approved 69 concept notes for appraisal and 29 full applications were awarded grants.

From the third CFP (3 December 2012 to 15 March 2013 application period), the Fund received 570 eligible applications. The process of evaluating this proposal is still underway.

CUMULATIVE APPROVALS, 31 MARCH 2013
(R million)



Disbursements for the financial year totalled R249.1 million and were a reflection of:

- The ramp-up profile of the underlying projects.
- Grantees experiencing challenges in finalising their grant agreement annexures.
- Some grantees having not finalised their project implementation plan prior to approval of their projects thereby delaying contracting.
- Certain grantees experiencing challenges in collating the required FICA documentation.

As at the 31 March 2013, grantees expected that projects in implementation achieved 76% (2 960) of their year-to-date target for the creation of new permanent jobs. The approved projects are generally allowed the first year to perfect the setup of their programme and they are measured against the identified setup activities. It is expected that the jobs achieved will ramp up from the second year onwards.

Vulindlela Academy

The DBSA Vulindlela Academy offers accredited capacity building and training to development intermediaries in southern Africa, including municipalities, government departments, parastatals, public utilities, non-governmental organisations and development finance institutions.

During 2012/13, the Academy trained 6 385 municipal officials, councillors and delegates from DBSA intermediaries and development finance institutions in the priority skills areas of planning, finance, management and leadership. 3 195 learners were certified 'competent' in their areas of learning through the Academy.

On 29 November 2012, the Academy held its biggest graduation ceremony ever, with a total of 400 learners completing their long-term qualifications, including in municipal integrated development planning, municipal finance management and local economic development.

Pan-African Capacity Building Programme

The Pan-African Capacity Building Programme is a partnership between the DBSA, AFD and the Industrial Development Corporation (IDC), with the objective of implementing capacity building initiatives in infrastructure development and management in Africa. The programme has three pillars:

- *Masters in Public Infrastructure Management:* This degree was launched in March 2012 and 88 candidates from 13 countries were registered at the following three partner universities: University of Pretoria (SADC), Makerere University (East Africa) and University of Dakar (West Africa). The programme includes a study tour component aimed at exposing students to sites of best practice in infrastructure development, management and maintenance, as well as project management. The study tour was conducted in South Africa from 25 to 28 March 2013, and was attended by 78 students. Eskom, SANRAL, Gautrain and Rand Water participated in the tour.
- *Short courses:* These courses are aimed at addressing critical skills gaps in development finance institutions and government agencies on the continent. During 2012/13, the programme delivered short courses to 220 participants in the fields of risk management, financial modelling, water and sanitation, finance and corporate governance, public infrastructure management, water and sanitation, energy, management of roads and transport, and public-private partnerships.
- *Young Professionals internship programme:* In partnership with the AFD and the IDC, the DBSA selected a group of young professionals to obtain international exposure in medium-sized municipalities in France. For the 2012/13 intake, 10 young professionals successfully completed a seven-month internship (four months of French language training and a three-month internship in French and Reunion Island municipalities).

Agency Management Services

The DBSA Agency Management Service was established in 2002 to assist (and act on behalf of) local and international development and funding agencies in the planning, programming, implementation and reporting of development initiatives. The infrastructure projects and/or funds under management included the Infrastructure Delivery Improvement Programme (IDIP), the Elliotdale Rural Sustainable Human Settlements Pilot Project and the Voluntary Counselling and Testing projects.

The IDIP programme is a partnership between the National Treasury and the Departments of Health and Basic Education, which is aimed at assisting the education and health sectors in improving and aligning infrastructure planning and budgeting. For the period ended 31 March 2013, the IDIP facilitated infrastructure expenditure of R33.0 billion in the following sectors: education (R8.5 billion), health (R9.1 billion), and public works, roads, transport and other sectors (R15.4 billion).

During 2012/13, the Development Fund attracted five new agencies to the value of R773 million, while seven agencies, to the value of R118.1 million, exited as part of the reorganisation process. Consequently, total agency agreements decreased to 28 agencies, with R1.6 billion cumulative funds under management at 31 March 2013. Going forward the Agency function will be downscaled and decentralised with the retention or exit of core and non-core agencies respectively.

NON-FINANCING OPERATIONS continued

Grant and leveraged funding to projects and programmes

The Development Fund continued to use its grant funding to support training, capacity building and sustainable development interventions. The Fund provided technical assistance grant funding to the value of R12.4 million, leveraged R25.3 million through the Municipal Systems Improvement Grant, and mobilised R57.8 million from various development partners in favour of under-resourced municipalities. This supported development activities such as developing critical municipal systems, plans, policies and procedures; conducting project feasibility studies; as well as facilitating community-based sustainable development plans.

Development Planning Division

The Development Planning Division played a pivotal role in integrating and managing knowledge to enhance investment decisions, support national development planning and decision-making, as well as contribute to the policy dialogue on infrastructure development. The Division consolidated its role in pre-financing and financing support to the operational divisions of the DBSA through programme and project identification, as well as advisory and information support. Activities were structured around the following five thematic themes:

- Internal advisory support to project teams.
- Engagements with strategic government departments on state mandates and programme origination, including the North-South Corridor, green initiatives and water programmes.
- Integrated infrastructure planning.
- Contributing to the African development research and engagement programmes.
- Knowledge sharing.

Internal advisory support to project teams

The Advisory Unit and the Information Unit provided the following services to the Bank:

- Proactively providing sector specialist expertise, enabling the Bank to adopt best practice in priority operational areas and build capacity internally and externally.
- Providing sectoral expertise and information databases to support investment decision-making, enabling the Bank to remain at the forefront of knowledge for infrastructure, local government and socio-economic development.
- Strengthening sector relationships and industry partnerships to support the Bank in its advisor, financier, developer and integrator roles.
- Providing the Bank with the necessary sector skills to assess potential projects, thereby addressing possible adverse selection and moral hazard problems.
- Supporting the Bank's ability to monitor and evaluate the developmental and economic impact of Bank-funded projects.

The service delivery programme of the sector specialists focuses on the following areas:

- The provision of business support to operational divisions, including technical and advisory services to support project development, origination, appraisals and due diligence across the investment value chain, as well as development planning and implementation advice to enhance development impact.
- The development of sector-specific knowledge products to support investment decision-making, including sector strategies, sector briefs and knowledge products required for particular investment decision-making forums.
- Participation in mandate programmes that contribute to structured partnerships with key public and private sector partners to give effect to strategic interventions supporting high-impact infrastructure investment programmes.
- The development of advisory tools to enhance business processes, including sector, environmental and social operational guidelines and toolkits.
- Contributions to knowledge-sharing platforms through leadership of the Communities of Practice (Technical, Environmental and Social and Institutional) and participation in and leadership of sector-specific roundtables, including themed Knowledge Week programmes.

Engagements with strategic government departments

The Division has been proactive in supporting the government in upstream or early-stage participation in the emerging infrastructure development programmes of key national departments. These include regional infrastructure facilitation, water investment planning, the development of the health roadmap, green infrastructure and planning processes such as the National Planning Commission, particularly focusing on the infrastructure section of the National Development Plan. The main achievements for 2012/13 included:

- Identification of nine priority infrastructure projects for investment and development as part of the North-South Corridor development programme.
- Collaborating with the national Department of Environmental Affairs in the environmental sector programme, focusing on the development of green infrastructure. The initiative is managed jointly by teams from the Department and the DBSA and focuses on the following six key areas: implementation of the Green Fund, a green climate finance mechanism, biodiversity conservation, support for the natural resource management programme, climate-resilient public infrastructure, and environmental quality and protection.
- Co-publishing of the *State of Economic Infrastructure* report with the Department of Performance Monitoring and Evaluation in the Presidency.

North-South Corridor programme

Regular workstream, work group and steering committee meetings were conducted during the year between members of the Presidency, the Department of International Relations and Cooperation and the DBSA. This work led to the submission of the North-South Corridor Framework Report to the Presidency, and its eventual circulation at the African Union summit during July 2012. The report identified nine priority infrastructure projects for investment and development. The programme is ongoing and was transferred to the International Finance Division for further development.

Green Fund

During April 2012, the DBSA concluded a Memorandum of Agreement with the Department of Environmental Affairs to establish and manage the R800 million Green Fund. The Fund aims to provide finance for high-quality, high-impact, job-creating green economy projects around the country.

During the first call-for-proposals, centred on project development and implementation, the Fund received a total of 590 applications to the value of R10.9 billion from organisations across South Africa, including non-profit entities, the private sector and government departments. The proposals indicated market interest in renewable energy projects, new technologies for converting waste into energy, systems for efficient water management, biodiversity conservation, the testing of cleaner manufacturing technologies, and modelling for sustainable city planning. For the year ended 31 March 2013, the Fund approved projects to the value of R330 million and disbursed R35.1 million.

The second call-for-proposals for research and policy development projects on themes that advance green economy policy objectives was launched during February 2013 and closed on 28 March 2013. Through this request, the Green Fund will engage the research community in building a strong evidence and knowledge base for the expansion of the green economy.

Water programmes

In terms of the Memorandum of Agreement concluded with the Department of Water Affairs, a programme steering committee was established during May 2012 to support the development of water infrastructure. Notably the task team successfully completed the National Water Investment Framework, which was approved by Cabinet. The Framework outlines available water sector funding in South Africa, identifies the investment gap in the water sector value chain, and concludes with a high-level outline of the key elements of a water investment strategy for the country. Based on the analysis in the Framework, the DBSA identified a number of possible investment opportunities relating to national entities, water boards, municipalities, public-private partnerships and grant funding.

The Division continued to work with the Department on the following initiatives:

- Identify priority areas for further engagement.
- Prioritise a set of investment projects from the National Water Investment Framework.
- Develop and implement 19 investment projects identified through the Regional Bulk Infrastructure Programme.
- Prioritise the establishment of a programme management unit in the Director-General's office as an institutional mechanism to support the implementation of the Memorandum of Agreement.
- Establish a fund to fast-track the implementation of National Non-Revenue Water Reduction Strategy projects in municipalities through public-private partnerships.

Integrated infrastructure planning for 10 and 20 years

During the year, the Division completed the implementation framework as part of the integrated infrastructure planning programme and collated project pipeline data and geographic information system (GIS) mapping in the water and transport sectors to test the feasibility of utilising GIS as a means to support the planning process. Through the programme, the DBSA is seeking to provide advisory support for public decision-making for economic and social development; optimise its capacity for integration and facilitation to contribute to new or improved thinking, approaches and execution modalities for coordinated infrastructure planning and delivery; as well as develop its capacity to achieve effective integrated planning and improved infrastructure delivery in its various mandated roles.

BRICS

The DBSA's BRICS programme has two purposes: first, to inform the DBSA's engagement with the BRICS partners as a reference bank in relation to interbank mechanisms, financial frameworks and other financial agreements into which the banks might enter during the course of the relationship; and second, to inform and support the interests of 'SA Inc.', which outlines South Africa's potential foreign policy in Africa in the context of BRICS.

The DBSA BRICS team prepared background papers for the summit, which informed the bilateral negotiations between the DBSA and other reference banks. Two BRICS papers were completed during the year. First, the DBSA and the National Treasury co-authored an article on 'SA Inc. BRICS in Africa Strategy', which was well received and approved by Cabinet during September 2012. Second, the DBSA and the Department of International Relations and Cooperation co-authored a concept note for the African Leaders' Forum held at the BRICS summit, which was adapted and adopted by the Department and the Inter-Ministerial Committee. Continental projects were tabled at the meeting, which will feed into the North-South Corridor programme at the DBSA.

The DBSA further hosted the 'Interbank Cooperation Mechanism' at the BRICS summit held in Durban during March 2013. Parties agreed to deepen financial cooperation between the BRICS member banks by forging partnerships of integration, development and industrialisation through strengthened and enhanced cooperation. Two agreements were also signed at the BRICS Interbank Mechanism meeting in March 2013. These were the BRICS Multilateral Infrastructure Co-Finance Agreement for Africa and the BRICS Multilateral and Co-Financing Agreement for Sustainable Development. These agreements will inform the DBSA's work with the other reference banks in the medium term.

Knowledge sharing

Various roundtables, workshops and dialogue sessions were conducted throughout the year, with the Development Planning Division hosting 12 sessions.

Roundtables, workshops and dialogue sessions	
Roads and asset management systems	Decision-making drivers and lessons to be learnt
Sustainable funding and financing of public transport infrastructure	Infrastructure project selection
Regional transport integration	Integrated infrastructure planning in practice
Addressing barriers to SADC infrastructure development	Planning for infrastructure: Partnerships for the future, with reference to affordable housing
Mobilising private sector investment into eco-system services	Matching strategic integrated projects to skills: Can our infrastructure programme better leverage our skills reality?
The value of South-South knowledge exchange, hubs and networks for South Africa	Listening, reflecting and acting: Seeking lessons from our infrastructure sector

GOVERNANCE AND RISK MANAGEMENT

Governance principles

Good governance informs the ethos of the way the DBSA carries out its business. The DBSA Board of Directors and senior management are acutely aware that the Bank must not only focus on its core mandate, as required by the shareholder, but that it must also deal with the expectations of all stakeholders. In addition, its activities are set against the backdrop of sustainability, ethics, environmental and social responsibility, and transparency.

The DBSA's Board of Directors continually assesses the governance landscape of the Bank and is satisfied that it has adequately discharged its responsibilities with regard to the different legislative requirements as well as the main recommendations of the King III Report. The DBSA is required to comply with various pieces of legislation that set out governance requirements, chief among these being the Development Bank of Southern Africa Act, 1997 (Act No 13 of 1997), and the Public Finance Management Act, 1999 (Act No. 1 of 1999) (PFMA). Key compliance changes that have been effected in the financial year include:

- The Chief Financial Officer was appointed as an Executive Director of the Board.
- The constitution of the Audit and Risk Committee was reviewed, so that it consists only of Non-executive Directors.
- Social and ethics oversight was included in the functions of the Human Capital, Remuneration and Nominations Committee. The Committee was renamed the Human Resources, Nominations, Social and Ethics Committee.

The appointment of the Chief Executive Officer in terms of the founding legislation of the DBSA (the DBSA Act) is the responsibility of the shareholder; however, the Board is involved with the nomination and recommends the preferred candidates to the shareholder. It is the Board's view that this non-compliance with King III does not have a significantly negative impact on good governance, because the Board is still responsible for monitoring the performance of the Chief Executive Officer and the accountability lines are clear. The Directors and management 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.

Shareholder linkages

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

Strategic objectives and performance management

In line with section 52 of the PFMA, the Bank submitted a Shareholder Compact and Corporate Plan to the National Treasury during March 2012. 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 58 to 60. The Audit and Risk Committee of the Board evaluated the organisational performance, while its Human Resources, Nominations, Social and Ethics Committee oversaw the performance assessment of the Chief Executive Officer 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. The DBSA further implements governance best practice, where appropriate, in terms of the King III Report.

The membership of the DBSA Board changed during 2012/13. Mr Kenneth Brown retired as a member of the Board representing the shareholder and Mr Anthony Julies was appointed by the shareholder to replace him. Mr Patrick Dlamini was appointed as Chief Executive Officer with effect from 1 September 2012, following the resignation of Mr Paul Baloyi at the end of the previous financial year. The Chief Financial Officer, Ms Kameshni Naidoo, was also appointed as an executive member of the Board. Ms Wendy Lucas-Bull resigned from the Board with effect from 31 March 2013.

The Board currently consists of 15 Directors, 13 of whom are Non-executive and 12 Independent. The Chief Executive and Chief Financial Officers are the only Executive Directors. A member from the National Treasury serves on the Board as a shareholder representative. In terms of the Board Charter, no distinction is made with respect to the fiduciary responsibility of shareholder representatives and Non-executive Directors.

The current composition of the Board and brief résumés of the Board members can be found on pages 10 to 13.

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, Nominations, Social and Ethics Committee of the Board nominate 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 rotation of Board members is staggered in order to retain valuable skills and introduce new ideas and expertise. 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. The Board regards the Charter as a living document, updated periodically to align with changes required by appropriate legislation and regulation.

Board Committees

The DBSA Act gives the Board a mandate to appoint the subcommittees necessary to carry out its fiduciary responsibilities. In line with the 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.

Close to year-end, the Board reconstituted its subcommittees from six to four in an endeavour to streamline activities and improve efficiency. The Finance Committee was combined with the Audit and Risk Committee to form the *Audit and Risk Committee*, while the Development Planning and Strategic Mandates Committees were combined to form the *Infrastructure Delivery and Knowledge Committee*. Furthermore, in line with the requirements of the new Companies Act, 2008 (Act No. 71 of 2008), and the recommendations of King III, the Board resolved to create a Social and Ethics Committee and combine it with the already existing Human Resources and Nominations Committee. Further details on each committee are provided below.

Audit and Risk Committee

The Audit and Risk Committee oversees the Bank's internal control framework, and reviews and evaluates the integrity of financial and other statutory reporting, risk management processes, and compliance with laws and regulations. It oversees the internal and external audit functions, and reviews the Internal Audit Plan and the annual assessments of significant risk exposures. It also oversees the office of the Chief Financial Officer. During the financial year, on the recommendation of the Committee, the Board changed its joint auditors, KPMG Inc. and SizweNtsalubaGobodo Inc., and appointed Nkonki Inc. as auditors.

The Committee also oversees and advises the Board on income, expenditure and capital budget requirements; treasury strategies; development loan impairments; the management of assets and liabilities; and the Bank's overall financial health and sustainability.

The Committee is chaired by Ms Mary Vilakazi, an independent Non-executive Director, and comprises five independent Non-executive Directors and one Non-executive Director. Prior to the consolidation of the Committee, the respective committees were chaired by Ms Thembisa Dingaan and Ms Albertinah Kekana.

Board Credit and Investment Committee

The Committee reviews the Bank's credit strategy, credit risk management programme, trends in portfolio quality, the adequacy of provision for credit losses, and the credit risk management policies approved by the Board. The Committee approves all credit and investment proposals exceeding R100 million on a single-obligor basis. During the year, the Committee was chaired by Ms Wendy Lucas-Bull, an independent Non-executive Director. It comprises nine members, including six Independent Non-executive Directors, two Executive Directors and one co-opted member. With the resignation of Ms Lucas-Bull at the end of the financial year, Ms Thembisa Dingaan was appointed as Chairperson of the Committee.

Human Resources, Nominations, Social and Ethics Committee

The Board of Directors has established the Human Resources, Nominations, Social and Ethics Committee to support it in the execution of its duties with respect to the implementation of the human capital strategy, the nomination of Directors, executive remuneration for the DBSA, Board or Directors' affairs and governance, as well as social and ethics issues. The Board of Directors is the focal point of the corporate governance system in the DBSA. It is ultimately accountable and responsible for the performance, affairs and behaviour of the Bank. The Committee must ensure that there are adequate processes, policies, systems and procedures to facilitate sound corporate governance. It is chaired by an independent Non-executive Director, Ms Dawn Marole, and in line with the recommendations of King III, all members are independent Non-executive Directors. The Committee comprises seven members, including six Independent Non-executive Directors and one co-opted member.

Infrastructure Delivery and Knowledge Committee

This Committee oversees the implementation of the strategic mandates and infrastructure delivery programmes, as well as the Bank's policy, advisory and knowledge management function. The Committee, which comprises six Independent Non-executive Directors, is chaired by Mr Andrew Boraine, an independent Non-Executive Director.

Board and committee composition and record of attendance

The Board met six times during 2012/13. The composition of the Board and its committees, together with the record of attendance of individual Directors, is shown in the table on page 40.

DBSA Board and Committee composition and record of attendance at meetings 2012/13

	DBSA Board	Audit and Risk Committee	Finance Committee	Board Credit and Investment Committee	Development Planning Committee	Human Resources, Nomination, Social and Ethics Committee	Strategic Mandates Committee	Strategy Board meetings
Number of meetings	**6**	**5**	**3**	**13**	**2**	**4**	**4**	**2**
Directors								
Mr PJ Moleketi	6			9		4	4	2
Mr FM Baleni	3					3	3	1
Mr PK Dlamini[1]	3/3			6/6				2
Mr TP Nchocho[2]	2/2			7/7				
Dr L Bhengu-Baloyi	6				2	4		2
Mr A Boraine	6				2		3	1
Mr K Brown[3, 6]	3/5							1
Ms T Dingaan	6	5	3	11			4	2
Mr AF Julies[3, 7]	1/1							
Ms A Kekana	5	5					3	2
Mr OA Latiff	3		3					2
Ms W Lucas-Bull[4]	6	3	3	11			4	1
Ms B Mabuza	6			9		4		1
Dr C Manning	6			10		4	4	1
Ms D Marole	6	5	3			4	2	2
Ms K Naidoo[5]	1/1							
Ms M Vilakazi	5	4	3	12				1
Members co-opted to Board Committees								
Prof D Everatt					2			
Prof B Figaji				9		2		
Dr R Kfir					2			
Prof V Taylor					1			

1. *Appointed as Chief Executive Officer of the DBSA with effect from 1 September 2012.*
2. *Appointed as Acting Chief Executive Officer from 1 April 2012 to 31 August 2012.*
3. *Shareholder representative.*
4. *Resigned from the Board with effect from 31 March 2013.*
5. *Chief Financial Officer appointed to the Board as an Executive Director as from January 2013.*
6. *Term ended 31 December 2012.*
7. *Appointed with effect from 1 January 2013.*

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.

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.

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

Details of all the fees and expenses paid to Board members during the year under review are shown on page 103.

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 were implemented to reinforce this during 2012/13. 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.

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

No related-party transactions with Board members occurred during the financial year, except for payments in respect of attendance at Board and Board subcommittee meetings. Directors' fees are disclosed as part of the annual financial statements on page 103.

Internal control environment

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

The Internal Audit function conducts periodic reviews of key processes linked to the significant risk of the Bank to provide independent assurance to the Board and management on the effectiveness of the internal control system. Members of the Audit and Risk Committee review the work of Internal Audit, and the Chief Audit Executive has unfettered access to the Chairperson of the 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 and the Institute of Internal Auditors' International Standards of professional practice.

Fraud prevention and whistle-blowing

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

The Bank sets a high value on the ethical behaviour of the organisation and its employees

The whistle-blowing process and procedure are well embedded and the independently administrated toll-free hotline is fully operative

Hotline statistics

Details	2012/13
Hotline reports	7
Direct reports	6
Total allegations	13
– Founded	5
– Unfounded	6
– In progress	2
Disciplinary action on founded matters	
– Dismissed	1
– Warning	2
– Resigned	1
– Pending	1

Risk management

For the DBSA to deliver successfully on its mandate and vision, risks need to be understood and responded to in a proactive and coherent manner. The DBSA Board is ultimately responsible for the effective management of risks within the Bank, and has adopted an enterprise-wide approach to managing risk exposures. This approach was introduced to ensure that the DBSA takes a holistic view of the risks inherent in its strategy, operations and business, and that the management of risks is embedded into the mainstream planning, business and decision-making processes. This involves the embedding of frameworks, policies, methodologies, processes and systems for managing all risk exposures.

Risk is managed on three levels in the Bank: strategic, operational and business. There are three primary focus areas, namely enterprise-wide risk management, which includes the management of risks related to people, processes and systems, regulatory compliance, legal risk and business continuity; credit and investment risk management, which includes development impact and investment risk; and financial risk management, which includes the management of market and capital management risks.

Enterprise-wide risk management

As shown in the figure on page 43, the DBSA's risk management system comprises the following interrelated functions:

- Risk governance, which entails creating an enabling environment for the management of risk and assurance on the effective functioning of the risk management system at DBSA Group level.
- Risk control, which entails understanding and responding to each of the risks inherent in the DBSA's strategy, operations and business, and monitoring the effectiveness of risk responses.
- Risk oversight, which entails planning, measuring, reporting, reviewing and disclosing risk management exposures at various levels of aggregation to various structures across the Bank.
- Risk assurance, which entails a broad spectrum of centralised services and resources provided in support of the governance, control and oversight of risk.

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

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

The DBSA Board and executive management formally endorse the establishment of the compliance function and are committed to ensuring that business within the DBSA is run with integrity, complies with all regulatory and best practice requirements, and is conducted in accordance with the highest ethical standards.

Credit and investment risk management

The Board has delegated the responsibility for the management of credit and investment risk to its Board Credit and Investment Committee, supported by the management level Credit and Development Impact 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 Credit and Development Impact 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

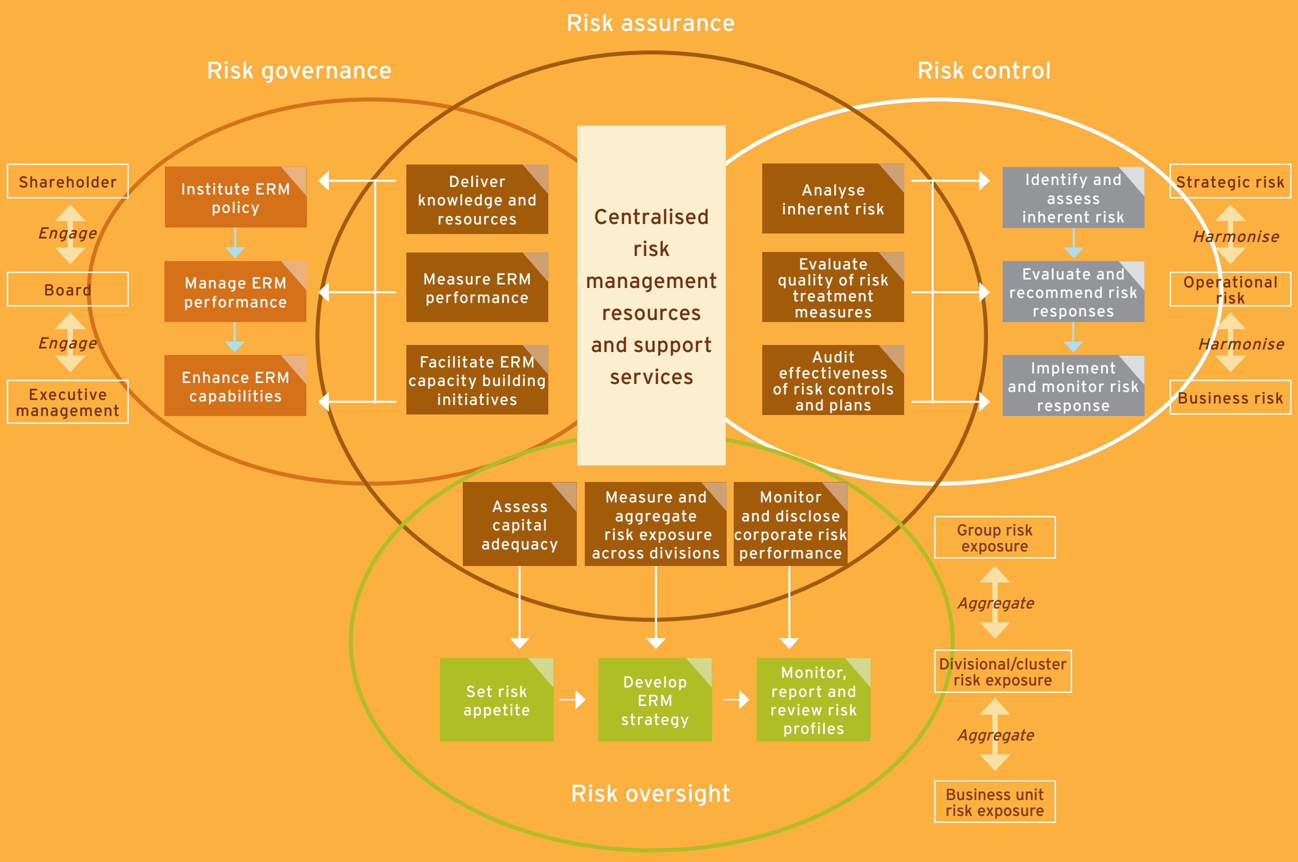
Investment Committee. Aggregate exposures between R10 million and R25 million are jointly approved by the Chief Risk Officer and the Group Executive of the Division making the application, while those below R10 million are jointly approved by the Head of Risk responsible for the Division and the Group Executive of that division. In future, the Credit and Development Impact Committee will evaluate all approvals.

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

Financial risk management

Financial risk management is discussed in detail in the annual financial statements, note 45 from pages 104 to 114.

DBSA enterprise risk management system



CHIEF FINANCIAL OFFICER'S REPORT

"The mission of the DBSA is to advance development impact in the region by expanding access to development finance and effectively integrating and implementing sustainable development initiatives."

Introduction

This is my first report to the shareholder of the DBSA, written at a time of a significant overhaul of the Bank. I am pleased to be able to report that there is a sound base from which the Bank will be rebuilt.

The mandate of the DBSA is to advance development impact in the region by expanding access to development finance and effectively integrating and implementing sustainable development initiatives. The Bank's roles as financier, advisor, partner, integrator and implementer are instrumental in fulfilling its mandate. The priority remains to finance delivery of development-enhancing activities in areas and infrastructure sectors most in need of such support, while maintaining the long-term financial sustainability of the DBSA.

Economic environment

Throughout the reporting period, the global economy suffered ongoing uncertainty, as evidenced by the Eurozone crisis, the US fiscal cliff and a change in focus in China from external to internal. Conditions in the South African economy remained tentative with limited capacity for economic growth and investment appetite from corporates and negatively affected by recent labour strikes and unrest at local mines and farms. The National Development Plan (NDP) has gained significant support within the private sector as a visionary policy framework for South Africa as it provides a logical and structured framework that should bring some consistency to policy decision-making, while being fundamentally aligned to the many pressing social imperatives. Further afield on the continent, investment opportunities remain buoyant. This does, however, come with its own barriers and challenges, as detailed elsewhere in this Integrated Annual Report.

The Eurozone crisis triggered a sovereign debt crisis, with significant negative impacts on economic growth, socio-political stability and confidence in the affected countries. Despite weakening economic conditions, monetary policy remained supportive in most countries, with continued low interest rates, supplemented in some countries by the provision of additional liquidity and monetary accommodation. These developments brought marked fluctuations in global investor sentiment, along with turbulence and volatility in financial flows and markets. Emerging markets were affected by the swings in sentiment, particularly when investors withdrew funds to seek safety in traditional safe-haven assets. The downgrades of sovereign and corporate borrowers by credit-rating agencies affected the cost of funding for governments, state-owned companies and banks in affected countries and the DBSA did not escape this challenge.

KAMESHNI NAIDOO
Chief Financial Officer

The effect of the prolonged low interest rate environment, high cost of funding, constraints on the ability of the domestic public and private sectors to take up funding and competitive margins offered by commercial banks challenged the ability of the Bank to lend in its traditional markets. The financial performance of the Bank has been negatively impacted by the prolonged strained economic environment.

Despite these challenges, the Bank continued to deliver on its mandate by providing development lending and spending on development-enhancing activities in line with its strategic objectives, while maintaining financial and risk management practices.

Impact of macroeconomic environment on financial performance

The Bank's financial performance is sensitive to changes in both interest rates and foreign exchange rates, in particular the US dollar. This sensitivity is detailed in note 45 Financial Risk Management in the annual financial statements.

The Bank is asset sensitive, with an expected increase/(decrease) in net interest income over a 12-month period of approximately R36 million (2011/12: R34.4 million) for an immediate 100 basis points parallel upward/(downward) shift in the yield curve. Interest rate risk is primarily managed through the use of interest rate swaps, in line with the Bank's hedging strategy.

The rand depreciated against all major currencies during the year and was trading at R9.20 per US dollar at the year-end, compared to a rate of R7.65 per US dollar at 31 March 2012, representing a depreciation of 20%. Compared to the euro, the rand depreciated to R11.79 from R10.21 a year earlier, reflecting a depreciation of 15%. Subsequent to the year-end, the rand has further depreciated against all major currencies.

The effect of the depreciation of the rand when compared to the US dollar and euro is to increase the translated value of the foreign liabilities, offset by decreases in the value of hedging instruments and the effect of economic hedges. The converse is true for the foreign development loan assets (which are non-treasury assets) and the corresponding derivative hedges.

In terms of the Bank's exchange rate exposure, the potential rand sensitivity of a 10% strengthening of the rand against the US dollar and euro based on the current open positions and currency exposures, is a reduction in profits of R28.5 million (2011/12: R122.1 million) and R30.5 million (2011/12: R25.8 million) respectively.

The Bank's cost of funding relative to other market participants, as indicated by its funding spread above the government bond curve and swap curve, further impacts on its ability to provide cost-effective funding to clients and therefore achieve sufficient volumes of business to maintain the appropriate levels of financial performance. Despite the credit rating of the Bank remaining in line with the sovereign rating, the funding spreads have increased by between 50 basis points and 120 basis points since the onset of the global financial crisis in 2008.

Organisational review

The Bank embarked on an organisational review in response to growing expectations from the shareholder, increasing competition from commercial banks and other developmental finance institutions and its recent poor financial performance.

In relation to the financial strategy the organisational review considered the following:

- Shareholder return on equity.
- Financial sustainability.
- The funding and operating model.
- Restructuring of the balance sheet aligned to the above.

The Bank has formulated a detailed plan for the restructuring, identifying the parts of the business concerned, the functions affected, approximate number of employees to be compensated for termination of services, expenditures that will be undertaken and when the plan will be implemented.

It announced the salient features of the plan to those affected before the end of the reporting period.

The new operating model seeks to address strategic, efficiency and stakeholder concerns:

- Strategically, it will ensure improved alignment along the lending value chain, with improved business development capabilities, improved coordination and specialised expertise.
- Efficiency will be improved through streamlined decision-making processes.
- This will satisfy the stakeholders requirement for continued developmental and infrastructure support programme delivery.

The financial effects of implementing the plan include costs associated with the growth in revenue, decrease in capital costs and reduction in non-core activities.

Key financial ratios

The Bank focuses on the following metrics in managing its activities:

	2009	2010	2011	2012	**2013**
Development loan disbursements (R billion)	8.8	7.8	7.7	6.5	**8.4**
Cost-to-income (%)	36.0	40.5	42.2	39.9	**48.9**
Long-term debt to equity (%)	131.3	149.4	161.6	193.8	**217.4**
Return on average assets (%)	3.9	1.2	0.1	(0.7)	**(1.6)**
Return on average equity (%)	8.6	3.0	0.2	(2.1)	**(4.8)**
Non-performing book as % of gross loan book	5.4	4.9	4.2	4.9	**7.3**
Net investment income as a % of average interest-bearing assets	4.8	3.9	3.6	3.5	**3.1**
Interest cover	2.0	1.8	1.8	1.7	**1.7**

CHIEF FINANCIAL OFFICER'S REPORT continued

Current year financial performance

The Bank reported a net loss for the current financial year of R825.9 million (2011/12: R370.8 million). The loss was primarily driven by impairment losses of R1.606 billion and revaluation losses on financial instruments of R403 million. When removing these unrealised losses, the Bank generated a near cash surplus generated from operations of R851 million (2011/12: R948 million).

R million	2009	2010	2011	2012	2013
Net (loss)/profit for the year	1 426	606	29	(371)	**(826)**
Add back: Significant unrealised movements					
Revaluation (gains)/losses on equity investments and other financial instruments	(495)	(469)	399	900	**403**
Foreign exchange (gains)/losses	(224)	262	57	(177)	**(347)**
Impairments and write-offs	238	228	229	495	**1 606**
Post-retirement medical aid provision	36	13	36	101	**15**
Near-cash surplus for the year	981	640	750	948	**851**
Other non-cash adjustments	(198)	(189)	(106)	(143)	**156**
Cash flows from operations	783	451	644	805	**1 007**

The disproportionate balance of debt versus equity has resulted in some of the deterioration of the financial performance over the past three to five years. The leverage ratio over the past five years has increased from 131.3% in 2009 to 217.4% in 2013. Although the callable capital allows for additional debt capacity and therefore balance sheet capacity, the negative impact of higher levels of gearing on financial performance is evidenced by the inverse relationship between the leverage ratio excluding callable capital, and the interest cover ratio.

A positive annual cash surplus and cash flows from operations is generated, but the quantum of the cash plough back contribution (cash surplus plus loan capital repayments received) is not sufficient to fund disbursements out of internally generated funds and therefore has to be supplemented with debt financing. The percentage of disbursements funded by debt financing has grown from 4% in 2008 to 100% in 2013. It is expected that the R7.9 billion cash injection approved by the Minister of Finance will support the realignment of the funding model. After the year-end, on 7 June 2013, R2.4 billion of the R7.9 billion capital injection was received.

Income

Operating income

Five-year financial performance trends (R billion)	2009	2010	2011	2012	2013
Operating income excluding foreign exchange gains/(losses) and revaluation gains/(losses)	1.78	1.75	1.79	1.95	**1.94**

Operating income excluding revaluation gains and losses and foreign exchange adjustments decreased by 0.6% to R1.938 billion (2011/12: R1.950 billion). Net interest income decreased marginally (R70.7 million or 4.2%) from the prior year, with the bulk of the growth in operating income generated from realised gains on disposal of equity investments.

The decrease in the net interest income was the result of the proportional increase in interest expense of 6.8% exceeding the increase in interest income of 2.1%, due to the leverage ratio increasing from 193.8% in 2012 to 217.4% in 2013. Delayed disbursements have also resulted in a reduction in interest income and consequently in net interest income.

Net fee income increased to R188 million (2011/12: R41 million), attributed to upfront fees of R93 million (2011/12: R37 million), primarily due to the financial close of the Independent Power Producers (IPP) programme.

Foreign exchange

The net foreign exchange gain of R347 million was mainly driven by a dollar equity investment position, being an unrealised foreign exchange gain on equity investments of R308 million and hedging instruments. In October 2012 a decision was made to hedge the foreign exposure on certain equity investments to the value of US$190 million as a result of the fluctuations in the foreign currency. This transaction resulted in a net R227 million gain on foreign exchange as a result of the movement on the foreign exchange contract and the equity investments.

Revaluation of financial assets and liabilities

The net loss on revaluation of financial assets and liabilities of R403 million (2011/12: R900 million) includes a R28.8 million unrealised gain on revaluation of equity investments, R68.2 million unrealised loss from cross-currency swap (due to the downward shift in ZAR interest rates) and R363 million unrealised loss on the fair value portfolio.

The fair value portfolio is a combination of DV bond liabilities with a nominal value of R7.5 billion which is hedged by both swaps and investment assets. As at 31 March 2013, the Bank reported a combined unrealised/realised year-to-date loss of R91 million.

The unrealised loss is primarily due to a downward shift in bond yields which were partially offset by the movement in swap yields. However, the relative movement between the bonds and swaps remains a high risk to the Bank which has a potential to offset gains realised on the interest expense.

Impairments

The impairment loss of R1.606 billion for the year was significantly above the previous year (2011/12: R495 million). R224 million related to impairment on the equity investments. The balance was due to impairments on loans – R131 million relating to actual write-offs in the year, R1.378 billion relating to the movement in the provision for impairments and R128 million relating to the recognition of the non-accrual of interest.

Other operating income

Included in other operating income is a R77 million realised gain on equity investments and dividends of R26 million.

Operating expenditure

Operating expenses at R797 million (excluding restructuring expenses of R151 million) were in line with 2012 (R779 million) due to the cost management across the Bank resulting in the general and administrative costs being contained. The cost-to-income ratio (excluding the provision for restructure expenses) was 41.1%, compared 39.9% in the prior year.

Operating expenditure consists of personnel expenses, other expenses and depreciation. Over the past five years the cost-to-income ratio grew from 36.0% to 48.9% in 2013.

The increase in the ratio is attributable to the slower than anticipated growth in operating income rather than the increase in the operating expenditure itself. As the adverse conditions in the macro-economic environment stifled the anticipated growth in operating income, management implemented expense management strategies to contain controllable expenditure in the short term.

The trends in the top three expenditure operating line items are described in more detail below.

	2009	2010	2011	2012	2013
Total operating expenses (R million)	669	716	758	779	**948**
Top three expenditure trends (R million)					
Remuneration	404	479	550	569	**639**
Information technology	49	46	36	38	**31**
Consulting fees	36	21	24	27	**40**
Top three expenditure as % of total operating expenditure					
Remuneration	60.4	67.0	72.5	73.1	**67.5**
Information technology	7.4	6.4	4.8	4.9	**3.3**
Consulting fees	5.3	3.0	3.2	3.4	**4.2**

Remuneration

As a services organisation, remuneration forms the largest component of the operating expenses, currently accounting for 67.5% (2011/12: 73.1%). A significant component of other expenses is also driven by headcount, which is set to decrease in the forthcoming year.

Information technology expenditure

Information technology expenses account for 3.3% (2012: 4.9%) of operating expenses and remained relatively constant over the past five years, despite the fluctuations in headcount and the implementation due to the constant pursuit of efficiencies and technology savings.

Consulting fees

The Bank utilises the services of consultants to supplement the short-term (passing) needs for specialised skills and expertise, to meet stakeholder expectations in infrastructure delivery, rather than entrenching these in the headcount of the organisation.

Asset base

Development loans

Disbursements during the year amounted to R8.4 billion (2011/12: R6.5 billion). After a detailed assessment of the recoverability of the loans, the impairment provision was increased to R2.337 billion (2011/12: R961 million). This sharp increase took into account the following factors:

- Continued non-performing loans.
- Changes in recovery rates.
- Changes in risk ratings and specific impairment factors.

Equity investments

The carrying value of equity investments grew by R442 million, largely on the back of unrealised gains of R350 million. Disbursements during the year amounted to R588 million (2011/12: R1.643 billion).

The Bank remains concerned about non-performance of investees and valuations volatility and changes in the underlying risks involved. The investments support the business strategy of diversification of income. However, it has not delivered the desired returns. This is under review as part of the revised business strategy as well as the skills required for the ongoing management and monitoring of the equity portfolio.

Investment securities and investments under resale agreements

The increase in investment securities of R568 million is mainly explained as follows:

CHIEF FINANCIAL OFFICER'S REPORT continued

Money market instruments

Investments in money market instruments increased by R376 million. The increase was mainly due to additional investments in negotiable certificates of deposit (NCDs) and floating assets. These funds were invested in order to improve the yield on liquidity held to meet the near-term disbursement projections.

Also included in the movement of the capital market instruments is the redemption of the DVF12 bond of R1.1 billion.

Municipal and corporate bonds

Municipal and corporate bonds increased by R208 million, mainly as a result of an investment in the Ekurhuleni Metro Municipality (EMM 03) bond for R181 million in April 2012 as well as the increase in bond values as a result of the decrease in interest rates. These instruments are classified as both held at fair value through profit or loss as well as available-for-sale.

Investments under resale agreements

Investments under resale agreements matured and therefore decreased to Rnil (2011/12: R709 million). This was utilised to fund the redemption of DVF12 in October 2012.

Cash and cash equivalents

Cash is held as part of DBSA's portfolio of liquid assets. Cash and cash equivalents have decreased by 41% or R861 million during the year under review. This was mainly due to:

- The drawdown by Eskom on a loan of R4.0 billion (disbursed in R1.0 billion tranches in August 2012, November 2012, January 2013 and March 2013).
- The redemption of the DVF12 of R1.1 billion (this represents part of the total redemption amount of R2.2 billion).
- The above is net of repayments on existing loans on the asset portfolio.

Property and equipment

There were no significant changes in the value or usage of property and equipment during the year.

Derivative assets and liabilities held for risk management

Derivative assets increased by 12%, while derivative liabilities decreased by 12%. These movements were primarily due to the downward shift in the swap curve and the depreciation of the rand.

Foreign exchange hedging derivatives reported a gain of R118 million, which is primarily due to the movement in the exchange rate of the rand with the hedged currencies. The movements in foreign exchange hedging derivatives are reported in the following income statement lines:

- R68 million loss in the net gains or losses from financial assets and liabilities. This is the fair value of the movement on the swap curve due to changes in the interest rate component of a swap.
- R4 million gain is the interest accrual on the swaps and is disclosed in the interest expense. It is stripped away from the total fair value movement of the swap due to the changes in interest rates shown above.
- R182 million gain in the foreign exchange. This movement is due to changes in the foreign exchange spot rates and represents the foreign exchange component of a cross-currency swap.

Revaluation gains and losses from financial assets and liabilities

Revaluation gains and losses are determined based on valuations performed. 46% was due to equity valuation losses in direct equity investments and a further 54% due to movements in values of third party management funds, some of which are still in the start-up or construction phases.

The DBSA strategically invests in unlisted equities to support development objectives in infrastructure projects. The current equity portfolio is worth R4.456 billion. The large swing in the equity investment valuations (reversals of significant unrealised gains reported in previous financial years) are mainly the result of economic conditions, which, even if anticipated could not easily have been avoided, as these investments by nature are illiquid and take time to exit.

The Bank's equity management strategy is undergoing a comprehensive review as part of the overall organisational review, with key enhancements to inform the Bank's revised risk appetite, strategy and roll-out to be presented for Board approval. The aim is to determine the optimal balance between equity investments and development loans that would be aligned to long-term financial sustainability and thereby facilitate the improvement of the overall financial performance of the Bank.

Impairments

Impairments on development loans are significantly higher than the prior year, and the movement in equity investment impairments lower at R224 million (2011/12: R287 million). The movements in equity investment impairments were driven by the platinum exposure that became impaired when a mining operation the Bank supported became unviable due to the continued deterioration in the platinum price and consequently the deterioration of the sector.

Net development loans grew by 5.4% to R42.6 billion. The strength and quality of the loan book remained within acceptable norms. The value of the non-performing loans as a percentage of the total loan book was 7.3% (2011/12: 4.9%). The annual loan impairments (including write-offs) also remained within industry norms. The movement in the development loan write-offs and movement in impairments totaling R1.381 billion was the result of a detailed, conservative review of the collectability of the book.

Capital adequacy management

The DBSA is not a deposit taking institution and therefore not subject to the Banks Act. Although the Bank is therefore not obliged to comply with the Basel requirements, it monitors and manages its capital adequacy within the regulatory leverage constraint and self-imposed capital adequacy framework approved by the Board. The overarching regulatory leverage limit of 250% translates into a minimum unweighted capital requirement of 28.6%. As at 31 March 2013, the unweighted capital ratio stood at 31.0% (2011/12: 33.5%), with an unutilised borrowing capacity of R6.3 billion (2011/12: R10.2 billion). A review and enhancement of the capital allocation framework is currently underway.

Funding/liabilities

The DBSA's credit ratings continue to be at the sovereign equivalent.

Ratings agency Moody's downgraded the DBSA to Baa1 from A3 in line with the weakening of the South African government's credit profile, as captured by Moody's downgrade of South Africa's government bond rating to Baa1 (negative) from A3 in September 2012. It also noted the high sovereign exposure of the five largest South African banks.

Fitch Investor Services, in January 2013, downgraded South Africa's sovereign credit rating to BBB from BBB+ and placed the country on a stable credit outlook.

Ratings agency Standard & Poor's affirmed South Africa's sovereign credit rating at BBB with a negative outlook in March 2013.

Funding: debt securities at amortised cost

Debt securities

Debt securities are at a similar level to the prior year, mainly due to the redemption of DVF12 of R2.2 billion, which offset the increases via issuances and the amortisation of any discounts or premiums of R448 million (DV23) and R507 million (DV22).

Funding: debt securities at fair value through profit and loss

Debt securities at fair value through profit or loss have increased by 7% (R514 million) due to fair value movements and the amortisation of any discounts and premiums. As interest rates have decreased, and these bonds are issued with a fixed rate of interest, a loss is expected given that the fixed coupons of hedged bonds are discounted at lower rates.

Funding: lines of credit (at amortised cost)

Lines of credit have increased during the year under review by R2.4 billion when compared to 2012. The foreign lines of credit increased due to

- An increase in euro-denominated funding of R732 million.
- An increase in dollar-denominated funding of R1.7 billion.
- The depreciation of the rand against the euro and dollar.

Funding under repurchase agreements

Funding under repurchase agreements increased to R201 million from the previous financial year-end to raise short-term funding for current disbursements.

Provisions

Post-retirement medical aid provision

The Bank provided a post-retirement medical aid (PRMA) benefit to staff employed prior to 1 July 2007.

The annual growth in the PRMA liability consistently outpaced inflation and has been a concern for management. Consequently, various options to manage this liability were investigated over this period, and after testing and confirming staff interest in a buy-out option, the Minister of Finance granted approval on 26 April 2012 to continue with the proposed strategy, subject to certain suspensive conditions.

Provision for restructuring

Included in the provision for restructuring are the following items:

- The Bank engaged the services of one of the world's leading business consulting firms, to conduct the organisational review. The total cost of the review, which is included in other expenses (refer to note 37), was R18.8 million (2011/12: Rnil). The 26% carrying amount included in other provisions is R2.6 million (2011/12: Rnil).
- The Bank engaged the services of consultants to conduct a finance functional effectiveness study. The total cost of the study, which is included in other expenses (refer to note 37), was R787 000 (2011/12: Rnil). The carrying amount included in other provisions is R787 000 (2011/12: Rnil).
- The Bank engaged the services of consultants to conduct a thorough review of the quality of the Bank's development loan book in order to inform a more efficient lending process, design of the operating model and pricing model. The total cost of the study, which is included in other expenses (refer to note 37), was R6.8 million (2011/12: Rnil). The carrying amount included in other provisions is R6.8 million (2011/12: Rnil).
- As part of the reorganisation process, employees were afforded the opportunity to choose voluntarily severance packages (VSPs) or, for those employees above the age of 55, early retirement packages. In total, 35 employees were approved for early retirement and 89 employees were approved for voluntary severance packages at year-end. Approved VSP applicants were paid out a total of two weeks for every year of service plus a one-month notice period, whilst approved early retirement applicants were paid an amount equal to the contributions payable to the date of retirement. The total cost of these packages, which is included in personnel costs (refer to note 36), was R86 million (2011/12 Rnil). The carrying amount included in other provisions is R86 million (2011/12: Rnil).
- As a result of the restructuring of the Bank, certain employees will be awarded severance packages. The provision has been calculated based on the remuneration and the number of years of service of the affected persons, as well as specific terms negotiated with individuals or their representatives. The total anticipated cost of these payments, which is included in other expenses (refer note 37), is R44 million (2011/12: Rnil). The carrying amount included in other provisions is R44 million (2011/12: Rnil).
- The organisational review formulated the requirement to restructure the core functions of the Bank by creating a 'middle office' which will facilitate a more efficient process flow between client facing business units and administrative functions. The total cost of building this capacity, which is included in other expenses (refer to note 36), was R5.0 million (2011/12: Rnil). The carrying amount included in other provisions is R5 million (2011/12: Rnil).

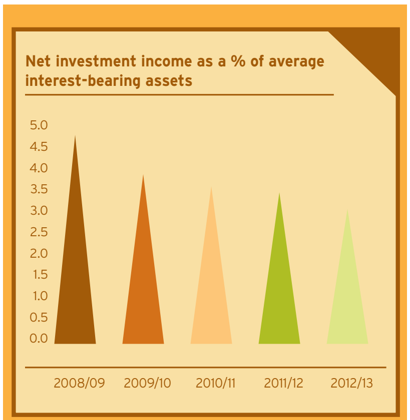
The DBSA Group includes the Development Fund, which is incorporated under section 21 of the Companies Act, 1973 (Act No. 61 of 1973) and which conducted most of the institutional capacity building activities of the Bank. The Bank will, as a direct result of the restructuring, assume direct responsibility for the costs of the Development Fund with effect from 1 April 2013. The costs included in the provision for restructuring are as follows:

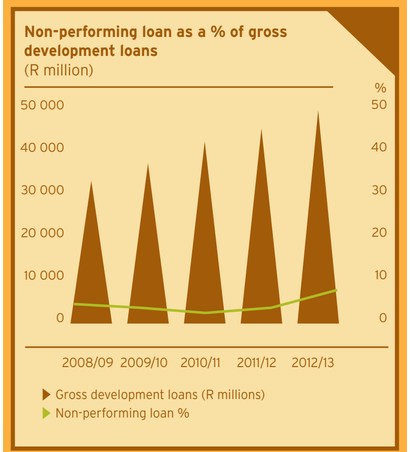
- Termination of Agencies.
- Unwind DBSA Development Fund.
- Lease cancellation and penalty costs.
- Future grants.

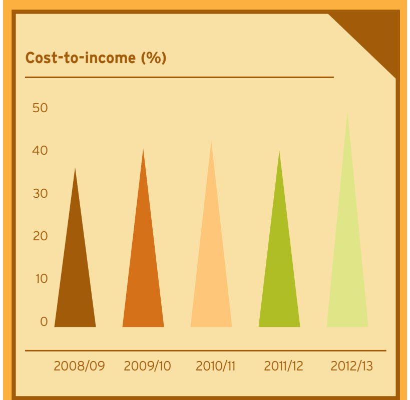
The provision for restructuring includes only the direct expenditures arising from the restructuring and not any costs associated with the Bank's ongoing activities.

Sources of revenue

The DBSA has been financially self-sustaining, with no financial support from government through grants or







capital injections since 1994 to March 2013. As indicated previously, the government has committed to inject R7.9 billion over the next three years.

The main source of revenue of the Bank is net interest income, which accounts for more than 85% of operating income. The main drivers of operating income are loan disbursements linked to the level of investment activity, interest rates and foreign exchange rates.

The annual financial statements are included in this Integrated Annual Report on pages 51 to 114 to provide further information on the financial performance and position of the Bank.

Risk management

Risk and its mitigation have become the paramount priority in the financial services industry. As part of the organisational review, the Bank has confirmed the importance of understanding and managing risks to create sustainable returns in the future. The Board, through the Audit and Risk Committee, maintains an enterprise-wide risk management framework designed to address the challenges of the ever-changing risk environment and to ensure that the Bank's strategic plans are properly supported by effective risk management.

Going concern

The Board of Directors assess the Bank's future performance and financial position on an ongoing basis and have no reason to believe that the Bank will not be a going concern in the reporting period ahead. In making this assessment, the following factors were considered:

- The ability of the Bank to settle commitments as they fall due.
- The likelihood that loans will be repaid on time.
- The ability to generate growth and meet the demands thereof.

The financial statements are consequently prepared on a going concern basis.

Focus for the year ahead

The Bank's current organisational review aims to improve efficiencies and move the Bank towards a positive financial performance and an improved financial and cash position. While the organisational review is underway, business in line with the Bank's infrastructure mandate must continue, both in South Africa as well as in the wider SADC region. The focus areas outlined in the operational report are, in essence:

- The intensified support to less capacitated municipalities and the Bank's participation across the full value chain to accelerate infrastructure investments will require the allocation of direct as well as indirect financial resources through concessional finance, as well as human capacity (ie operating expenses) to facilitate the servicing of these markets.
- The increased project development support to government programmes in priority sectors will most likely have the effect of delayed pay-off benefits, as the lead times and upfront investment in developing these large scale projects span more than one financial year. Also, the sourcing of sufficient funding due to the bulky nature of these investments will be an important consideration.

The aim and function of the Finance Division is to develop mechanisms supportive of these development activities, while protecting the financial sustainability of the organisation.

Appreciation

I would like to thank the Executive Committee and members of the Audit and Risk Committee and Board for their ongoing support in moving the Bank closer to achieving financial sustainability.

I am grateful for the extra effort from the Bank's financial and support staff during this time of transition. Thank you for your dedication.

Kameshni Naidoo
Chief Financial Officer

ANNUAL FINANCIAL STATEMENTS

DIRECTORS' RESPONSIBILITY FOR FINANCIAL REPORTING

for the year ended 31 March 2013

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

To enable the Directors to meet their financial reporting responsibilities:

- Management designed and implemented standards and systems of internal control to provide reasonable assurance as to the integrity and reliability of the financial statements and to safeguard, verify and maintain the accountability of the Bank's assets.
- Appropriate accounting policies, supported by reasonable and prudent judgements and estimates, are applied on a consistent and going-concern basis.
- The Audit and Risk Committee 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 58 to 114 were approved by the Board of Directors on 31 July 2013 and signed on its behalf by:

Phillip Jabulani Moleketi
Chairman of the Board

31 July 2013

Mary Vilakazi
Chairperson of the Audit and Risk Committee

31 July 2013

Patrick Khulekani Dlamini
Chief Executive Officer

31 July 2013

REPORT OF THE AUDIT AND RISK COMMITTEE

for the year ended 31 March 2013

We are pleased to present our report for the financial year ended 31 March 2013.

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

Membership

The Audit and Risk Committee members and attendance are reflected on page 40 in the Governance and Risk Management Report. In compliance with Treasury Regulations 27.1.3 and 27.1.4 the Chairperson is a Non-executive independent Director and has the requisite business, financial and leadership skills for the position. All the Committee members are financially literate, with all members being Non-executive Directors. The names and qualifications of Directors serving on the Audit and Risk Committee are detailed in the Board of Directors section of the Integrated Annual Report on pages 10 to 13.

Audit and Risk Committee responsibility

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

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

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 and Risk Committee's responsibility also includes:

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

Combined assurance

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

Assurance by management

- Received and reviewed the reports from management regarding the adequacy of development loan and equity investment impairments.
- Received and reviewed the accounting policies, practices, judgements and estimates adopted in the preparation of the annual financial statements and found those to be appropriate.
- Reviewed reports from management regarding the going concern and financial sustainability of the organisation and noted the challenges and declining financial performance over the last four years. Appropriate measures are urgently being reviewed to improve the long-term financial sustainability. The continued preparation of the financial statements on a going concern basis was adopted.

REPORT OF THE AUDIT AND RISK COMMITTEE continued

for the year ended 31 March 2013

Assurance by Group Risk Assurance (GRA)

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

- Treasury-related risks are monitored through an internal Asset and Liability Management Committee. A gap identified, being the position of Asset and Liability Management within the Treasury division of the Bank, has been rectified through the Bank's strategic restructuring process and is now managed within the Chief Financial Officer's portfolio.
- Portfolio risks are monitored through an internal Portfolio Management Review Committee. Based on reports received from management, the monitoring of the loan portfolio is considered adequate. A formalised valuation policy and Valuations Committee has been established.
- Operational risks are addressed under the ERM framework.

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

Assurance by Internal Audit

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

- Considered and recommended for approval to the Board the one-year operational and three-year strategic Internal Audit Plans and monitored Internal Audit's adherence to these plans.
- Received and reviewed reports from Internal Audit concerning the effectiveness of internal controls, systems and processes as well as the adequacy and appropriateness of management's corrective action plans.
- Considered all material forensic reports and established whether appropriate action was taken by management.

Assurance by the independent external auditor

- Reviewed and approved the External Audit Plan, including the proposed scope and audit fee and determining the nature and scope of non-audit services.
- Received and reviewed external audit reports for the year which included the Integrated Annual Report for the year ended 31 March 2013, the interim results for the six months ended 30 September 2012 and the reports on the effectiveness of internal controls, systems and processes.
- Made appropriate recommendations to the Board regarding the rotation of the external audit firm.

Fraud and corruption

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

- Risk incidents are logged in an operational risk register and monitored.
- There is sufficient forensic capability in Internal Audit, with an appointed forensic specialist.
- The Bank has a toll-free whistle-blowing hotline operated by Deloitte and employees are encouraged to report any suspected corrupt, fraudulent, criminal or unethical practices. A summary of the hotline statistics and resulting disciplinary actions where this was required is included in the Governance and Risk Management Report on page 42.

Fruitless and wasteful expenditure

The Audit and Risk Committee is satisfied with the process in place to detect and disclose fruitless and wasteful expenditure. For the year under review the Audit and Risk Committee is not aware of any fruitless and wasteful expenditure. The Bank's policy for reporting on fruitless and wasteful expenditure is currently under review to expand the focus to lending activities.

IT governance

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

- Strengthening of ICT governance was a primary objective of the Business Technologies and Facilities Division during the financial year and the existing IT governance framework and Information Security Framework is currently being reviewed and updated.

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

The effectiveness of internal control

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

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

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

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

Finance functional effectiveness

The Audit and Risk Committee as Non-executive Directors appointed the Chief Financial Officer and are satisfied with the qualifications and experience of the Chief Financial Officer in relation to the risks and sensitivity of the financial management of the Bank.

A review was performed of the effectiveness of the finance divisions focusing on improving operations, efficiency, automation and standardisation of activities in terms of the volume of transactions. The results of the review were taken into account in the revised financial strategy and aligned with the Balance Scorecard of the Chief Financial Officer.

Evaluation of financial statements

The Audit and Risk Committee has:

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

The Audit and Risk Committee has evaluated the Integrated Annual Report and Sustainability Report for the year ended 31 March 2013 and considers that it complies, in all material respects, with the requirements of sections 27 to 31 of the Companies Act, the PFMA, IFRS and that the adoption of the going concern basis in preparing the annual financial statements is appropriate. The Audit and Risk Committee is of the opinion that these annual financial statements fairly present the financial position of the DBSA as at 31 March 2013 and the results of its operations and cash flow information for the year then ended and concurs and accepts the independent external auditor's conclusions on the annual financial statements. It is of the opinion that the audited annual financial statements should be accepted and read together with the report of the independent external auditor.

Mary Vilakazi
Chairperson of the Audit and Risk Committee

31 July 2013

INDEPENDENT AUDITOR'S REPORT TO PARLIAMENT

for the year ended 31 March 2013

Report on the financial statements

Introduction

We have audited the financial statements of the Development Bank of Southern Africa as set out on pages 64 to 114, which comprise the statement of financial position as at 31 March 2013, the statement of comprehensive income, statement of changes in equity and the statement of cash flows for the year then ended, and the notes, comprising a summary of significant accounting policies and other explanatory information.

Accounting Authority's responsibility for the financial statements

The Board of Directors, which constitutes the Accounting Authority, is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and the requirements of the Public Finance Management Act of South Africa and sections 27 to 31 of the Companies Act of South Africa being the relevant and corresponding sections of those specified in the Development Bank of Southern Africa Act, 1997, and for such internal control as the Accounting Authority determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with the Public Audit Act of South Africa, the *General Notice* issued in terms thereof and International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Bank as at 31 March 2013, 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 section 27 to 31 of the Companies Act of South Africa, being the relevant and corresponding sections of those specified in the Development Bank of Southern Africa Act.

Other reports required by the Companies Act

As part of our audit of the financial statements for the year ended 31 March 2013, we have read the Directors' Report and the Audit and Risk Committee's Report for the purpose of identifying whether there are material inconsistencies between these reports and the audited financial statements. These reports are the responsibility of the respective preparers. Based on reading these reports, we have not identified material inconsistencies between these reports and the audited financial statements. However, we have not audited these reports and accordingly do not express an opinion on these reports.

Report on other legal and regulatory requirements

In accordance with the Public Audit Act of South Africa and the *General Notice* issued in terms thereof, we report the following findings relevant to performance against predetermined objectives, compliance with laws and regulations and internal control, but not for the purpose of expressing an opinion.

Predetermined objectives

We performed procedures to obtain evidence about the usefulness and reliability of the information in the performance information report as set out from the "High-level performance overview" on page 58 to "Performance information" on pages 59 to 60 of the Integrated Annual Report.

The reported performance against predetermined objectives was evaluated against the overall criteria of usefulness and reliability. The usefulness of information in the annual performance report relates to whether it is presented in accordance with the National Treasury's annual reporting principles and whether the reported performance is consistent with the planned objectives. The usefulness of information further relates to whether indicators and targets are measurable (ie, well defined, verifiable, specific, measurable and time bound) and relevant as required by the *National Treasury Framework for managing programme performance information*.

The reliability of the information in respect of the selected objectives is assessed to determine whether it adequately reflects the facts (ie whether it is valid, accurate and complete).

There were no material findings on the performance information report concerning the usefulness and reliability of the information.

Additional matter

Although no material findings concerning the usefulness and reliability of the performance information were identified in the performance information report, we draw attention to the following matter below.

Achievement of planned targets

Of the total number of 31 (thirty one) targets planned for the year, 18 (eighteen) of the targets were not achieved during the year under review. This represents 58% (>20%) of the total planned targets that were not achieved during the year under review.

Compliance with laws and regulations

We performed procedures to obtain evidence that the entity has complied with applicable laws and regulations regarding financial matters, financial management and other related matters. We did not identify any instances of material non-compliance with specific matters in key applicable laws and regulations as set out in the *General Notice* issued in terms of the Public Audit Act of South Africa.

Internal control

We considered internal control relevant to our audit of the financial statements, performance information report and compliance with laws and regulations. We did not identify any deficiencies in internal control that we considered sufficiently significant for inclusion in this report.

Nkonki Inc.

Nkonki Inc.
Registered Auditor

Per: **Mitesh Patel CA(SA)**
31 July 2013

Nkonki Inc.
1 Simba Road
Sunninghill
2157

nkonki
ACTUALISING EMPOWERMENT
Registered Auditors | Accountants | Consultants

DIRECTORS' REPORT

for the year ended 31 March 2013

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 2013.

Nature of business

The DBSA was reconstituted in terms of the Development Bank of Southern Africa Act, 1997 (Act No. 13 of 1997), as a development finance institution wholly-owned by the government of South Africa. 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 role to serve as financier, advisor, partner, implementer and integrator to the benefit of its clients.

Corporate governance

The Directors embrace the principles of the King III Code and the Companies Act, and endeavour to comply with these recommendations in so far as they are not in conflict with the DBSA Act.

Financial results and activities

The financial results of the Bank are fully disclosed on pages 64 to 114. The key financial indicators for the year under review are as follows:

- The Bank recorded a R826 million loss for the year, largely attributable to an impairment provision adjustment of R1.606 billion and a R403 million loss on the revaluation of financial assets and liabilities.
- The Bank recorded a loss from operations of R706 million in the year under review (2011/12: R108 million).
- Operating income rose dramatically to R1.882 billion (2011/12: R1.227 billion) on the back of foreign exchange gains and decreased losses on financial assets and liabilities, despite a marginal decrease in net interest income to R1.626 billion (2011/12: R1.697 billion).
- The cost-to-income ratio increased from 39.9% in 2012 to 48.9%.
- Disbursed development loans, bonds and equity investments amounted to R9.2 billion (2011/12: R8.1 billion).
- The quality of the loan book remains managed, with non-performing loans at 7.3% of the gross loan book (2012: 4.9%), while the provision for loan impairment is R2.337 billion (2011/12: R961 million).
- The debt-to-equity ratio increased to 217.4% (2011/12: 193.8%).

Summarised information on the financial performance of the Bank is included in the unaudited financial overview section on pages 4 to 5.

High-level performance overview

The DBSA's strategy highlights the importance of achieving development impact, while maintaining financial sustainability. The Balanced Scorecard (BSC) methodology is utilised to implement and monitor strategy. To this end, corporate strategic objectives and targets are developed and approved by the Board of Directors. The table overleaf compares the planned and related actual performance on the high-level corporate strategic objectives for 2012/13.

In drafting the 2012/13 Corporate BSC, various key performance indicators were set to drive strategic objectives. However, the organisational review initiated during the year has negated the intent of some of these key performance indicators and/or made the measurement thereof impractical. For example:

- DBSA management elected to conduct the Knowledge Week in a different format by replacing it with various roundtables and dialogues.
- Employees and clients were significantly affected by the organisational review and the change in DBSA strategy. The benefit of performing the employee value proposition and client and partner surveys in this context would therefore not justify the cost. It is planned to conduct the surveys in future, as part of assessing the effectiveness of the improvement plans.
- Performance on three indicators, the cost-to-income ratio, staff turnover and learners trained through the Vulindlela Academy, was negatively affected by the change in the DBSA strategy.

Various financial key performance indicators were adversely affected by the challenging operating environment, which resulted in higher-than-anticipated impairment charges of R1.6 billion and revaluation losses on financial instruments of R403 million. Consequently, group sustainable earnings, the non-performing loan book and impairment charges as a percentage of the average gross loan book were negatively affected.

Performance information

Balanced scorecard perspective: development impact

Strategic objective	Key performance indicator	Target	Results
• Provide and build human and institutional capacity • Promote broad-based economic growth, job creation, efficiency, fixed capital formation and regional integration • Catalyse, expand and enable the delivery of basic and social services	DBSA Development Fund		
	Municipal capacity building and implementation Number of municipalities with non-performing loans supported with the development of turnaround strategies	6	8
	Agencies Value of infrastructure facilitated through government or donor-funded programmes	R5 billion	R33.0 billion
	Vulindlela Academy		
	• Total number of external learners trained in priority skills	10 000	6 385
	• Number of learners certified 'competent'	2 000	3 195
	Accelerated School Infrastructure Delivery Initiative (ASIDI)		
	• Number of school buildings in construction (commenced during the year)	49	32
	• Number of schools completed	85	17 (Note 1)
	Health		
	• Number of hospital (all categories) projects in construction and/or renovation	8	0
	• Number of construction drawings developed for nursing colleges or schools	5	0 (Note 2)
	Human settlements		
	• Number of housing units constructed	400	110 (Note 3)
	Jobs Fund		
	• Value of grant funding approved	R2.0 billion	R1.7 billion
	• Estimated number of jobs (based on approvals)	70 000	55 895
	• Value of grant funding disbursed	R1.5 billion	R249 million (Note 4)

Notes

1. *The underperformance was as a result of challenges experienced by contractors, such as adverse weather conditions, which resulted in man-days being lost; poor access to sites; difficult terrain and physical features; and non-performance by a few contractors.*
2. *Progress in finalising the planning and feasibility studies for the construction and/or renovation of hospitals and nursing colleges for the national Health Public-Private Partnership programme has been slower than expected.*
3. *Phase 1 has been completed; however, Phase 2 has been delayed owing to a request to review the procurement process.*
4. *The underperformance was mainly attributable to challenges experienced in operationalising the newly established Fund. Key lessons were learnt and will be incorporated in future operations to improve effectiveness.*

Balanced scorecard perspective: Sustainability

Strategic objective	Key performance indicator	Target	Results
• Engender sustainability, externally and internally • Catalyse, expand and enable the delivery of basic and social services • Promote broad-based economic growth, job creation, efficiency, fixed capital formation and regional integration	Maintain corporate credit rating in line with sovereign rating	Maintain in line with sovereign rating	Maintained in line with sovereign rating
	Total asset growth	6.9%	3.1% (Note 5)
	Group sustainable earnings	R788 million	(R615 million)
	Group cost-to-income ratio	44.2%	48.9%
	Impairment charge as % of average gross loan book	0.6%	3.2%
	Non-interest income (including net fee income and other operating income)	R233 million	R312 million

Note

5. *Although the DBSA recorded near-record disbursements, total asset growth was negatively affected by higher-than-expected impairment charges.*

DIRECTORS' REPORT continued

for the year ended 31 March 2013

Balanced scorecard perspective: Bank-wide efficiency

Strategic objective	Key performance indicator	Target	Results
• Engender sustainability, externally and internally	Customer and partner satisfaction survey	4	Postponed to 2014/15
	Non-performing loan book as a % of gross loan book	6%	7.3%
	Change in the number of existing non-performing loans as at 1 April 2012 as a % of non-performing loan book	15%	14.9%
	Effective implementation of the risk appetite framework to ensure portfolio quality	Implement risk appetite framework by year-end	Completed and approved by Board sub-committee

Balanced scorecard perspective: Organisational capability

Strategic objective	Key performance indicator	Target	Results
• Engender sustainability, externally and internally	Level of staff engagement	41%	Postponed to 2013/14
	Staff turnover ratio	10%	14.7% (Note 6)
	Number of managers enrolled in the Leadership Development Programme	20	37
	Talent map	Develop talent map	Talent map developed

Note

6. Figure excludes voluntary severance packages and early retirements taken as part of the organisational review.

Balanced scorecard perspective: Research and advisory

Strategic objective	Key performance indicator	Target	Results
• Promote broad-based economic growth, job creation, efficiency, fixed capital formation and regional integration • Provide and build human and institutional capacity	**State mandates and programme origination**		
	Spatial economic zones, industrial development zones and spatial development	Identification of programmes and projects in one of the thematic areas	Board agreed that the project would be better supported by the IDC.
	Green and water programmes	Identification of programmes and projects in one of the thematic areas	Eight potential investment opportunities were identified at national, regional and local levels.
	Knowledge and research		
	Unpacking National Planning Commission (infrastructure plans)	Integrated Infrastructure Implementation Framework report produced	Framework received average external rating of 4.4 out of 5.
	BRICS: Analysis of SA Inc.'s national and regional agenda	Mobilising key stakeholders and roleplayers to identify priority programmes in Africa	The SA Inc. BRICS strategy was accepted and approved by Cabinet. The DBSA also facilitated the Interbank Cooperation Mechanism.
	Knowledge sharing		
	Number of roundtables or dialogues conducted	6	12
	Knowledge week	Two-day dialogues and consensus with government and stakeholders on actions to accelerate infrastructure delivery	Knowledge Week replaced by roundtables/dialogues

Dividend

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

Share capital

No changes were introduced to the authorised and issued share capital of the Bank.

Authorised capital

500 000 ordinary shares (2012: 500 000) at par value of R10 000 each.

Callable capital (authorised but unissued share capital)

480 000 ordinary shares (2012: 480 000) at par value of R10 000 each.

The Minister issued an interim Letter of Undertaking amounting to R15.2 billion in favour of the DBSA, which will lapse upon the formalisation of the increased callable capital.

Issued capital

20 000 ordinary shares (2012: 20 000) at par value of R10 000 each.

Going concern

The Directors noted the challenges and declining financial performance over the last couple of years, and appropriate measures to improve the long-term financial sustainability of the DBSA are being implemented. The financial statements have been prepared using appropriate accounting policies, supported by reasonable judgements and estimates. The Directors have reasonable belief that the Bank has adequate resources to continue as a going concern for the foreseeable future, based on forecasts and available cash resources.

Borrowing powers

As per Regulation 44 of the Regulations made under section 17 of the DBSA Act, the Directors may, at their discretion, borrow or raise funding for the purposes of the Bank, subject to the leverage ratio not exceeding 2.5 times the permanent capital and accumulated reserves. An annual borrowing programme, based on projections of business activity for the following financial year, is submitted to the National Treasury for approval. The current-year debt raised was within the approved programme, and the overall borrowings remained within the leverage ratio limit.

in billions of rand	**2013**	**2012**
Approved annual borrowing programme	**10.0**	15.0
Debt raised during the year	**4.4**	8.0
Unutilised under the annual borrowing programme	**5.6**	7.0
Closing unutilised borrowing capacity after debt raised during the year	**6.3**	10.2
Total borrowing capacity (excluding callable capital)	**42.8**	43.8
Closing total liabilities, excluding other liabilities	**36.5**	33.6

DIRECTORS' REPORT continued

for the year ended 31 March 2013

Directorate and Secretariat

Details pertaining to the names of Board members and the Secretariat appear on pages 10 to 13.

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

Details of the Directors' current service contracts are as follows:

Name	Position	Number of terms served as Non-executive Director, including current term	Current service contract From	To
Current				
Mr PJ Moleketi	Independent Non-executive Chairperson	2	1 January 2013	31 December 2015
Mr FM Baleni	Independent Non-executive Deputy Chairperson	2	1 January 2013	31 December 2015
Mr PK Dlamini	Chief Executive Officer and Managing Director	Not applicable	1 September 2012	31 August 2016
Dr L Bhengu-Baloyi	Independent Non-executive Director	1	1 August 2011	31 July 2014
Mr A Boraine	Independent Non-executive Director	3	1 August 2011	31 July 2014
Mr K Brown[1]	Non-executive Director (Shareholder representative)	1	1 January 2010	31 December 2012
Ms T Dingaan	Independent Non-executive Director	2	1 August 2010	31 July 2013
Mr A Julies[2]	Non-executive Director (Shareholder representative)	1	1 January 2013	31 December 2015
Ms A Kekana	Independent Non-executive Director	1	1 August 2011	31 July 2014
Mr OA Latiff	Independent Non-executive Director	2	1 August 2010	31 July 2013
Ms W Lucas-Bull[3]	Independent Non-executive Director	3	1 August 2011	31 July 2014
Ms B Mabuza	Independent Non-executive Director	1	1 August 2011	31 July 2014
Dr C Manning	Independent Non-executive Director	3	1 August 2011	31 July 2014
Ms D Marole	Independent Non-executive Director	1	1 August 2011	31 July 2014
Ms M Vilakazi	Independent Non-executive Director	1	1 August 2011	31 July 2014
Ms K Naidoo[2]	Chief Financial Officer	Not applicable	1 January 2013	31 December 2015

1. *Term ended 31 December 2012.*
2. *Appointed during the financial year under review.*
3. *Resigned from the Board with effect from 31 March 2013.*

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. The governance structure is detailed on pages 38 to 43.

Remuneration policy

The Human Resources, Nominations Social and Ethics Committee ensures that employees are fairly rewarded for their contributions to the performance of the Bank. The provision of performance bonuses is at the sole discretion of the Board. No performance bonuses were awarded for the 2013 financial year.

Business and registered address

The Bank's business and registered address details appear on page 135.

Taxation status

The Bank is exempt from normal taxation in terms of section 10(1)(t)(x) of the Income Tax Act, 1962 (Act No. 58 of 1962), as amended. The Bank is subject to and complies with all other South African taxes, including employees' tax and value-added tax.

Changes in accounting policies

The accounting policies applied during the year ended 31 March 2013 are in all material respects consistent with those applied in the annual financial statements for the year ended 31 March 2012, as no changes in accounting policies were effected in the 2013 financial year.

Events after the reporting period

The Directors are not aware of any matters or circumstances arising since the end of the financial year, which will have a significant effect on the operations of the Bank, the results of the operations or the financial position of the Bank, other than note 46 to the financial statements on page 114.

Litigation

The Directors are not aware of any litigation against the Bank other than disclosed under contingent liabilities in the financial statements on page 101.

Related-party transactions

Details of the DBSA's related-party transactions are set out on page 101.

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 the DBSA: No financial assistance was received from the state during the year. In support of the DBSA's core mandate, the government, through the National Treasury, has committed to injecting R7.9 billion into the DBSA over the next three years.

STATEMENT OF FINANCIAL POSITION

as at 31 March 2013

in thousands of rand	Notes	2013	2012
Assets			
Cash and cash equivalents	5	**1 252 142**	2 113 154
Other receivables	6	**123 443**	305 731
Investment securities	7	**3 435 922**	2 867 792
Investments under resale agreements	8	**–**	709 380
Derivative assets held for risk management	9.1	**1 422 719**	1 265 222
Post-retirement medical benefits investment	10	**64 848**	65 313
Home ownership scheme loans	11	**8 932**	11 267
Equity investments	12	**4 455 721**	4 013 415
Development loans	14	**42 619 769**	40 418 255
Property and equipment	15	**470 298**	477 862
Intangible assets	16	**86 499**	89 857
Total assets		**53 940 293**	52 337 248
Liabilities			
Other payables	17	**771 651**	837 836
Provisions	18	**151 009**	–
Liability for funeral benefits	19.1	**4 300**	5 161
Liability for post-retirement medical benefits	19.2	**148 421**	354 880
Funding: debt securities	20	**25 790 079**	25 808 711
Funding: lines of credit	21	**10 081 507**	7 705 306
Funding under repurchase agreements	22	**201 752**	–
Derivative liabilities held for risk management	9.2	**85 849**	97 782
Total liabilities		**37 234 568**	34 809 676
Equity			
Share capital	23	**200 000**	200 000
Retained earnings		**11 031 631**	11 967 245
Permanent government funding	24	**3 792 344**	3 792 344
Revaluation reserve on land and buildings	25	**253 487**	255 088
Hedging reserve	26	**40 617**	37 721
Reserve for general loan risks	27	**1 371 726**	1 262 026
Fair value reserve	28	**15 920**	13 148
Total equity		**16 705 725**	17 527 572
Total liabilities and equity		**53 940 293**	52 337 248

STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 March 2013

in thousands of rand	Notes	2013	2012
Interest income	29	**4 068 007**	3 982 396
Interest expense	30	**(2 441 908)**	(2 285 563)
Net interest income		**1 626 099**	1 696 833
Net fee income	31	**188 010**	41 237
Net foreign exchange gain	32	**346 978**	176 581
Net loss from financial assets and financial liabilities	33	**(403 157)**	(899 989)
Other operating income	34	**124 092**	212 000
Other income/(loss)		**255 923**	(470 171)
Operating income		**1 882 022**	1 226 662
Grants		**(34 943)**	(61 307)
Net impairment loss on financial assets	35	**(1 605 632)**	(494 517)
Personnel expenses	36	**(654 307)**	(580 863)
Other expenses	37	**(274 011)**	(178 151)
Depreciation and amortisation	38	**(19 378)**	(19 647)
Loss from operations		**(706 249)**	(107 823)
Grant to DBSA Development Fund	40.1.2	**(119 665)**	(263 000)
Loss for the year		**(825 914)**	(370 823)

STATEMENT OF OTHER COMPREHENSIVE INCOME

for the year ended 31 March 2013

in thousands of rand	Notes	2013	2012
Loss for the year		**(825 914)**	(370 823)
(Loss)/gain on revaluation of land and buildings	25	**(1 601)**	9 358
Cash flow hedges	26	**2 896**	22 403
Change in value of available-for-sale financial assets	28	**2 772**	15 353
Other comprehensive income		**4 067**	47 114
Total comprehensive loss for the year		**(821 847)**	(323 709)

STATEMENT OF CHANGES IN EQUITY

for the year ended 31 March 2013

in thousands of rand	Share capital	Permanent government funding	Revaluation reserve on land and buildings	Hedging reserve	Reserve for general loan risks	Fair value reserve	Retained earnings	Total equity
Balance at 1 April 2011 as restated	**200 000**	**3 792 344**	**245 730**	**15 318**	**1 119 827**	**(2 205)**	**12 480 267**	**17 851 281**
Loss for the year	–	–	–	–	–	–	(370 823)	(370 823)
Other comprehensive income								
Gain on revaluation of land and buildings	–	–	9 358	–	–	–	–	9 358
Cash flow hedges	–	–	–	22 403	–	–	–	22 403
Change in value of available-for-sale financial assets	–	–	–	–	–	15 353	–	15 353
Transfer to reserve for general loan risks	–	–	–	–	142 199	–	(142 199)	–
Total changes	–	–	9 358	22 403	142 199	15 353	(513 022)	(323 709)
Balance at 31 March 2012	**200 000**	**3 792 344**	**255 088**	**37 721**	**1 262 026**	**13 148**	**11 967 245**	**17 527 572**
Loss for the year	**–**	**–**	**–**	**–**	**–**	**–**	**(825 914)**	**(825 914)**
Other comprehensive (loss)/ income								
Loss on revaluation of land and buildings	**–**	**–**	**(1 601)**	**–**	**–**	**–**	**–**	**(1 601)**
Cash flow hedges	**–**	**–**	**–**	**2 896**	**–**	**–**	**–**	**2 896**
Change in value of available-for-sale financial assets	**–**	**–**	**–**	**–**	**–**	**2 772**	**–**	**2 772**
Transfer to reserve for general loan risks	**–**	**–**	**–**	**–**	**109 700**	**–**	**(109 700)**	**–**
Total changes	**–**	**–**	**(1 601)**	**2 896**	**109 700**	**2 772**	**(935 614)**	**(821 847)**
Balance at 31 March 2013	**200 000**	**3 792 344**	**253 487**	**40 617**	**1 371 726**	**15 920**	**11 031 631**	**16 705 725**
Notes	23	24	25	26	27	28		

STATEMENT OF CASH FLOWS

for the year ended 31 March 2013

in thousands of rand	Notes	2013	2012
Cash flows from operating activities			
Loss for the year		**(825 914)**	(370 823)
Adjustments for:			
Depreciation and amortisation	38	**19 378**	19 647
Grants paid		**34 943**	61 307
Dividends received	34	**(25 635)**	(35 917)
Losses on asset disposals	34	**–**	116
Fees accrued (development loans)		**(16 732)**	996
Realised capital gain on equity investment	12	**(77 055)**	(134 462)
Unrealised loss from financial assets and liabilities		**371 917**	883 128
Unrealised foreign exchange gain		**(18 075)**	(3 629)
Net impairment loss on financial assets	35	**1 605 632**	494 517
Net interest income		**(1 626 099)**	(1 696 833)
		(557 640)	(781 953)
Movements in provisions		**151 009**	–
(Increase)/decrease in other receivables		**(702)**	18 621
Decrease in home ownership scheme loans		**2 335**	1 827
Increase/(decrease) in other payables		**59 497**	(53 870)
Change in liability for funeral benefits and post-retirement medical benefits		**(207 320)**	92 727
		(552 821)	(722 648)
Interest received		**3 871 508**	3 559 311
Interest paid		**(2 336 868)**	(2 067 389)
Dividends received		**25 635**	35 917
Net cash generated from operating activities		**1 007 454**	805 191
Cash flows used in development activities			
Development loan disbursements	14	**(8 385 207)**	(6 450 606)
Development loan principal repayments		**6 562 759**	4 765 820
Net increase in equity investments		**(292 633)**	(1 412 311)
Grants paid		**(34 943)**	(68 073)
Net receipts/(advances) on National Mandates		**78 415**	(80 606)
Net cash used in development activities		**(2 071 609)**	(3 245 776)
Cash flows from investing activities			
Purchase of property and equipment	15	**(3 422)**	(9 662)
Proceeds from sale of property and equipment		**–**	376
Purchase of intangible assets	16	**(6 635)**	(22 221)
Movement in financial market assets		**48 144**	(975 895)
Net cash generated from/(utilised by) investing activities		**38 087**	(1 007 402)
Cash flows from financing activities			
Financial market liabilities repaid		**(3 996 143)**	(3 656 494)
Financial market liabilities raised		**4 371 570**	8 040 425
Net cash generated from financing activities		**375 427**	4 383 931
Net (decrease)/increase in cash and cash equivalents		**(650 641)**	935 944
Effect of exchange rate movements on cash balances	32	**(210 371)**	(2 352)
Movement in cash and cash equivalents		**(861 012)**	933 592
Cash and cash equivalents at the beginning of the year		**2 113 154**	1 179 562
Cash and cash equivalents at the end of the year	5	**1 252 142**	2 113 154

ACCOUNTING POLICIES

for the year ended 31 March 2013

1. Statement of compliance

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

The financial statements were approved by the Board of Directors on 27 June 2013.

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

1.1 Reporting entity

The Development Bank of Southern Africa ('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.

The methods used to measure fair values are detailed in note 1.11.

1.2.2 Use of estimates and judgements

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

- Note 1.3.5 – 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) or a hedge of a highly probable future cash flow attributable to a recognised asset or liability or a forecast transaction (cash flow hedge).
- Note 1.5.3 and 1.6.3 – Depreciation and the useful lives of property and equipment and intangible assets; Depreciation and amortisation is recognised in profit or loss on a straight-line basis over the estimated useful life of each part of an item of property and equipment and intangibles. Land is not depreciated.
- Notes 7, 8, 9, 20, 21 and 22 – Valuation of financial instruments;

  Investment securities

  Investment securities are designated at fair value through profit or loss upon initial recognition, when they form part of a group of financial assets managed and evaluated on a fair value basis in accordance with a documented investment strategy.

  Investments under resale agreements

  Where the Bank does not obtain the risks and rewards associated with the assets received as collateral, such assets are not recognised, whereas corresponding financial asset considerations paid are recognised in investments under resale agreements. Where the Bank retains substantially all of the credit risks and rewards associated with transferred assets, it continues to recognise these investments within investment securities, whilst the corresponding financial liability considerations received are recognised in funding under repurchase agreements.

  Debt securities

  Debt securities are designated at fair value through profit or loss consists of bonds which are listed and unlisted. Debt securities carried at amortised cost consists of bond issues and money market issuance.

  Lines of credit

  Lines of credit are carried at amortised cost.

1.2.2 Use of estimates and judgements (continued)

- Note 12 – Valuation of equity investments:

  Equity investments designated as held-to-maturity if they have fixed or determinable payments and fixed maturities that management has the positive intention and ability to hold to maturity. All other equity investments are designated at fair value through profit and loss which is determined from observable market data in respect of similar financial instruments. Where market observable data is not available, they are estimated based on appropriate assumptions.
- Note 14 – Measurement of the recoverable amounts of development loans; Development loans are carried at amortised cost.
- Note 15 – Valuation of land and buildings.

  Land and buildings measured at fair value less accumulated depreciation and impairment losses, in terms of the revaluation model.
- Note 19 – Measurement of funeral benefit obligations and post-retirement medical benefit.

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

These disclosures supplement the commentary on financial risk management (refer note 45).

1.2.3 Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions is included in note 18 – Provisions.

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.
- 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.

The Bank initially recognises loans and advances, deposits; debt securities issued and subordinated liabilities on the date that they are originated. Regular way purchases and sales of financial assets are recognised on the trade date at which the Bank commits to purchase or sell the asset. All other financial assets and liabilities (including assets and liabilities designated at fair value through profit or loss) are recognised initially on the trade date, which is the date that the Bank becomes a party to the contractual provisions of the instrument. A financial asset or financial liability is measured initially at fair value plus, for an item not at fair value through profit or loss, transaction costs that are directly attributable to its acquisition or issue.

Subsequent to initial recognition, financial assets are measured as below, excluding transaction costs (refer to note 1.11.3).

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. The Bank does not speculate in financial instruments and therefore there are no financial assets classified as held-for-trading.

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

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

1. Statement of compliance (continued)

1.3 Financial instruments (continued)

1.3.1 Financial assets (continued)

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

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

Loans and receivables

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

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

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

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 preference shares, debentures, credit-linked notes shareholders' loans under equity investments and investments in municipal and government bonds.

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

Available-for-sale financial assets

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

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

1.3.2 Financial liabilities

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

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

Financial liabilities at fair value through profit or loss

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

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

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

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

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

Financial liabilities at amortised cost

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

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

1.3.3 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.

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); or
- A hedge of a highly probable future cash flow attributable to a recognised asset or liability or a forecast transaction (cash flow hedge).

A hedging relationship exists where:

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

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 1.11).

1. Statement of compliance (continued)

1.3 Financial instruments (continued)

1.3.5 Hedge accounting (continued)

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

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

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

Fair value hedge

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

If the hedging derivative expires or is sold, terminated, or exercised, or the hedge no longer meets the criteria for fair value hedge accounting, or the hedge designation is revoked, hedge accounting is discontinued prospectively. Any adjustment up to that point to a hedged item for which the effective interest method is used is amortised to profit or loss as part of the recalculated effective interest rate of the item over its remaining life.

Cash flow hedge

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

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

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

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

Hedge of monetary assets and liabilities

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

1.3.6 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 through other comprehensive income is impaired and an impairment of the asset was previously recognised directly in other comprehensive income, the impairment is transferred to the statement of comprehensive income and recognised as part of the impairment loss. Where an asset measured to fair value through other comprehensive income is impaired and an increase in the fair value of the asset was previously recognised in equity, the increase in fair value of the asset recognised in other comprehensive income is reversed to the extent that the asset is impaired. Any additional impairment loss is recognised in the statement of comprehensive income.

Loans and advances, receivables and held-to-maturity investments

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

Calculation of recoverable amount

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

Reversals of impairment

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

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

A reversal of impairment loss on equity investments is recognised in profit and loss.

Impairment of development loans

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

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

1. Statement of compliance (continued)

1.3 Financial instruments (continued)

1.3.8 Impairment of financial instruments (continued)

Impairment of development loans (continued)

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

1.3.9 Cash and cash equivalents

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

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

1.3.10 Loans to shareholders, Directors, managers and employees

These financial assets are initially recognised at cost plus direct transaction costs.

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

1.4 Impairment of non-financial assets

The Bank assesses at each reporting date whether there is any indication that an asset may be impaired. If any such indication exists, the Bank estimates the recoverable amount of the asset.

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

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

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

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

1.5 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.

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

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

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

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

1.5.1 Recognition and measurement (continued)

Freehold land and buildings are subsequently carried at fair value, based on periodic valuations by a professionally qualified valuer. These revaluations are made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period. Changes in fair value are recognised in other comprehensive income and accumulated in the revaluation reserve except to the extent that any decrease in value in excess of the credit balance on the revaluation reserve, or reversal of such a transaction, is recognised in profit or loss.

1.5.2 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 and which have finite useful lives, are measured at cost less accumulated amortisation and accumulated impairment losses.

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.

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. The Bank's equity instruments primarily include a permanent government funding and shares issued. Equity instruments issued by the Bank are recorded at the proceeds received, net of direct issue costs.

If the Bank reacquires its own equity instruments, these instruments are classified as treasury shares and any consideration paid is recognised as a direct reduction from equity. The gains or losses on purchase, sale, issue or cancellation of treasury shares are recognised directly in other comprehensive income. Interest associated with liabilities classified as equity instruments, is accounted for as dividends.

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. Statement of compliance (continued)

1.7 Share capital and reserves (continued)

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 estimated by calculating each risk category as follows:

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

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

1.7.6 Revaluation reserve on land and buildings

This reserve represents the fair value adjustment recognised on the revaluation of land and buildings. Land and buildings are subsequently carried at fair value, based on periodic valuations by a professionally qualified valuer. These revaluations are made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period. Changes in fair value are recognised in other comprehensive income and accumulated in the revaluation reserve except to the extent that any decrease in value in excess of the credit balance on the revaluation reserve, or reversal of such a transaction, is recognised in profit or loss.

1.8 Revenue

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

1.8.1 Interest

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

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

Interest income and expense presented in the statement of comprehensive income include:

- Interest on financial assets and financial liabilities, measured at amortised cost calculated on an effective interest basis;
- Interest on available-for-sale investment securities calculated on an effective interest basis;
- Interest on financial assets and financial liabilities held at fair value through profit or loss, calculated on an effective interest basis; and
- The interest portion of the derivatives designated as fair value hedges.

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

1.8.2 Fees and commission

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

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

1.9 Foreign currency translations

Functional and presentation currency

A foreign currency transaction is recorded, on initial recognition in rands, by applying to the foreign currency amount the spot exchange rate between the functional currency and the foreign currency at the date of the transaction.

At each balance sheet date:

- Foreign currency monetary items are translated using the closing rate;
- Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction; and
- Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Items included in the financial statements of the Bank are measured using the currency of the primary economic environment in which the entity operates (the 'functional currency'). The Bank's financial statements are presented in South African rand, which is the Bank's functional currency.

Foreign exchange gains and losses arising in entity accounts

The results and financial position of a foreign operation are translated into the functional currency using the following procedures:

- Assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet.
- Income and expenses for each income statement item are translated at exchange rates at the dates of the transactions.
- All resulting exchange differences are recognised as a separate component of equity.

Foreign currency transactions are translated into the functional currency using the spot exchange rates at the date of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions are recognised in the income statement.

Foreign exchange gains and losses resulting from the translation of monetary assets and liabilities denominated in foreign currencies at year-end exchange rates are recognised in the income statement, except when deferred in equity as qualifying cash flow hedges.

Translation differences on non-monetary items, such as financial assets held at fair value through profit or loss, are reported as part of the fair value gain or loss on such instruments. Translation differences on non-monetary items, such as equities classified as available-for-sale financial assets, are included in the fair value reserve in equity.

1.10 Net income from other financial instruments at fair value

Net (loss)/gain from financial assets and liabilities relates to changes in fair values of derivatives held for risk management purposes and financial assets and liabilities designated at fair value through profit or loss.

1.11 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.

1.11.1 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.

1.11.2 Post-retirement medical benefits investment

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

1. Statement of compliance (continued)

1.11 Determination of fair values (continued)

1.11.3 Financial instruments

Some of the Bank's financial instruments are measured at fair value, such as those that are designated by management as at fair value through profit and loss, available-for-sale and derivative financial instruments.

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

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

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

The 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 notes 3 and 4.

Equity investments

After initial recognition, the Bank measures equity investments at fair value through profit or loss as follows:

Unquoted equity instruments whose fair values cannot be reliably measured are held at cost. If the market for an equity financial instrument is not active, the Bank uses a valuation technique to establish what the transaction price would be in an arm's length transaction motivated by normal business considerations.

The Bank uses valuation techniques in measuring equity instruments, including:

- Price of recent investment, if available;
- Discounted cash flow analysis based on free cash flows, earnings or dividends using market-related adjusted discount rates;
- Price earnings growth (PEG); and
- 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; and
- Are consistent with accepted economic methodologies for pricing financial instruments.

Equity investments held-to-maturity consist of preference shares, debentures and credit-linked notes.

Capital market securities

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

Derivatives

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

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

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

Interest-bearing loans and borrowings

The fair value of interest-bearing loans is determined through discounted cash flow analyses, using market-derived discount rates as at the reporting date. The Bank does not believe that there is a comparable market for its Targeted Infrastructure Programme development loans.

Interest rates used for determining fair value

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

1.12 Provisions, contingent liabilities and contingent assets

Provisions are recognised if, as a result of a past event, the Bank has a present legal or constructive obligation that can be estimated reliably and it is probable that an outflow of economic resources will be required to settle the obligation. When the effect of discounting is material, provisions are discounted using 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.

Restructuring provisions are recognised when the Bank has developed a detailed formal plan for restructuring and has raised a valid expectation that it will carry out the restructuring by starting to implement the plan or announcing its main features to those affected by it. The measurement of a restructuring provision includes only the direct expenditures arising from the restructuring and is recorded in other operating expenses in profit or loss.

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

1.13 Financial guarantees

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

Financial guarantee liabilities are initially recognised at their fair value and the initial fair value is amortised over the life of the financial guarantee. The guarantee liability is subsequently measured at the higher of the amortised amount and the best estimate in accordance with IAS 37. Financial guarantees are included in other financial liabilities.

1.14 Employee benefits

1.14.1 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. Statement of compliance (continued)

1.14 Employee benefits (continued)

1.14.2 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 part 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.

1.14.3 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.

1.14.4 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.

1.14.5 Home ownership scheme

The Bank operated a home ownership scheme, in terms of which mortgage bonds were provided to the Bank's employees at reduced interest rates. No further loans have been issued since March 2007. The loans are measured at amortised cost less any impairment losses.

1.15 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.

1.16 Other operating income

Other fee income (appraisal, upfront, 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 typically when the dividend is declared. Dividends are incorporated in other income, which is separately disclosed in the notes to the statement of comprehensive income.

1.17 Events after the reporting period

An event, which could be favourable or unfavourable, that occurs between the end of the reporting period and the date that the financial statements are authorised for issue.

Adjusting event: An event after the reporting period that provides further evidence of conditions that existed at the end of the reporting period, including an event that indicates that the going concern assumption in relation to the whole or part of the enterprise is not appropriate.

Non-adjusting event: An event after the reporting period that is indicative of a condition that arose after the end of the reporting period.

1.18 Related parties

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

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

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

Other related party transactions are also disclosed in terms of the requirements of IAS 24. The objective of the standard and the financial statements is to provide relevant and reliable information and therefore materiality is considered in the disclosure of these transactions.

1.19 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

Assets held by the Bank under leases, which transfer to the Bank substantially all of the risks and rewards of ownership, are classified as finance leases. On initial recognition, the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset. Assets held under other leases are classified as operating leases and are not recognised in the Bank's statement of financial position.

Operating leases – lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term.

1.20 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 sales transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

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

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

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

1.21 Segmental reporting

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

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

for the year ended 31 March 2013

1. New standards and interpretations not yet effective

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

- IFRS 7: Financial Instruments: Disclosures – Amendments (1 January 2013).
- IFRS 9: Financial Instruments (1 January 2015).
- IFRS 10: Consolidated Financial Statements (1 January 2013).
- IFRS 11: Joint Arrangements (1 January 2013).
- IFRS 12: Disclosure of Interest in Other Entities (1 January 2013).
- IFRS 13: Fair Value Measurement (1 January 2013).
- IAS 19: Employee Benefits – Amendments (1 January 2013).
- IAS 27: Consolidated and Separate Financial Statements – Amendments (1 January 2013).
- IAS 28: Investments in Associates – Amendments (1 January 2013).
- IAS 32: Financial Instruments: Presentation – Amendments (1 January 2013).

2. Segmental reporting

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

- South Africa Financing.
- International Financing.
- 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.

Operating reportable segments

in thousands of rand	SA Financing		International Financing		Treasury		*All other		Total	
	2013	2012**	**2013**	2012**	**2013**	2012**	**2013**	2012**	**2013**	2012**
Interest income on development loans	2 937 986	2 920 891	693 017	593 212	–	–	–	–	3 631 003	3 514 103
Interest income on investments	1 678	38 670	–	–	434 564	428 693	762	930	437 004	468 293
Total interest income	2 939 664	2 959 561	693 017	593 212	434 564	428 693	762	930	4 068 007	3 982 396
Interest expense	(1 807 045)	(1 781 173)	(272 529)	(234 494)	(362 334)	(269 850)	–	(46)	(2 441 908)	(2 285 563)
Net interest income	1 132 619	1 178 388	420 488	358 718	72 230	158 843	762	884	1 626 099	1 696 833
Non-interest income	238 205	146 478	44 038	134 149	(14 131)	(23 714)	43 990	(3 676)	312 102	253 237
Net fee income	154 985	32 262	23 773	44 042	(15 069)	(23 718)	24 321	(11 349)	188 010	41 237
Dividends	19 932	9 517	5 703	26 400	–	–	–	–	25 635	35 917
Sundry income	63 288	104 699	14 562	63 707	938	4	19 669	7 673	98 457	176 083
Operating income	1 370 824	1 324 866	464 526	492 867	58 099	135 129	44 752	(2 792)	1 938 201	1 950 070
Expenses	(1 453 756)	(372 362)	(302 947)	(264 568)	(22 554)	(23 763)	(774 071)	(612 485)	(2 553 328)	(1 273 178)
Operating expenses	(128 200)	(116 257)	(25 898)	(27 861)	(22 554)	(23 763)	(751 666)	(591 133)	(928 318)	(759 014)
Depreciation and amortisation	–	–	–	–	–	–	(19 378)	(19 647)	(19 378)	(19 647)
Net impairment loss on financial assets	(1 325 556)	(256 105)	(277 049)	(236 707)	–	–	(3 027)	(1 705)	(1 605 632)	(494 517)
Sustainable earnings	(82 932)	952 504	161 579	228 299	35 545	111 366	(729 319)	(615 277)	(615 127)	676 892
Net foreign exchange gain/(loss)	11 101	(11 648)	19	154 514	340 513	33 872	(4 655)	(157)	346 978	176 581
Net (loss)/gain from financial assets and liabilities	(113 113)	(534 664)	141 914	(342 524)	(431 493)	(20 047)	(465)	(2 754)	(403 157)	(899 989)
(Loss)/profit before distributions	(184 944)	406 192	303 512	40 289	(55 435)	125 191	(734 439)	(618 188)	(671 306)	(46 516)
Grants	(4 363)	(33 559)	(9 082)	(22 035)	–	–	(21 498)	(5 713)	(34 943)	(61 307)
Grant to DBSA Development Fund	–	–	–	–	–	–	(119 665)	(263 000)	(119 665)	(263 000)
Retained (loss)/profit	(189 307)	372 633	294 430	18 254	(55 435)	125 191	(875 602)	(886 901)	(825 914)	(370 823)
Capital expenditure	–	–	–	–	–	–	10 057	31 883	10 057	31 883
Total assets	36 282 356	34 674 046	14 266 621	12 520 553	2 682 073	4 231 631	709 243	911 019	53 940 293	52 337 248
Total liabilities	20 967 807	19 668 782	7 574 596	6 698 303	7 863 603	7 626 455	828 563	816 138	37 234 568	34 809 676
Key ratios by segment										
Cost to income (%)	9	9	6	6	39	18			49	40
Debt to assets ratio (%)	58	57	53	53	293	180			69	67
Net interest income (%)	39	40	61	60	17	37			40	43
Return on assets (%)	(0.5)	1	2.1	–	(2.1)	3			(1.2)	–

* *All other segments include Human Capital, Technology and Facilities, Communications and Marketing, Finance, Risk, Internal Audit, Strategy and the Office of the CEO.*

** *Prior year information is reclassified to reflect the effect of the restructure of the organisation. The new organisational structure was effective from 1 January 2013. The decision to restructure was taken to improve the streamlining of business activities. The restructure does not have an effect on the prior year total retained profit.*

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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	Fair value through profit or loss	Held-to-maturity	Available-for-sale	Total carrying amount	Fair value
2013							
Cash and cash equivalents	**5**	**1 252 142**	**–**	**–**	**–**	**1 252 142**	**1 252 142**
Other receivables	**6**	**123 443**	**–**	**–**	**–**	**123 443**	**123 443**
Investment securities	**7**	**–**	**2 030 121**	**199 981**	**1 205 820**	**3 435 922**	**3 435 922**
Derivative assets held for risk management	**9.1**	**–**	**1 422 719**	**–**	**–**	**1 422 719**	**1 422 719**
Home ownership scheme loans	**11**	**8 932**	**–**	**–**	**–**	**8 932**	**8 932**
Equity investments	**12**	**–**	**4 156 802**	**298 919**	**–**	**4 455 721**	**4 455 721**
Development loans	**14**	**42 619 769**	**–**	**–**	**–**	**42 619 769**	**44 336 771**
		44 004 286	**7 609 642**	**498 900**	**1 205 820**	**53 318 648**	**55 035 650**
2012							
Cash and cash equivalents	5	2 113 154	–	–	–	2 113 154	2 113 154
Other receivables	6	305 731	–	–	–	305 731	305 731
Investment securities	7	–	1 800 883	199 975	866 934	2 867 792	2 883 445
Investments under resale agreements	8	709 380	–	–	–	709 380	709 380
Derivative assets held for risk management	9.1	–	1 265 222	–	–	1 265 222	1 265 222
Home ownership scheme loans	11	11 267	–	–	–	11 267	11 267
Equity investments	12	–	3 714 496	298 919	–	4 013 415	4 013 415
Development loans	14	40 418 255	–	–	–	40 418 255	40 936 225
		43 557 787	6 780 601	498 894	866 934	51 704 216	52 237 839

* *The Bank does not speculate in financial assets, 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
2013					
Other payables	**17**	**771 651**	**–**	**771 651**	**771 651**
Funding: debt securities	**20**	**17 398 990**	**8 391 089**	**25 790 079**	**25 790 079**
Funding: lines of credit	**21**	**10 081 507**	**–**	**10 081 507**	**10 081 507**
Derivative liabilities held for risk management	**9.2**	**–**	**85 849**	**85 849**	**85 849**
		28 252 148	**8 476 938**	**36 729 086**	**36 729 086**
2012					
Other payables	17	837 836	–	837 836	837 836
Funding: debt securities	20	17 932 118	7 876 593	25 808 711	28 119 273
Funding: lines of credit	21	7 705 306	–	7 705 306	7 919 762
Derivative liabilities held for risk management	9.2	–	97 782	97 782	97 782
		26 475 260	7 974 375	34 449 635	36 974 653

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

5. Cash and cash equivalents

in thousands of rand	2013	2012
Call deposits	**1 053 170**	1 762 919
Cash at bank	**198 972**	350 235
	1 252 142	2 113 154

The average annual interest rate earned on fixed and call deposits detailed above was 5.01% (2012: 5.29%). The Bank's exposure to interest rate risk and sensitivity analysis for financial assets and financial liabilities are disclosed in note 45.

6. Other receivables

in thousands of rand	2013	2012
Other receivables	**46 447**	65 423
Accrued interest income	**56 745**	53 113
Staff loans	**172**	491
Prepayments	**199**	1 800
Department of Health	**5 900**	138 835
Department of Basic Education	**10 736**	3 417
Department of Local Government	**536**	(453)
Green Fund/Department of Energy	**1 547**	45 059
National Treasury – Jobs Fund	**2 941**	–
National Treasury – Others	**2 569**	–
Presidency: National Planning Committee	**416**	–
Allowance for impairment of other receivables	**(4 765)**	(1 954)
	123 443	305 731

The Bank's exposure to credit and currency risks related to other receivables is disclosed in note 45.

Allowance for impairment of other receivables reconciliation

in thousands of rand	2013	2012
Balance at the beginning of the year	**(1 954)**	(2 504)
Increase in allowance (Note 35)	**(3 451)**	(2 624)
Amounts written off	**640**	3 174
Balance at the end of the year	**(4 765)**	(1 954)

7. Investment securities

Investment securities consist of the following:

Investment securities designated at fair value through profit or loss

in thousands of rand	2013	2012
Government bonds	**962 422**	974 725
Municipal bonds	**877 249**	646 491
Corporate bonds	**190 450**	179 667
	2 030 121	1 800 883

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.

Held-to-maturity investment securities

in thousands of rand	2013	2012
Municipal bonds	**199 981**	199 975

Available-for-sale investment securities

in thousands of rand	2013	2012
Government bonds	**258 058**	261 621
Corporate bonds	**164 265**	198 055
Money market instruments	**783 497**	407 258
	1 205 820	866 934
Total investment securities	**3 435 922**	2 867 792

NOTES TO THE ANNUAL FINANCIAL STATEMENTS continued

for the year ended 31 March 2013

8. Investments under resale agreements

in thousands of rand	2013	2012
Carrying value at the end of the year	–	709 380

In the ordinary course of business, the Bank places excess 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 recognition as the risk of ownership remains with the counterparty.

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

At 31 March 2013 the fair value of assets received as collateral was Rnil (2012: R709 million).

9. Derivative assets and liabilities held for risk management

9.1 Derivative assets held for risk management

in thousands of rand	2013	2012
Instrument type:		
Interest rate derivatives	**815 027**	745 997
Foreign exchange derivatives	**607 692**	519 225
	1 422 719	1 265 222

9.2 Derivative liabilities held for risk management

	2013	2012
Instrument type:		
Interest rate derivatives	**(43 247)**	(37 421)
Foreign exchange derivatives	**(42 602)**	(60 361)
	(85 849)	(97 782)

9.3 Net derivatives held for risk management

	2013	2012
Fair value hedges of interest rate risk	**771 780**	708 576
Cash flow hedges of foreign exchange risk	**221 186**	134 410
Economic hedges	**343 904**	324 454
	1 336 870	1 167 440

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 disbursements. All cash flow hedges were effective for the year under review (refer to note 9.4).

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.

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

9.4 Timing of cash flows for designated cash flow hedges

in thousands of rand			< 1 month	1-3 months	3-12 months	1-2 years	2-3 years	3-4 years	4-5 years	>5 years
CCS: Lines of credit	EUR	Principal	6 911	40 142	53 222	107 009	110 613	44 311	30 489	372 218
		Interest	973	7 603	8 069	14 019	11 277	8 925	7 928	49 951
			7 884	47 745	61 291	121 028	121 890	53 236	38 417	422 169
CCS: Lines of credit	US$	Principal	–	–	5 855	–	–	–	–	–
		Interest	–	–	–	–	–	–	–	–
			–	–	5 855	–	–	–	–	–
CCS: Lines of credit	ZAR	Principal	–	(35 338)	(38 585)	(75 791)	(79 088)	(20 697)	(20 697)	(265 025)
		Interest	–	(17 414)	(17 989)	(28 707)	(23 060)	(18 465)	(17 178)	(112 644)
			–	(52 752)	(56 574)	(104 498)	(102 149)	(39 162)	(37 874)	(377 669)

10. Post-retirement medical benefits investment

in thousands of rand	2013	2012
Fair value of plan assets	**64 848**	65 313

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

Details of the post-retirement medical benefit liability are contained in note 19.2.

11. Home ownership scheme loans

in thousands of rand	2013	2012
Carrying value at the end of the year	**8 932**	11 267

The Bank operated a home ownership scheme in terms of which mortgage bonds were provided to Bank employees at reduced interest rates. No new loans are granted under this scheme and Nedbank Limited administers the winding down of this scheme on behalf of the Bank.

The loans are repayable on a monthly basis and are secured by fixed property. Loans were provided to a maximum of 108% of the market value of the fixed property to allow for transfer fees to be capitalised.

At 31 March 2013 the effective interest rate was 7.00% (2012: 7.5%).

12. Equity investments

in thousands of rand	2013	2012
Equity investments designated at fair value through profit or loss	**4 344 130**	3 714 496
Equity investments held-to-maturity	**111 591**	298 919
	4 455 721	4 013 415

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.

12.1 Equity investments designated at fair value through profit or loss

	2013	2012
Cost		
Balance at the beginning of the year	**3 578 001**	2 165 691
Acquisitions	**587 832**	1 642 787
Capital return	**(187 329)**	(230 477)
Balance the at end of the year	**3 978 504**	3 578 001
Fair value adjustment and impairment		
Balance at the beginning of the year	**172 420**	1 000 886
Current year fair value adjustment (refer to note 33)	**46 980**	(879 003)
Realised gain	**77 055**	134 462
Impairment loss	**(203 091)**	(83 925)
Balance at the end of the year	**93 364**	172 420
Foreign exchange adjustments		
Balance at the beginning of the year	**(35 925)**	(189 434)
Unrealised gain	**303 228**	150 296
Realised gain (refer to note 32)	**4 959**	3 213
Balance at the end of the year	**272 262**	(35 925)
Fair value at the end of the year		
	4 344 130	3 714 496

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

Direct equity in ordinary shares:

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

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

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

In accordance with the best investment and valuation practice, a marketability discount is applied to direct equity investments. For South African listed equity investments, a 5% marketability discount is applied and on foreign listed investments a 10% discount is applied. For all unquoted equity instruments a 10% to 30% discount is applied depending on the 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 set out recommendations that represent current best practice on the valuation of a private equity and venture capital investments. The guidelines also set out the valuation methodologies that may be considered for use in estimating the fair value of underlying businesses and unquoted instruments in a private equity fund, namely price of recent investment, earnings multiple, discounted cash flows or earnings (of underlying businesses), discounted cash flows (from the investment) and industry valuation benchmarks. The guidelines also provide that in the case of unquoted equity investments, marketability discounts in the range 10% to 30% should be factored into the valuation. Different factors are considered in setting the marketability discounts and it is possible for the marketability discount for a particular instrument to be outside the guideline range.

12. Equity investments (continued)

12.2 Equity investments held-to-maturity

in thousands of rand	2013	2012
Amortised cost		
Balance at the beginning of the year	**298 919**	500 705
Amortised interest on effective interest method	**(18 178)**	1 814
Reclassification	**(40 000)**	–
Repayments	**(107 870)**	–
Impairment loss	**(21 280)**	(203 600)
Balance at the end of the year	**111 591**	298 919

Equity investments held-to-maturity consist of preference shares, debentures, shareholders' loans and credit-linked notes. 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.

13. Fair value hierarchy disclosures

Fair value hierarchy disclosures

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

	Notes	Valuations with reference to observable prices Level 1	Valuations based on observable input Level 2	Valuations based on unobservable input Level 3*	Total
2013					
Available-for-sale financial assets					
Investment securities	**7**	**422 323**	**783 497**	**–**	**1 205 820**
Financial assets designated at fair value through profit and loss					
Investment securities	**7**	**2 030 121**	**–**	**–**	**2 030 121**
Derivative assets held for risk management	**9.1**	**–**	**1 422 719**	**–**	**1 422 719**
Equity investments	**12**	**135 559**	**3 538 308**	**670 263**	**4 344 130**
Total financial assets		**2 588 003**	**5 744 524**	**670 263**	**9 002 790**
Financial liabilities designated at fair value through profit and loss					
Funding: debt securities	**20**	**8 142 693**	**247 962**	**–**	**8 390 655**
Derivative liabilities held for risk management	**9.2**	**–**	**85 849**	**–**	**85 849**
Total financial liabilities		**8 142 693**	**333 811**	**–**	**8 476 504**

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

	Notes	Valuations with reference to observable prices Level 1	Valuations based on observable input Level 2	Valuations based on unobservable input Level 3*	Total
2012					
Available-for-sale financial assets					
Investment securities	7	459 676	407 258	–	866 934
Financial assets designated at fair value through profit and loss					
Investment securities	7	1 800 883	–	–	1 800 883
Derivative assets held for risk management	9.1	–	1 265 222	–	1 265 222
Equity investments	12	181 490	2 978 149	554 857	3 714 496
Total financial assets		2 442 049	4 650 629	554 857	7 647 535
Financial liabilities designated at fair value through profit and loss					
Funding: debt securities	20	7 620 304	256 289	–	7 876 593
Derivative liabilities held for risk management	9.2	–	97 782	–	97 782
Total financial liabilities		7 620 304	354 071	–	7 974 375

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

13. 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 capital market assets, unlisted 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, unlisted equity investments and debt securities.

Level 3

Valuations based on unobservable inputs.

Financial instruments valued using discounted cash flow analysis. This category includes only unlisted equity investments.

13.1 Equity investments

For investments within level 3 of the fair value hierarchy, valued at R670.2 million at 31 March 2013 (2012: R554.9 million), 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.

14. Development loans

14.1 Analysis of development loans

in thousands of rand	2013	2012
Balance at the beginning of the year	**41 379 495**	38 753 849
Movements during the year	**3 576 869**	2 625 646
Gross development loans	**44 956 364**	41 379 495
Allowance for impairment of development loans (refer to note 14.9)	**(2 336 595)**	(961 240)
Net development loans at the end of the year	**42 619 769**	40 418 255
Movements during the year		
Loans disbursed	**8 385 207**	6 450 606
Equity investment converted to loan	**40 000**	–
Interest accrued – statement of comprehensive income	**3 631 003**	3 514 103
Interest accrued – impairment	**128 221**	64 270
Development loans written off	**(130 676)**	(216 099)
Foreign exchange adjustment	**1 469 748**	647 997
Gross repayments	**(10 136 490)**	(7 904 257)
Fees raised	**189 856**	69 026
	3 576 869	2 625 646

14.2 Maturity analysis of development loans

Year 1	**6 137 482**	5 281 038
Year 2	**3 932 686**	4 278 781
Year 3	**3 881 994**	3 378 888
Year 4	**4 009 411**	3 375 161
Years 5 to 9	**14 769 726**	12 816 557
Years 10 to 14	**5 977 864**	9 006 967
Year 15 and thereafter	**6 247 201**	3 242 103
	44 956 364	41 379 495

14.3 Sectoral analysis

Commercial infrastructure	**4 557 437**	4 743 527
Communication and transport infrastructure	**3 845 136**	5 099 177
Energy	**13 951 864**	8 295 086
Human resources development	**1 099 243**	1 189 987
Institutional infrastructure	**12 462**	16 057
Residential facilities	**2 193 949**	2 334 863
Roads and drainage	**9 988 235**	9 087 516
Sanitation	**1 375 748**	1 429 999
Social infrastructure	**3 988 656**	4 259 678
Water	**3 943 634**	4 923 605
	44 956 364	41 379 495

14.4 Geographical analysis

Eastern Cape	**1 895 894**	1 667 787
Free State	**660 933**	570 997
Gauteng	**15 053 541**	13 433 450
KwaZulu-Natal	**7 437 554**	7 946 658
Limpopo	**1 076 897**	1 004 072
Mpumalanga	**1 606 530**	1 344 687
North West	**639 902**	910 386
Northern Cape	**1 550 590**	446 295
Western Cape	**3 459 887**	3 793 787
Multi-regional – South Africa	**5 913**	7 614
SADC (excluding South Africa)	**11 568 723**	10 253 762
	44 956 364	41 379 495

14. Development loans (continued)

14.4 Geographical analysis (continued)

in thousands of rand	2013	2012
SADC (excluding South Africa)		
Angola	**174 344**	178 011
Botswana	**43 412**	57 573
Democratic Republic of Congo	**86 342**	70 780
Lesotho	**889 767**	949 179
Malawi	**125 416**	177 411
Mauritius	**194 840**	184 936
Mozambique	**1 060 258**	1 086 484
Namibia	**545 821**	644 229
Swaziland	**215 174**	202 578
Tanzania	**374 544**	377 717
Zambia	**3 714 006**	3 754 217
Zimbabwe	**1 418 338**	559 026
Other	**2 726 461**	2 011 621
	11 568 723	10 253 762
US dollar amounts included in the above SADC loans	**969 299**	940 123

14.5 Client classification

Development finance institutions	**1 362 157**	1 227 471
Educational institutions	**959 849**	1 120 716
Local government	**15 811 012**	17 588 482
National and provincial government	**1 112 127**	1 031 634
Private sector intermediaries	**10 913 801**	8 973 039
Public utilities	**14 797 418**	11 438 153
	44 956 364	41 379 495

14.6 Fixed and variable interest rate loans

Fixed interest rate loans	**26 300 487**	23 343 346
Variable interest rate loans	**18 655 877**	18 036 149
	44 956 364	41 379 495

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

14.7.1 Sectoral analysis

Commercial infrastructure	**1 111 909**	787 065
Communication and transport infrastructure	**1 070 560**	368 449
Energy	**321 236**	326 129
Human resources development	**41 638**	20 114
Residential facilities	**253 452**	112 221
Roads and drainage	**61 667**	50 571
Sanitation	**90 677**	86 928
Social infrastructure	**214 538**	160 574
Water	**104 718**	114 187
	3 270 395	2 026 238

14.7.2 Geographical analysis

Eastern Cape	**193 184**	113 490
Free State	**154 916**	256 070
Gauteng	**996 011**	86 812
KwaZulu-Natal	**46 447**	33 531
Limpopo	**215 910**	187 641
Mpumalanga	**355 464**	50 674
North West	**322 194**	317 264
Northern Cape	**9 250**	83 392
Western Cape	**217 958**	183 334
SADC (excluding South Africa)	**759 061**	714 030
	3 270 395	2 026 238

14. Development loans (continued)

14.7 Non-performing loans (included in total development loans) (continued)

14.7.2 Geographical analysis (continued)

in thousands of rand	2013	2012
SADC (excluding South Africa)		
Botswana	**43 412**	57 573
Malawi	**84 282**	117 490
Mozambique	**158 368**	146 531
Swaziland	**136 804**	126 734
Zambia	**154 605**	122 303
Other	**181 590**	143 399
	759 061	714 030

14.7.3 Client classification on non-performing loans

	2013	2012
Development finance institutions	**–**	51 320
Educational institutions	**25 641**	5 988
Local government	**441 027**	430 251
National government	**–**	4 903
Private sector intermediaries	**2 474 606**	1 103 791
Public utilities	**329 121**	429 985
	3 270 395	2 026 238

14.8 Client concentration of total development loans

	2013	2012
One client as percentage of total loan portfolio (%)	**16.0**	11.9
Seven clients as percentage of total loan portfolio (%)	**43.7**	40.7

14.9 Allowance for impairment of development loans reconciliation

	2013	2012
Balance at the beginning of the year	**961 240**	908 701
Impairment of current year interest	**128 221**	64 270
Loans written off during the year	**(130 676)**	(216 099)
Impairment charge:	**1 377 810**	204 368
Non-performing book	**1 333 357**	243 156
Performing book	**44 453**	(38 788)
Balance at the end of the year	**2 336 595**	961 240

15. Property and equipment

	2013			2012		
in thousands of rand	**Cost/ valuation**	**Accumulated depreciation**	**Carrying value**	**Cost/ valuation**	**Accumulated depreciation**	**Carrying value**
Revalued land	**60 200**	**–**	**60 200**	60 200	–	60 200
Revalued buildings	**405 809**	**(13 496)**	**392 313**	405 190	(10 162)	395 028
Furniture and fittings	**18 930**	**(10 614)**	**8 316**	18 103	(8 401)	9 702
Motor vehicles	**1 886**	**(603)**	**1 283**	1 886	(347)	1 539
Office equipment	**15 807**	**(10 723)**	**5 084**	15 375	(8 663)	6 712
Computer equipment	**28 833**	**(25 731)**	**3 102**	27 887	(23 206)	4 681
Total	**531 465**	**(61 167)**	**470 298**	528 641	(50 779)	477 862

Reconciliation of property and equipment

2013	**Opening balance**	**Additions**	**Revaluations**	**Depreciation**	**Closing balance**
Revalued land	**60 200**	**–**	**–**	**–**	**60 200**
Revalued buildings	**395 028**	**2 220**	**(1 601)**	**(3 334)**	**392 313**
Furniture and fittings	**9 702**	**169**	**–**	**(1 555)**	**8 316**
Motor vehicles	**1 539**	**–**	**–**	**(256)**	**1 283**
Office equipment	**6 712**	**237**	**–**	**(1 865)**	**5 084**
Computer equipment	**4 681**	**796**	**–**	**(2 375)**	**3 102**
Carrying amount	**477 862**	**3 422**	**(1 601)**	**(9 385)**	**470 298**

15. Property and equipment (continued)

Reconciliation of property and equipment

2012	Opening balance	Additions	Disposals	Revaluations	Depreciation	Closing balance
Revalued land	60 200	–	–	–	–	60 200
Revalued buildings	386 028	2 882	–	9 358	(3 240)	395 028
Furniture and fittings	10 952	288	(5)	–	(1 533)	9 702
Motor vehicles	1 129	1 089	(487)	–	(192)	1 539
Office equipment	7 889	738	–	–	(1 915)	6 712
Computer equipment	3 639	4 665	–	–	(3 623)	4 681
Carrying amount	469 837	9 662	(492)	9 358	(10 503)	477 862

Valuations

Land

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

The land was valued at a fair value of R60.2 million by De Leeuw Group, independent quantity surveyors, on 31 March 2013, using the income capitalisation approach (2012: R60.2 million). Land is measured at the revalued amount, in accordance with the Bank's revaluation policy for land.

Buildings

The existing buildings were erected in 1987 at a cost of R35.2 million. Improvements to the value of R2.2 million were effected during the 2013 financial year (2012: R2.9 million).

The buildings were valued at a fair value of R392.27 million by De Leeuw Group, independent quantity surveyors, on 31 March 2013, using the income capitalisation approach (2012: R392.27 million).

The historical book value of the existing buildings is R207.2 million (2012: R205.1 million).

16. Intangible assets

	2013			2012		
in thousands of rand	**Cost**	**Accumulated amortisation**	**Carrying value**	**Cost**	**Accumulated amortisation**	**Carrying value**
Computer software	**127 152**	**(40 653)**	**86 499**	120 517	(30 660)	89 857

Reconciliation of intangible assets

	Opening balance	Additions	Amortisation	Closing balance
2013				
Computer software	**89 857**	**6 635**	**(9 993)**	**86 499**
Reconciliation of intangible assets				
2012				
Computer software	76 780	22 221	(9 144)	89 857

17. Other payables

in thousands of rand	2013	2012
Sundry payables	**384 263**	293 883
DBSA Development Fund	**(24 943)**	23 074
Sundry accruals	**18 167**	1 075
Accrued interest	**371 659**	392 697
Department of Health	**21 060**	125 186
Department of Basic Education	**1 445**	1 921
	771 651	837 836

The Bank's exposure to currency and liquidity risk related to other payables is disclosed in note 45.

18. Provisions

Reconciliation of provisions

in thousands of rand	Opening balance	Additions	Total
Restructuring	–	151 009	151 009

Provision for restructuring

The Bank embarked on an Organisational Review in response to growing expectations from the shareholder, increasing competition from commercial banks and other developmental finance institutions and recent poor financial performance.

The provision for restructuring includes the direct expenditure arising from the restructuring and not costs associated with the Bank's ongoing activities.

19. Employee benefits

19.1 Liability for funeral benefits

This benefit covers all current and retired employees of the Bank. In respect of these employees, a gross amount of R33 000 is paid to the family upon the death of an employee or retired employee. The obligation was actuarially valued on 31 March 2013.

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

in thousands of rand	2013	2012
Discount rate (before taxation) (%)	8.50	8.50

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

in thousands of rand	2013	2012
Balance at the beginning of the year	5 161	4 526
(Decrease)/increase in the liability	(861)	668
Company contributions	–	(33)
Balance at the end of the year	**4 300**	5 161

19.2 Liability for post-retirement medical benefits

The Bank operates an unfunded defined benefit plan for qualifying employees. In terms of the plan, the Bank pays 100% of the medical aid contributions of qualifying pensioners.

Pensioners include retired employees and their widow(er)s. The liability is in respect of pensioners who continue to belong to the medical aid after retirement.

19. Employee benefits (continued)

19.2 Liability for post-retirement medical benefits (continued)

The investment in Medipref, as specified in note 10, 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

in thousands of rand	2013	2012
Present value of unfunded obligation at the beginning of the year	**354 880**	262 788
Interest cost	**31 467**	24 543
Current service cost (includes interest to year-end)	**11 555**	9 268
Expected employer benefit payments	**(10 053)**	(8 460)
Benefits paid	**(211 343)**	
Actuarial (loss)/gain for the year	**(28 085)**	66 741
Present value of unfunded obligation at the end of the year	**148 421**	354 880
The projected unit credit method has been used to determine the actuarial valuation.		
The amount recognised as an expense in the statement of comprehensive income in respect of the defined benefit plan is as follows:		
Interest cost	**31 467**	24 543
Current service cost	**11 555**	9 268
Actuarial (loss)/gain for the year	**(28 085)**	66 741
Total charge for the year (included in personnel expenses in the statement of comprehensive income – refer to note 36)	**14 937**	100 552
Market value of post-retirement medical benefit investment		
Market value of Medipref at the beginning of the year	**65 313**	68 066
Decrease in market value for the year	**(465)**	(2 753)
Market value of Medipref at the end of the year	**64 848**	65 313
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 (%)	**8.70**	8.50

Sensitivity analysis

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

	Central assumption	% point decrease	% point increase
Medical aid inflation rate (%)	8.70	(1.00)	1.00
Accrued liability 31 March 2013 (R'000)	148 421	133 572	165 802
% change		(10.00)	11.70
Current service cost + interest cost 2013/14 (R'000)	13 671	12 254	15 324
Sensitivity results from previous valuation: Medical aid inflation rate 2012 (%)	8.50	(1.00)	1.00
Current service cost + interest cost 2012/13 (R'000)	43 022	35 891	52 211
% change		(16.60)	21.40

	R'000
The obligation for the four years prior to March 2012 is as follows:	
March 2011	262 788
March 2010	233 913
March 2009	226 648
March 2008	195 769

in thousands of rand	2013	2012
19.3 Defined contribution plan		
Total amount expensed during the year (including group life assurance and income continuity benefits)	**59 483**	54 987

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, 1956 (Act No. 24 of 1956), is a defined contribution plan for permanent employees of the Bank.

The number of employees covered by the plan: 592 (2012: 737).

in thousands of rand	2013	2012

20. Funding: debt securities

20.1 Held at fair value through profit or loss

Debt securities	**8 390 655**	7 876 593

20.2 Held at amortised cost

Debt securities	**17 399 424**	17 932 118
	25 790 079	25 808 711

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)

21. Funding: lines of credit

Held at amortised cost

Lines of credit	**10 081 507**	7 705 306

22. Funding under repurchase agreements

Balance at the end of the year	**201 752**	–

Refer to note 8, investments under resale agreements.

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

The financial instruments thus transferred include government bonds, corporate bonds and municipal bonds. The Bank retains substantially all of the credit risks and rewards associated with the transferred assets, and continues to recognise these investments within investment securities, whilst the corresponding financial liability considerations received are recognised in funding under repurchase agreements.

At 31 March 2013, the fair value of the financial assets used as collateral is R202 million (2012: Rnil).

23. Share capital

Authorised

500 000 ordinary shares (2012: 500 000) at a par value of R10 000 each	**5 000 000**	5 000 000

Callable capital (authorised but not yet issued)

480 000 ordinary shares (2012: 480 000) at a par value of R10 000 each	**4 800 000**	4 800 000

In terms of section 18 of the DBSA Act Directors may issue shares from time to time and 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.

Issued capital

20 000 ordinary shares (2012: 20 000) at a par value of R10 000 each	**200 000**	200 000

All issued capital is fully paid for.

24. Permanent government funding

Balance at the end of the year	**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.

25. Revaluation reserve on land and buildings

Balance at the beginning of the year	**255 088**	245 730
(Loss)/gain on revaluation of land and buildings	**(1 601)**	9 358
Balance at the end of the year	**253 487**	255 088

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

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for the year ended 31 March 2013

in thousands of rand	2013	2012

26. Hedging reserve

Balance at the beginning of the year	**37 721**	15 318
Net unrealised gains on cash flow hedges	**59 866**	44 364
Net gains on cash flow hedges reclassified to the statement of comprehensive income	**(56 970)**	(21 961)
Balance at the end of the year	**40 617**	37 721

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.

27. Reserve for general loan risks

Balance at the beginning of the year	**1 262 026**	1 119 827
Transfer to general loan reserve	**109 700**	142 199
Balance at the end of the year	**1 371 726**	1 262 026

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.

28. Fair value reserve

Balance at the beginning of the year	**13 148**	(2 205)
Change in value of available-for-sale financial assets	**2 772**	15 353
Balance at the end of the year	**15 920**	13 148

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

29. Interest income

Interest income received on:		
Cash and cash equivalents	**160 020**	135 284
Investment securities:		
Held at fair value through profit and loss	**179 772**	165 769
Held-to-maturity	**23 806**	23 806
Available-for-sale	**32 309**	34 898
	235 887	224 473
Investments under repurchase agreements	**18 418**	11 019
Derivatives assets	**20 265**	57 917
Home ownership scheme loans	**761**	930
Equity investments	**1 653**	38 670
Development loans	**3 631 003**	3 514 103
Total interest income	**4 068 007**	3 982 396

29.1. Interest income on development loans

Interest income on development loans was received as follows:		
On performing loans	**3 464 034**	3 403 605
On non-performing loans	**166 969**	110 498
	3 631 003	3 514 103

29.2. Interest income on development loans was received from:

Development finance institutions	**63 103**	46 963
Educational institutions	**86 457**	96 785
Local government	**1 650 661**	1 682 198
National and provincial government	**73 091**	88 609
Private sector intermediaries	**757 673**	826 136
Public utilities	**1 000 018**	773 412
	3 631 003	3 514 103

in thousands of rand	2013	2012

30. Interest expense

Interest expense incurred on:		
Other payables	**1 403**	1 405
Funding: debt securities	**2 497 662**	2 388 980
Funding: lines of credit	**196 694**	140 581
Funding under repurchase agreements	**2 223**	2 014
Derivative liabilities held for risk management	**(256 074)**	(247 417)
Total interest expense	**2 441 908**	2 285 563
Net interest income	**1 626 099**	1 696 833

Included in interest expense for the year ended 31 March 2013 is R743 million (2012: R744 million) relating to debt securities designated at fair value through profit or loss.

Included in interest expense for the year ended 31 March 2013 is R1 755 billion (2012: R1 645 billion) relating to debt securities held at amortised cost.

31. Net fee income

Fee income		
Guarantee fees	**6 641**	1 873
Management fees	**69 682**	38 864
Commitment fees on lending	**36 233**	23 314
Upfront fees	**92 653**	36 910
Appraisal fees	**441**	1 609
Other	**41 840**	12 961
Total fee income	**247 490**	115 531
Fee expense		
Guarantee fees	**51 851**	52 035
Brokerage fees	**–**	28
Commitment fees on funding	**7 511**	22 231
Appraisal fees	**118**	–
Total fee expense	**59 480**	74 294
Net fee income	**188 010**	41 237

32. Net foreign exchange gain/(loss)

Unrealised		
Foreign exchange (loss): Cash and cash equivalents	**(210 371)**	(2 352)
Foreign exchange gain: Hedging derivatives – funding	**241 797**	63 133
Foreign exchange gain: Equity investments	**303 228**	150 296
Foreign exchange gain: Development loans and sundry	**1 183 478**	564 061
Foreign exchange (loss): Hedging derivatives – development loans	**(96 209)**	(230 181)
Foreign exchange (loss): Funding	**(1 408 786)**	(544 541)
	13 137	416
Realised		
Foreign exchange gain: Development loans	**284 815**	83 079
Foreign exchange gain: Equity investments	**4 959**	3 213
Foreign exchange gain: Funding and hedging	**44 067**	89 873
	333 841	176 165
Net foreign exchange gain	**346 978**	176 581

in thousands of rand	2013	2012
33. Net gain/(loss) from financial assets and financial liabilities		
Net gain/(loss) on derivatives held for risk management		
Interest rate		
Unrealised	**63 204**	191 499
Realised	**(5 263)**	11 635
	57 941	203 134
Foreign exchange		
Unrealised	**(42 259)**	46 422
Realised	**(26 056)**	(28 496)
	(68 315)	17 926
Investment securities designated at fair value through profit or loss		
Government bonds – unrealised	**16 854**	29 539
Government bonds – realised	**78**	–
Corporate bonds – unrealised	**11 681**	9 210
Municipal bonds – unrealised (refer to note 12.1)	**49 758**	27 102
	78 371	65 851
Debt securities		
Designated at fair value through profit or loss – unrealised	**(499 490)**	(306 958)
Equity investments		
Designated at fair value through profit or loss – unrealised (refer to note 12.1)	**46 980**	(879 003)
Held-to-maturity – unrealised	**(18 178)**	1 814
	28 802	(877 189)
Other		
Post-retirement medical benefits investment designated at fair value through profit or loss – unrealised	**(466)**	(2 753)
Total net gain/(loss) from financial assets and liabilities	**(403 157)**	(899 989)
34. Other operating income		
Non-interest income		
Dividend income	**25 635**	35 917
Loss on sale of property and equipment	**–**	(116)
Sundry income	**98 457**	176 199
	124 092	212 000
35. Net impairment loss on financial assets		
Impairment of other receivables (refer to note 6)	**3 451**	2 624
Impairment on equity investments (refer to note 12)	**224 371**	287 525
Impairment on development loans (refer to note 14.9)	**1 377 810**	204 368
	1 605 632	494 517
36. Personnel expenses		
Post-retirement medical benefits liability movement (refer to note 19.2)	**14 937**	100 552
Personnel expenses	**639 370**	480 311
	654 307	580 863
Included in other personnel expenses are the following:		
Directors' emoluments	**11 370**	8 802
Executive members' remuneration	**17 211**	12 474
	28 581	21 276

Full details are provided in the schedule of Directors' emoluments (refer to note 44).

in thousands of rand	2013	2012

37. Other expenses

Auditor's remuneration	**8 515**	8 578
Technical services	**39 690**	26 864
Communication costs	**6 961**	7 541
Information technology costs	**30 913**	38 204
Legal expenses	**7 679**	7 454
Public relations activities	**5 332**	5 128
Subsistence and travel	**17 781**	22 901
Restructuring expenses	**100 430**	-
Low value assets	**1 031**	1 317
Other	**55 679**	60 164
	274 011	178 151

38. Depreciation and amortisation (refer to notes 15 and 16)

Revalued buildings	**3 334**	3 240
Furniture and fittings	**1 555**	1 533
Motor vehicles	**256**	192
Office equipment	**1 865**	1 915
Computer equipment	**2 375**	3 623
Intangible assets	**9 993**	9 144
	19 378	19 647

39. Contingencies

39.1 Employee loans

Loan balances secured	**223**	227

The Bank has entered into agreements with financial institutions whereby it stands surety for housing and micro loans of its employees. Repayment terms vary at fair market rates which are at arm's length.

39.2 Guarantees

The Bank has approved and issued guarantees on behalf of borrowers amounting to	**251 848**	252 594

After consideration by management it was decided that these borrowers are unlikely to default and therefore these guarantees were not recognised in the statement of financial position as a liability.

The total book debt to the credit provider is:	**251 848**	252 594

The Bank has undertaken to underwrite the commitments of the Development Fund in respect of 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

There is a claim against the DBSA by Limpopo West Farming and Business for the amount of R12 601 938. Indications from legal advice obtained are that the claim will be unsuccessful.

40. Related parties

The DBSA is one of 21 Schedule 2 major public entities in terms of the PFMA and therefore falls within the national sphere of government. As a consequence, the Bank has a significant number of related parties that also fall within the national sphere of government.

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

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

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:

40.1.1 National public entities

The total book debt of loans extended to national public entities amounts to R8.5 billion (2012: R6.0 billion). None of these loans are non-performing.

40. Related parties (continued)

40.1.2 Development Fund

The DBSA Development Fund is a non-profit company that was incorporated on 21 December 2001. This fund is not consolidated as the requirements for consolidation in terms of IAS 27: Consolidated and Separate Financial Statements have not been met.

In order for the Fund to carry out its functions, it utilises the offices, staff, services and facilities of the Bank, for which it pays a management fee. This fee is charged at a market-related rate of 4% of operating costs of the Fund. At year-end, the net balance owed by the DBSA Development Fund was R32.1 million (2012: owed to R16.4 million).

The management fee income for the year was R3.3 million (2012: R3.3 million). Rental income for the year was R0.3 million (2012: Rnil).

The grant paid to the DBSA Development Fund during the year was R 119.7 million (2012: R263.0 million).

40.1.3 National mandates

The net advances on National Treasury at year-end amounted to R2.2 million (2012: R80.7 million).

40.2 There were no related party transactions with Directors and key management personnel during the year (2012: Rnil), except as disclosed in note 44.

41. Commitments

in thousands of rand	2013	2012
At the reporting date, the Bank had the following commitments:		
• Loan commitments	**12 996 393**	8 706 175
• Grants	**55 492**	63 990
• Capital commitments	**–**	84 587
	13 051 885	8 854 752

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 approved but not yet disbursed are to be financed from funds generated 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.

42. Funds administered on behalf of third parties

in thousands of rand	2013	2012
Balance at the beginning of the year	**1 592 215**	1 099 781
Funds received	**2 289 054**	1 144 993
Funds disbursed	**(1 789 193)**	(652 559)
Balance at the end of the year	**2 092 076**	1 592 215

43. Taxation

The Bank is exempt from South African normal taxation in terms of section 10(1)(t)(x) of the Income Tax Act, 1962 (Act No. 58 of 1962), as amended, and consequently no liability for normal taxation has been recognised.

44. Schedule of Directors' and prescribed officers' emoluments

44.1 Executive members' remuneration and prescribed officers

	Basic salaries/fees R	Medical aid, group life and provident fund contribution R	Allowances and benefits R	Total 2013 R	Total 2012 R
Chief Executive Officer and Managing Director					
Mr P Baloyi[1]	290 700	27 300	457 605	**775 605**	3 761 348
Mr P Dlamini[2]	2 142 840	307 160	23 328	**2 473 328**	–
Executive managers					
Mr PA Currie	1 945 811	68 001	21 779	**2 035 591**	1 986 989
Mr E Dietrich[7]	1 215 196	339 650	87 716	**1 642 562**	1 652 163
Ms R Govender[3,7]	1 386 450	143 550	139 839	**1 669 839**	–
Mr M Hillary[4]	770 086	142 415	9 169	**921 670**	–
Ms L van Lelyveld	–	–	–	**–**	1 203 931
Mr L Mashaba[7]	1 886 938	309 226	123 247	**2 319 411**	2 043 006
Ms D Mashishi	1 646 586	40 914	18 516	**1 706 016**	892 954
Ms K Naidoo[2]	1 140 542	146 853	48 551	**1 335 946**	–
Mr R Naidoo[6]	1 293 611	–	265 640	**1 559 251**	1 578 604
Mr T Nchocho	1 686 133	328 335	106 048	**2 120 516**	1 557 231
Mr R Shaik[5]	1 226 112	202 417	27 878	**1 456 407**	–
Ms S Sibisi[3]	1 530 569	231 931	17 627	**1 780 127**	–
Mr P de la Rey	–	–	–	**–**	819 637
Mr A Tadesse	–	–	–	**–**	739 608
Total	18 161 574	2 287 752	1 346 943	**21 796 269**	16 235 471

Notes

1. *Resigned 31 March 2012.*
2. *Appointed 1 September 2012.*
3. *Appointed 1 April 2012.*
4. *Appointed 1 October 2012.*
5. *Appointed 1 August 2012.*
6. *Resigned 31 January 2013.*
7. *As part of the organisational review, with effect from 1 January 2013, Ms Govender, Mr Dietrich and Mr Mashaba, assumed different management roles within the DBSA.*

44.2 Remuneration of Non-executive Directors and co-opted members of the Board

	Fees for services as Directors R	Subsistence and travel R	Total 2013 R	Total 2012 R
Mr PJ Moleketi (Chairperson)[1]	984 000	5 872	**989 872**	984 200
Mr FM Baleni[1]	362 000	4 300	**366 300**	447 850
Dr L Bhengu-Baloyi	356 000	–	**356 000**	168 500
Mr A Boraine	453 000	–	**453 000**	461 000
Mrs T Dingaan	769 000	–	**769 000**	664 500
Ms A Kekana	496 029	3 018	**499 047**	174 728
Ms W Lucas-Bull[2]	696 000	7 092	**703 092**	572 598
Mr OA Latiff	285 000	–	**285 000**	427 223
Ms B Mabuza	433 000	3 659	**436 659**	172 340
Dr C Manning	510 000	4 734	**514 734**	415 570
Ms D Marole	642 500	3 702	**646 202**	220 340
Ms M Vilakazi	548 806	–	**548 806**	77 500
Co-opted members				
Prof D Everatt	24 000	432	**24 432**	36 630
Prof B Figaji	156 000	400	**156 400**	133 000
Dr R Kfir	24 000	403	**24 403**	37 088
Prof V Taylor	12 000	–	**12 000**	48 000
	6 751 335	33 612	**6 784 947**	5 041 067

Notes

1. *Reappointed 1 January 2013.*
2. *Resigned 31 March 2013.*

45. Financial risk management

45.1 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.

45.1.1 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 Asset and Liability Management Committee, is charged with managing and containing the Bank's interest rate risk exposures within Board approved limits. To this end, the Bank makes use of derivative instruments to achieve its desired interest rate risk profile.

The Bank's primary interest rate risk management objective is to protect its net interest income (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 2013, the 12-month cumulative repricing gap amounted to 10.65% (2012: 17.84%) of total earning assets, well below 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 table 45.1.1.2 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 R36 million (2012: R34.4 million).

45.1.1.1 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 2013, the Bank had a combined ZAR interest rate and US$ interest rate swaps portfolio with a total notional contract amount of R6.2 billion (2012: R6.2 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 2013 was R771 million (2012: R709 million), comprising assets of R815 million (2012: R746 million) and liabilities of R43 million (2012: R37 million). These amounts are recognised as fair value derivatives.

45. Financial risk management (continued)

45.1 Market risk (continued)

45.1.1 Interest rate risk (continued)

45.1.1.2 Contractual repricing gap

The table below shows the contractual repricing gap

in millions of rand		Contractual repricing gap								
		>1 month	1-3 months	3-12 months	1-2 years	2-3 years	3-4 years	4-5 years	>5 years	Grand total
Cash and cash equivalent	ZAR	1 184				–	–	–	–	1 184
	EUR	(2)				–	–	–	–	(2)
	US$	69				–	–	–	–	69
Money market instruments	ZAR	572	200	–	12	–	–	–	–	784
Repurchase assets	ZAR	–	–	–	–	–	–	–	–	–
Investment: government bonds	ZAR	–	–	–	–	937	33	–	106	1 043
Investment: municipal bonds	ZAR	–	–	33	67	167	–	–	665	965
Investment: corporate bonds	ZAR	100	–	–	–	60	–	–	150	310
Development loans	EUR	–	–	1	1	1	1	1	3	10
	TZS	–	52	–	–	–		–	–	52
	US$	1 332	2 948	3 968	26	26	26	–	–	8 326
	ZAR	2 520	4 643	2 779	1 461	1 452	1 387	1 205	16 843	32 290
Derivatives: development loans	TZS	–	(52)	–	–	–	–	–	–	(52)
	US$	(1 068)	(165)	(1 909)	(21)	(21)	(21)	(10)	–	(3 216)
	ZAR	1 077	288	1 906	21	21	22	11	–	3 346
Total financial market assets		5 785	7 914	6 779	1 567	2 643	1 448	1 202	17 766	45 110
Cross-currency swaps: lines of credit	EUR	7	63	133	233	191	215	156	1 036	2 034
Cross-currency swaps: lines of credit	US$	–	(197)	(49)	40	31	49	22	109	6
Cross-currency swaps: lines of credit	ZAR	–	(471)	(67)	(135)	(115)	(103)	(80)	(589)	(1 561)
Funding bonds	ZAR	–	–	(1 800)	–	(215)	(1 000)	–	(20 944)	(23 959)
Funding: lines of credit	EUR	(7)	(63)	(133)	(233)	(191)	(215)	(156)	(1 037)	(2 034)
Funding: lines of credit	US$	–	(2 029)	(2 360)	(40)	(40)	(40)	(31)	(109)	(4 651)
Funding: lines of credit	ZAR	–	(656)	(228)	–	–	–	–		(884)
IRS: funding bonds	ZAR	–	–	–	–	–	–	–		–
IRS: lines of credit	ZAR	(215)	(4 370)	200	–	215	1 000	–	3 170	–
Funding: money market debt	US$	(478)	(2 024)	–	–	–	–	–	–	(2 502)
Funding: money market debt	ZAR	–	(450)	(274)	–	–	–	–	–	(724)
Repurchase liability	ZAR	(202)	–	–	–	–	–	–	–	(202)
Total financial market liabilities		(895)	(10 198)	(4 579)	(135)	(124)	(94)	(89)	(18 362)	(34 477)
Repricing gap		4 890	(2 283)	2 200	1 432	2 519	1 354	1 118	(596)	
Cumulative repricing gap		4 890	2 606	4 806	6 238	8 757	10 111	11 229	10 633	

Note that the contractual 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 toward a maturity value of R7.5 billion.

45. Financial risk management (continued)

45.1 Market risk (continued)

45.1.2 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 2013, the Bank's net open foreign currency positions amounted to asset positions of EUR25.9 million (2012: EUR25.2 million) and (US$30.9) million (2012: US$159.6 million) respectively. Foreign currency denominated equity positions of EUR25.2 million (2012: EUR24.3 million) and US$183 million (2012: US$193 million) constituted the bulk of the Bank's net open foreign currency exposure as at 31 March 2013.

45.1.2.1 Hedging of foreign currency risk exposure

The Bank uses cross-currency swaps 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 2013, the Bank had cross-currency swaps and FECs with a notional amount of R3.1 billion (2012: R3.6 billion).

The notional principal amounts indicate the volume of currency hedged liabilities outstanding at the year-end 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.

45.1.2.2 Foreign currency sensitivity analysis

Potential impact of rand sensitivity on profit/loss based on current net open position/currency exposures.

	Currency	
in thousands	**EUR**	**US$**
Cash at bank	(131)	7 541
Loan assets	836	905 126
Equity investments	25 170	182 956
Cross-currency swaps	172 574	(23 773)
Derivatives FECs	–	(325 159)
Liabilities	(172 576)	(777 638)
Net open positions	25 873	(30 947)

Foreign currency exchange rate (FX) sensitivity analysis

FX sensitivity combined	**ZAR sensitivity (%)**	**EUR potential impact (%)**	**EUR/ZAR**	**US$ potential impact**	**US$/ZAR**
(259 694)	(15.00)	(45 744)	10.0189	42 699	7.8187
(173 130)	(10.00)	(30 498)	10.6083	28 466	8.2787
(86 565)	(5.00)	(15 248)	11.1976	14 233	8.7386
–	(0.00)	–	11.7870	–	9.1985
86 565	5.00	15 248	12.3763	(14 233)	9.6584
173 130	10.00	30 496	12.9657	(28 466)	10.1184
259 694	15.00	45 744	13.5550	(42 699)	10.5783

Spot exchange rate used: EUR/US$ 1.2814, US$/ZAR 9.1985.

45. Financial risk management (continued)

45.1 Market risk (continued)

45.1.3 Liquidity risk

Liquidity risk is 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.

Although not a deposit-taking institution and therefore not subject to the volatile and uncertain nature of such liabilities, the high levels of uncertainty around the level and timing of loan disbursements, coupled with the dependency on market funding, nevertheless expose the Bank to the very real threat of a liquidity squeeze, primarily as it relates to funding asset growth. Therefore, the major form of liquidity risk for the DBSA relates to ensuring access to funding to ensure asset growth, with contractual cash flows typically net positive over the long-term (reinvestment risk) – unlike the case with commercial banks, where liquidity risk concerns are centered primarily around the risk of liabilities being called (refinance risk).

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. Giving cognisance both to the importance of ensuring sufficient liquidity to reduce the dependence on distress borrowing and the potential opportunity cost incurred by excessive liquidity, the liquidity portfolio consists of two pools, namely, the Operational Liquidity Pool, which is aimed at ensuring 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 certificate of deposits, 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 (2012: R4.9 billion), with a year-end balance of R4.5 billion (2012: R4.8 billion). This includes cash and cash equivalents of R1.25 billion (2012: R2.11 billion), money market instruments of R0.79 billion (2012: R0.41 billion), corporate and municipal bonds of R1.23 billion (2012: R1.05 billion) and government bonds amounting to R1.22 billion (2012: 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 2013 was approximately R1.73 billion (31 March 2012: R2.98 billion).

45. Financial risk management (continued)

45.1 Market risk (continued)

45.1.3 Liquidity risk (continued)

The table below shows the contractual liquidity gap

in millions of rand		Contractual liquidity								
		>1 month	1-3 months	3-12 months	1-2 years	2-3 years	3-4 years	4-5 years	>5 years	Grand total
Cash and cash equivalent	ZAR	1 184	–	–	–	–	–	–	–	1 184
	EUR	(2)			–	–	–	–	–	(2)
	US$	69	–	–	–	–	–	–	–	69
Money market instruments	ZAR	372	100	300	12	–	–	–	–	784
Repurchase assets	ZAR	–	–	–	–	–	–	–	–	–
Investment: government bonds	ZAR	–	–	–	–	937	–	–	106	1 043
Investment: municipal bonds	ZAR	–	–	33	67	167	33	–	665	965
Investment: corporate bonds	ZAR	100	–	–	–	60	–	–	150	310
Development loans	EUR	–	–	1	1	1	1	1	3	10
	TZS	–	26	26	–	–		–	–	52
	US$	159	79	922	1 116	1 071	998	672	3 309	8 326
	ZAR	409	97	2 016	2 456	2 532	2 440	2 086	20 254	32 290
Derivatives: development loans	TZS	–	(26)	(26)	–	–	–	–	–	(52)
	US$	(1 068)	(44)	(1 984)	(34)	(27)	(40)	(17)	–	(3 216)
	ZAR	1 077	81	2 079	31	26	36	16	–	3 346
Total financial market assets		2 300	313	3 367	3 649	4 766	3 468	2 758	24 487	45 110
Cross-currency swaps: lines of credit	EUR	7	63	133	233	191	215	156	1 036	2 034
Cross-currency swaps: lines of credit	US$	–	–	6	–	–	–	–	–	6
Cross-currency swaps: lines of credit	ZAR	–	(50)	(103)	(178)	(144)	(160)	(123)	(804)	(1 561)
Funding bonds	ZAR	–	–	(1 800)	–	(215)	(1 000)	–	(20 944)	(23 959)
Funding: lines of credit	EUR	(7)	(63)	(133)	(233)	(191)	(215)	(156)	(1 037)	(2 034)
Funding: lines of credit	US$	–	(136)	(566)	(762)	(762)	(749)	(494)	(1 182)	(4 651)
Funding: lines of credit	ZAR	–	(7)	(65)	(94)	(94)	(94)	(94)	(436)	(884)
IRS: funding bonds	ZAR	–	–	–	–	–	–	–	–	–
IRS: lines of credit	ZAR	–	–	–	–	–	–	–	–	–
Funding: money market debt	US$	(37)	(207)	(363)	(607)	(584)	(428)	(276)	–	(2 502)
Funding: money market debt	ZAR	–	(450)	(274)	–	–	–	–	–	(724)
Repurchase liability	ZAR	(202)	–	–	–	–	–	–	–	(202)
Total financial market liabilities		(239)	(849)	(3 166)	(1 641)	(1 799)	(2 341)	(987)	(23 366)	(34 477)
Liquidity gap		2 062	(536)	201	2 008	2 967	1 038	1 772	1 122	
Cumulative liquidity gap		2 062	1 526	1 727	3 735	6 702	7 739	9 511	10 633	

Note that the contractual liquidity gap has been adjusted to include the Bank's 2027 zero coupon liability at current book value. This bond contractually matures in 2027 and accrues interest semi-annually toward a maturity value of R7.5 billion.

As per the table above, the DBSA has a positive liquidity gap, where the contractual inflows exceed outflows across all time intervals. This profile is anticipated due 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.

45. Financial risk management (continued)

45.2 Credit risk

Definition of credit risk

Credit risk is the risk of economic loss should any of the Bank's clients or market counterparties fail to fulfil their contractual obligations. Credit risk is inherent mainly in the Bank's development financing and lending operations as a result of potential counterparty defaults on debt repayments. Credit risk may also arise where the downgrading of a client's rating causes the fair value of the investment in that entity to deteriorate. Credit risk is also manifested as country risk in the event where circumstances arise in a country in which an exposure or counterparty is domiciled, resulting in a reduction of the value of assets. Settlement risk is another form of credit risk, which is the risk of a counterparty failing to deliver cash (securities) due to be delivered at a particular moment in time, following release of the corresponding cash (securities) by the Bank in settlement of a transaction.

Management of credit risk

The DBSA, as a multi-lateral development finance institution, faces a unique challenge in maintaining a sustainable balance between maximising development returns and minimising financial loss in its lending and other investment operations. As a result, the performance of the Bank is to a large extent dependent on its ability to take credit risks responsibly in exchange for appropriate rewards and to manage the resultant exposure to credit risk effectively in the pursuance of its corporate objectives.

The Bank meets its credit risk management objectives through i) an enterprise-wide framework of credit risk oversight, governance and assurance, ii) an integrated system of internal credit risk ratings, pricing and mitigation guided by its risk appetite, and iii) a rigorous standard for the measurement, monitoring and control of credit risk exposures in the credit portfolio.

Credit risk oversight, governance and assurance

Credit risk oversight: The Board of Directors, as part of their oversight duties, sets the tone for the management of risk and defines the level of risk that Bank is willing to assume, as well as considers the granting of large credits and reviews the overall performance in the management of risk through its sub-committees.

Credit risk governance: The ongoing governance of the Bank's risk taking activities is devolved to management. For credit risk management, the Bank has in place a number of committees, both at corporate and divisional levels, mandated to maintain credit policies and standards, review and approve credits under delegated authority, as well as monitor and report the overall level of exposures to credit risk and performance in the management of these exposures.

Credit risk assurance: The quality of credit risk management is assured through the centralised Group Risk Assurance Division, responsible for the development of policy, models and standards in support of the efficient and effective management of credit risk. As a further line of assurance, Credit Risk Analysts are deployed at operational levels to provide an objective view of the quality of individual credits under consideration and monitor the performance of assets post-approval.

Credit risk ratings, pricing and mitigation

Obligor credit risk ratings: The Bank is not regulated under the Banks Act and as such is not formally obligated to comply with Basel II Pillar 1 requirements. However, as a leveraged financial institution, prudence requires it to maintain the adequate levels of capital to cover for expected losses. The key variables in the Bank's quantitative assessment of expected loss and by implication in setting risk-adjusted pricing are:

- Probability of Default (PD), which determines the likelihood that the client will not be able to meet its debt repayments based on creditworthiness.
- Exposure at Default (EAD), which calculates the size of exposure and thus potential loss at the point of default.
- Loss Given Default (LGD), which estimates the portion of exposure that is expected not to be recovered at the event of default.

The Bank has developed a number of internal credit risk rating models for all of its major asset classes to calculate credit risk ratings as a basis for assigning a PD. The credit risk rating models are all subjected to validation and are independent reviews before 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. The application of credit risk models has been system enabled and deployed to all business divisions.

The models are also subjected to performance monitoring and validation on an annual basis. The principal objective for this is to ensure that assumptions used in model development are still appropriate and ensure that any deficiencies are identified early and that the models produce the most accurate possible quantitative assessment of the credit risk to which the Bank is exposed, from the level of individual facilities up to the total portfolio.

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45. Financial risk management (continued)

45.2 Credit risk (continued)

Credit risk ratings, pricing and mitigation (continued)

Country risk ratings: 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. Whereas country risk is more generic and takes cognisance of political, economic, legal, tax, security and operational factors to determine the risk profile of individual countries, sovereign risk has a clear credit, financial risk focus.
The sovereign risk rating methodology considers solvency, liquidity, economic and political issues to risk rate countries and generate and 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 limits therefore consider the economic strength of countries ensuring that country exposures are related to the degrees of perceived risk as well as the country's debt absorption capacity.

A key element of DBSA's internal risk rating and pricing model is the PD master rating scale as shown below. This scale has been developed to distinguish meaningful differences in the probability of default risk throughout the risk range. The banding estimates are derived from internal data which is based on the performance of the Bank's loan book.

DBSA PD master rating scale

Rating grade	Midpoint PD (%)	Lower bound PD (%)	Upper bound PD (%)	Mapping to S&P	Mapping to Moody's
MS 1	0.01	0.00	0.02	AAA	AAA
MS 2	0.02	0.02	0.03	AA+	AA1
MS 3	0.03	0.03	0.04	AA	AA2
MS 4	0.04	0.04	0.05	AA-	AA3
MS 5	0.05	0.05	0.06	A+	A1
MS 6	0.06	0.06	0.08	A	A2
MS 7	0.10	0.08	0.14	A-	A3
MS 8	0.17	0.14	0.24	BBB+	BAA1
MS 9	0.30	0.24	0.40	BBB	BAA2
MS 10	0.50	0.40	0.68	BBB-	BAA3
MS 11	0.85	0.68	1.13	BB+	BA1
MS 12	1.40	1.13	1.90	BB	BA2
MS 13	2.40	1.90	3.20	BB-	BA3
MS 14	4.00	3.20	5.50	B+	B1
MS 15	7.00	5.50	9.50	B	B2
MS 16	12.00	9.50	16.00	B-	B3
MS 17	58.00	16.00	99.999	CCC	CAA etc
Default	100	99.99	100.0	Default	D

The pricing of loans was enhanced through the development of a standard pricing model. The model was developed to take into account risk capital and deliver an accurate ROE, NPV and sustainability profit on an economic basis. The model has been applied on a Bank-wide basis since January 2013 and further improvements will be made on an ongoing basis.

Credit risk mitigation: In addition to pricing for risk, the Bank uses a wide range of instruments to enhance the quality of credit and/or reduce the expected losses on its lending. The amount and type of credit risk mitigation depends on the asset quality of each transaction. Collateral and guarantees are used by the Bank for credit risk mitigations. The main types of collateral taken comprise mortgage bond over commercial and industrial properties, bonds over plant and equipment, and the underlying moveable assets financed. The Bank also uses various forms of specialised legal agreements like guarantees and similar legal contracts in support of credit extension to private sector clients with weaker credits. Financial covenants are also an important tool for credit mitigation within the DBSA.

45. Financial risk management (continued)

45.2 Credit risk (continued)

Credit risk monitoring, measurement, and reporting

The Bank dedicates considerable resources to monitor the quality of credit throughout the lifetime of assets and measure the exposure and performance of assets across portfolios.

At individual credit level:

- Performance of credit is monitored and reported in terms of adherence to terms and conditions.
- Credit risk ratings are updated on an annual basis.
- Potential problem loans are identified based on early indications of distress and placed on a credit watch list.
- Non-performing accounts are transferred for independent workout and recovery.

At portfolio level:

- Limits are established within the Bank's risk appetite to monitor and control the aggregate amount of risk that the Bank is taking on.
- Overall performance of portfolios is measured and reported on a quarterly basis in terms of standard KPIs.

45.2.1 Credit risk exposure

45.2.1.1 Maximum exposure

(a) Development loans:

in thousands of rand			2013 Gross amount	2013 Allowance for impairment	2013 Carrying amount	2012 Gross amount	2012 Allowance for impairment	2012 Carrying amount
Non-performing book								
	Municipalities		**441 027**	**137 655**	**303 372**	430 251	122 055	308 196
	Other		**2 829 368**	**1 981 042**	**848 326**	1 595 987	665 738	930 249
			3 270 395	**2 118 697**	**1 151 698**	2 026 238	787 793	1 238 445
Performing book								
	Low risk	Municipalities	**12 472 818**	**10 899**	**12 461 919**	15 654 528	11 547	15 642 981
		Other	**13 953 876**	**66 561**	**13 887 315**	12 381 102	13 423	12 367 679
	Medium risk	Municipalities	**2 896 237**	**22 954**	**2 873 283**	1 503 704	12 154	1 491 550
		Other	**11 931 681**	**62 026**	**11 869 655**	9 004 037	67 223	8 936 814
	High risk	Municipalities	**–**	**–**	**–**	–	–	–
		Other	**431 357**	**55 457**	**375 900**	809 886	69 100	740 786
			41 685 969	**217 897**	**41 468 072**	39 353 257	173 447	39 179 810
Total book debt			**44 956 364**	**2 336 594**	**42 619 770**	41 379 495	961 240	40 418 255
Rescheduled loans included in performing book			**946 536**	**14 787**	**931 749**	446 124	24 866	421 258

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.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS continued

for the year ended 31 March 2013

45. Financial risk management (continued)

45.2 Credit risk (continued)

45.2.1 Credit risk exposure (continued)

45.2.1.1 Maximum exposure (continued)

(b) Other receivables:

in thousands of rand			2013 Gross amount	2013 Allowance for impairment	2013 Carrying amount	2012 Gross amount	2012 Allowance for impairment	2012 Carrying amount
Debtors 90 days and over		Fees and sales invoiced	**11 490**	**3 627**	**7 863**	6 920	813	6 107
		Special programmes/ projects/miscellaneous	**1 138**	**1 138**	**–**	1 141	1 141	–
			12 628	**4 765**	**7 863**	8 061	1 954	6 107
Performing book								
	Low risk	Fees and sales invoiced	**22 002**	**–**	**22 002**	156 009	–	156 009
	Current – 30 days	Special programmes/ projects/miscellaneous	**10 890**	**–**	**10 890**	1 598	–	1 598
	Medium risk	Fees and sales invoiced	**15 022**	**–**	**15 022**	23 161	–	23 161
	30 days – 60 days	Special programmes/ projects/miscellaneous	**–**	**–**	**–**	–	–	–
	High risk	Fees and sales invoiced	**5 135**	**–**	**5 135**	343	–	343
	60 days – 90 days	Special programmes/ projects/miscellaneous	**4 030**	**–**	**4 030**	61 721	–	61 721
			57 079	**–**	**57 079**	242 832	–	242 832
Staff and study loans			**172**	**–**	**172**	491	–	491
Municipal deposits			**1 385**	**–**	**1 385**	1 388	–	1 388
Prepaid expenses			**199**	**–**	**199**	1 800	–	1 800
			1 756	**–**	**1 756**	3 679	–	3 679
Total book debt			**71 463**	**4 765**	**66 698**	254 572	1 954	252 618

(c) Commitments

(Loans signed, but not yet fully disbursed)

in thousands of rand			2013	2012
	Low risk	Municipal	**865 110**	633 066
		Other	**6 091 724**	4 446 642
	Medium risk	Municipal	**229 651**	473 547
		Other	**5 550 907**	2 557 283
	High risk	Municipal	**132 744**	152 700
		Other	**126 257**	442 937
Total fixed commitments			**12 996 393**	8 706 175

(d) Guarantees	**251 848**	252 594

45. Financial risk management (continued)

45.2 Credit risk (continued)

45.2.1 Credit risk exposure (continued)

45.2.1.2 Loans that are past due or individually impaired

(a) Loans past due but not individually impaired:

in thousands of rand	2013 Total	2013 3 months	2013 3-6 months	2013 6-12 months	2013 >12 months	2012 Total	2012 3 months	2012 3-6 months	2012 6-12 months	2012 >12 months
Overdue amounts	**173 402**	**163 758**	**183**	**2 441**	**7 020**	155 850	27 517	50 594	51 547	26 192
Not yet due	**15 955 648**					6 335 883				
Total	**16 129 050**					6 491 733				

The fair value of collateral held in respect of the above amounted to R1 276 million (2012: R713 million).

For the purposes of calculating this aggregated total, the fair value of 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	2013 Gross amount	2013 Allowance for impairment	2013 Carrying amount	2012 Gross amount	2012 Allowance for impairment	2012 Carrying amount
0% to 10%	**1 242 275**	**1 221 337**	**20 938**	413 338	367 919	45 419
11% to 410%	**965 611**	**596 245**	**369 366**	197 711	139 641	58 070
41% to 60%	**321 771**	**162 521**	**159 250**	343 894	109 861	234 033
61% to 99%	**740 738**	**138 594**	**602 144**	1 071 295	170 372	900 923
	3 270 395	**2 118 697**	**1 151 698**	2 026 238	787 793	1 238 445

The fair value of collateral held in respect of the above amounted R761 million (2012: R592 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.

45.2.1.3 Financial counterparty exposure

	2013	2012
Bonds	**1 269 789**	1 050 058
Derivatives	**1 336 870**	1 167 440
Cash and money markets	**2 041 547**	2 361 232
Repurchase agreements	**72**	755

45.3 Capital management

During the period under review, the Bank compiled with its regulatory leverage ratio requirement, as set out in the regulation made under section 17 of the Development Bank of Southern Africa Act, 1997 (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%.

45. Financial risk management (continued)

45.3 Capital management (continued)

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 2013, the debt to equity ratio stood at 215.8% (2012: 193.8%). 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). Shareholder's capital comprises share capital, permanent government funding, retained earnings, general provisions and the fair reserve. As at March 2013, the capital ratio stood at 31.2% (2012: 33.4%).

46. Events after the reporting period

The following non-adjusting event took place after the reporting date:

A capital injection of R2.4 billion was received from National Treasury on 5 June 2013.

47. Non-current asset held-for-sale

During a previous financial year, as a result of calling on its security against the loan in default, the Bank obtained a 100% shareholding in a property investment company with a view to sell. This investment was classified as a non-current asset held-for-sale, as it had been the Bank's intention to dispose of the investment within the 12 months. The value of the asset at the reporting date is R2 (2012: R2).

48. Operating leases

Minimum lease payments due

in thousands of rand	2013	2012
– within one year	**8 469**	13 331
– in second to fifth year inclusive	**2 870**	11 340
Total	**11 339**	24 671

The Bank has entered into commercial leases on certain computer equipment, office equipment and property. These leases have an average life of between three and five years with no renewal option or option to acquire the assets at termination date included in the contracts. There are no restrictions placed upon the Bank by entering into these leases.

SUSTAINABILITY REPORT

SUSTAINABILITY REPORT

> The DBSA supports the framework and guidance provided by the Global Reporting Initiative in setting targets and measuring and reporting on activities affecting the Bank's long-term sustainability

> The DBSA's efforts towards sustainability are underpinned by its commitment to maintaining the highest standards of governance, which include the application of sound business practices that link into the management systems, structures and policies of the Bank

Chief Executive Officer's statement

We are proud to present the DBSA's sustainability report for the year ended 31 March 2013. This, our third sustainability report, shows how we continued to work towards embedding sustainability in everything we do as an institution. The DBSA supports the framework and guidance provided by the Global Reporting Initiative (GRI) in setting targets and measuring and reporting on activities affecting the Bank's long-term sustainability. Based on its own assessment, the DBSA has followed the B application level of the guidelines of the Global Reporting Initiative.

Report parameters

This report follows on the March 2012 report and relates to the financial year 1 April 2012 to 31 March 2013. It covers the activities of the DBSA with no limitations to the scope or boundary of the contents. It should be noted that the report includes selected operational activities of the DBSA Development Fund, a not-for-profit company, which was responsible for much of the DBSA's capacity building and infrastructure delivery objectives in the year under review.

Information included in this sustainability report covers topics and indicators reflecting the DBSA's significant economic, environmental, social and labour impacts that could substantively influence the assessment and decisions of important stakeholders. Material sustainability matters were further prioritised, based on the main sustainability interests raised by stakeholders. The DBSA's main stakeholders are defined as entities or individuals who can reasonably be expected to be significantly affected by the Bank's activities, products or services, and whose actions can reasonably be expected to affect the ability of the Bank to implement its strategies successfully and achieve its objectives.

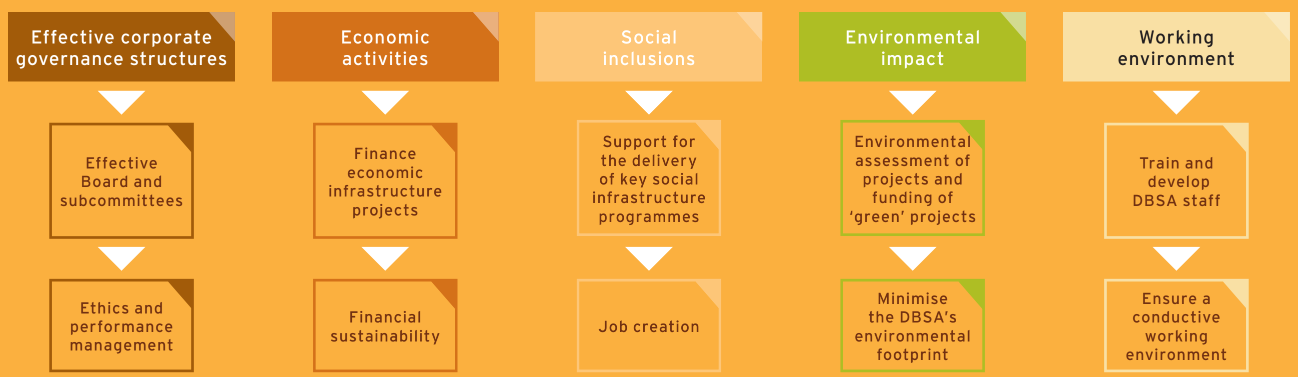
Internal and external stakeholder surveys and engagements were used to identify and prioritise the sustainable matters, with detailed data analysis to confirm progress made. The basis of calculations and assumptions made in the measuring of progress were reported on where applicable. No information included in the previous report was restated and there were no significant changes in scope, boundary or measurement method applied in this report other than that stated above.

This report was not externally assured; however, it was internally reviewed by the DBSA's Internal Audit department. Feedback on this report is welcomed and can be addressed to the office of the Manager: Strategy, Mr Johan Conradie, at corporatestrategy@dbsa.org.

Analysis of DBSA sustainability strategy

To ensure the DBSA's longevity, it is essential that all material factors affecting sustainability are evaluated and responded to in its long-term strategy. Therefore, the DBSA defined its long-term sustainability strategy as follows:

Figure 1: Material sustainability drivers



Further details of stakeholder interactions and strategy are provided in the Integrated Annual Report on pages 20 to 23.

Performance on key sustainability drivers during 2012/13

Effective corporate governance structures

The DBSA's efforts towards sustainability are underpinned by its commitment to maintaining the highest standards of governance, which include the application of sound business practices that link into the management systems, structures and policies of the Bank. The Directors of the DBSA are committed to full compliance with the principles embodied in appropriate international corporate governance codes, and strive to align the Bank's corporate governance with national and international best practices. Further details of the Bank's corporate governance are provided in the Integrated Annual Report from pages 38 to 43.

The following governance mechanisms are in place to identify and manage important sustainability risks and opportunities:

- A comprehensive project appraisal process ensures appropriate institutional checks and balances throughout the life of a project. Each appraisal commences with a risk assessment, including strategic, legal, environmental and reputational risks, to ensure that the Bank's intervention is sustainable and the intended development objectives are achieved. The main risks to be monitored, including institutional, financial and regulatory risks and a shortage of skills, are highlighted. Appropriate fiduciary oversight procedures have been established to guide the appraisal process and ensure the quality and monitoring of follow-up actions. All projects disbursed by the DBSA are reviewed at least annually and more frequently where necessary.
- A documented Code of Ethics defines ethical standards to be upheld, including agency assets. The Code describes disciplinary and enforcement actions for violations, and provides for appropriate flexibility in how it is applied in the local environment.
- In line with section 52 of the PFMA, the Bank submits a Corporate Plan to the National Treasury annually. This serves as an agreement between the Bank and the shareholder, and documents the strategy, financial plans, key operational risks, performance measures and targets against which organisational performance is assessed. Progress on key performance measures is reported to the National Treasury and the DBSA Board on a quarterly basis.
- The Audit and Risk Committee oversee financial management. The terms of reference for this Committee include clearly defined roles for management, internal auditors, the Board of Directors and other staff, as well as fiscal and fiduciary accountability for the control environment, risk assessment, internal control activities, monitoring and procedures for information sharing.

The DBSA is aligned with and supports all the relevant legislation in South Africa and in the SADC region that applies to its activities. The Bank is also aligned with the principles of the International Finance Corporation and relies on the World Bank standards in the event that such standards are required. The DBSA further subscribes to the Corporate Governance Development Framework for integrating corporate governance into investment operations as well as the Association of African Development Finance Institutions (AADFI) Prudential Standards Guidelines and Rating Systems. During the financial year, the DBSA improved its annual AADFI assessment score from 78% to 81%, driven by improvements in the areas of governance and operational standards.

Partnerships with other initiatives provide a good mechanism for entities to support activities and form a platform for promoting accountability and good practices. The DBSA views the following memberships as strategic partnerships:

Institute	Benefits/remarks
SADC Development Finance Resource Centre (DFRC)	Together with the IDC, the DBSA is one of the main supporters of the SADC DFRC, a resource centre for development finance, which provides significant support to the network of development finance institutions in SADC.
Association for African Development Finance Institutions (AADFI)	The main activities of the AADFI are the provision of information and training in the techniques of banking and finance, as well as policy development advice to African bankers and finance officers. The AADFI is a strategy network and resource base for the DBSA's interactions with other development finance institutions on the African continent.
United Nations Environment Programme Finance Initiative (UNEP FI)	UNEP FI works closely with over 200 financial institutions that are signatories to the UNEP FI Statements, as well as a range of partner organisations, to develop and promote linkages between sustainability and financial performance.

Comprehensive information on the composition and profile of the DBSA Board of Directors, Board subcommittee roles and responsibilities, as well as other governance matters are provided in the governance section of the Integrated Annual Report on pages 38 to 43.

The DBSA is committed to creating value for all stakeholders. Equally, it acknowledges that sustainability includes balancing the interests of all stakeholders

The Bank's financial position remains sound, and its credit ratings were maintained in line with the sovereign rating

Health and safety matters relating to projects and programmes supported by the DBSA remain an important aspect of the Bank's product offering

Economic performance

The DBSA's strategic intent is to drive development in South Africa and the region through developing product offerings to capitalise on emerging business opportunities, realise cost savings through sustainable business practices, and enhance the Bank's reputation as a leader in infrastructure development.

The DBSA is committed to creating value for all stakeholders. Equally, it acknowledges that sustainability includes balancing the interests of all stakeholders. Direct economic value created for various stakeholders is reflected in the table below.

Economic performance

In thousands of rand	2013	2012
Interest income	**4 068 007**	3 982 396
Interest expense	**(2 441 908)**	(2 285 563)
Operating cost	**(947 696)**	(778 662)
Employee wages and benefits	**(654 307)**	(580 863)
Grants	**(154 608)**	(324 307)
Tax[1]	**–**	–
Loss for the year	**(825 914)**	(370 822)

1. *The DBSA 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 economic outflow is accounted for.*

Despite the performance in driving new project approvals and disbursements, the Bank acknowledges the challenges experienced in its overall financial performance, and remains committed to the delivery of its mandate within a sound financial framework.

Key financial deliverables include:

Key performance measures

	Annual target 2012/13	Actual
Maintain corporate credit rating in line with sovereign rating	Maintain in line with sovereign rating	Maintained in line with sovereign rating
Total asset growth	6.9%	3.1%
Group sustainable earnings/(loss)	R788 million	(R615 million)
Group cost-to-income ratio	44.2%	48.9%
Impairment charge as % of average gross loan book	0.6%	3.2%
Non-interest income (including net fee income and other operating income)	R233 million	R312 million
Non-performing loan book as a % of gross loan book	6% (max)	7.3%
Change in the value of existing non-performing loans as at 1 April 2012 as a % of non-performing loans	15%	14.9%
Effective implementation of risk appetite framework to ensure portfolio quality	By year-end	Board approved the framework during November 2012

The Bank's financial position remains sound, and its credit ratings were maintained in line with the sovereign rating. The financial performance for the year under review continued to be affected by the adverse national, regional and international economic conditions, with total impairments of R1.6 billion and net revaluation losses on financial instruments of R403 million. These two factors were key contributors to the net loss of R825.9 million for the year. The underlying financial performance of the Bank remains satisfactory, with operating income (excluding adjustments for foreign exchange and the revaluation of financial instruments) generated for the year of R1.94 billion, in line with the R1.95 billion recorded during the previous financial year. Costs continued to be managed within the prudential limit of 45%. Further analysis of the Bank's financial performance is reflected in the Chief Financial Officer's report on pages 44 to 50.

Market presence

The specific infrastructure development sectors in which the DBSA operates within the southern Africa region include communications, community facilities, commercial (including, among others, manufacturing and mining), development funds, education, energy, health, residential facilities, roads and drainage, sanitation, transportation and water. Client segments include municipalities, utilities, technikons and universities, development corporations, private companies, infrastructural state-owned enterprises, and national and provincial departments.

The Bank creates value by:

- Providing finance to develop infrastructure, consisting of fixed- and floating-rate loans in rand, US dollar and euro, as well as equity investments.
- Facilitating service delivery.
- Facilitating job creation (through labour intensification and public works).
- Developing and facilitating entrepreneurship.
- Providing education, training, advisory and management services.
- Developing infrastructure.
- Developing policies and programmes for specific sectors.
- Supporting research and innovation.
- Taking a lead in catalysing development.
- Developing policy at the macro and global levels.
- Encouraging international and regional cooperation.
- Promoting good governance.
- Furthering scientific research and technological development, for example through the Green Fund.
- Promoting human rights as part of the project appraisal process.

The Bank is active throughout the SADC region, where it finances infrastructure projects and stimulates the growth sectors driving the economic development of these nations.

Indirect economic impacts

The DBSA's funding support also affects various stakeholders indirectly. While this is harder to quantify, it includes:

- Support for SMMEs: The DBSA strives to create value for local suppliers through its preferential procurement practices, and supports the appointment of previously disadvantaged individuals, benefitting communities in South Africa and the region. The DBSA is a Level 3 contributor and achieved a total score of 83.2 out of 100 on its BBBEE assessment, as per the table below.

BBBEE score per element

	Weighting	DBSA score
Management and control	15	16.0
Employment equity	15	11.6
Skills development	20	10.0
Preferential procurement	20	15.6
Enterprise development	15	15.0
Socio-economic development	15	15.0
Total	**100**	**83.2**

- Job creation: It is estimated that the funds disbursed across the various sectors could facilitate 22 100 job opportunities in South Africa and contribute R5.2 billion to GDP during the lifespan of the projects funded. Various job opportunities were created as part of the Bank's infrastructure delivery programme. Further detail is provided in the section on non-financing operations on pages 33 to 37.
- Income to the poor during and after the construction of infrastructure.

Promoting market opportunities for sustainable development

Customer health and safety

Health and safety matters relating to projects and programmes supported by the DBSA remain an important aspect of the Bank's product offering.

Marketing communications

All marketing and advertising conform to applicable laws and standards. This is ensured through required compliance with principals' standards and corporate identities. These are detailed and comprehensively monitored by the DBSA's corporate communications function on a continuous basis.

As the DBSA, we focus on our stakeholders' development needs. We are a caring organisation that creates hope and advances the economic development of the people of South Africa and the broader African region. Our four corporate values are particularly important to us and we seek to live them through our development interventions. Our values are Ubuntu (human respect and inter-connectedness), professionalism, a passion for development, and knowledge sharing.

Our development achievements reflect a caring and development-centred business committed to improving society at large and attending to the development challenges faced by the poorest of the poor in our market. The DBSA's work is constantly addressing market failure, institutional failure, and knowledge and capacity gaps among our clients and partners. Our approach is to formulate workable solutions to development challenges, and apply these in conjunction with our partners, clients and stakeholders.

As the DBSA seeks to provide development finance support through innovative funding, it requires creative marketing to position itself as a partner to both public and private investors, especially in the development of infrastructure. The DBSA positions itself as a vibrant and highly adaptable and responsive development financier, advisor, partner, implementer and integrator. The Bank's marketing stance is predicated on and informed and guided by the constant search for effective solutions to the development challenges and national mandates outlined by the government.

SUSTAINABILITY REPORT continued

Customer privacy

Client privacy is respected, and no complaints were received regarding any breach of privacy. All matters are dealt with confidentially, with disclosure made only if required, and then only with the client's permission.

Social support

Improving the quality of life of communities and individuals

The DBSA is involved in projects and programmes in various areas throughout the SADC region and therefore has a direct influence on local communities. The Bank supported various capacity building, programme management and infrastructure delivery projects during the year under review. Key amongst them were the following:

- ASIDI, which seeks to provide decent school infrastructure through the eradication of mud schools and inappropriate structures.
- Elliotdale Rural Sustainable Human Settlements Pilot Project, a unique project that addresses housing backlogs through an integrated approach (unlike the RDP model of housing delivery), retains the rural character of housing development in the community, and offers beneficiaries a range of choices in housing typologies (designs).
- Support to the national Department of Health's Infrastructure Unit Support Systems programme launched during October 2010 to address delays in the delivery of health infrastructure.
- Municipal capacity building and support.
- Implementation of the South African government's R9 billion Jobs Fund.
- Policy and research to support infrastructure development dialogues.

Each programme or initiative, together with progress achieved during 2012/13, is comprehensively discussed in the Integrated Annual Report on pages 33 to 37.

Corruption

The DBSA has a zero tolerance approach to dishonest, corrupt and illegal conduct. This is central to its Code of Ethics and is reflected in policies and practices that prohibit corrupt behaviour. Risks are investigated and appropriate measures taken before investing in areas where such practices may be more prevalent.

The PFMA places an obligation on the Bank to adopt a fraud prevention plan. In line with the requirements of the PFMA, the Bank has developed and implemented various fraud prevention controls and mechanisms to encourage employees to report any suspected corrupt, fraudulent, criminal or unethical practices. The Bank strives to create an environment in which it is safe for employees to report impropriety, in accordance with the requirements of the Protected Disclosures Act, 2000 (Act No. 26 of 2000). The whistle-blowing process and procedure are well embedded and the toll-free hotline is fully operational.

Anti-competitive behaviour

The DBSA does not condone anti-competitive behaviour.

Environmental impact

Precautionary approach

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

The DBSA recognises that the integrated and sustainable management of the environment, now and in the future, is the basis for sustainable development in all areas of human activity. To ensure that its commitment to sustainable management is an integral part of the Bank's activities, an environmental appraisal is done on all Bank-supported programmes and projects. The environmental appraisal procedures enable the early identification and systematic and structured consideration of environmental concerns that may arise in proposed programmes and projects. This, in turn, enables the Bank to direct its funding towards projects that are environmentally sound and in line with its mandate, policies and legal responsibilities.

During the year, the Bank continued to support the government in its objective to develop 'green' infrastructure and transform the economy to a cleaner and more efficient user of natural resources. Key programmes include funding various independent power producer programmes and acting as the implementing agent for the Green Fund, a R800 million fund to develop various aspects of green infrastructure. In addition, the Bank has a joint programme of activities with the Department of Environmental Affairs, focusing on sustainable infrastructure. It was also responsible for convening the Interim Committee of the Sustainable Infrastructure Council of South Africa during the year under review.

Internally, the Bank pursues best practice in environmental management, including energy and water efficiency, recycling and waste reduction. We also form business relations with clients, partners and suppliers who adhere to equally high environmental standards. The DBSA strives to conduct its activities as a responsible corporate citizen and as such has not attracted any material monetary fines or sanctions due to non-compliance with environmental laws and regulations.

Reduce the waste we generate

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

Paper recycling and smart printing programme

Good progress is being made with the programme for recycling printer paper, which was introduced in July 2011. The target for 2013 was to recycle 15% of paper used.

Table 5: Paper usage and recycling

	2013	2012
Paper used during the period (tonnes)	**35.6**	51.0
Paper recycled during the year (tonnes)	**20.3**	10.5
Percentage recycled (%)	**57**	20.6

Energy

The DBSA focuses on reducing energy consumption, mainly in the form of electricity. It has implemented a range of initiatives to reduce consumption, including timers on light switches and circuits to control air conditioning. During 2012/13, the Bank reduced its energy consumption by 1.9% from 3.72MW to 3.65MW. As shown in the figure to the right, the DBSA has reduced is direct electricity consumption by 54.0% from 2007. As a responsible corporate citizen, aligned with global imperatives, the Bank has set an aspirational target to improve its non-renewable energy efficiency by 10% in the short- to medium-term.

Water

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

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

Water-wise initiatives include the following:

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

Total water used on the DBSA campus from municipal water sources is reflected in the figure to the right. During the year, the Bank reduced its water consumption by 3.3% to 10 979 kilolitres, while consumption was reduced by 39.7% from 18 206 kilolitres in 2010 to 10 979 kilolitres.

Biodiversity

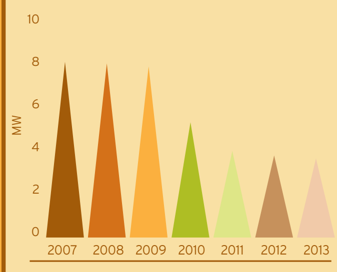
The DBSA is situated in Gauteng province, South Africa, more specifically in Midrand, west of the N1 Highway between Samrand Road and Olifantsfontein Road (R562). The site is classified as Egoli Granite Grassland and is considered sensitive, with Archaean granite and gneiss of the Halfway House Granite at the core of the Johannesburg Dome supporting leached, shallow, coarsely grained, sandy soil poor in nutrients. The 24 ha (246 125 m^2) site consists mainly of open natural grassland, dominated by Hyparrhenia hirta grass, surrounded by development and roads. The vegetation type of this site is Egoli Granite Grassland of the Mesic Highveld Grassland Bioregion, with Hyparrhenia the dominant species. This grassland falls within a strongly seasonal summer rainfall region, which has very dry winters with frequent frosts.

The site is relatively small and ecologically isolated, with a uniform habitat, which translates into small-mammal richness. It has a long history of intensive land use, as a result of which sensitive species have long since yielded. The presence and abundance of bird species in this habitat varies from season to season – the area is lush and green in summer after the rains and dry and brown or burnt during winter. It favours ground-living bird species, such as lapwings, francolins, pipits, long claws, larks and chats.

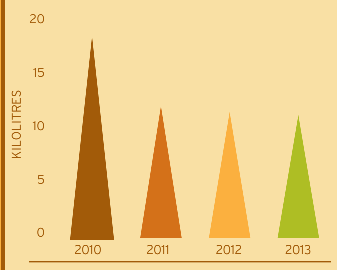
Areas of the DBSA campus are ecologically sensitive and are consequently protected. The Bank has implemented a programme to protect ecological resources and habitats on its campus. In addition, it includes mandatory ecological assessments, the implementation of mitigation measures, and monitoring in its projects.

The DBSA also strives to minimise the negative environmental impact of the projects and programmes it supports.

ELECTRICITY CONSUMPTION
Financial year 2007/08 to 2012/13 (MW)



WATER CONSUMPTION
Financial year 2010/11 to 2012/13 (Kilolitres)



Emissions, effluents and waste

The Bank has implemented a wide range of energy-reduction initiatives to lower greenhouse gas emissions. These include communication, monitoring and reporting, as well as operational initiatives such as efficient maintenance and using environmentally friendly cleaning products.

Effluents emanate mainly from routine cleaning and maintenance of the campus. All effluent is cleaned of pollutants and clean water is discharged into municipal reticulation systems. Waste material is disposed of through legitimate contractors at certified waste disposal facilities.

The Bank does not generate significant volumes of waste, but aims to recycle as much as possible.

Solid waste recycling programme

Solid waste recycling

Key performance measure	Annual target 2012/13	Actual
Solid waste recycling (tonnes)	12	10.0 (83.3% of target)

Products and services

Supported by its corporate values, the DBSA is committed to providing leading financing and capacity building products and services that promote environmental stewardship. The Bank includes sustainability analysis in project risk and opportunity reviews, including environmental appraisals, while assisting clients with their sustainability goals during project appraisal. The DBSA recognises that it participates in infrastructure projects that could have a negative impact on the environment, and strives to create a balance between economic, environmental and social imperatives within sustainable projects. It is committed to full compliance with the principles embodied in appropriate laws and regulations regarding products and services.

Materials

The DBSA has undertaken to embed sustainability across the organisation as part of everything it does. To this end, service providers are encouraged to use high-quality, sustainable and cost-effective methods when supplying products and services to the Bank.

Transport

Aside from emissions caused by air travel and business vehicle trips, the Bank recognises the potential for accidents during transportation and therefore encourages and supports safety initiatives in this regard. To mitigate the risks, certain events are covered by insurance policies.

Labour practices

Engage our people in sustainability

Organisational review

As an organisation that strives for excellence in infrastructure development, the DBSA must continuously assess and adapt its strategy to changes in its operating environment, while also meeting and fulfilling shareholder expectations. Hence, during the year under review, the DBSA Board of Directors assessed the operations of the Bank and undertook an extensive organisational review. This review resulted in the realignment of the core activities of the Bank to focus on infrastructure financing as well as infrastructure delivery and programme implementation support. The operational performance of the Bank had been declining over the last few years, with operating expenses increasing faster than income. In view of this fact, together with the refocused strategy, the Board mandated the executive team to implement a new structure, improve decision-making, strengthen internal systems and processes, as well as enhance its culture, skills and competencies.

To improve operational efficiencies, the Bank reviewed and aligned its operating structure by reducing the number of divisions from 12 (including the DBSA Development Fund) to seven. All lending operations in South Africa were consolidated into the *South Africa Financing Division*. Lending operations outside South Africa were retained in the *International Financing Division*.

In support of these two financing divisions, a new division was created, *Financing Operations*. The purpose of this portfolio is to support the two lending divisions with project preparation, product and sector expertise, and portfolio management services. It will also oversee the Jobs Fund and the Green Fund. The *Infrastructure Delivery Division* was established for the delivery of key infrastructure development programmes, such as in the health and education sectors (hospitals and schools). Finally, support functions were reconfigured into three divisions: *Finance, Corporate Services and Risk*. This resulted in the need to repopulate the management layer, with most positions successfully filled by internal candidates by year-end.

As part of the reorganisation process, employees were afforded the opportunity to voluntarily choose either severance or early retirement packages. As at year-end, 89 voluntary severance and 35 early retirement packages had been approved. The Bank is currently engaging union and non-unionised staff representatives on the finalisation of the operating structure below management level. It is anticipated that this process will be concluded during the first quarter of the new financial year.

Recognising that the change creates uncertainty, which may also affect employee wellbeing, the Bank has implemented various support initiatives to assist staff members during this period. Key programmes included:

- In-house support:
  - DBSA mentoring and coaching services.
  - Access to human capital business partner.
  - DBSA health specialist (nurse).
- External on-site support:
  - Independent Counselling and Advisory Services (ICAS): A confidential 24-hour telephonic and/or face-to-face support service available to employees and their immediate family members.
  - Financial advisory services (Alexander Forbes).
  - Career guidance and placement agencies.
- External support:
  - 24-hour Discovery Health counselling services.

Employment

For the Bank, infrastructure development is not just about bricks and mortar; it is rather about the quality of life and the productivity of its people. Hence, the Bank aims to increase their opportunities, expand their choices, and help them build a better life.

The DBSA developed a consolidated employment policy that informs and regulates the management of people within the Bank. The policy outlines employee benefits, general working conditions, and learning and development opportunities. The management of discipline is guided by the Disciplinary Code and Procedures. All employee-related polices are available on the Bank's internal portal. Policies are reviewed from time to time to ensure compliance with legislation and accommodate a flexible working environment. Policy decision-making (in respect of human capital policies) is informed by a structured consultation process via internal committees, such as a Human Capital Management Committee (which has employee representation across the various business units) and the Employment Equity and Skills Development Committee.

Diversity and equal opportunity

The DBSA has identified empowerment and transformation as a strategic focus area that is central to its success. The Bank appreciates the competitive advantage inherent in a diverse workforce and is committed to an employee profile that reflects the demographics of the country.

Key principles of the Bank's approach to equality include:

- No unfair discrimination on the grounds of gender, race, religion, disability or sexual preference.
- Proactive pursuit of programmes and initiatives to achieve its equality objectives.
- Complying with local legislation.

Race, gender and disability are addressed in employment equity, transformation and empowerment targets in South Africa, in line with legislation. The DBSA adheres to the Department of Trade and Industry's BBBEE scorecard and attained a Level 3 rating (refer to page 119 for more detail).

Total workforce by employment type, gender and designated group, as at 31 March 2013

	Indian		African		Coloured		Black		White		Total		Total
	F	M	F	M	F	M	F	M	F	M	F	M	F + M
Permanent	19	22	196	165	16	7	231	194	63	78	294	272	566
Management	4	7	16	26	0	2	20	35	5	11	25	46	71
Non-managerial	15	15	180	139	16	5	211	159	58	67	269	226	495
Long-term contract	3	5	25	38	3	4	31	47	4	19	35	64	101
Management	0	1	1	5	0	0	1	6	0	2	1	8	9
Non-managerial	3	4	24	33	3	4	30	41	4	17	34	58	92
Total	**22**	**27**	**221**	**203**	**19**	**11**	**262**	**241**	**67**	**97**	**329**	**338**	**667**

Equal remuneration for women and men

Remuneration and employee benefits are attractive, well-structured and competitive, and are aligned with legislation.

Remuneration practices are regularly reviewed and the Bank is committed to removing unfair discrimination in pay scales. Pay differentials are disclosed in terms of employment equity legislation. Male and female income levels are continually reviewed and any possibly unfair anomalies are addressed.

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

Employee value proposition and staff turnover

The DBSA is committed to its employees and recognises that a healthy organisation is one with a recognised employee value proposition statement. For the year under review, the Bank continued to implement the planned activities following the employee value proposition survey conducted during the previous financial year. All divisions were committed and formulated engagement plans; however, due to the implementation of the organisation review, all activities ceased pending the outcome of the review and the implementation of the new strategy and organisational structure. After the finalisation of the restructuring process, which should be completed during the first quarter of the new financial year, the DBSA will put in place various programmes to support the transformation process. These will include building culture and capabilities, reviewing the performance management and incentive processes, and developing and implementing a talent management framework.

With the introduction of a voluntary severance package and early retirement incentives, staff turnover was significantly affected by the organisational review, increasing to 14.7% against the target of 10%. Due care has and continues to be taken to ensure that key skills are retained within the DBSA.

Total number of employees who joined and left the Bank during the period

	18 – 30		31 – 40		41 – 50		51 – 60		Above 60		Total (5)		Total (6)
	F	M	F	M	F	M	F	M	F	M	F	M	F + M
Total employed at 31 March 2013	30	16	140	115	100	100	53	75	6	32	329	338	667
Joined the Bank (number)	2	3	6	3	2	0	0	1	1	2	11	9	20
Joined the Bank (%)	0.07	0.19	0.04	0.03	0.02	0.00	0.00	0.01	0.17	0.06	0.03	0.03	0.03
Left the Bank (number)	24	29	38	38	37	26	28	28	14	22	141	143	284
Left the Bank (%)	0.80	1.81	0.27	0.33	0.37	0.26	0.53	0.37	2.33	0.69	0.43	0.42	0.43

Training and education

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

The DBSA is firmly committed to the development of its staff members. All employees are encouraged to take ownership of their developmental journey. The Bank ensures that everyone has access to quality learning offerings in line with their roles and responsibilities within the organisation.

During the year, 568 employees received training in 1 044 interventions, with 288 being female and 280 male employees. As part of the managers' development programme, 37 managers enrolled in and completed the Leadership Development Programme.

Labour-management relations and freedom of association and collective bargaining

Collective labour relations are constructively managed, based on the principle of freedom of association. Employees may associate (or not) with representative organisations and trade unions. Trade unions that are sufficiently representative of employees are recognised at appropriate operational levels. There are no operations where the rights to exercise freedom of association and collective bargaining are at significant risk.

Employee representatives, including trade unions, worker committees, health and safety committees and industry bodies are openly engaged at appropriate levels in the organisation. Currently there are two recognised trade unions: Solidarity, with 194 employees (29.1% of permanent and long-term contract staff), and the South African Commercial, Catering and Allied Workers Union (SACCAWU) with 109 employees (16.3% of permanent and long-term contract staff).

Human rights indicators

Occupational health and safety

Occupational health and safety standards are covered by prevailing legislation. The DBSA's operations conform to the principles of the International Labour Organization's Guidelines on Occupational Health and Safety. Occupational health and safety concerns are the direct responsibility of the Chief Executive Officer. A gap analysis was conducted during January 2013, which identified areas of weakness and opportunities. The Corporate Health and Safety policy statement outlines the intentions and principles in relation to the Bank's overall safety and health performance. The policy statement provides the basis for the framework for action during the year. Formal health and safety committees with management and worker representatives cover all staff.

To provide an operational forum for the management and governance of health and safety in the workplace, the DBSA has implemented an Occupational Health and Safety Committee. All divisions are required to nominate a representative to serve on the Committee. In total, 40 staff members, representing 6% of the workforce, formed part of the Committee.

During the year, 25 staff members participated in the Occupational Health and Safety Training Programme, adding to the 106 active health and safety team members for the Bank. One Bank-wide evacuation drill was conducted.

This year, five lost-time injuries were reported to the Commissioner and 30 minor injuries were reported and treated by our on-site occupational nurse. These injuries all occurred at the DBSA premises in Midrand. The table below summarises these incidences and their impact.

Occupational health and safety incidents during the year

Item	Number of incidents	Impact
First aid (minor)	30	Immaterial
Lost-time injury (disabling)	5	37 workdays lost

Investment and procurement practices

The DBSA considers advancing and protecting human rights an imperative. A social, institutional and environmental analysis is performed as part of each project appraisal.

The Bank procures goods and services from various suppliers. To help steer the process, the DBSA implemented a Procurement Policy and Procedures document during 2010. The document guides the organisation to procure goods and services in accordance with applicable regulatory requirements, including the Constitution of the Republic of South Africa, 1996 (Act No. 108 of 1996), and best practice that is fair, equitable, transparent, cost-effective and competitive.

Non-discrimination

Non-discrimination is a fundamental value of the DBSA and is entrenched in its Code of Ethics. The Bank has processes in place to ensure that any instances of unethical behaviour can be reported and addressed. No incidences of discrimination were identified during the period.

Child labour

The DBSA is opposed to the exploitation of children by means of child labour. The Bank is not aware of any use of child labour in its supply chain nor has it identified any suppliers at risk. The Bank requires its supply chain to conform to its values. Evidence of non-compliance would result in appropriate action.

Prevention of forced and compulsory labour

The DBSA does not use forced and compulsory labour. The Bank is not aware of any use of forced and compulsory labour in its supply chain nor has it identified any suppliers at risk.

Security practices

The DBSA has outsourced its security arrangements to a legitimate supplier that belongs to the relevant industry associations. As with all other suppliers, the service provider is expected to comply with the Bank's ethics and values and the law. DBSA employees who are responsible for security are trained in relevant practices and procedures.

Indigenous rights

The DBSA respects the rights of indigenous people as considered in the Global Reporting Initiative definition. The Bank is not aware of any abuse of indigenous people's rights in its supply chain.

Assessment

Although no specific record is currently kept of investment agreements that include human rights clauses, all such agreements are required to comply with legislation and fulfil the standards of our ethics, codes and policies, including those to which the Bank is a signatory. All agreements specifically include clauses covering employees. Comprehensive due diligence processes are conducted for any significant investment, and these cover human rights issues.

A similar approach applies to suppliers and contractors. The contracts of those that do not comply are reviewed and the relationship ultimately terminated if shortcomings cannot be addressed.

Remediation

The DBSA has not needed to make reparations for any human rights violations. Should such cases occur, we would comply with the law and act in accordance with any directive issued.

> The DBSA is firmly committed to the development of its staff members. All employees are encouraged to take ownership of their developmental journey

> During the year, 25 staff members participated in the Occupational Health and Safety Training Programme, adding to the 106 active health and safety team members for the Bank

> A social, institutional and environmental analysis is performed as part of each project appraisal

GRI CONTENT INDEX

Based on its own assessment, the DBSA has followed the B application level of the GRI guidelines.

Profile disclosure	Description	Reported	Cross-reference/direct answer
1.	**Strategy and analysis**		
1.1	Statement from the most senior decision-maker of the organisation	Fully	Refer to pages 14 and 116
1.2	Description of key impacts, risks and opportunities	Fully	Refer to pages 22 and 42
2.	**Organisational profile**		
2.1	Name of the organisation	Fully	Development Bank of Southern Africa
2.2	Primary brands, products and/or services	Fully	Refer to page 22
2.3	Operational structure of the organisation, including main divisions, operating companies, subsidiaries and joint ventures	Fully	Refer to page 24
2.4	Location of organisation's headquarters	Fully	The DBSA operates from its offices in Midrand, Gauteng, South Africa
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	Fully	The Bank is active in all SADC countries, where it finances infrastructure projects and stimulates the growth sectors driving the economic development of these nations. Refer to pages 20, 26 and 30
2.6	Nature of ownership and legal form	Fully	Refer to page 38
2.7	Markets served (including geographic breakdown, sectors served, and types of customers and beneficiaries)	Fully	Refer to pages 22, 26, 30 and 33
2.8	Scale of the reporting organisation	Fully	Refer to pages 4 and 5 (Business and Financial Overview)
2.9	Significant changes during the reporting period regarding size, structure or ownership	Fully	The Bank strategy and structure was reviewed during the year. Refer to pages 20 (strategy) and 24 (structure)
2.10	Awards received in the reporting period	Fully	The DBSA received no awards during the year. Three awards were received on the Elliotdale Rural Sustainable Human Settlements Pilot Project. Refer to page 34
3.	**Report parameters**		
3.1	Reporting period (e.g. fiscal or calendar year) for information provided	Fully	This report relates to the financial year from 1 April 2012 to 31 March 2013
3.2	Date of most recent previous report (if any)	Fully	31 March 2012
3.3	Reporting cycle (annual, biennial, etc.)	Fully	Annual
3.4	Contact point for questions regarding the report or its contents	Fully	Feedback on the report is welcome. The General Manager: Strategy may be contacted in this regard
3.5	Process for defining report content	Fully	Information included in this sustainability report covers topics and indicators reflecting the DBSA's significant economic, environmental, social and labour impacts that could substantively influence the assessment and decisions of important stakeholders. Material sustainability matters were further prioritised based on the main sustainability interests raised by stakeholders. The DBSA's main stakeholders are defined as entities or individuals who can reasonably be expected to be significantly affected by the Bank's activities, products or services, and whose actions can reasonably be expected to affect the ability of the DBSA to implement its strategies successfully and achieve its objectives. (Refer to pages 20 to 24 for stakeholder engagement and strategy)
3.6	Boundary of the report (e.g. countries, divisions, subsidiaries, leased facilities, joint ventures, suppliers)	Fully	The report covers the activities of the DBSA and key programmes of the DBSA Development Fund

Profile disclosure	Description	Reported	Cross-reference/direct answer
3.7	State any specific limitations on the scope or boundary of the report (see completeness principle for explanation of scope)	Fully	There were no specific limitations on the scope or boundary of the report
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	Fully	The DBSA Development Fund is included in the boundary of the sustainability report because it generates significant sustainability impacts and because the DBSA exercises significant influence over its financial and operating policies and practices
3.9	Data measurement techniques and the bases of calculations, including assumptions and techniques underlying estimations applied to the compilation of the Indicators and other information in the report. Explain any decisions not to apply, or to substantially diverge from, the Global Reporting Initiative Indicator Protocols	Fully	Refer to page 116
3.10	Explanation of the effect of any restatements of information provided in earlier reports, and the reasons for such restatement (e.g. mergers and acquisitions, change of base years or periods, nature of business, measurement methods)	Fully	Not applicable, as no information was restated
3.11	Significant changes from previous reporting periods in the scope, boundary, or measurement methods applied in the report	Fully	No significant changes were identified from the previous reporting period
3.12	Table identifying the location of the Standard Disclosures in the report	Fully	Refer to pages 126 to 133 (Global Reporting Initiative content index)
3.13	Policy and current practice with regard to seeking external assurance for the report	Fully	This report is not externally assured. We are in the process of implementing internal sustainability management processes and protocols in order to be fully in line with the Global Reporting Initiative. Disclosure is reviewed internally before publication
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	Fully	Refer to pages 38 to 43 and 117
4.2	Indicate whether the Chair of the highest governance body is also an executive officer	Fully	The Chairman of the DBSA Board is an Independent Non-executive Director
4.3	For organisations that have a unitary board structure, state the number and gender of members of the highest governance body that are independent and/or Non-executive members	Fully	Refer to pages 10 to 13
4.4	Mechanisms for shareholders and employees to provide recommendations or direction to the highest governance body	Fully	Refer to page 38 for shareholder representation and page 123 for staff engagement
4.5	Linkage between compensation for members of the highest governance body, senior managers, and executives (including departure arrangements), and the organisation's performance (including social and environmental performance)	Fully	Refer to pages 41 and 63
4.6	Processes in place for the highest governance body to ensure conflicts of interest are avoided	Fully	Refer to page 41
4.7	Process for determining the composition, qualifications, and expertise of the members of the highest governance body and its committees, including any consideration of gender and other indicators of diversity	Fully	Refer to pages 10 to 13 and 38

GRI CONTENT INDEX continued

Profile disclosure	Description	Reported	Cross-reference/direct answer
4.8	Internally developed statements of mission or values, codes of conduct, and principles relevant to economic, environmental, and social performance and the status of their implementation	Fully	The DBSA's sustainability vision is to meet the needs of our clients and the community in a sustainable manner, for the benefit of society and without compromising the quality of life of future generations. The sustainability mission expresses the essence of what we would like to accomplish. In pursuit of our sustainability vision, we strive to improve the economic, social, environmental and labour conditions of our stakeholders; to provide our clients with compelling reasons why the DBSA should be the development finance institution of choice; to give our people good reason why they should invest their working lives at the DBSA; to provide communities with sound reasons why they should trust and engage with the DBSA; to assure the government that the DBSA can deliver on its promises; and to give our funders sound reason why they should invest in the DBSA
4.9	Procedures of the highest governance body for overseeing the organisation's identification and management of economic, environmental, and social and labour performance, including relevant risks and opportunities, and adherence or compliance with internationally agreed standards, codes of conduct and principles	Fully	Refer to page 38 (strategic objectives and performance management)
4.10	Processes for evaluating the highest governance body's own performance, particularly with respect to economic, environmental and social performance	Fully	Refer to the Directors' report on pages 58 to 63
4.11	Explanation of whether and how the precautionary approach or principle is addressed by the organisation	Fully	Refer to page 120
4.12	Externally developed economic, environmental and social charters, principles or other initiatives to which the organisation subscribes or endorses	Fully	Refer to page 117
4.13	Memberships in associations	Fully	Refer to page 117
4.14	List of stakeholder groups engaged by the organisation	Fully	Refer to page 23
4.15	Basis for identification and selection of stakeholders with whom to engage	Fully	Refer to page 22 and 23
4.16	Approaches to stakeholder engagement, including frequency of engagement by type and by stakeholder group	Fully	Refer to page 23
4.17	Key topics and concerns that have been raised through stakeholder engagement	Fully	Refer to page 20 to 23
DMA EC	**Disclosure on management approach: Economic**		
Aspects	Economic performance	Fully	Refer to page 118
	Market presence	Fully	Refer to page 119
	Indirect economic impacts	Fully	Refer to page 119
DMA EN	**Disclosure on management approach: Environmental**		
Aspects	Materials	Fully	Refer to page 122
	Energy	Fully	Refer to page 121
	Water	Fully	Refer to page 121
	Biodiversity	Fully	Refer to page 121
	Emissions, effluents and waste	Fully	Refer to page 122
	Products and services	Fully	Refer to page 122
	Compliance	Fully	As detailed in the Bank's Code of Ethics, we strive to conduct our activities as a responsible corporate citizen
	Transport	Fully	Refer to page 122
	Overall	Fully	Refer to page 120

Profile disclosure	Description	Reported	Cross-reference/direct answer
DMA LA	**Disclosure on management approach: Labour**		
Aspects	Employment	Fully	Refer to page 123
	Labour/management relations	Fully	Refer to page 124
	Occupational health and safety	Fully	Refer to page 124
	Training and education	Fully	Refer to page 124
	Diversity and equal opportunity	Fully	Refer to page 123
	Equal remuneration for women and men	Fully	Refer to page 123
DMA HR	**Disclosure on management approach: Human rights**		
Aspects	Investment and procurement practices	Fully	Refer to page 125
	Non-discrimination	Fully	Refer to page 125
	Freedom of association and collective bargaining	Fully	Refer to page 124
	Child labour	Fully	Refer to page 125
	Prevention of forced and compulsory labour	Fully	Refer to page 125
	Security practices	Fully	Refer to page 125
	Indigenous rights	Fully	Refer to page 125
	Assessment	Fully	Refer to page 125
	Remediation	Fully	Refer to page 125
DMA SO	**Disclosure on management approach: Society**		
Aspects	Local communities	Fully	Refer to page 120
	Corruption	Fully	Refer to page 120
	Public policy	Fully	Refer to page 36
	Anti-competitive behaviour	Fully	Refer to page 120
	Compliance	Fully	The DBSA seeks to create sustainable value for all its stakeholders and establish itself as a leader in infrastructure development. The Bank is committed to responsible business conduct and best practice. An ethical governance framework and a commitment to legal compliance guide all its organisational activities. The Bank upholds the principles expressed in the King III Code that good governance combines both regulatory requirements and voluntary standards of excellence
DMA PR	**Disclosure on management approach: Product responsibility**		
Aspects	Customer health and safety	Fully	Refer to page 119
	Product and service labelling	Fully	Not applicable
	Marketing communications	Fully	Refer to page 119
	Customer privacy	Fully	Refer to page 120
	Compliance	Fully	Refer to pages 116 and 122
Performance indicators			
Economic			
EC1	Direct economic value generated and distributed	Fully	Refer to page 118
EC3	Coverage of the organisation's defined benefit plan obligations	Fully	Not applicable. The Bank has implemented a defined contribution plan scheme for employees
EC4	Significant financial assistance received from the government	Fully	No financial assistance was received during the year. The government committed to injecting R7.9 billion into the DBSA over the 2013/14 to 2015/16 Medium-Term Expenditure Framework period, as part of the expansion strategy

GRI CONTENT INDEX continued

Profile disclosure	Description	Reported	Cross-reference/direct answer
Market presence			
EC6	Policy, practices and proportion of spending on locally based suppliers at significant locations of operation	Fully	Refer to page 119
EC7	Procedures for local hiring and proportion of senior management hired from the local community at significant locations of operation	Fully	The DBSA is committed to equal and fair employment opportunities for all. It is equally committed to creating an environment that generates opportunities for advancement, redresses past imbalances, and improves the conditions of individuals and groups who have been previously disadvantaged on the grounds of race, gender or disability. In promoting organisational policies and practices that are fair and equitable, the DBSA affirms its commitment to complying with the spirit of the Employment Equity Act to the strategic benefit of the Bank
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	Fully	Refer to page 119
EC9	Understanding and describing significant indirect economic impacts, including the extent of impacts	Fully	Refer to page 119
Environmental			
Materials			
EN1	Materials used by weight or volume	Fully	Refer to page 121
EN3	Percentage of materials used that are recycled input materials	Fully	Refer to page 121
Energy			
EN3	Direct energy consumption by primary energy source	Fully	Refer to page 121
EN4	Indirect energy consumption by primary source	Partially	The DBSA is committed to reducing its dependency on direct energy sources and incorporating renewable energy sources into the energy requirements of the Bank. Two new buildings are already off-grid and self-sufficient
EN5	Energy saved due to conservation and efficiency improvements	Fully	Refer to page 121
EN6	Initiatives to provide energy-efficient or renewable energy-based products and services, and reductions in energy requirements as a result of these initiatives	Fully	Refer to page 121. See also EN4 above
EN7	Initiatives to reduce indirect energy consumption and reductions achieved (internal)	Fully	Refer to page 121
Water			
EN8	Total water withdrawal by source	Fully	Refer to page 121
Biodiversity			
EN11	Location and size of land owned, leased, managed in, or adjacent to, protected areas and areas of high biodiversity value outside protected areas	Fully	Refer to page 121
EN13	Habitats protected or restored	Fully	Areas of the DBSA campus are ecologically sensitive and are consequently protected. The Bank also strives to minimise the negative environmental impact of the projects and programmes it supports
EN14	Strategies, current actions and future plans for managing impacts on biodiversity	Fully	Refer to page 121

Profile disclosure	Description	Reported	Cross-reference/direct answer
Emissions, effluents and waste			
EN16	Total direct and indirect greenhouse gas emissions by weight	Partially	Refer to page 122
EN18	Initiatives to reduce greenhouse gas emissions and reductions achieved	Fully	Refer to page 122
EN22	Total weight of waste by type and disposal method	Fully	Refer to page 122
EN23	Total number and volume of significant spills	Fully	No significant spills occurred
Products and services			
EN26	Initiatives to mitigate environmental impacts of products and services, and extent of impact mitigation	Fully	Refer to page 122
EN27	Percentage of products sold and their packaging materials that are reclaimed by category	Fully	Not applicable
Compliance			
EN28	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with environmental laws and regulations	Fully	No significant non-compliance with environmental laws and regulations was identified
Transport			
EN29	Significant environmental impacts of transporting products and other goods and materials used for the organisation's operations, and transporting members of the workforce	Fully	Refer to page 122
Social: Labour practices and decent work			
Employment			
LA1	Total workforce by employment type, employment contract and region, broken down by gender	Fully	Refer to page 123
LA2	Total number and rate of new employee hires and employee turnover by age group, gender and region	Fully	Refer to page 124
Labour/management relations			
LA4	Percentage of employees covered by collective bargaining agreements	Fully	Refer to page 124
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	Partially	Refer to page 124
LA7	Rates of injury, occupational diseases, lost days and absenteeism, and number of work-related fatalities by region and by gender	Partially	Refer to page 124
Training and education			
LA10	Average hours of training per year per employee by gender and by employee category	Partially	Refer to page 124. Going forward, the DBSA will implement a system to monitor and report on the average hours training per year per employee
LA11	Programmes for skills management and lifelong learning that support the continued employability of employees and assist them in managing career endings	Partially	Refer to page 124
LA12	Percentage of employees receiving regular performance and career development reviews, by gender	Fully	All DBSA employees receive regular performance and career development reviews

GRI CONTENT INDEX continued

Profile disclosure	Description	Reported	Cross-reference/direct answer
Diversity and equal opportunity			
LA13	Composition of governance bodies and breakdown of employees per employee category according to gender, age group, minority group membership and other indicators of diversity	Partially	Refer to page 123
Equal remuneration for women and men			
LA14	Ratio of basic salary and remuneration of women to men (internal)	Partially	Refer to page 123. Going forward, the Bank will implement the necessary system to collate and report on the information
Social: Human rights			
Non-discrimination			
HR4	Total number of incidents of discrimination and actions taken	Fully	No incidents of discrimination were reported during the period under review
Freedom of association and collective bargaining			
HR5	Operations and significant suppliers identified in which the right to exercise freedom of association and collective bargaining may be violated or at significant risk, and actions taken to support these rights	Fully	No violations were identified
Child labour			
HR6	Measures taken to contribute to the effective abolition of child labour	Fully	No violations were identified
Forced and compulsory labour			
HR7	Measures to contribute to the elimination of all forms of forced or compulsory labour	Fully	No violations were identified
Indigenous rights			
HR9	Total number of incidents of violations involving rights of indigenous people and actions taken	Fully	No violations were identified
Assessment			
HR10	Percentage and total number of operations that have been subject to human rights reviews and/or impact assessments	Fully	None
Remediation			
HR11	Number of grievances related to human rights filed, addressed and resolved through formal grievance mechanisms	Fully	None
Social: Society			
Local communities			
SO1	Percentage of operations with implemented local community engagement, impact assessments and development programmes	Partially	Refer to pages 119 to 120 To assess and manage the impact of operations on communities, the DBSA developed the Development Impact System, with the objective of measuring actual development against anticipated results. The system is fully integrated with the SAP system, as well as other tools and systems in the Bank, such as the SAM. The system also provides a baseline for assessing the sustainability and impact of interventions beyond implementation, as development targets are set in advance Dedicated operations evaluation specialists are allocated to the different operating divisions of the DBSA to provide advisory support in populating the system with data

Profile disclosure	Description	Reported	Cross-reference/direct answer
Public policy			
SO5	Public policy positions and participation in public policy development and lobbying	Fully	Refer to pages 36 to 37
SO6	Total value of financial and in-kind contributions to political parties, politicians and related institutions by country	Fully	In line with the requirements of the DBSA Code of Ethics, no contribution, direct or indirect, will be made to any political candidate or party
Anti-competitive behaviour			
SO7	Total number of legal actions for anti-competitive behaviour, anti-trust and monopoly practices and their outcomes	Fully	No legal actions for anti-competitive behaviour, anti-trust and monopoly practices occurred during the year
Compliance			
SO8	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with laws and regulations	Fully	No significant fines were incurred for non-compliance with laws and regulations
Social: Product responsibility			
Customer health and safety			
PR1	Life cycle stages in which health and safety impacts of products and services are assessed for improvement, and percentage of significant products and services categories subject to such procedures	Fully	Not applicable
Product and service labelling			
PR3	Type of product and service information required by procedures and percentage of significant products and services subject to such information requirements	Fully	Not applicable
Marketing communications			
PR6	Programmes for adherence to laws, standards and voluntary codes related to marketing communications, including advertising, promotion and sponsorship	Fully	Refer to page 120
PR7	Total number of incidents of non-compliance with regulations and voluntary codes concerning marketing communications, including advertising, promotion and sponsorship by type of outcomes	Fully	No matters were identified
Customer privacy			
PR8	Total number of substantiated complaints regarding breaches of customer privacy and losses of customer data	Fully	No complaints were identified
Compliance			
PR9	Monetary value of significant fines for non-compliance with laws and regulations concerning the provision and use of products and services	Fully	No matters were identified

ABBREVIATIONS AND ACRONYMS

AADFI	Association of African Development Finance Institutions
AFD	Agence Française de Développement
ASIDI	Accelerated Schools Infrastructure Delivery Initiative
BBBEE	broad-based black economic empowerment
BRIC	Brazil, Russia, India and China
BRICS	Brazil, Russia, India, China and South Africa
BSC	Balanced Scorecard
COMESA	Common Market for Eastern and Southern Africa
CSIR	Council for Scientific and Industrial Research
DBSA	Development Bank of Southern Africa
DFID	Department for International Development
DFRC	Development Finance Resource Centre
EIB	European Investment Bank
GDP	gross domestic product
GIS	geographic information system
ICAS	Independent Counselling and Advisory Services
ICT	information and communications technology
IDC	Industrial Development Corporation
IDIP	Infrastructure Delivery Improvement Programme
IFRS	International Financial Reporting Standards
KfW	Kreditanstalt für Wiederaufbau
MIG	Municipal Infrastructure Grant
NEPAD	New Partnership for Africa's Development
PFMA	Public Finance Management Act, 1999
PRASA	Passenger Rail Agency of South Africa
REIPPP	Renewable Energy Independent Power Producers Procurement
RISDP	Regional Indicative Sustainable Development Plan
SACCAWU	South African Commercial, Catering and Allied Workers Union
SADC	Southern African Development Community
SA Inc.	South Africa Incorporated
SAM	social accounting matrix
SANRAL	South African National Roads Agency Limited
SMME	small, medium and microenterprise
TCTA	Trans-Caledon Tunnel Authority
UNEP FI	United Nations Environment Programme Finance Initiative
UNOPS	United Nations Office for Project Services
ZINARA	Zimbabwe National Road Administration

FINANCIAL DEFINITIONS

Callable capital	The authorised but as yet unissued share capital of the Bank
Cost-to-income ratio	Operating expenses, including personnel, other, depreciation and amortisation expenses, as a percentage of income from operations
Income from operations	Net interest income, net fee income and other operating income
Interest cover	Interest income divided by interest expense
Long-term debt:equity ratio	Total liabilities, excluding other payables and provisions, as a percentage of total equity
Long-term debt:equity ratio (including callable capital)	Total liabilities, excluding other payables and provisions, as a percentage of total equity and callable capital
Net interest margin	Net interest income as a percentage of interest income
Return on average assets	Net profit or loss for the year expressed as a percentage of average total assets
Return on average equity	Net profit or loss for the year expressed as a percentage of average total equity
Sustainable earnings	Profit or loss from operations before grants, net foreign exchange gain/(loss) and net gain/(loss) from financial assets and financial liabilities

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