DBSA

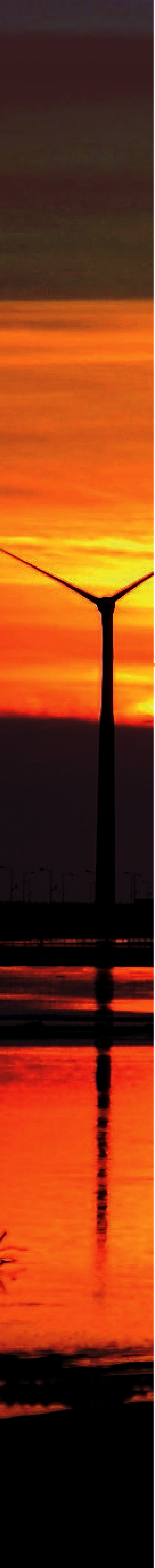
DEVELOPMENT BANK OF SOUTHERN AFRICA

Building Africa's Prosperity

Accelerating
Development
Impact

2020 ANNUAL FINANCIAL STATEMENTS


Building
Africa’s
Prosperity



REPORT NAVIGATION

Our reporting suite for 2020 consists of three reports.

The **2020 Integrated Annual Report**, which is our primary communication with our stakeholders.

The **2020 Annual Financial Statements**, which includes the directors' report and the independent auditor's report.

The **2020 Sustainability Review**, which provides further information on our sustainability performance.

CONTENTS

DIRECTORS' RESPONSIBILITY FOR FINANCIAL REPORTING

FOR THE YEAR ENDED 31 MARCH 2020

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

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

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

To enable the directors to meet their financial reporting responsibilities:

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

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

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

The Annual Financial Statements that appear on pages 19 to 172 were approved by the Board of Directors on 30 September 2020 and are signed on its behalf by:

Enoch Godongwana
Chairman of the Board

Patrick Khulekani Dlamini
Chief Executive Officer

Martie Janse Van Rensburg
Chairman of the Audit and Risk Committee

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

FOR THE YEAR ENDED 31 MARCH 2020

Report on the audit of the Annual Financial Statements

Opinion

1. I have audited the Annual Financial Statements of the Development Bank of Southern Africa (hereafter referred to as the "Bank") set out on pages 19 to 172, which comprise the statement of financial position as at 31 March 2020, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, as well as the notes to the Annual Financial Statements, including a summary of significant accounting policies.

2. In my opinion, the Annual Financial Statements present fairly, in all material respects, the financial position of the Development Bank of Southern Africa as at 31 March 2020, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standard (IFRS), the requirement of the Public Finance Management Act of South Africa, No.1 of 1999 (PFMA), section 27 to 31 of the Companies Act of South Africa No.71 of 2008 (the Companies Act) and the Development Bank of Southern Africa Act, No. 13 of 1997 (Amended Act No. 41 of 2014) (DBSA Act).

Basis for opinion

3. I conducted my audit in accordance with the International Standards on Auditing (ISAs). My responsibilities under those standards are further described in the Auditor-General's responsibilities for the audit of the Annual Financial Statements section of this auditor's report.

4. I am independent of the entity in accordance with sections 290 and 291 of the Code of ethics for professional accountants and parts 1 and 3 of the International Code of Ethics for Professional Accountants (including International Independence Standards) of the International Ethics Standards Board for Accountants (IESBA codes) as well as the ethical requirements that are relevant to my audit in South Africa. I have fulfilled my other ethical responsibilities in accordance with these requirements and the IESBA codes.

5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Key audit matters

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

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

FOR THE YEAR ENDED 31 MARCH 2020

Key audit matter	How the matter was addressed in the audit
Expected credit losses on the development loans	
The year under review marks the Bank's second year of implementing IFRS 9. IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' model. The Bank uses various models and assumptions in estimating Expected Credit Loss (ECL). Judgement is applied in identifying the most appropriate model for each type of asset, as well as for determining the assumptions used in these models, including assumptions that relate to key drivers of credit risk. The Bank uses a series of quantitative and qualitative criteria to determine if a loan has experienced a significant increase in credit risk. The Bank incorporates forward-looking information (FLI) into both its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL. In response to the COVID-19 pandemic during the year under review, the DBSA's Master Scale Rating (MS rating) MS17 risk grade was expanded into four additional buckets, to differentiate the credit risk. The ECL is measured as the probability-weighted present value of all cash shortfalls over the expected life of the financial asset discounted at its original effective interest rate. The mechanics of the ECL includes the Probability of Default (PD) which is an estimate of the likelihood of default over a given time horizon, the Exposure at Default (EAD) is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date and the Loss Given Default (LGD) is an estimate of the loss arising in the case where default occurs at a given time. Due to the high degree of estimation, management judgement and magnitude of the development loans which constituted majority of total assets, the allowance for credit losses is considered a matter of most significance for our audit. During the year under review the Bank reviewed its IFRS 9 Forward-Looking (FLI) model in response to the COVID-19 pandemic. The Bank Credit Lab revised the Forward-Looking (FLI)	Our audit procedures included assessing the appropriateness of the expected credit losses in terms of the requirements of IFRS 9. I evaluated the design, implementation and, where possible, the operating effectiveness of the following controls: • The governance processes in place for credit models, inputs and overlays (addition or reduction in impairments that are over and above the numbers generated by the impairment models); • The post-investment monitoring forums where key judgements are considered; and • How the accounting authority ensured they have appropriate oversight over expected credit losses. I assessed whether the controls relating to annual credit reviews were performed by management in accordance with the Bank's policy by comparing the policy requirements against what was applied during the year and assessed whether the conclusions reached were appropriate. I critically considered the significant increase in credit risk triggers and assumptions applied by management in determining expected credit losses for both performing and non-performing loans, and their assessment of the recoverability and supporting collateral. I found management's estimate to be within a reasonable range to my expectations. I engaged an auditors' expert to assess the appropriateness and reasonableness of the credit risk models and assumptions used by management in determining the expected credit losses. The expert's assessment included the following: • Assessment of the independence and competence of the expert; • The reasonableness of probability of default ("PD"), loss given default ("LGD") and exposure at default ("EAD"); • The reasonableness of the Bank's forward-looking economic scenarios, including identifying whether the Bank has appropriately considered reasonably available pertinent information and considered contradictory information; • Review of forecast macroeconomic variables taking into account of the impact of the COVID-19 crisis;

Key audit matter	How the matter was addressed in the audit
Expected credit losses on the development loans (continued)	
model which was based on a linear regression methodology. The model methodology was reassessed to determine its applicability given the current market conditions. A multivariate non-linear generalised additive model “GAM” model was developed using historical macroeconomic variables (MEVs) and the historical Bank Observed Default Rates (ODRs), ranging from Dec 2013 to March 2020. Probability of default; incorporates forward looking information that is impacted by the ailing economy as a result of the severe pressures posed by COVID-19. COVID-19 presents an unknown future and management is expected to estimate and provide assumptions on the expected credit losses taking into account the impact of COVID-19 in the future. Loss given default, is determined on the historical default rates of the Bank’s clients. Adjustments may be required given the COVID-19 impact on the future. The disclosures related to the allowance for credit losses on development loans are set out in the following notes: Note 14 – Development loans Note 42 – Risk management	• Additional sensitivity tests were performed on the forward looking component of the model to assess the impact the COVID-19 scenario could have on the loan book; • Attention has been given to the impact which COVID-19 has had on the portfolio, whilst also making use of industry benchmarking of the average through-the-cycle PDs and IFRS 9 LGD which have been assigned; and • Recalculation of the expected credit losses. Based on work performed by the auditor’s expert I found management’s credit risk models and assumptions used to determine the expected credit losses to be reasonable and consistent with my expectations. I have determined management’s estimate to be within a reasonable range to my expectations. I have assessed the IFRS 9 post implementation disclosures included in the Annual Financial Statements and I am satisfied that the disclosures are consistent with the explicit requirements of IFRS 9.
Development loans carried at fair value through profit or loss	
When measuring fair value, the Bank uses the assumptions that market participants would use when pricing the loan under current market conditions, including assumptions about risk. The Bank uses a fair value hierarchy that categorises assets and liabilities into three levels. The different levels are based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement. Where relevant inputs are not observable, inputs are developed to reflect the assumptions that market participants would use when determining an appropriate price for the asset or liability. There is a high degree of estimation in determining the fair value of development loans. The fair value is determined in line with IFRS 13 Fair value measurements which involves significant management judgement and estimation.	I evaluated the design and implementation, and where possible the operating effectiveness, of the following controls: • The post investment monitoring forums where key judgements including the valuation of fair value loans are considered; and • Oversight responsibilities by the accounting authority relating to valuation of the development loans carried at fair value. I assessed the appropriateness and sensitivity of unobservable market rates, projected cash flows and valuation adjustments with reference to the best available independent information. I performed IFRS 9 classification tests and I am satisfied that the classification of development loans is in line with the requirements of fair value through profit or loss.

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

FOR THE YEAR ENDED 31 MARCH 2020

Key audit matter	How the matter was addressed in the audit
Development loans carried at fair value through profit or loss (continued)	
The estimates applied to determine fair value of these loans are unobservable (level 3 as defined by IFRS 13) and are therefore subject to significant assumptions and judgements by the client. Market reference are normally used to measure the instruments which may require COVID-19 specific adjustments, which may have been highly subjective. The disclosures associated with the development loans carried at fair value through profit or loss is set out in the following notes: Note 10 Development loans carried at fair value through profit or loss.	
Valuation of complex financial instruments	
Valuation of complex financial instruments, such as derivatives and investment securities, requires significant judgement in determining the appropriate valuation techniques to apply. Such assumptions include unobservable inputs, projected cash flows and the consideration of recent market developments in valuation methodologies relating to the impact of counterparty and own credit risk, and funding costs. Due to the significance of the judgements made in determining the fair value of the complex financial instruments and the extent of work required to address this matter, this has been identified as a matter of most significance in the current year audit of the Annual Financial Statements. Fair value of investment securities is estimated using market observable prices from the Johannesburg Stock Exchange (JSE). In measuring the fair value of the derivatives, the Bank takes into account credit value adjustments (CVA) and debit value adjustments (DVA). CVA is the adjustment made to the value of a derivative to provide for the probability of a counterparty defaulting (adjustments for the credit risk of the derivative counterparty) (CVA). DVA is the adjustment made to provide for the probability of the holder of the derivative's own default for the credit risk of the derivative counterparty (the Bank's own credit risk). During the year under review, the Bank enhanced the CVA/DVA valuation model to align with best practice principles aligned with the Basel standard approaches. The old model was based on current market methods.	My audit procedures included assessing the appropriateness of the valuation technique used by management to value complex financial instruments. I evaluated the design, implementation and, where possible, the operating effectiveness of the following controls: • The governance processes in place to approve the valuation of complex financial instruments; and • Controls over the appropriateness of data and inputs used in the valuation of complex financial instruments. For a sample of financial instruments, and with the assistance of an auditor's expert, I assessed the valuation models against an independent model. I assessed the appropriateness and sensitivity of unobservable market rates, projected cash flows and valuation adjustments with reference to the best available independent information. I assessed the completeness, accuracy and adequacy of the disclosures. I assessed the independence and competence of the expert. I evaluated the competency and objectivity of the fund managers who provided the underlying valuations of the investments. Where available, I assessed the reasonableness of the fund statement by comparing the valuations to the audited fund Annual Financial Statements. I assessed the appropriateness of

Key audit matter	How the matter was addressed in the audit
Valuation of complex financial instruments (continued)	
The disclosures associated with valuation of complex financial instruments is set out in the following notes: Note 7 – Investment securities Note 8.1 – Derivative assets held for risk management purposes Note 8.2 – Derivative liabilities held for risk management purposes	adjustments made by the Bank to the fund's statement values by conducting independent market benchmarks. I found management's valuation of complex financial instruments to be reasonable and consistent with my expectations.
Valuation of equity investments held at fair value through profit or loss	
The Bank measures equity investments at fair value through profit or loss. The portfolio of equity investments held does not have an active market and as a result the bank uses valuation techniques to establish what the transaction price would be in the principal (or most advantageous) market between market participants at the measurement date. The Bank uses the net asset values (NAV) in determining the fair value of the equity investments. Management further applies marketability discounts to adjust for risk attached to each investment. The determination of net asset value using fair value techniques includes estimates that are susceptible to management judgement and bias that may result in risk of misstatement. Due to the significance of the judgements made in determining the fair value of the equity investments and the extent of work required to address this matter, this has been identified as a matter of most significance in the current year's audit of the Annual Financial Statements. Equity investments held at fair value consist of direct investments in equity and third party managed funds. Market reference are normally used to measure the instruments which required COVID-19 specific adjustments to some of the equity investment which may be highly subjective i.e. Ibor, resale transactions, marketability discounts/premiums, cost of debt etc. The disclosures associated to the equity investments held at fair value through profit or loss is set out in the following note: Note 11 – Equity investments held at fair value through profit or loss.	My audit procedures included assessing the appropriateness of the valuation technique used by management to value equity investments held at fair through profit or loss. I evaluated the design, implementation and, where possible, the operating effectiveness of the following controls: • The governance processes in place to approve the valuation of equity investments; and • The post-investment monitoring forums where key judgements are considered. I obtained third-party confirmations from fund managers to confirm the participatory interest of the Bank in the fund. I evaluated the applicability of the three methods that can be used to fair value private equity, namely the income approach, market approach and net asset approach. Based on the nature of the investments held by the Bank I concluded that the net asset value approach adopted by management is appropriate to value the equity investments. I evaluated the reasonability of the NAV and the marketability discount taking account the impact of COVID-19. I evaluated the competency and objectivity of the fund managers who provided the underlying valuations of the investments. Where available, I assessed the reasonableness of the fund statement by comparing the valuations to the audited fund Annual Financial Statements. I assessed the appropriateness of adjustments made by the Bank to the fund's statement values by conducting independent market benchmarks. I found management's valuation of equity investments and assumptions used to determine the valuation to be reasonable and consistent with my expectations.

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

FOR THE YEAR ENDED 31 MARCH 2020

Responsibilities of Accounting Authority for the Annual Financial Statements

7. The Board of Directors, which constitutes the accounting authority is responsible for the preparation and fair presentation of the Annual Financial Statements in accordance with IFRS and the requirements of the PFMA and for such internal control as the accounting authority determines is necessary to enable the preparation of Annual Financial Statements that are free from material misstatement, whether due to fraud or error.

8. In preparing the Annual Financial Statements, the accounting authority is responsible for assessing the Development Bank of Southern Africa's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the appropriate governance structure either intends to liquidate the entity or to cease operations, or has no realistic alternative but to do so.

Auditor-General's responsibilities for the audit of the Annual Financial Statements

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

10. A further description of my responsibilities for the audit of the Annual Financial Statements is included in the annexure to this auditor's report.

Report on the audit of the annual performance report

Introduction and scope

11. In accordance with the Public Audit Act of South Africa 2004 (Act No. 25 of 2004) (PAA) and the general notice issued in terms thereof, I have a responsibility to report on the usefulness and reliability of the reported performance information against predetermined objectives for selected objectives presented in the annual performance report. I performed procedures to identify material findings but not to gather evidence to express assurance.

12. My procedures address the usefulness and reliability of the reported performance information, which must be based on the approved performance planning documents of the entity. I have not evaluated the completeness and appropriateness of the performance indicators included in the planning documents. My procedures do not examine whether the actions taken by the entity enabled service delivery. My procedures also do not extend to any disclosures or assertions relating to planned performance strategies and information in respect of future periods that may be included as part of the reported performance information. Accordingly, my findings do not extend to these matters.

13. I evaluated the usefulness and reliability of the reported performance information in accordance with the criteria developed from the performance management and reporting framework, as defined in the general notice, for the following selected objective presented in the annual performance report of the entity for the year ended 31 March 2020:

Objective	Pages in the annual performance report
Objective 3 – Integrated Infrastructure Solution provider	18

14. I performed procedures to determine whether the reported performance information was properly presented and whether performance was consistent with the approved performance planning documents. I performed further procedures to determine whether the indicators and related targets were measurable and relevant, and assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.

15. I did not identify any material findings on the usefulness and reliability of the reported performance information for this objective:
   - Integrated infrastructure solution provider.

Other matter

16. I draw attention to the matter below.

Achievement of planned targets

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

Adjustment of material misstatements

18. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were in the reported performance information of "Integrated infrastructure solution provider" objective. As management subsequently corrected the misstatements, I did not raise any material findings on the usefulness and reliability of the reported performance information.

Report on the audit of compliance with legislation

Introduction and scope

19. In accordance with the PAA and the general notice issued in terms thereof, I have a responsibility to report material findings on the entity's compliance with specific matters in key legislation. I performed procedures to identify findings but not to gather evidence to express assurance.

20. I did not identify any material findings on compliance with the specific matters in key legislation set out in the general notice issued in terms of the PAA.

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

FOR THE YEAR ENDED 31 MARCH 2020

Other information

21. The accounting authority is responsible for the other information. The other information comprises the information included in the Annual Report which includes the directors' report and the audit and risk committee's report. The other information does not include the Annual Financial Statements, the auditor's report and those selected objectives presented in the annual performance report that have been specifically reported in this auditor's report.

22. My opinion on the Annual Financial Statements and findings on the reported performance information and compliance with legislation do not cover the other information and I do not express an audit opinion or any form of assurance conclusion thereon.

23. In connection with my audit, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the Annual Financial Statements and the selected objectives presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.

24. If based on the work I have performed, I conclude that there is a material misstatement in this other information, I am required to report that fact.

25. No material inconsistencies were identified in other information, I have nothing to report in this regard.

Internal control deficiencies

26. I considered internal control relevant to my audit of the Annual Financial Statements, reported performance information and compliance with applicable legislation; however, my objective was not to express any form of assurance on it. I did not identify any significant deficiencies in internal control.

Auditor General

Pretoria
30 September 2020

AUDITOR-GENERAL
SOUTH AFRICA

Auditing to build public confidence

Annexure – Auditor-General's responsibility for the audit

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

Annual Financial Statements

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

Communication with those charged with governance

3. I communicate with the accounting authority regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

4. I also confirm to the accounting authority that I have complied with relevant ethical requirements regarding independence, and communicate all relationships and other matters that may reasonably be thought to have a bearing on my independence and, where applicable, actions taken to eliminate threats or safeguards applied.

5. From the matters communicated to those charged with governance, I determine those matters that were of most significance in the audit of the Annual Financial Statements of the current period and are therefore key audit matters. I describe these matters in this auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, I determine that a matter should not be communicated in this auditor's report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest of such communication.

DIRECTORS' REPORT

FOR THE YEAR ENDED 31 MARCH 2020

The Directors have pleasure in presenting this report on the Annual Financial Statements of Development Bank of Southern Africa (DBSA) for the year ended 31 March 2020.

Nature of business

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

Corporate Governance

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

Financial Results and Activities

The financial results of the Bank are fully disclosed on pages 19 to 172. The key financial indicators for the year under review are:

- Profit of R504 million (31 March 2019: R3.10 billion);
- Sustainable earnings of -R587 million (31 March 2019: R2.32 billion);
- Net interest income decreased by 1% to R4.42 billion (31 March 2019: R4.49 billion);
- Expected credit losses on financial assets at amortised cost R3.63 billion (31 March 2019: R1.44 billion);
- Operating income decreased by 2% to R5.52 billion (31 March 2019: R5.64 billion);
- Cost to income ratio increased to 28% (31 March 2019: 23%);
- Cash flow generated from operations decreased to R3.6 billion (31 March 2019: R3.8 billion);
- Total assets increased by 12% to R100.5 billion (March 2019 to R89.5 billion);
- Development loans and equity disbursements amounted to R15.7 billion (31 March 2019: R9.0 billion);
- ROE on sustainable earnings -1.6% (March 2019: 6.5%);
- Debt-to-equity ratio excluding R20 billion callable capital of 165% (31 March 2019 138%); and
- Debt-to-equity ratio including R20 billion callable capital 108% (31 March 2019 90%). Callable capital is authorised shares but not yet issued. Debt-to-equity ratio is within the Bank's regulatory limit of 250%.

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

Risks and uncertainties associated with COVID-19 pandemic on the Bank's activities and the potential impact on the Bank

As explained in note 42 in the Annual Financial Statements, the COVID-19 outbreak and resulting measures taken by various governments to contain the virus have already negatively affected our business for the year ended 31 March 2020. During the last quarter of the year under review, the global spread of COVID-19 created an unprecedented health and economic crisis which saw most countries closing borders and implementing lockdown measures to contain the spread of the virus. The economic fallout from the pandemic necessitated the implementation of unconventional monetary and fiscal policy measures across the world. In addition to the already known effects, the macroeconomic uncertainty caused disruption to economic activities and it is unknown what the long term impact on Bank's operations would be. However, in South Africa an infrastructure-led recovery was identified as an important driver of the post-lockdown recovery plan.

As at year end, the scale and duration of this pandemic remains uncertain but is expected to further impact our business. The main risk that resulted from the current uncertainties regarding COVID-19 includes volatility of impairments, pricing pressures and impact on the Bank's profitability. Following the outbreak of the COVID-19 pandemic, the Bank increased its expected credit loss provisions on the performing loan book resulting in higher expected credit loss coverage and lower profitability levels when compared to the prior year. Notwithstanding the disruption of the local fixed income market, the DBSA has been successful in raising funding from international development finance institutions as well as international and local commercial banks and asset managers.

Dividend

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

Share capital

Authorised capital amounts to R20.2 billion, which is divided into two million and twenty thousand ordinary shares of R10 000 each. The Board may from time to time, with the approval of the shareholders previously given at a meeting of shareholders, increase the issued share capital of the Bank. The Minister may, after consultation with the board and by notice in the Gazette, adjust the amount of the authorised share capital of the Bank and the number of ordinary shares.

Authorised capital

2 020 000 ordinary shares (2019: 2 020 000) at par value of R10 000 each.

Callable capital (authorised but unissued share capital)

2 000 000 ordinary shares (2019: 2 000 000) at a par value of R10 000 each.

Issued share capital

20 000 ordinary shares (2019: 20 000) at a par value of R10 000 each.

Going concern

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

Borrowing powers

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

Overall borrowing limit (R billion)	Limit	Borrowing
Regulatory per DBSA Act	94	52
Annual borrowing programme	20	5.8*
Foreign currency borrowing	26	23
Domestic Medium Term Note Programme per JSE	80	25

* The net raised of R5.8 billion was made during the year (2019: net repayment of R5.5 billion).

DIRECTORS' REPORT (CONTINUED)
FOR THE YEAR ENDED 31 MARCH 2020

Directorate and Secretariat

Details pertaining to the names of Board members and the Secretariat appear in the Integrated Annual Report.

Non-executive directors are subject to retirement by rotation. They hold office for a period of three (3) years and are eligible for reappointment. Non-executive directors are eligible for appointment for a maximum of three (3) terms. Details of the directors' current service contracts are shown in the table below.

Name	Position	Number of terms served (including current term)	Current service contract	
			From	To
Current				
Mr P K Dlamini	Chief Executive Officer and Managing Director	2	1 September 2017	31 August 2022
Ms B Mosako	Chief Financial Officer	Not applicable	1 April 2018	Until such time she ceases to hold office as CFO
Mr Enoch Godongwana[1]	Independent Non-executive Director	1	1 April 2019	31 March 2022
Prof M Swilling[2]	Independent Non-executive Director	2	1 August 2017	31 July 2020
Ms M Janse Van Rensburg	Independent Non-executive Director	2	1 April 2019	31 March 2022
Ms Z Monnakgotla	Independent Non-executive Director	1	1 August 2017	31 July 2020
Mr B Mudavanhu	Independent Non-executive Director	1	1 August 2017	31 July 2020
Ms B Ndamase	Independent Non-executive Director	1	1 August 2017	31 July 2020
Mr L Nematswerane	Independent Non-executive Director	1	1 August 2017	31 July 2020
Ms L Noge-Tungamirai	Independent Non-executive Director	1	1 August 2017	31 July 2020
Ms M Nqaleni	Shareholder Representative	2	1 April 2019	31 March 2022
Ms P Nqeto	Independent Non-executive Director	1	1 August 2017	31 July 2020
Ms A Sing	Independent Non-executive Director	2	1 August 2017	31 July 2020
During the year				
Ms G Mtetwa[3]	Independent Non-executive Director	2	1 August 2017	30 August 2019

1. Appointed as Chairman on 27 September 2019.
2. Was Chairman until appointed as a Deputy Chairman on 27 September 2019.
3. Resigned on 30 August 2019.
4. Terms for all non-executive directors with terms ending on 31 July 2020 were extended until 31 October 2020.

The details of the directors' emoluments and related party transactions are set out in notes 41 and 44 of the Annual Financial Statements. The governance structure is detailed in the Integrated Annual Report.

Remuneration policy

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

Business and registered address

The Bank's business and registered address details appear on page 175.

Taxation status

The Bank is exempt from normal taxation in terms of section 10(1)(t)(x) of the Income Tax Act No 58 of 1962, as amended. The Bank is subject to and complies with all other South African taxes, including employees' tax and value added tax. The Bank paid net VAT amounting to R62,7 million (31 March 2019: R45,8 million).

Changes in accounting policies

The accounting policies applied during the year ended 31 March 2020 are in all material respects consistent with those applied in the Annual Financial Statements for the year ended 31 March 2019, except for the adoption of IFRS16: Leases. Details of the changes due to the adoption of IFRS 16 are detailed in note 1 of the Annual Financial Statements.

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 or the financial position of the Bank other than that disclosed in note 52 of the Annual Financial Statements on page 172.

Litigation

The directors are not aware of any litigation against the Bank other than that disclosed under contingent liabilities in note 45 of the Annual Financial Statements on page 165.

Related party transactions

Details of the Bank's related party transactions are set out in note 44 of the Annual Financial Statements on page 165.

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

1. Particulars of material losses through criminal conduct and any irregular expenditure and fruitless and wasteful expenditure that occurred during the year: there were no instances where the Bank sustained material losses. Refer to note 48 of the Annual Financial Statements on page 170;

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

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

4. Particulars of any financial assistance received from the state and commitments made by the state on behalf of the Bank: No financial assistance was received.

ANNUAL PERFORMANCE REPORT

FOR THE YEAR ENDED 31 MARCH 2020

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

High level performance overview

The DBSA's strategy highlights the importance of pursuing the dual mandate of achieving development impact while maintaining financial sustainability. The Balanced Scorecard (BSC) methodology is used to implement and monitor the achievement of predetermined strategic objectives. To this end, corporate strategic objectives and targets are developed and approved by the Board of Directors. The table below compares the planned and related actual performance on the high-level corporate strategic objectives for the year ended 31 March 2020.

The DBSA continued to work towards achieving good results even in the difficult conditions during 2019/20 financial year, meeting some of its strategic objectives whilst the targets for the following key performance indicators were not met or partially achieved:

- **Return on Equity (ROE) and Net Cash Generated from Operations:** The dilution in these key financial indicators is attributable to increased expected credit losses in the Bank's development loan book associated with the difficult economic conditions, volatile commodity prices and the anticipated impact of COVID-19 on some of the Bank's key clients;
- **Disbursements to metros, small metros and intermediate cities:** The underperformance is largely attributed to disbursements to municipalities that were delayed due to municipal processes and municipalities not coming to the market to seek funding;
- **Disbursements to fund social infrastructure:** The underperformance is largely attributed to projects that the Bank is currently working on which took longer than anticipated to reach financial close and strong competition in the market;
- **Disbursements to the SADC region (excluding South Africa):** Infrastructure development and financing in the region is complex and time-consuming and can take a number of years to reach financial close, thus impacting the ability to disburse. The conversion of approval to disbursements took longer than anticipated;
- **Value of projects prepared and committed by DBSA:** The under-performance is mainly attributable to delays in regional projects due to complexity and the time taken to reach financial close;
- **Value of third-party funds catalysed:** The underperformance is attributable to projects that the Bank is currently working on that took much longer than anticipated to conclude. Leveraging or crowding-in private sector funds remains a core pillar of the Bank's strategy and every opportunity to crowd-in the private sector will be explored;
- **Value of projects by black-owned entities (50% ownership and above) that are committed for lending:** The underperformance is mainly due to delays in finalising deals that are at commitment stage. The Bank is developing a ring-fenced facility to address the equity gap for BBBEE entities;
- **Number of projects committed for funding through VC 10X Fund:** The establishment of the VC 10X Fund legal entity took longer than anticipated due to the legal entity not being established on time. This resulted in the key performance indicator target not being met at year end;
- **Number of the D-Labs Programmes:** The identification of sites for the D-Labs and finalising of the agreements with the managing companies of the D-Labs took longer than initially envisaged. Five (5) D-Lab Programmes memorandum of agreement were signed by year end but the D-Labs not operational yet; and
- **Percentage of the DBSA campus that is off-grid (to showcase energy, water and waste technologies):** The services of the consultant appointed to conduct a feasibility study for the DBSA off-grid campus was terminated due to non-performance during the year which necessitated that we commence a new procurement process, thus stalling the finalisation of the process. The Bank has continuously looked at ways to improve the saving of water and electricity consumption during the financial year. New water and electricity meters were installed in the DBSA campus which resulted in the City of Johannesburg agreeing to do an investigation on water and electricity consumption in the campus. This resulted in the Bank getting credits of R30.5 million from the City for overbilling in the past five (5) years.

Performance indicators

The table below compares the planned and related actual performance on the high-level corporate strategic objectives for 2020.

Objective	Key performance indicator	Target	Results
Maintain financial sustainability	**Financial**		
	ROE (calculated on sustainable earnings)	7.0%	-1.6%
	Non-interest revenue (excluding IDD and equity)	R300 million	R320 million
	Net Interest Margin	5.0%	5.1%
	Net Cash Generated from Operations	R4.1 billion	R3.62 billion
	Disbursements		
	Total Disbursements	**R13.5 billion**	**R15.4 billion**
	• Top 5 Metropolitan cities	R3.0 billion	R2.0 billion
	• Small metros and intermediate cities	R0.5 billion	R0.47 billion
	• Other social infrastructure (excl. municipalities)	R0.5 billion	R0.2 billion
	• Economic infrastructure	R4.5 billion	R7.3 billion
	• SADC Countries	R2.75 billion	R 2.1 billion
	• Non-SADC Countries	R2.25 billion	R3.3 billion
Sustained growth in development impact	**Under-resourced municipalities** • Value of infrastructure unlocked for under resourced municipalities	R0.8 billion	R1.4 billion
	Project preparation • Value of projects prepared and committed	R5.0 billion	R2.4 billion
	Infrastructure delivered • Value of infrastructure delivered	R4.0 billion	R4.1 billion
	Total funds catalysed • Total 3rd party funds catalysed	R46.7 billion	R43.1 billion
	Development impact • Development impact from funding business	Board approval of the implementation plan at Q1 review, full execution of the plan by financial year end	Development framework approved at Q1 and the framework was implemented during the year
	Economic transformation • Value of projects for black-owned entities (50% and above) approved for project preparation funding	R1.0 billion	R1.9 billion
	• Value of projects by black-owned entities (50% and above) that are committed for lending	R1.0 billion	Nil

ANNUAL PERFORMANCE REPORT (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2020

Objective	Key performance indicator	Target	Results
Integrated infrastructure solution provider	**Breakthrough initiatives** • Number of identified programmes through the New Investment Platform	3	4
	• Number of programmes committed for funding through VC 10X Fund	3	0
	• Number of the D-Labs programmes	5	0
	• % of the DBSA campus that is off-grid (to showcase energy, water and waste technologies)	Implementation Plan approved by Board	Implementation Plan was not approved by Board
	Client satisfaction survey • Client satisfaction survey	3.5	4.5
Continuous improvement of internal systems and processes	Maintain the B-BBEE score	Increase the management control sub-element score by 5% and Maintain Level 2	Achieved Level 1 B-BBEE rating
	Governance • Irregular, unauthorised and fruitless and wasteful expenditure	Classify 0.0% (R value) of expenses as irregular, unauthorised and fruitless and wasteful expenditure	0.21% (R2.7 million) of expenses as irregular, unauthorised, fruitless and wasteful expenditure
	• Ethical behaviour	No findings on unethical behaviour by any staff member	No findings on unethical behaviour by any staff member during the year
	• Compliance with the PFMA	Submit all PFMA submissions within the stipulated deadline	All PFMA submissions were submitted within the stipulated timelines
	• Unqualified audit opinion	Achieve unqualified audit opinion without matter of emphasis	Achieved clean audit opinion
Create and maintain a high performance culture	Future fit skills bench strength	1. Determine future skills bench strength = 3 2. Design targeted skills development plan and toolkits = 3.5 3. Execution against development skills project plan = 4	Designed targeted skills development plan and toolkits
	Organisational culture	3 = Culture Values Assessment (CVA) results stay the same or deviation up or down of 2%. 80% execution of implementation plan	Leadership survey was conducted during the financial year

STATEMENT OF FINANCIAL POSITION

AS AT 31 MARCH 2020

in thousands of rands	Notes	2020	2019
Assets			
Cash and cash equivalents at amortised cost	5	3 458 836	2 922 876
Trade receivables and other assets	6	328 069	365 579
Investment securities	7	1 787 361	1 880 502
Derivative assets held for risk management purposes	8.1	812 053	713 304
Other financial assets	9	36 152	43 732
Development loans held at fair value through profit or loss	10	22 413	–
Equity investments held at fair value through profit or loss	11	5 993 951	5 937 578
Development bonds at amortised cost	13	1 288 278	1 290 179
Development loans at amortised cost	14	86 240 264	75 816 506
Property, equipment and right of use of assets	15	417 518	435 020
Intangible assets	16	80 220	83 133
Total assets		**100 465 115**	**89 488 409**
Equity and liabilities			
Liabilities			
Trade, other payables and accrued interest on debt funding	17	696 324	678 991
Repurchase agreements at amortised cost	21	587 338	–
Derivative liabilities held for risk management purposes	8.2	784 835	297 798
Liability for funeral and post-employment medical benefits	19	42 885	44 484
Debt funding designated at fair value through profit or loss	20	1 505 805	6 469 451
Debt funding held at amortised cost	21	59 040 495	44 516 190
Provisions and lease liabilities	18	229 856	309 010
Total liabilities		**62 887 538**	**52 315 924**
Equity			
Share capital	22	200 000	200 000
Retained income		23 005 253	22 717 877
Permanent government funding	23	11 692 344	11 692 344
Other reserves	24	191 749	293 808
Reserve for general loan risk	25	2 488 231	2 268 456
Total equity		**37 577 577**	**37 172 485**
Total equity and liabilities		**100 465 115**	**89 488 409**

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 MARCH 2020

In thousands of rands	Notes	2020	2019
Interest income calculated using the effective interest rate	26	8 019 931	8 157 805
Other interest income	26	266 386	252 034
Interest expense calculated using the effective interest rate	27	(3 392 585)	(3 344 288)
Other interest expense	27	(470 229)	(571 101)
Net interest income	27	**4 423 503**	4 494 450
Net fee income	28	255 513	193 380
Net foreign exchange gain	29	1 171 519	743 713
Net (loss)/gain from financial assets and financial liabilities	30	(529 027)	69 945
Investment and other income	31	202 617	139 773
Other operating income		**1 100 622**	**1 146 811**
Operating income		**5 524 125**	**5 641 261**
Project preparation expenditure	32	(41 539)	(1 405)
Development expenditure	33	(47 192)	(20 505)
Expected credit losses on financial assets held at amortised cost	34	(3 632 679)	(1 441 056)
Personnel expenses	35	(751 070)	(751 300)
General and administration expenses	36	(489 738)	(292 403)
Depreciation and amortisation	37	(29 321)	(19 579)
Profit from operations		**532 586**	**3 115 013**
Grants paid	38	(28 654)	(18 318)
Profit for the year		**503 932**	**3 096 695**

STATEMENT OF OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 MARCH 2020

In thousands of rands	Notes	2020	2019
Profit for the year		503 932	3 096 695
Items that will not be reclassified to profit or loss			
(Loss)/gain on revaluation of land and buildings	24.1	(15 661)	19 947
Movement due to changes in own credit risk on financial liabilities designated at fair value through profit or loss	24.3	(31 794)	(12 852)
Remeasurement of funeral and post-employment medical benefit liability		3 450	2 750
		(44 005)	**9 845**
Items that may be reclassified subsequently to profit or loss			
Unrealised loss on cash flow hedges	24.2	(133 443)	(143 346)
Loss on cash flow hedges reclassified to profit or loss	24.2	78 839	94 367
		(54 604)	**(48 979)**
Other comprehensive loss		**(98 609)**	**(39 134)**
Total comprehensive income for the year		**405 323**	**3 057 561**

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 MARCH 2020

In thousands of rands	Share capital	Permanent government funding	Reserve for general loan risk
Balance at 01 April 2018	**200 000**	**11 692 344**	**2 611 976**
Profit for the year	–	–	–
Other comprehensive income/(loss)			
Gain on revaluation of land	–	–	–
Unrealised loss on cash flow hedges	–	–	–
Loss on cash flow hedges reclassified	–	–	–
Movements due to changes in own credit risk	–	–	–
Transfer from general loan risk reserve	–	–	(343 520)
Remeasurement of Post employment benefit liability	–	–	–
Total Changes	**–**	**–**	**(343 520)**
Balance as at 31 March 2019	**200 000**	**11 692 344**	**2 268 456**
Adjustments IFRS 16 impact	–	–	–
Restated balance as at 01 April 2019	**200 000**	**11 692 344**	**2 268 456**
Profit for the year	–	–	–
Other comprehensive income/(loss)			
Loss on revaluation of land and buildings	–	–	–
Movements in own credit risk	–	–	–
Remeasurement of Post employment benefit liability	–	–	–
Unrealised loss on cash flow hedges	–	–	–
Loss on cash flow hedges reclassified	–	–	–
Transfer to general loan risk reserve	–	–	219 775
Total changes	**–**	**–**	**219 775**
Balance at 31 March 2020	**200 000**	**11 692 344**	**2 488 231**
Note(s)	22	23	25

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

	*Other reserves					
	Revaluation on land and building	Cash flow hedge reserve	Own credit risk reserve	Total of other reserves	Retained income	Total equity
	183 809	**74 897**	**76 986**	**335 692**	**19 274 912**	**34 114 924**
	–	–	–	–	3 096 695	3 096 695
	19 947	–	–	19 947	–	19 947
	–	(143 346)	–	(143 346)	–	(143 346)
	–	94 367	–	94 367	–	94 367
	–	–	(12 852)	(12 852)	–	(12 852)
	–	–	–	–	343 520	–
	–	–	–	–	2 750	2 750
	19 947	**(48 979)**	**(12 852)**	**(41 884)**	**3 442 965**	**3 057 561**
	203 756	**25 918**	**64 134**	**293 808**	**22 717 877**	**37 172 485**
	–	–	–	–	(231)	(231)
	203 756	**25 918**	**64 134**	**293 808**	**22 717 646**	**37 172 254**
	–	–	–	–	503 932	503 932
	(15 661)	–	–	(15 661)	–	(15 661)
	–	–	(31 794)	(31 794)	–	(31 794)
	–	–	–	–	3 450	3 450
	–	(133 443)	–	(133 443)	–	(133 443)
	–	78 839	–	78 839	–	78 839
	–	–	–	–	(219 775)	–
	(15 661)	**(54 604)**	**(31 794)**	**(102 059)**	**287 607**	**405 323**
	188 095	**(28 686)**	**32 340**	**191 749**	**23 005 253**	**37 577 577**
	24.1	24.2	24.3	24		

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 MARCH 2020

In thousands of rands	Notes	2020	2019
Cash flows from operating activities			
Net loss adjusted for non-cash items and items separately disclosed	39	(1 020 270)	(745 769)
Interest received		8 125 500	8 178 603
Interest paid		(3 524 482)	(3 728 298)
Dividends received		33 010	92 241
Net cash generated from operating activities		**3 613 758**	**3 796 777**
Cash flows from development activities			
Development loan disbursements		(15 641 352)	(8 807 786)
Development loan principal repayments		6 254 667	9 967 309
Equity investments disbursements		(80 104)	(168 966)
Equity investments repayments		500 718	303 822
Grants, development and project preparation expenditure paid		(70 193)	(19 723)
Net advances from/(to) National Mandates		19 652	(58 004)
Net cash (used in)/generated from development activities		**(9 016 612)**	**1 216 652**
Cash flows from investing activities			
Purchase of property and equipment		(11 545)	(26 667)
Disposal of property and equipment		649	528
Purchase of intangible assets		(8 629)	(1 176)
Disposal/(purchase) of financial market instruments		52 162	(317 923)
Net cash generated from/(utilised in) investing activities		**32 637**	**(345 238)**
Cash flows from financing activities			
Gross financial market liabilities repaid		(19 520 116)	(18 618 727)
Gross financial market liabilities raised		25 358 796	13 102 081
Net cash generated from/(utilised in) financing activities		**5 838 680**	**(5 516 646)**
Net increase/(decrease) in cash and cash equivalents		**468 463**	**(848 455)**
Effect of exchange rate movements on cash balances	29	67 497	29 478
Movement in cash and cash equivalents		**535 960**	**(818 977)**
Cash and cash equivalents at the beginning of the year	5	2 922 876	3 741 853
Cash and cash equivalents at the end of the year	5	**3 458 836**	**2 922 876**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

ACCOUNTING POLICIES

FOR THE YEAR ENDED 31 MARCH 2020

1. Statement of compliance

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

The Bank is not subject to the Banks Act. The Bank is a PFMA schedule 2 entity. The Bank applies IFRS financial reporting framework in line with National Treasury approval.

1.1 Basis of preparation

1.1.1 Adoption of New Standards

(a) IFRS 16: Leases

IFRS 16: Leases, which replaced IAS 17: Leases, was applied effective from 1 January 2019. IFRS 16 applies to all leases with the exception of licenses of intellectual property, rights held by licensing agreement within the scope of IAS 38: Intangible Assets, service concession arrangements, leases of biological assets within the scope of IAS 41: Agriculture, and leases of minerals, oil, natural gas and similar non-regenerative resources. IFRS 16 includes an accounting policy choice for a lessee to elect not to apply IFRS 16 to remaining assets within the scope of IAS 38: Intangible Assets, which the Bank has decided to apply.

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

- A lease liability, measured at the present value of remaining cash flows on the lease; and
- A right of use (ROU) asset, measured at the amount of the initial measurement of the lease liability, plus any lease payments made prior to commencement date, initial direct costs, and estimated costs of restoring the underlying asset to the condition required by the lease, less any lease incentives received. Subsequently the lease liability will increase for the accrual of interest, resulting in a constant rate of return throughout the life of the lease, and reduce when payments are made. The right of use asset will amortise to the income statement over the life of the lease. There is a recognition exemption in IFRS 16 for leases with a term not exceeding 12 months, which allows the lessee to apply similar accounting as an operating lease under IAS 17.

The Bank applied IFRS 16 on a modified retrospective basis and did not restate comparatives as permitted by the standard. The Bank applied the following transition options available under the modified retrospective approach:

- To calculate the right of use of asset equal to the lease liability, adjusted for prepaid or accrued payments;
- To apply the recognition exception for leases with a term not exceeding 12 months;
- To use hindsight in determining the lease term if the contract contains options to extend or terminate the lease; and
- The impact on adoption of IFRS 16 was an increase in property, equipment and leased assets of R7.0 million, decrease in equity of R0.2 million and an increase in Provisions and lease liabilities of R7.2 million. Refer to note 1 for the transitional impact of IFRS 16.

Judgements

For leases with the option to extend or terminate, the Bank assumes that it will chose not exercise its option to renew or terminate the contract therefore assumes that the leases will be applicable until the end of the original contract.

1.1.2 Basis of measurement

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

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

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

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

1.1.3 Presentation of Annual Financial Statements

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

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

- The normal course of business;
- The event of default or
- The event of insolvency or bankruptcy of the Bank and/or its counterparties Income and expenses are presented on a net basis only when permitted under IFRS.

1.1.4 Significant accounting judgements, estimates and assumptions

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

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

The application of the Bank's accounting policies requires the use of judgements, estimates and assumptions. If different assumptions or estimates were applied, the resulting values would change, impacting the net assets and income of the Bank.

Assumptions made at each reporting date are based on best estimates at that date. Although the Bank has internal control systems in place to ensure that estimates are reliably measured, actual amounts may differ from those estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

ACCOUNTING POLICIES (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2020

1.1 Basis of preparation (continued)

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

(a) Judgements

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

(i) Business model assessment

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

(ii) Models and assumptions used

The Bank uses various models and assumptions in measuring fair value of assets as well as in estimating expected credit losses. Judgement is applied in identifying the most appropriate model for each type of asset, as well as for determining the assumptions used in these models, including assumptions that relate to key drivers of credit risk. Refer to note 42 for more details on expected credit losses and note 12 for more details on fair value measurement.

(b) Assumptions and estimation

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

(i) Going concern

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

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

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

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

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

(iv) Valuation of land and buildings

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

(v) Valuation of equity investments

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

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

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

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

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

(vii) Debt securities

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

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

(viii) Investment securities

Fair value of investment securities is estimated using market observable prices from the Johannesburg Stock Exchange (JSE).

(ix) Derivative and hedge accounting

In measuring the fair value of the derivatives, the Bank takes into account credit value adjustments (CVA) and debit value adjustments (DVA). CVA and DVA adjustments include adjustments for the credit risk of the derivative counterparty (CVA) as well as the Bank's own credit risk (DVA). During the year under review, the Bank enhanced the CVA/DVA valuation model to align with best practice principles aligned with the Basel standard approaches. The old model was based on current market method where the market value to the derivative is adjusted for an add-on factor based on nominal and time left to maturity counter party credit risk based on credit default swaps or NCD spreads and calculations were calculated at an individual deal level. This methodology was too simplistic and was enhanced to capture exposure at default by derivative type (swap, options and forwards) better than current mark to market method and aggregate deals by counterparty. The new methodology captures the exposure at default and capital charges using Basel 3 standardised approach for counterparty credit risk model and capital charge is used as a proxy for CVA/DVA adjustments and this methodology is appropriate for small banks with relatively smaller derivative portfolios. The changes to the methodology were reviewed by Market Risk team and Finance teams.

ACCOUNTING POLICIES (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2020

1.1 Basis of preparation (continued)

(x) Provisions

Provisions are held in respect of a range of future obligations such as employee entitlements, restructuring costs and litigation provisions.

Some of the provisions involve significant judgement about the likely outcome of various events and estimated future cash flows. The measurement of these provisions involves the exercise of management judgements about the ultimate outcomes of the transactions.

Additional disclosure of these estimates of provisions is included in note 18 - Provisions.

(xi) Measurement of expected credit losses (ECL)

Key assumptions in determining the impairment of financial assets:

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

(xii) Loan commitments

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

Provision is made for undrawn loan commitments to be provided at below-market interest rates and for similar facilities if it is probable that the facilities will be drawn and results in recognition of an asset at an amount less than the amount advanced.

(xiii) Loan Restructures

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

(xiv) Fair value

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

(xv) IFRS 15: Revenue from contracts with customers

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

(xvi) IFRS 16: Leases

For leases with the option to extend or terminate, the Bank assumes that it will chose not to exercise its option to renew or terminate the contract therefore assumes that the leases will be applicable until the end of the original contract.

(xvii) Write-offs

The Bank applies significant judgements for write-offs (refer to write-offs policy on page 45).

1.2 Financial instruments

Financial assets and financial liabilities are recognised in the Bank's statement of financial position when the Bank becomes a party to the contractual provisions of the instrument.

Recognised financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at FVTPL) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognised immediately in profit or loss.

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

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

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

1.2.1 Financial assets – Initial recognition

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

1.2.2. Classification and subsequent measurement

On initial recognition, the Bank classifies its financial assets into one of the following measurement categories at:
- Amortised cost; and
- Fair value through profit or loss (FVTPL).

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

ACCOUNTING POLICIES (CONTINUED)
FOR THE YEAR ENDED 31 MARCH 2020

1.2 Financial instruments (continued)

Business model assessment

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

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

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

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

Portfolio – Group of assets	Business model	Classification and measurement	Characteristics of cashflows
Cash and cash equivalents at amortised cost	To hold to collect contractual cash flows	Amortised cost	Cashflows that are solely principal and interest
Investment securities – listed bonds	Held primarily for sale to manage liquidity needs	Fair value through profit or loss	Cashflows that are solely principal and interest
Investment securities – segregated funds	Held primarily for sale to manage liquidity needs	Fair value through profit or loss	Cashflows that are not solely principal and interest
Development bonds at amortised cost	To collect contractual cash flows	Amortised cost	Cashflows that are solely principal and interest
Development loans at amortised cost	To collect contractual cash flows	Amortised cost	Cashflows that are solely principal and interest
Development loans at fair value through profit or loss	To collect contractual cash flows	Fair value through profit or loss	Cashflows that are not solely payment of principal and interest on the principal amounts outstanding
Trade receivables and other assets	To collect contractual cash flows	Amortised cost	Cashflows that are solely principal and interest
Derivative assets held for risk management purposes	Derivative asset held for risk management purposes	Fair value through profit or loss	Cashflows that are not solely payment of principal and interest on the principal amounts outstanding

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

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

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

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

(i) Financial assets at amortised cost

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

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

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

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

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

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

(a) Debt instruments at FVTPL are:

Assets with contractual cash flows that are not SPPI; or/and
Assets that are held in a business model other than held to collect contractual cash flows or held to collect and sell.
An entity may, at initial recognition irrevocably designate a financial asset as measured at fair value through profit or loss if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases.

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

ACCOUNTING POLICIES (CONTINUED)
FOR THE YEAR ENDED 31 MARCH 2020

1.2 Financial instruments (continued)

(b) Investment in equity instruments

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

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

1.2.3. Reclassifications of financial assets

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

1.2.4. Foreign exchange gains and losses

The carrying amount of financial assets that are denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the end of each reporting period. Specifically:
- For financial assets measured at amortised cost that are not part of a designated hedging relationship, exchange differences are recognised in profit or loss in the 'other income' line item; and
- For financial assets measured at FVTPL that are not part of a designated hedge accounting relationship, exchange differences are recognised in profit or loss.

1.2.5. Modification of financial assets

When a financial asset is modified the Bank assesses whether this modification results in derecognition. In accordance with the Bank's policy a modification results in derecognition when it gives rise to substantially different terms. To determine if the modified terms are substantially different from the original contractual terms the Bank considers the following:
- Change in loan tenor;
- Change in interest;
- Changes in obligation;
- Issue of debt moratorium; and
- Debt consolidation.

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

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

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

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

1.2.6. Derecognition of financial assets

The Bank derecognises a financial asset only when the contractual rights to the asset's cash flows expire (including expiry arising from a modification with substantially different terms), or when the financial asset and substantially all the risks and rewards of ownership of the asset are transferred to another entity. If the Bank neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Bank recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Bank retains substantially all the risks and rewards of ownership of a transferred financial asset, the Bank continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain/loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

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

Write offs

IFRS 9 provides that financial assets should be written off, and accordingly derecognised, when the Bank believes that there is no reasonable expectation of recovery. The Bank has internal policies which governs the process of write off as dealt with by the Business Support and Recovery unit which ensures that post write-off recoveries remain insignificant over the long run. An impaired loan is written off once all reasonable attempts at collection have been made and there is no material economic benefit expected from attempting to recover the balance outstanding. The following criteria must be met before a financial asset can be written off:

- The financial asset has been in default for the period which is deemed sufficient to determine whether the entity is able to receive any further economic benefit from the impaired loan; and
- At the point of write-off, the financial asset is fully impaired with no reasonable expectation of recovery of the asset.

ACCOUNTING POLICIES (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2020

1.2 Financial instruments (continued)

1.2.7. Financial liabilities

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

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

(a) Classification and measurement

The Bank accounts for its financial liabilities either as:
- Held at fair value through profit or loss or
- Held at amortised cost.

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

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

The classification of financial liabilities is detailed below:

Portfolio – Group of liabilities	Objective of portfolio	Classification and measurement
Debt funding designated at fair value through profit or loss	Forms part of the asset-liability management purpose	Fair value through profit or loss
Debt funding held at amortised cost	Forms part of the asset-liability management purpose	Held at amortised cost
Trade, other payables and accrued interest on debt funding	Sundry creditors - Normal accruals for day to day operational expenses, accrued interest raised on financial market liabilities and amounts due to third party managed funds	Held at amortised cost
Derivative liabilities held for risk management purposes	Derivative liabilities held for risk management	Fair value through profit or loss
Repurchased agreements at amortised cost	Forms part of the asset-liability management purpose	Held at amortised cost

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

Financial liabilities at fair value through profit or loss includes debt securities and derivatives held for risk management. 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; and
- The designation eliminates or significantly reduces an accounting mismatch which would otherwise arise.

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.

(ii) Financial liabilities held at amortised cost

Financial liabilities at amortised cost includes loans and borrowings, trade and other payables. All other financial liabilities not designated at fair value through profit or loss are classified as financial liabilities held at amortised cost. These financial liabilities are initially recognised at fair value and subsequently at amortised cost.

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

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

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

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

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

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

(iv) Derivative financial instruments

The Bank enters into a variety of derivative financial instruments which are held to manage its exposure to interest rate risk and foreign exchange rate risk. Derivative held include foreign exchange forward contracts, interest rate swaps, cross currency swaps, currency options, options and forward rate agreements. Further details of derivative financial instruments are disclosed in note 8.
Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each balance sheet date. The resulting gain/loss is recognised in profit or loss immediately unless the derivative is designated effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

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

ACCOUNTING POLICIES (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2020

1.2 Financial instruments (continued)

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

(v) Embedded derivatives

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

(vi) Modification of financial liabilities

When the terms of a financial liability are modified, the Bank assesses whether this modification results in derecognition. In accordance with the Bank's policy, a modification results in derecognition when the modification gives rise to substantially different terms. To determine if the modified terms are substantially different from the original contractual terms, the Bank considers both qualitative factors and performs a quantitative assessment. The following qualitative factors are considered:

- Change in loan tenor;
- Change in interest;
- Changes in obligation;
- Issue of debt moratorium;
- New or amended covenants;
- Rolling; and
- Debt consolidation.

A quantitative assessment is performed to compare the present value of the remaining contractual cash flows under the original terms with the contractual cash flows under the revised terms, both amounts discounted at the original effective interest rate. If the difference in present value is greater than 10%, the Bank deems the arrangement substantially different leading to derecognition. A difference of less than 10% may result in derecognition, if the changes in the qualitative factors are considered significant. In the case where the financial liability is derecognised, the fair value of the original liability is recognised in profit or loss and the fair value of the new liability is recognised as the new carrying amount of a financial liability.

(Vii) Derecognition of a financial liability

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

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

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

(Viii) Offsetting of financial instruments

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

1.2.8. Trade date and settlement date accounting

The trade date is the date that an entity commits itself to purchase or sell an asset and trade date accounting refers to:

- The recognition of an asset to be received and the liability to pay for it on the trade date; and
- Derecognition of an asset that is sold, recognition of any gain or loss on disposal and the recognition of a receivable from the buyer for payment on the trade date.

The settlement date is the date that an asset is delivered to or by an entity and settlement date accounting refers to:

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

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

1.2.9. Repurchase and sale agreements

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

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

1.2.10. Impairment of financial instruments

The Bank recognises expected credit losses on the following instruments:

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

(i) Expected credit losses

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

ACCOUNTING POLICIES (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2020

1.2 Financial instruments (continued)

Three stages

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

Stage 1: 12-month ECL

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

Stage 2: Lifetime ECL – not credit impaired

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

Stage 3: Lifetime ECL – credit impaired

At each reporting date, the Bank assesses whether financial assets carried at amortised cost and financial assets carried at FVOCI are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. By definition a financial asset is classified as a stage 3 when the counterparty has defaulted. Financial assets that are more than 90 days in arrears are classified as non-performing thus credit impaired. Further, the Bank uses stringent measures on loans with monthly repayments. When two consecutive payments have been missed or exposure in arrears equals to two monthly repayments, the exposure is transferred to stage 3.

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

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred.

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

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

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

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

For purchased or originated credit-impaired financial assets, the Bank calculates credit-adjusted effective interest rate, which is calculated based on the amortised cost of the financial asset or its gross carrying amount and incorporates the impact of expected credit losses in the estimated future cash flows.

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

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

The Bank also considers reasonable and supportable information that is relevant and available without undue cost or effort for this purpose.

This includes quantitative and qualitative information and also forward-looking analysis. Refer to note 42.

The Bank assesses whether the credit risk on a financial asset has increased significantly on an individual loan level basis.

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

Backstop measure

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

This 30 DPD rebuttable presumption to exclude the following factors:

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

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

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

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

ACCOUNTING POLICIES (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2020

1.2 Financial instruments (continued)

(iii) Measurement of ECLs

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

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

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

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

- **PD:** The Probability of Default is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed period, if the facility has not been previously derecognised and is still in the portfolio. The concept of PDs is further explained in Note 42;
- **EAD:** The Exposure at Default is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, whether scheduled by contract or otherwise, expected drawdowns on committed facilities, and accrued interest from missed payments. The EAD is further explained in Note 42; and
- **LGD:** The loss Given Default is an estimate of the loss arising in the case where default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realisation of any collateral. It is usually expressed as a percentage of the EAD. The LGD is further explained in Note 42.

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

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

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

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

For further details on how the Bank calculates ECLs including the use of forward looking information and for details on the effect of modifications of loans on the measurement of ECL refer to note 42.

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

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

(iv) Expected credit losses on modified financial assets

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

- If the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset. If the modification of a financial asset measured at amortised cost does not result in derecognition of the financial asset, then the Bank first recalculates the gross carrying amount of the financial asset using the original effective interest rate of the asset and recognises the resulting adjustment as a modification gain or loss in profit or loss. For floating-rate financial assets, the original effective interest rate used to calculate the modification gain or loss is adjusted to reflect current market terms at the time of the modification. Any costs or fees incurred and modification fees received adjust the gross carrying amount of the modified financial asset and are amortised over the remaining term of the modified financial asset. The modification gain or loss is recognised in profit or loss; and
- If the expected restructuring result in the derecognition of the existing asset, then the fair value of the new asset is the new cashflows based on the new terms of the restructure. Accordingly, the date of the modification shall be treated as the date of initial recognition of that financial asset when applying the impairment requirements to the modified financial asset.

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

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

The Bank continues to monitor if there is a subsequent significant increase in credit risk in relation to such assets in accordance with the policy of the Bank.

(v) Trade and other receivables

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

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

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

Adjustments will be made for forward looking information based on economic conditions. The default rate calculated in the provision matrix will be adjusted for economic conditions.

The total book debt is segregated into different categories of change and other receivables and the default percentage is applied on the balance per bracket to calculate the expected credit loss allowance.

ACCOUNTING POLICIES (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2020

1.2 Financial instruments (continued)

(vi) Loan commitments

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

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

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

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

(vii) Financial guarantees

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

After initial recognition, the Bank measures the financial guarantees at the higher of:
- The amount of the credit loss allowance; and
- The amount initially recognised (fair value) less, when appropriate, the cumulative amount of income recognised in accordance with the principles of IFRS 15.

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

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

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

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

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

(ix) Write off policy

Financial assets are written off either partially or in their entirety only when the Bank has stopped pursuing the recovery of the financial asset.

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

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

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

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

(x) Collateral and other credit enhancements

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

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

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

ACCOUNTING POLICIES (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2020

1.3 Hedge accounting

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

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

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

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

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

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

Note 12 sets out details of the fair values of the derivative instruments used for hedging purposes and note 24.2 sets out the movements in the hedging reserve in equity.

(i) Fair value hedge

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

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

The Bank discontinues hedge accounting only when the hedging relationship (or a part thereof) ceases to meet the hedge accounting requirements (after rebalancing if applicable). This includes instances where hedging instrument expires or is sold, terminated or exercised, If the hedging derivative expires or is sold, terminated, or exercised, or the hedge no longer meets the criteria for fair value hedge accounting, or the hedge designation is revoked, hedge accounting is discontinued prospectively. Any adjustment up to that point to a hedged item for which the 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.

(ii) Cash flow hedge

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

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

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

1.4 Cash and cash equivalents

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

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

1.5 Trade and other receivables

Trade and other receivables comprise trade debtors, third party funds, staff loans and VAT.

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

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

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

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

1.6 Investment securities

Investment securities consist of government bonds, municipal bonds, state owned entities bonds and segregated funds. These are held as part of the strategic liquidity portfolio. The instruments will now be measured at fair value through profit or loss as the overall business model is one where the main purpose for investment securities is that these are held as part of the strategic liquidity portfolio and can thus be redeemed at any time depending on the Bank's liquidity requirements. Any changes in the fair value will be recognised in profit or loss.

ACCOUNTING POLICIES (CONTINUED)
FOR THE YEAR ENDED 31 MARCH 2020

1.7 Impairment of non-financial assets

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

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

Intangible assets that have an indefinite useful life and are not subject to amortisation, as well as intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

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

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

1.8 Property, equipment and right of use of assets

1.8.1. Property and equipment

1.8.1.1 Recognition and measurement

Items of property and equipment are measured at cost less accumulated depreciation and impairment losses, except for land and buildings, which are measured at fair value less accumulated depreciation and impairment losses, in terms of the revaluation model. Land and buildings are revalued every year either by an independent valuator or by management.

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

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

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

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

Freehold land and buildings are subsequently carried at fair value, based on periodic valuations performed either by an independent valuator or management. Changes in fair value are recognised in other comprehensive income and accumulated in the revaluation reserve except to the extent that any decrease in value in excess of the credit balance on the revaluation reserve, or reversal of such a transaction, is recognised in profit or loss.

Leasehold improvements on buildings leased are capitalised and are amortised over the lease term.

1.8.1.2 Subsequent costs

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

1.8.1.3 Depreciation

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

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

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

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

1.8.2 Right of use of assets

1.8.2.1 Recognition and measurement

Initially measured at the amount of the lease liability (refer 1.12.2), reduced for any lease incentives received, and increased for:
- Lease payments made at or before commencement of the lease;
- Initial direct costs incurred; and
- The amount of any provision recognised where the Bank is contractually required to dismantle, remove or restore the leased asset.

1.8.2.2 Subsequent measurement

The Bank applies the cost model subsequent to the initial measurement of the right of use assets.

1.8.2.3 Depreciation on right of use assets

Subsequent to initial measurement, the right of use assets are depreciated on a straight line basis over the remaining term of the lease or over the remaining economic life of the asset should this term be shorter than the lease term unless ownership of the underlying asset transfers to the group at the end of the lease term, whereby the right of use assets are depreciated on a straight line basis over the remaining economic life of the asset. This depreciation is recognised as part of operating expenses.

1.8.2.4 Termination of lease

When the Bank or lessor terminates or cancels a lease, the right of use asset is derecognised any difference in the right of use asset is recognised in profit or loss on derecognition.

ACCOUNTING POLICIES (CONTINUED)
FOR THE YEAR ENDED 31 MARCH 2020

1.9 Intangible assets

1.9.1 Recognition and measurement

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

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

1.9.2 Subsequent expenditure

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

1.9.3 Amortisation

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

Item	Estimated useful life
Software	3 – 15 years

1.10. Trade and other payables

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

Trade and other payables are initially measured at fair value. Subsequently, they are measured at amortised cost using the effective interest rate method.

1.11. Employee benefits

(a) Defined contribution plan

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

(b) Defined benefit plan

The Bank contributes to a defined benefit plan for post-employment medical benefits for eligible employees and pensioners. A defined benefit plan is a post-employment benefit plan other than a defined contribution plan.

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

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

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

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

(c) Termination benefits

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

(d) Short term employee benefits

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

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

1.12 Provisions and lease liabilities

1.12.1 Provisions

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

(a) Restructuring provision

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

(b) Onerous contracts

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

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

ACCOUNTING POLICIES (CONTINUED)
FOR THE YEAR ENDED 31 MARCH 2020

1.12 Provisions and lease liabilities (continued)

1.12.2 Lease liabilities

(a) Policy applicable before 1 April 2019

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership. Assets held by the Bank under leases that transfer to the Bank substantially all of the risks and rewards of ownership are classified as finance leases. On initial recognition, the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Assets held under other leases are classified as operating leases and are not recognised in the Bank's statement of financial position. Costs incurred under operating leases are recognised in profit or loss on a straight line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

(i) Finance leases – lessee

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

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

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

(b) Policy applicable from the 1 April 2019

A lease liability is initially measured at the present value of the contractual payments due to the lessor over the lease term, with the discount rate determined by reference to the Bank's incremental borrowing rate at the date of entering into the lease.

For variable lease payments, fixed amounts are assumed and used in the calculation of the lease liability. The difference in the amounts assumed and the amounts paid are expensed in the statement of profit or loss. Subsequent to initial recognition, the interest accrued is included in the balance of the lease liability and the repayments are reduced to the balance of the lease liability.

When the Bank or lessor terminates or cancels a lease, the lease liability is derecognised, any difference in the lease liability is recognised in profit or loss on derecognition.

1.13 Debt funding

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

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

1.14 Share capital and reserves

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

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

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

1.14.1 Share capital

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

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

1.14.2 Permanent government funding

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

1.14.3 Cash flow hedge reserve

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

1.14.4 Reserve for general loan risks

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

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

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

1.14.5 Revaluation reserve on land and buildings

This reserve represents the fair value adjustment recognised on the revaluation of land and buildings. Land and buildings are subsequently carried at fair value, based on periodic valuations performed either by an independent valuator or management. These revaluations are made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period.

Changes in fair value are recognised in other comprehensive income and accumulated in the revaluation reserve except to the extent that any decrease in value in excess of the credit balance on the revaluation reserve, or reversal of such a transaction, is recognised in profit or loss.

ACCOUNTING POLICIES (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2020

1.15 Financial guarantees

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

Financial guarantee contracts issued by the Bank are initially measured at their fair values and, if not designated as at FVTPL and not arising from a transfer of a financial asset, are subsequently measured at the higher of:
- The amount of the loss allowance determined in accordance with IFRS 9; and
- The amount initially recognised less, where appropriate, cumulative amount of income recognised in accordance with the Bank's revenue recognition policies.

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

The Bank has not designated any financial guarantee contracts as at FVTPL.

1.16 Loan commitments

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

The Bank enters into commitments to lend to its customers subject to certain conditions. Such loan commitments are made either for a fixed period, or are cancellable by the Bank subject to notice conditions.

Provision is made for undrawn loan commitments to be provided at below-market interest rates and for similar facilities if it is probable that the facilities will be drawn and results in recognition of an assets at an amount less than the amount advanced.

The Bank will recognise ECL on loan commitments. Refer to note 46 for the policy disclosure. Expected credit losses arising from loan commitments are included within provisions, refer to note 18.

Subsequently, they are measured at the higher of this amortised amount less the amount of expected credit loss allowance.

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

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

1.17 Revenue

Revenue is derived from the business of development activities and substantially comprises interest income.

(i) Net interest income

Interest income and expense for all financial instruments except for those measured or designated as at FVTPL are recognised in the profit or loss account using the effective interest rate method. Interest on financial instruments measured as at FVTPL is recognised in 'other Interest income' and 'other interest expense'.

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

The calculation of the EIR includes all the fees that are considered to be an integral part of the lending arrangement, transaction cost and all other premium or discounts. For financial assets at FVTPL transaction costs are recognised in profit or loss at initial recognition.

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

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

(ii) Fee income and expense

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

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

Management fees

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

Lending fees

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

Non lending fees

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

Other income

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

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

ACCOUNTING POLICIES (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2020

1.18 Investment income

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

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

1.19 Determination of fair values

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

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

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

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

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

1.19.1. Property, equipment and right of use of assets

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

1.19.2. Other financial assets

The fair value of other financial asset is based on the valuation performed by the fund managers.

1.19.3 Financial instruments

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

(a) Unadjusted, quoted prices in active markets where the quoted price is readily available and the price represents actual and regularly occurring market transactions on an arm's length basis. The Bank does not adjust quoted prices obtained in active markets. The level 1 classification is made for all financial instruments where there is enough volume of trades and liquidity. Listed government bonds are classified as level 1. Listed municipal bonds, corporate bonds, state-owned entity bonds and own issued bonds are disclosed as level 1 fair value hierarchy only in instances where there is evidence of sufficient volume of trades and number of trades in an active market. The criteria applied is shown in point (b) below.

(b) There are two groups of Bank's financial instruments that are disclosed as fair value hierarchy level 2.

- Group 1 instruments – Instruments where the valuation technique applied uses the market observable inputs. Such techniques may include: using recent arm's length market transactions, reference to the current fair value of similar instruments and discounted cash flow analysis, pricing models or other techniques commonly used by market participants;
- Group 2 instruments – Listed instruments from an inactive market and whose trading volumes do not support a level 1 classification are shown as level 2 classification. These instruments include municipal, corporate, state-owned entity and own-issued bonds listed in an inactive market where there is no sufficient volume of trades and liquidity. No adjustments are made to quoted prices. However, should the market be inactive, such fair values do not qualify for level 1 classification. Financial instruments at fair value are disclosed as level 1 fair value hierarchy only if the instrument has a minimum weekly; and
- Financial instruments at fair value are disclosed as level 1 fair value hierarchy only if the instrument has a minimum weekly trade volume of 50 trades in the last trading week close to measurement date and cumulatively a minimum of 200 trade volume per month is achieved. The thresholds are reviewed annually and represent management's judgement (based on historical trade-volume analysis) in assessing the trading volumes which supports a level 1 fair value hierarchy-classification. No adjustments are made to listed or observable prices. Close to each measurement date, the Bank assesses whether instruments' trading volumes and number of trades support a level 1 classification.

(c) Valuation techniques, as described in (b) above, for which not all inputs are market observable prices or rates. Such a financial instrument is initially recognised at the transaction price, which is the best indicator of fair value, although the value obtained from the relevant valuation model may differ. The difference between the transaction price and the model value, commonly referred to as day one, profit or loss, is either amortised over the life of the transaction, deferred until the instrument's fair value can be determined using market observable inputs, or realised through settlement. The valuation techniques in (b) and (c) use as inputs interest rate yield curves, equity prices, commodity and currency prices/yields, volatilities of underlying and correlations between inputs. The models used in these valuation techniques are calibrated against industry standards, economic models and observable transaction prices where available. The Bank recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the transfers have occurred.

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

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

1.19.4 Equity investments

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

If the market for an equity financial instrument is not active, the Bank uses a valuation technique to establish what the transaction price would be in an orderly transaction in the principal (or most advantageous) market between market participants at the measurement date. Fair value is a market based measurement and uses the assumptions that market participants would use when pricing an asset under current market conditions. When determining fair value it is presumed that the entity is a going concern and is not an amount that represents a force transaction, involuntary liquidation or a distressed sale.

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

- Price of recent investment, if available;
- Discounted cash flow analysis based on free cash flows, earnings or dividends using market-related adjusted discount rates;
- Price earnings growth (PEG);
- Option pricing models;
- Net asset values (NAV); and
- Offer price as proxy to the fair value.

ACCOUNTING POLICIES (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2020

1.19 Determination of fair values (continued)

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

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

1.19.5. Investment securities

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

1.19.6. Debt securities

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

1.19.7. Lines of credit

These market prices are based on capital and interest. Actively quoted market prices are not available, the fair value is determined through discounted cash flow techniques, using market interest rates taking into account the credit quality and duration of the instrument.

1.19.8. Derivatives

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

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

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

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

1.19.9. Interest-bearing loans and borrowings

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

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

1.19.10. Interest rates used for determining fair value

The Bank uses market-derived discount curves as at the reporting date. Future cash flows are based on contractual cash flows and, where market observable inputs are not available, management makes use of best estimates to determine the appropriate credit spread to apply. The Bank recognises transfers between levels of the fair value hierarchy as of the end of the reporting period during which the change has occurred.

1.20 Contingent liabilities and commitments

Transactions are classified as contingencies when the Bank's obligations depend on uncertain future events not within the Bank's control.

Items are classified as commitments when the Bank commits itself to future transactions with external parties.

1.21 Events after the reporting period

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

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

ACCOUNTING POLICIES (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2020

1.22 Related parties

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

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

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

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

1.23 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.

1.24 Segmental reporting

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

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

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2020

1. New Standards and Interpretations

1.1. IFRS 16: Leases

The Bank applied IFRS 16 on a modified retrospective basis and did not restate comparatives as permitted by the standard. The Bank applied the following transition options available under the modified retrospective approach:

- To calculate the right of use of asset equal to the lease liability, adjusted for prepaid or accrued payments;
- To apply the recognition exception for leases with a term not exceeding 12-months;
- To use hindsight in determining the lease term if the contract contains options to extend or terminate the lease; and
- The impact on adoption of IFRS 16 was an increase in property, equipment and leased assets of R7 million, an increase in equity of R0.2 million and an increase in Provisions and other liabilities of R7.2 million. Refer to note 1.2 below for the transitional impact of IFRS 16.

1. 2. Transition note – IFRS 16

(a) Impact on the condensed consolidated statement of financial position at 1 April 2019.

Assets and liabilities

in thousands of rands	Balance as at 31 March 2019	IFRS 16 transition adjustment	Balance as at 1 April 2019
Assets			
Property, equipment and right of use of asset	435 020	6 984	442 004
Total assets	**435 020**	**6 984**	**442 004**
Equity and liabilities			
Trade, other payables and accrued interest on debt funding*	678 991	3 314	682 305
Provisions and lease liabilities	309 010	3 901	312 911
Total liabilities	**988 001**	**7 215**	**995 216**
Equity			
Retained earnings	22 717 877	(231)	22 717 646
Total liabilities and equity	**23 705 878**	**6 984**	**23 712 862**

(b) Impact on the condensed statement of comprehensive income as a result of adoption of IFRS 16: Leases

In thousands of rands	Movements for the year
Increase in depreciation charge for the year	3 377
Increase in interest expense	403
Total for the year	**3 780**

* R3.5 million was paid to the Bank's lessors during the current period as a result of lease agreements.

(c) Reconciliation of IFRS 16 impact reported in March 2019 Annual Financial Statements to actual amounts calculated on 1 April 2019:

In thousands of rands	Movement as at 1 April 2019
Expected IFRS 16 transition impact	6 984
Actual transition impact	(7 215)
Difference	**(231)**

1.3 Standards and Interpretations issued but not yet effective

1.3.1 Amendment to IFRS 9: Financial Instruments (Prepayment features)

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

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

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

The standard is not applicable to date.

1.3.2. The following standards were also issued and have been assessed by the Bank. The standards have no impact on the Bank's financial statements:

- IFRS 4: Insurance contracts;
- IFRS 13: Business combinations; and
- IFRS 41: Agriculture

2. Segmental information

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

- RSA Municipalities;
- RSA Economic and Social;
- Rest of Africa;
- Infrastructure Delivery Division; and
- Treasury and balance sheet management.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2020

2. Operating reportable segments

	RSA Municipalities		RSA Economic and Social		Rest of Africa	
In thousands of rand	**2020**	**2019**	**2020**	**2019**	**2020**	**2019**
Interest income calculated using EIR	2 833 120	2 795 669	3 466 097	3 388 440	1 451 496	1 736 267
Other interest income	–	–	14 329	21 734	10 862	10 226
Total interest income	**2 833 120**	**2 795 669**	**3 480 426**	**3 410 174**	**1 462 358**	**1 746 493**
Interest expense calculated using EIR	(1 510 647)	(1 597 502)	(1 708 457)	(1 711 967)	(385 590)	(379 633)
Other interest expense	–	–	–	–	–	–
Total interest expense	**(1 510 647)**	**(1 597 502)**	**(1 708 457)**	**(1 711 967)**	**(385 590)**	**(379 633)**
Net interest income	**1 322 473**	**1 198 167**	**1 771 969**	**1 698 207**	**1 076 768**	**1 366 860**
Net fee income	2 782	1 540	58 120	75 259	44 022	13 714
Dividends[1]	–	–	14 807	27 468	18 203	64 773
Other operating income[1]	8 391	9 726	35 363	4 141	107 627	17 992
Non-interest income	**11 173**	**11 266**	**108 290**	**106 868**	**169 852**	**96 479**
Operating income	**1 333 646**	**1 209 433**	**1 880 259**	**1 805 075**	**1 246 620**	**1 463 339**
Operating expenses[2]	(344 092)	(111 369)	(429 917)	(85 487)	(279 660)	(65 412)
Depreciation and amortisation	(8 470)	–	(11 957)	–	(7 697)	–
Expected credit losses on financial assets	(3 349)	74 409	(321 054)	(242 418)	(3 304 943)	(1 272 327)
Expenses	**(355 911)**	**(36 960)**	**(762 928)**	**(327 905)**	**(3 592 300)**	**(1 337 739)**
Development Expenditure[3]	(29 324)	(6 426)	–	–	–	–
Project Preparation Expenditure	–	–	–	–	–	–
Revaluation of development loans[4]	–	–	–	–	(77 482)	–
Revaluation of Equity Investments[4]	–	–	(67 361)	(20 005)	(303 951)	61 462
Grants	–	–	–	–	–	–
Sustainable earnings[5]	**948 411**	**1 166 047**	**1 049 970**	**1 457 165**	**(2 727 113)**	**187 062**
Net foreign exchange gain/(loss)[6]	–	–	–	–	–	–
Net (loss)/gain from financial assets and liabilities[4]	–	–	–	–	–	–
Profit/(loss) for the year	**948 411**	**1 166 047**	**1 049 970**	**1 457 165**	**(2 727 113)**	**187 062**
Capital expenditure	**–**	**–**	**–**	**–**	**–**	**–**
Development loans	26 222 156	26 618 607	38 387 446	32 539 733	21 630 662	16 658 166
Development bonds	1 288 278	1 290 179	–	–	–	–
Equity investments	–	–	2 419 806	2 703 951	3 574 145	3 233 627
Other assets	8	–	133	339	25 515	1 598
Total assets	**27 510 442**	**27 908 786**	**40 807 385**	**35 244 023**	**25 230 322**	**19 893 391**
Total liabilities	**13 728 326**	**15 075 081**	**25 799 065**	**21 285 673**	**18 231 632**	**10 167 588**

[1] Dividends (R33 010) and other operating income (R169 607) make up other income (R202 617) in the statement of comprehensive income.

[2] Operating expenses (R1 240 808) comprises of personnel expenses (R751 070) and general and administration expenses (R489 738).

[3] Development expenditure relates to loan commitments in support of under resourced municipalities.

[4] Revaluation losses have been split between equity investments, development loans and financial instruments for segment reporting purposes. Revaluation loss on equity investments (R371 312), loss on development loans (R77 482) and net loss from financial assets and liabilities (R80 233) make up net loss from financial assets and financial liabilities (R529 027) in the statement of comprehensive income.

	Infrastructure Delivery		Treasury and balance sheet management		*All other		Total	
	2020	**2019**	**2020**	**2019**	**2020**	**2019**	**2020**	**2019**
	–	–	269 218	237 124	–	305	8 019 931	8 157 805
	–	–	241 195	220 074	–	–	266 386	252 034
	–	**–**	**510 413**	**457 198**	**–**	**305**	**8 286 317**	**8 409 839**
	–	–	212 109	344 814	–	–	(3 392 585)	(3 344 288)
	–	–	(470 279)	(571 101)	50	–	(470 229)	(571 101)
	–	**–**	**(258 170)**	**(226 287)**	**50**	**–**	**(3 862 814)**	**(3 915 389)**
	–	**–**	**252 243**	**230 911**	**50**	**305**	**4 423 503**	**4 494 450**
	190 802	164 493	(62 981)	(65 601)	22 768	3 975	255 513	193 380
	–	–	–	–	–	–	33 010	92 241
	15 813	14 150	11	–	2 402	1 523	169 607	47 532
	206 615	**178 643**	**(62 970)**	**(65 601)**	**25 170**	**5 498**	**458 130**	**333 153**
	206 615	**178 643**	**189 273**	**165 310**	**25 220**	**5 803**	**4 881 633**	**4 827 603**
	(187 960)	(169 698)	3 680	21 590	(2 859)	(633 327)	(1 240 808)	(1 043 703)
	(811)	(1 238)	(386)	–	–	(18 341)	(29 321)	(19 579)
	–	855	–	–	(3 333)	(1 575)	(3 632 679)	(1 441 056)
	(188 771)	**(170 081)**	**3 294**	**21 590**	**(6 192)**	**(653 243)**	**(4 902 808)**	**(2 504 338)**
	–	–	–	–	(17 868)	(14 079)	(47 192)	(20 505)
	–	–	–	–	(41 539)	(1 405)	(41 539)	(1 405)
	–	–	–	–	–	–	(77 482)	–
	–	–	–	–	–	–	(371 312)	41 457
	–	–	–	–	(28 654)	(18 318)	(28 654)	(18 318)
	17 844	**8 562**	**192 567**	**186 900**	**(69 033)**	**(681 242)**	**(587 354)**	**2 324 494**
	–	–	1 171 519	743 713	–	–	1 171 519	743 713
	–	–	(72 652)	30 202	(7 581)	(1 714)	(80 233)	28 488
	17 844	**8 562**	**1 291 434**	**960 815**	**(76 614)**	**(682 956)**	**503 932**	**3 096 695**
	–	**–**	**–**	**–**	**20 332**	**27 843**	**20 332**	**27 843**
	–	–	–	–	–	–	86 240 264	75 816 506
	–	–	–	–	–	–	1 288 278	1 290 179
	–	–	–	–	–	–	5 993 951	5 937 578
	152 993	186 885	6 193 632	5 690 160	570 341	565 164	6 942 622	6 444 146
	152 993	**186 885**	**6 193 632**	**5 690 160**	**570 341**	**565 164**	**100 465 115**	**89 488 409**
	106 449	**158 186**	**684 697**	**1 386 259**	**4 337 369**	**4 243 137**	**62 887 538**	**52 315 924**

[5] Sustainable Earnings as outlined in the DBSA's corporate plan means Earnings (Profit) before foreign currency exchange gain/loss and financial instruments adjustments, but including revaluation on equity instruments.

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

* The All Other segment includes Project Preparation, Agencies and Corporate assets.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2020

3. Financial assets by category

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

In thousands of rands	Notes	At amortised cost	FVTPL	Total carrying amount	Fair value
March 2020					
Cash and cash equivalents at amortised cost	5	3 458 836	–	3 458 836	3 458 836
Trade receivables and other assets	6	161 796	–	161 796	161 796
Investment securities	7	–	1 787 361	1 787 361	1 787 361
Derivative assets held for risk management purposes*	8.1	–	812 053	812 053	812 053
Other financial asset	9	–	36 152	36 152	36 152
Development loans at fair value through profit or loss**	10	–	22 413	22 413	22 413
Equity investments held at fair value through profit or loss**	11	–	5 993 951	5 993 951	5 993 951
Development bonds at amortised cost	13	1 288 278	–	1 288 278	1 202 477
Development loans at amortised cost	14	86 240 264	–	86 240 264	95 039 148
		91 149 174	**8 651 930**	**99 801 104**	**108 514 187**

* Derivative assets held for risk management and investment securities are mandatorily held at fair value through profit or loss.

** Development loans and equity instrument are mandatory held at fair value through profit or loss.

In thousands of rands	Level 1 Category	Level 2 Category	Level 3 Category	Total
Financial assets held at fair value				
Investment securities	544 185	1 243 176	–	1 787 361
Derivative assets held for risk management purposes	–	812 053	–	812 053
Development loans at fair value through profit or loss	–	–	22 413	22 413
Other financial asset	–	36 152	–	36 152
Equity investments held at fair value through profit or loss	–	3 817 616	2 176 335	5 993 951
	544 185	**5 908 997**	**2 198 748**	**8 651 930**
Financial assets held at amortised cost for which fair values are disclosed				
Cash and cash equivalents at amortised cost	–	3 458 836	–	3 458 836
Trade receivables and other assets	–	–	161 796	161 796
Development bonds at amortised cost	–	1 202 477	–	1 202 477
Development loans at amortised cost	–	–	95 039 148	95 039 148
	–	**4 661 313**	**95 200 944**	**99 862 257**
Total fair value of financial assets	**544 185**	**10 570 310**	**97 399 692**	**108 514 187**

In thousands of rands	Notes	At amortised cost	FVTPL	Total carrying amount	Fair value
March 2019					
Cash and cash equivalents at amortised cost	5	2 922 876	–	2 922 876	2 922 876
Trade receivables and other assets	6	152 617	–	152 617	152 617
Investment securities	7	–	1 880 502	1 880 502	1 880 502
Derivative assets held for risk management purposes	8.1	–	713 304	713 304	713 304
Other financial assets	9	–	43 732	43 732	43 732
Equity investments held at fair value through profit or loss	11	–	5 937 578	5 937 578	5 937 578
Development bonds at amortised cost	13	1 290 179	–	1 290 179	1 227 075
Development loans at amortised cost	14	75 816 506	–	75 816 506	86 423 383
		80 182 178	**8 575 116**	**88 757 294**	**99 301 067**

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

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2020

4. Financial liabilities by category

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

In thousands of rands	Notes	At amortised cost	FVTPL	Total carrying amount	Fair value
March 2020					
Derivative liabilities held for risk management purposes*	8.2	–	784 835	784 835	784 835
Trade, other payables and accrued interest on debt funding	17	546 227	–	546 227	546 227
Debt funding designated at FVTPL	20	–	1 505 805	1 505 805	1 505 805
Debt funding held at amortised cost**	21	59 040 495	–	59 040 495	62 183 714
Repurchase agreements held at amortised costs	21	587 338	–	587 338	529 858
		60 174 060	**2 290 640**	**62 464 700**	**65 550 439**

* Derivative liabilities held for risk management are mandatorily held at fair value through profit or loss.

** The accrued interest portion of R422 million on funding debt securities held at amortised cost is presented under trade, other payables and accrued interest line. Total debt funding at amortised cost inclusive of accrued interest of R59.4 billion is made up of accrued interest of R422 million plus principal of R59 billion. The total fair value of the Bank's funding is R64 billion.

In thousands of rands	Level 1 Category	Level 2 Category	Level 3 Category	Total
Financial assets held at fair value				
Debt funding designated at fair value through profit or loss	–	1 505 805	–	1 505 805
Derivative liabilities held for risk management purposes*	–	784 835	–	784 835
	–	**2 290 640**	**–**	**2 290 640**
Financial assets held at amortised cost for which fair values are disclosed				
Trade, other payables and accrued interest on debt funding	–	429 459	116 768	546 227
Debt funding held at amortised cost	–	62 183 714	–	62 183 714
Repurchase agreements held at amortised costs	–	529 858	–	529 858
	–	**63 143 031**	**116 768**	**63 259 799**
Total fair value of financial liabilities	**–**	**65 433 671**	**116 768**	**65 550 439**

In thousands of rands	Notes	At amortised cost	FVTPL	Total carrying amount	Fair value
March 2019					
Derivative liabilities held for risk management purposes*	8.2	–	297 798	297 798	297 798
Trade, other payables and accrued interest on debt funding	17	483 264	–	483 264	483 264
Debt funding designated at FVTPL	20	–	6 469 451	6 469 451	6 469 451
Debt funding at amortised cost**	21	44 516 190	–	44 516 190	46 905 569
		44 999 454	**6 767 249**	**51 766 703**	**54 156 082**

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

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

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

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

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2020

5. Cash and cash equivalents at amortised cost

In thousands of rands	2020	2019
Cash and cash equivalents consist of:		
Call deposits	1 899 866	2 133 667
Cash in bank	1 558 970	789 209
Balance at end of the year	**3 458 836**	**2 922 876**

The average interest rate earned on fixed and call deposits detailed above was 7.43% (March 2019: 7.40%). The Bank's exposure to interest rate risk and sensitivity analysis for financial assets and financial liabilities is disclosed in note 42.

6. Trade receivables and other assets

In thousands of rands	2020	2019
Financial assets at amortised cost		
Trade receivables	140 101	154 454
Less provision for ECL on trade receivables	(7 264)	(3 931)
Net carrying amount trade receivables	**132 837**	**150 523**
Accrued interest	28 888	1 954
Deposits	4	4
Staff loans	67	136
Total financial assets	**161 796**	**152 617**
Non-financial assets		
Payroll expenses receivable	45	4
Prepayments	162 532	211 368
Subsistence and travel	1 064	883
VAT	2 632	707
Total other assets	**166 273**	**212 962**
Balance at end of the year	**328 069**	**365 579**
Analysis of trade receivables and other assets		
Current portion	165 492	154 207
Non-current portion	162 577	211 372
Balance at end of the year	**328 069**	**365 579**
Reconciliation of provision for expected credit losses on trade receivables		
Balance at beginning of the year	3 931	3 112
Increase in provision for expected credit losses on trade receivables (refer to note 34)	3 333	819
Balance at end of the year	**7 264**	**3 931**

* Staff loans are for employees and are interest free. The interest that should have been payable on this account is R 6 163 (March 2019: R12 607) at a rate of 9.25%.

In thousands of rands	2020	2019

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

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

Default rate used for the calculation of expected credit losses for trade receivables is detailed below.

Default rates	%	%
Infrastructure Delivery trade receivables	0	0
Other trade receivables	17	17
Ex-employees receivables	100	100

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

In thousands of rands	Days				Total
	> 90	61 – 90	31 – 60	1 – 30	
31 March 2020					
Infrastructure Delivery debtors – Expected loss rate of 0%					
Gross carrying amount	4 641	–	32 268	69 842	106 751
Provision for lifetime expected credit losses	–	–	–	–	–
Net carrying amount at end of the year	**4 641**	**–**	**32 268**	**69 842**	**106 751**
Other trade receivables – Expected loss rate of 17%					
Gross carrying amount	11 238	721	8 617	10 797	31 373
Provision for lifetime expected credit losses	(1 911)	(122)	(1 465)	(1 789)	(5 287)
Net carrying amount at end of the year	**9 327**	**599**	**7 152**	**9 008**	**26 086**
Ex-employees – Expected loss rate of 100%					
Gross carrying amount	1 703	–	–	274	1 977
Provision for lifetime expected credit losses	(1 703)	–	–	(274)	(1 977)
Net carrying amount at end of the year	**–**	**–**	**–**	**–**	**–**
Total net carrying amount at end of the year	**13 968**	**599**	**39 420**	**78 850**	**132 837**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2020

6. Trade receivables and other assets

	Days				
In thousands of rands	**> 90**	**61 – 90**	**31 – 60**	**1 – 30**	**Total**
31 March 2019					
Infrastructure Delivery debtors – Expected loss rate of 0%					
Gross carrying amount	2 538	3 016	2 837	131 190	139 581
Provision for lifetime expected credit losses	–	–	–	–	–
Net carrying amount at end of the year	**2 538**	**3 016**	**2 837**	**131 190**	**139 581**
Other trade receivables – Expected loss rate of 17%					
Gross carrying amount	5 231	597	321	6 957	13 106
Provision for lifetime expected credit losses	(842)	(101)	(54)	(1 167)	(2 164)
Net carrying amount at end of the year	**4 389**	**496**	**267**	**5 790**	**10 942**
Ex-employees – Expected loss rate of 100%					
Gross carrying amount	1 767	–	–	–	1 767
Provision for lifetime expected credit losses	(1 767)	–	–	–	(1 767)
Net carrying amount at end of the year	**–**	**–**	**–**	**–**	**–**
Total net carrying amount at end of the year	**6 927**	**3 512**	**3 104**	**136 980**	**150 523**

The table below shows the reconciliation of the opening balance to the closing balance of the gross carrying amount of trade receivables and the provision for expected credit losses:

	Default rate			
In thousands of rands	**0%**	**17%**	**100%**	**Total**
Reconciliation of gross carrying amount				
Carrying amount as at 1 April 2019	139 581	13 106	1 767	154 454
Movements for the year	(32 830)	18 267	210	(14 353)
Gross carrying amount at end of the year	**106 751**	**31 373**	**1 977**	**140 101**
Reconciliation of provision for expected credit losses				
Balance at 1 April 2019	–	(2 164)	(1 767)	(3 931)
Increase in provision for expected credit losses	–	(3 123)	(210)	(3 333)
Provision for expected credit losses at end of the year	**–**	**(5 287)**	**(1 977)**	**(7 264)**
Net carrying amount at end of the year	**106 751**	**26 086**	**–**	**132 837**
Reconciliation of gross carrying amount				
Carrying amount as at 1 April 2018	83 967	14 716	1 796	100 479
Movements for the year	55 614	(1 610)	(29)	53 975
Gross carrying amount at the end of the year	**139 581**	**13 106**	**1 767**	**154 454**
Reconciliation of provision for ECLs				
Balance at 1 April 2018	(855)	(762)	(1 495)	(3 112)
Decrease/(Increase) in provision for ECLs	855	(1 402)	(272)	(819)
Provision for ECLs at the end of the year	**–**	**(2 164)**	**(1 767)**	**(3 931)**
Net carrying amount at the end of the year	**139 581**	**10 942**	**–**	**150 523**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2020

In thousands of rands	2020	2019

6. Trade receivables and other assets (continued)

Included in trade and other receivables are*:

	2020	2019
African World Heritage Fund (AWHF)	617	1
Bank Seta	15	–
City of Johannesburg	78 3	–
Department of Basic Education for Accelerated Infrastructure Schools Programme	3 975	4 150
Department of Energy – IPP Office	13 505	6 084
Department of Cooperate Governance (DCOG)	414	–
Department of Art and Culture	378	–
Department of Trade and Industry	229	322
Eastern cape Department of Education	5 763	77 740
Ekurhuleni Metropolitan Municipality	10 464	13 573
Former employees	1 977	1 766
Green Fund	29	43
Infrastructure Investment Programme for South Africa (IIPSA)	6 952	482
Jobs Fund	–	418
KFW HIV/VCT 2 Programme	347	347
KFW SADC Water Fund	753	670
KwaZulu-Natal Department of Education	29 563	2 679
Limpopo Department of Economic Development	630	457
Limpopo Department of Education	7 736	1 281
Limpopo Department of Health	138	5 638
Infrastructure Delivery Management System	150	–
Limpopo Department of Public Works	218	660
National Department of Health	19 124	5 995
National Department of Public Works	21 446	24 727
National Treasury Cities Support Programme (NTCSP)	4 637	853
Proparco	324	–
Other trade receivables	8 966	5 801
Pan African Capacitation Building Platform (PACBP)	968	277
Sefako Makgatho Health Science University	–	490
Balance at end of the year	**140 101**	**154 454**

* The amounts arose from the Bank's non lending activities in the infrastructure delivery division and other agencies.

In thousands of rands	2020	2019

7. Investment securities

Investment securities consist of the following:

Investment securities mandatorily held at fair value through profit or loss		
Government bonds – listed	544 185	586 507
Investment in segregated funds	508 491	536 507
Municipal bonds – listed	649 632	670 441
State owned entities bonds – listed	85 053	87 047
Balance at end of the year	**1 787 361**	**1 880 502**

Investments securities are held for sale as part of the strategic liquidity portfolio to manage the Bank's liquidity requirements. Accrued interest is presented as part of the investment securities fair value movements and amounts to R38.4 million. Accrued interest for 31 March 2019 of R38.2 million.

Investment securities reconciliation		
Opening balance	1 880 502	1 420 920
Fair value movements	(17 323)	20 579
Additions, disposals and maturities	(70 000)	445 000
Premium and discounts	(5 818)	(5 997)
Balance at end of the year	**1 787 361**	**1 880 502**

Analysis of investment securities		
Current portion	141 314	38 251
Non-current portion	1 646 047	1 842 251
Balance at end of the year	**1 787 361**	**1 880 502**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2020

In thousands of rands	2020	2019

8. Derivative assets and liabilities held for risk management purposes

8.1. Derivative assets held for risk management Risk type:

Interest rate derivatives	38 653	69 204
Foreign exchange derivatives	773 400	644 100
Balance at end of the year	**812 053**	**713 304**

Included in derivative assets is a credit valuation adjustment (CVA) of R61 million (March 2019: R10 million).

8.2. Derivative liabilities held for risk management Risk type:

Interest rate derivatives	(27 524)	(22 050)
Foreign exchange derivatives	(757 311)	(275 748)
Balance at end of the year	**(784 835)**	**(297 798)**

Included in derivative liabilities is a debit valuation adjustment (DVA) of R48 million (March 2019: R11 million).

8.3. Net derivatives held for risk management

Derivatives designated as fair value hedges	(6 928)	47 027
Derivatives designated as cash flow hedges	103 549	153 985
Derivatives held for risk management not designated hedges - economic hedges	(69 403)	214 494
Net derivatives at end of the year	**27 218**	**415 506**

Derivatives designated as fair value hedges

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

Derivatives designated as cash flow hedges

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

Derivatives held for risk management not designated hedges – economic hedges

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

The Bank did not early adopt IFRS 9 and IFRS 7 amendments on reference rates reform. The full impact of the reference rate reform cannot be reliably estimated at this point in time.

IFRS 9 has not finalised the dynamic hedging component of portfolio hedging. DBSA has elected to remain under IAS39 hedge accounting on this fair value portfolio for hedge effectiveness testing purposes.

Historically DBSA has always applied fair value hedge accounting on this portfolio. However going forward, in current financial year DBSA has decided to phase out fair value hedge accounting on this portfolio naturally as the individual instrument matures as part of its accounting optimisation project.

Fair Value Portfolio

In thousands of rands	Accounting treatment	2020	2019
Annual Break Swap	No hedge accounting applied	14 656	6 629
Debt funding – FVTPL	Fair value hedge accounting	(1 505 805)	(6 469 451)
Government bonds	Fair value hedge accounting	544 185	586 507
Interest Rate Swap	Fair value hedge accounting	(6 928)	40 398
Municipal Bonds	Fair value hedge accounting	649 632	670 441
State Owned Entity bonds	Fair value hedge accounting	85 053	87 047
Grand Total		**(219 207)**	**(5 078 429)**

Hedge accounting

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

In thousands of rands	Nominal amount	Carrying amount		Changes in fair value used for calculating hedge ineffectiveness	Line item in the financial statements
		Assets	Liabilities		
31 March 2020					
Fair value hedges					
Interest rate risk Interest rate swaps	680 000	20 596	(27 524)	8 817	Derivative financial instruments
Cash flow hedges					
Foreign exchange rate risk					
Cross currency swaps	887 461	320 170	23 699	(886 460)	Derivative financial instruments
Currency options	4 871 928	28 825	221 748	(73 573)	Derivative financial instruments
Total	**5 759 389**	**348 995**	**245 447**	**(960 033)**	

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2020

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

The table below summarises the effect on financial position and performance – hedged items:

In thousands of rands	Carrying amount of the hedge item		Accumulated amount of fair value hedge adjustments on the hedged item included in the carrying amount of the hedge item		Changes in fair value used for calculating hedge ineffectiveness	Cash flow hedge reserve	Line item in the financial statements
	Assets	Liabilities	Assets	Liabilities			
31 March 2020							
Fair value hedges							
Interest rate risk							
Net residual risk in fair value portfolio	220 488	(524 249)	–	–	(8 817)	–	Debt funding and investment securities
Cash flow hedges							
Foreign exchange risk rate							
Debt funding	–	–	–	–	886 332	(58 886)	Debt funding held at amortised cost
Currency options	–	–	–	–	124 580	87 572	Debt funding held at amortised cost, Development Loans at amortised cost and equity investments at FVTPL
Total	**220 488**	**(524 249)**	**–**	**–**	**1 002 095**	**28 686**	

In thousands of rands	Ineffectiveness recognised in profit or loss	Ineffectiveness recognised in OCI	Line item in the financial statements
31 March 2020			
Fair value hedges			
Interest rate risk	–	–	Net gain/(loss) from financial assets and financial liabilities

In thousands of rands	Change in the value of the hedging instrument recognised in OCI	Hedge ineffectiveness recognised in profit or loss	Line item in profit or loss that includes loss hedge ineffectiveness	Amount reclassified from cash flow hedge reserve to profit or loss	Line item affected in profit or loss because of the reclassification
31 March 2020					
Cross currency swaps	41 853	(128)	Net (gain)/ loss from financial assets and financial liabilities	(27 839)	Net (gain)/loss from financial assets and financial liabilities
Options	(175 296)	51 007	Net (gain)/ loss from financial assets and financial liabilities	106 678	Net (gain)/loss from financial assets and financial liabilities
Total	**(133 443)**	**50 879**		**78 839**	

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

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

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2020

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

The table below summarises the effect on financial position and performance – hedged items:

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

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

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

9. Other financial asset

In thousands of rands	2020	2019
Market value of investments	**36 152**	**43 732**

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

Balance at beginning of the year	43 732	45 446
Income	4 669	2 178
Expenses	(435)	(320)
Contributions paid	(3 717)	(3 930)
(Decrease)/increase in market value	(8 097)	358
Balance at end of the year	**36 152**	**43 732**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2020

In thousands of rands	2020	2019

10. Development loans held at fair value through profit or loss

Balance at beginning of the year	–	–
Movements for the year	99 895	–
Gross development loans at fair value through profit or loss	**99 895**	**–**
Fair value movements (refer to note 30)	(77 482)	–
Balance at end of the year	**22 413**	**–**
Movements during the year		
Loans disbursed	73 046	–
Interest accrued	10 862	–
Foreign exchange adjustments	15 987	–
	99 895	**–**

10.2 Maturity Analysis of Development loans at FVTPL

Due after three months but within one year	99 895	–

10.3 Sectorial Analysis of Development loans at FVTPL

Energy – Electricity	99 895	–

10.4 Geographical Analysis of Development loans at FVTPL

Sierra Leone	99 8 95	–
USD amounts included above	5 599	–

10.5 Client Classification of Development loans at FVTPL

Private sector intermediaries	99 895	–

10.6 Fixed and variable Interest rate loans of Development loans at FVTPL

Fixed	99 895	–

10.7 Analysis of Development Loans FVTPL

Current portion	99 895	–

In thousands of rands	2020	2019

11. Equity investments held at fair value through profit or loss

Equity investments held at fair value through profit or loss	**5 993 951**	**5 937 578**

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

11.1 Equity investments held at fair value through profit or loss

Cost		
Balance at beginning of the year	3 999 701	4 160 421
Acquisitions	80 104	143 102
Capital return	(500 718)	(303 822)
Balance at end of the year	**3 579 087**	**3 999 701**
Fair value adjustment		
Balance at beginning of the year	651 902	588 425
Current year fair value adjustment (refer to note 30)	(371 312)	41 457
Realised capital gain (refer to note 31)	142 889	22 020
Balance at the end of the year	**423 479**	**651 902**
Foreign exchange adjustments		
Balance at beginning of the year	1 285 975	786 505
Unrealised gain/(loss) (refer to note 29)	587 709	473 606
Realised gain (refer to note 29)	117 701	25 864
Balance at the end of the year	**1 991 385**	**1 285 975**
Fair value at the end of the year	**5 993 951**	**5 937 578**

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

11.2 Period since initial investment

3 (three) years but within 4 (four) years	217 013	142 621
4 (four) years but within 9 (nine) years	3 251 770	3 526 189
10 (ten) years and older	2 525 168	2 268 768
Balance at end of the year	**5 993 951**	**5 937 578**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2020

In thousands of rands	2020	2019

11. Equity investments held at fair value through profit or loss (continued)

11.3 Sectoral analysis of equity investments

Commercial infrastructure	3 451 151	3 342 675
Institutional infrastructure	985 201	828 210
Residential facilities	1 557 599	1 766 693
Balance at end of the year	**5 993 951**	**5 937 578**

11.4 Geographical analysis of equity investments

South Africa	1 716 436	1 955 776
International (the rest of the Africa excluding South Africa)	4 277 515	3 981 802
Balance at end of the year	**5 993 951**	**5 937 578**

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

US Dollar amount included	**157 722**	**172 771**
Euro amount included	**32 637**	**32 066**

11.6 Analysis of equity investments

Current portion	–	–
Non-current portion	5 993 951	5 937 578
Balance at end of the year	**5 993 951**	**5 937 578**

12. Fair value of financial assets and liabilities

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

Level 1

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

Level 2

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

- Quoted price for similar assets or liabilities in inactive markets;
- Quoted price for identical or similar assets or liabilities in inactive markets;
- Valuation model using observable inputs; and
- Valuation model using inputs derived from or corroborated by observable market data.

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

Level 3

Valuations are based on unobservable inputs. Financial instruments valued using discounted cash flow analysis. This category includes only unlisted equity investments.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2020

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

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

In thousands of rands	Notes	Level 1	Level 2	Level 3	Total
31 March 2020					
Financial instruments					
Financial assets held at fair value through profit or loss					
Investment securities	3	544 185	1 243 176	–	1 787 361
Derivative assets held for risk management purposes	3	–	812 053	–	812 053
Development loans at fair value through profit or loss	3	–	–	22 413	22 413
Other financial asset	3	–	36 152	–	36 152
Equity investments held at fair value through profit or loss	3	–	3 817 616	2 176 335	5 993 951
Financial assets held at amortised cost for which fair values are disclosed					
Cash and cash equivalents	3	–	3 458 836	–	3 458 836
Trade receivables and other assets	3	–	–	161 796	161 796
Development bonds	3	–	1 202 477	–	1 202 477
Development loans	3	–	–	95 039 148	95 039 148
Total financial assets		**544 185**	**10 570 310**	**97 399 692**	**108 514 187**
Financial liabilities held at fair value through profit or loss					
Derivative liabilities held for risk management	4	–	784 835	–	784 835
Debt funding designated at fair value through profit or loss	4	–	1 505 805	–	1 505 805
Financial liabilities held at amortised cost for which fair values are disclosed					
Trade, other payables and accrued interest on debt funding	4	–	429 459	116 768	546 227
Debt funding held at amortised cost	4	–	62 183 714	–	62 183 714
Repurchase agreements held at amortised costs	4	–	529 858	–	529 858
Total financial liabilities		**–**	**65 433 671**	**116 768**	**65 550 439**

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

Transfers between level 1 and level 2 fair values are outlined in the table below.
There were no transfers for the year ended 31 March 2020.

In thousands of rands	Transfers from Level 1 to Level 2
31 March 2019	
Assets	
Investment securities	1 293 995
Development bonds	1 227 075
Total assets	**2 521 070**
Liabilities	
Debt funding designated at fair value through profit or loss	6 469 451
Debt funding held at amortised cost	23 387 778
Total liabilities	**29 857 229**

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

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2020

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

Reconciliation of Level 3 financial assets held at fair value through profit or loss:

Equity investments held at fair value through profit or loss

In thousands of rands	2020	2019
Balance at the beginning of year	2 221 796	2 343 219
Decrease in fair value of equity investments (refer to note 30)	(45 461)	(121 423)
Balance at end of the year	**2 176 335**	**2 221 796**

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

Financial instruments

	2020		2019	
In thousands of rands	Fair value	Hierarchy level	Fair value	Hierarchy level
Derivative assets (a)	812 053	2	713 304	2
Investment securities (b)	1 787 361	1 and 2	1 880 502	1 and 2
Development loans at fair value through profit or loss (f)	22 413	3	–	–
Equity investments (c)	5 993 951	2 and 3	5 937 578	2 and 3
Other financial asset (d)	36 152	2	43 732	2
Financial assets	**8 651 930**	**–**	**8 575 116**	**–**
Derivative liabilities (a)	784 835	2	297 798	2
Debt funding designated at fair value through profit or loss (e)	1 505 805	2	6 469 451	1
Financial liabilities	**2 290 640**		**6 767 249**	

Valuation techniques used to determine fair value

(a) Derivatives

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

(b) Investment securities

Market observable bond prices from the Johannesburg Stock Exchange interest rate market. For segregated funds, the fair value is determined based on the asset manager's valuation.

(c) Equity investments

(i) Valuation techniques for direct equity in ordinary shares

If the market for a financial instrument is not quoted, the Bank uses a valuation technique to establish what the transaction price would be in an arm's length exchange motivated by normal business considerations. The Bank uses valuation techniques that include 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 and other discount is applied to direct equity investments. The guidelines provide that marketability and other discount in the range 10% to 30% should be factored into the valuation. Different factors are considered in setting the marketability and other discount and it is possible for the marketability and other discount for a particular instrument to be outside the guideline range.

(ii) Valuation techniques for third party managed private equity

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

(d) Other financial asset

The fair value of other financial asset is based on the valuation performed by the fund managers.

(e) Debt funding designated at fair value through profit or loss

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

(f) Development loans at fair value through profit or loss

The Bank uses present value technique, which is an application of the income approach to calculate the fair value of the development loans. Valuations under the income approach, such as present value techniques converts expected future amounts to a single present amount. The Bank uses discount rate adjustment present value technique, which attempts to capture all the risk associated with the item being measured in the discount rate and is most commonly used to value assets and liabilities with contractual payments such as debt instruments. The discount rate is used to calculate the present value of cash flows. The valuation excludes non-performing loans due to cash flow being uncertain.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2020

In thousands of rands	2020	2019

13. Development bonds at amortised cost

Municipal bonds	**1 288 278**	**1 290 179**

13.1 Analysis of development bonds

Balance at the beginning of the year	1 290 607	1 290 607
Movement during the year (refer to note 13.2)	248	–
Gross development bonds	**1 290 855**	**1 290 607**
Provision for expected credit losses on development bonds (refer to note 13.3)	(2 577)	(428)
Balance at end of the year	**1 288 278**	**1 290 179**

13.2 Movements during the year

Interest accrued (refer to note 26)	122 301	122 054
Gross interest repayments	(122 053)	(122 054)
Net movements for the year	**248**	**–**

13.3 Reconciliation of provision for expected credit losses on development bonds

Balance at the beginning of the year	428	246
Increase in provision for ECL on development bonds (refer to note 34)	2 149	182
Balance at end of the year	**2 577**	**428**

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

13.4 Analysis of development bonds

Client classification		
Local government	**1 290 855**	1 290 607
Regional		
South Africa	**1 290 855**	1 290 607
Geography		
Gauteng	**1 290 855**	1 290 607
Sector		
Energy	**1 290 855**	1 290 607

13.5 Reconciliation of development bonds

The table below shows the reconciliation of the opening balance to the closing balance of development bonds gross carrying amount and the provision for expected credit losses

In thousands of rands	Stage 1	Stage 2	Stage 3	Total
31 March 2020				
Reconciliation of gross carrying amount				
Balance at the beginning of the year	**1 290 607**	**–**	**–**	**1 290 607**
Transfer from Stage 1 to Stage 2	(750 000)	750 000	–	–
Changes in interest accrual	15 918	22 937	–	38 855
Withdrawals	(38 607)	–	–	(38 607)
Balance at the end of the year	**517 918**	**772 937**	**–**	**1 290 855**
Reconciliation of provision for expected credit loss March 2020				
Balance at 1 April 2019	**428**	**–**	**–**	**428**
Transfer from stage 1 to stage 2	(49)	2 339	–	2 290
Subsequent change in ECL due to changes in risk parameters (PDs, LGDs and EAD)	(141)	–	–	(141)
Balance at end of the year	**238**	**2 339**	**–**	**2 577**

In thousands of rands	Stage 1	Stage 2	Stage 3	Total
31 March 2019				
Reconciliation of gross carrying amount				
Balance at end of the year	**1 290 607**	**–**	**–**	**1 290 607**
Reconciliation of provision for expected credit loss March 2019				
Balance at 1 April 2018	246	–	–	246
Subsequent change in ECL due to changes in risk parameters (PDs, LGDs and EAD)	182	–	–	182
Balance at end of the year	**428**	**–**	**–**	**428**

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

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2020

In thousands of rands	2020	2019

13. Development bonds at amortised cost (continued)

13.6 Expected credit losses

ECL charge to the statement of comprehensive income (refer to note 34)	**2 149**	**182**

13.7 Analysis of current and non current portion of development bonds

Current	38 855	38 607
Non-current	1 252 000	1 252 000
Gross development bonds	**1 290 855**	**1 290 607**
Provision for expected credit losses	(2 577)	(428)
Balance at the end of the year	**1 288 278**	**1 290 179**

14. Development loans at amortised cost

14.1. Analysis of development loans

Balance at the beginning of the year	82 012 250	79 870 646
Movements during the year (refer to note 14.1.1)	14 413 364	2 141 604
Gross development loans	**96 425 614**	**82 012 250**
Provision for expected credit losses on development loans (refer to note 14.9)	(10 185 350)	(6 195 744)
Net development loans at the end of the year	**86 240 264**	**75 816 506**

14.1.1. Movements during the year

Loans disbursed – current year	15 568 306	8 807 786
Effective interest income on development loans (refer to note 26)*	7 628 412	7 798 627
Contractual interest on stage 3 (refer to note 14.9)	365 645	230 957
Development loans written off (refer to note 14.9)	(242 144)	(258 568)
Fees integral to loan	(180 328)	(434 395)
Foreign exchange adjustment	5 018 319	3 504 589
Gross loan repayments	(14 055 083)	(17 646 146)
Fees raised – current year	310 237	142 639
Transfer adjustments	–	(3 885)
Loans derecognised due to substantial modification	(3 212 981)	–
New loans recognised after substantial modification	3 212 981	–
Movements for the year	**14 413 364**	**2 141 604**

* Includes fees that form part of the effective interest rate that were previously disclosed separately.

In thousands of rands	2020	2019

14.2. Maturity analysis of gross development loans

Due within 1 (one) year	16 136 034	14 594 416
Due after 1 (one) year but within 2 (two) years	9 898 335	5 594 817
Due after 2 (two) years but within 3 (three) years	6 480 379	8 553 922
Due after 3 (three) years but within 4 (four) years	5 952 996	4 632 509
Due after 4 (four) years but within 9 (nine) years	29 870 078	23 483 103
Due after 9 (nine) years but within 14 (fourteen) years	17 424 889	17 548 242
Due after 14 (fourteen years)	10 662 903	7 605 241
Total	**96 425 614**	**82 012 250**

14.3. Sectoral analysis of gross development loans

Commercial – fund	266 741	361 586
Commercial – manufacturing	245 611	387 367
Commercial – mining	111 000	111 000
Commercial – tourism	356 977	288 392
Commercial – other	291 024	240 132
Communication and transport infrastructure	11 844 654	6 233 212
Energy – electricity	51 460 649	47 376 087
Energy – non-grid standalone	1 210 398	1 324 826
Human resources development	1 477 865	1 079 100
Institutional infrastructure	56	97
Residential facilities	2 756 108	2 593 726
Roads and drainage	14 388 502	12 396 289
Sanitation	883 737	1 489 591
Social infrastructure	8 277 334	4 470 418
Water	2 854 958	3 660 427
Total	**96 425 614**	**82 012 250**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2020

In thousands of rands	2020	2019

14. Development loans at amortised cost (continued)

14.4. Geographical analysis of gross development loans

Eastern Cape	1 615 645	1 609 615
Free State	1 830 472	1 954 349
Gauteng	42 135 476	36 653 936
KwaZulu-Natal	5 494 711	5 727 842
Limpopo	1 049 683	1 081 535
Mpumalanga	741 084	866 648
North West	603 073	663 396
Northern Cape	9 199 153	9 164 159
Western Cape	4 873 816	3 701 808
Rest of Africa	28 882 501	20 588 962
Total	**96 425 614**	**82 012 250**

Rest of Africa

Angola	5 930 146	3 758 399
Congo	1 617 489	1 192 263
Ethiopia	879 712	803 239
Côte d'Ivoire	1 457 597	–
Ghana	5 145 540	2 652 254
Kenya	396 153	387 845
Lesotho	407 875	459 872
Madagascar	378 388	289 204
Mauritius	780 619	591 312
Mozambique	425 505	425 898
Namibia	80 000	83 918
Swaziland	46 986	230 968
Tanzania	157 755	119 646
Zambia	7 517 692	6 535 818
Zimbabwe	3 406 253	2 712 839
Multi-regional	254 791	345 487
Total	**28 882 501**	**20 588 962**

Euro amount included in the Rest of Africa loans	**93 311**	**17 811**

US dollar amounts included in the above Rest of Africa loans	**1 482 828**	**1 342 602**

In thousands of rands	2020	2019

14.5. Client classification of gross development loans

Development finance institutions	254 791	352 162
Educational institutions	1 139 634	1 024 215
Local government	25 881 659	26 089 457
National and provincial government	4 117 586	2 617 355
Private sector intermediaries	29 860 221	23 880 309
Public utilities	35 171 723	28 048 752
Total	**96 425 614**	**82 012 250**

14.6. Fixed and variable interest rate gross development loans

Fixed interest rate loans	46 000 898	40 392 397
Variable interest rate loans	50 424 716	41 619 853
Total	**96 425 614**	**82 012 250**

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

14.7.1. Sectoral analysis of gross non-performing loans

Commercial – manufacturing	245 611	387 367
Commercial – mining	111 000	111 000
Commercial – tourism	356 977	288 392
Commercial – other	242 477	180 270
Communication and transport infrastructure	1 452 220	905 427
Energy	1 736 795	184 550
Human resources development	278 253	2 536
Residential facilities	320 790	286 610
Roads and drainage	841 396	704 370
Sanitation	163 881	145 036
Social infrastructure	897 298	631 447
Water	299 691	184 408
Total	**6 946 389**	**4 011 413**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2020

In thousands of rands	2020	2019

14. Development loans at amortised cost (continued)

14.7.2. Geographical analysis of gross non-performing loans

	2020	2019
Eastern Cape	15 476	26 932
Free State	437 885	59 905
Gauteng	895 650	264 794
KwaZulu-Natal	–	5 355
Limpopo	388 895	353 670
Mpumalanga	409 947	419 183
North West	143 550	143 260
Northern Cape	111 259	43 901
Rest of Africa	4 543 727	2 694 413
Total	**6 946 389**	**4 011 413**

Rest of Africa

	2020	2019
Congo	1 521 769	–
Lesotho	392 012	431 218
Mauritius	780 619	591 312
Mozambique	394 592	329 743
Swaziland	–	179 031
Tanzania	157 755	119 646
Zambia	317 427	253 780
Zimbabwe	979 553	789 683
Total	**4 543 727**	**2 694 413**

14.7.3. Client classification on gross non-performing loans

	2020	2019
Development financing institutions	–	6 675
Educational institutions	2 436	2 536
Local government	823 675	469 389
Private sector intermediaries	4 944 179	2 569 867
Public utilities	1 176 099	962 946
Total	**6 946 389**	**4 011 413**

	2020	2019

14.8. Client concentration of gross development loans

	%	%
One client as percentage of total loan portfolio	**18.2**	21.3
Seven clients as percentage of total loan portfolio	**45.9**	54.0
Ten clients as percentage of total loan portfolio	**53.8**	54.6

In thousands of rands	2020	2019

14.9. Provision for expected credit losses on development loans reconciliation

Balance at 1 April 2019	**6 195 744**	**5 025 941**
Impairment of current year interest (refer to note 14.1)	365 645	230 957
Loans written off during the year (refer to note 14.1)	(242 144)	(258 568)
Expected credit losses (refer to note 34)	3 866 105	1 197 414
Stage 3	1 533 069	333 357
Stage 1 and 2	2 333 036	864 057
Balance at the end of the year	**10 185 350**	**6 195 744**

14.10. Analysis of impairment charge

Stage 3 loans		
Stage 3 expected credit losses	1 533 069	333 357
Stage 1 and 2 loans		
Stage 1 expected credit losses	289 831	(17 602)
Stage 2 expected credit losses	2 043 205	881 659
Balance at end of the year	**3 866 105**	**1 197 414**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2020

14. Development loans at amortised cost (continued)

14.11. Reconciliation of net carrying amount development loans

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

In thousands of rands	Stage 1	Stage 2	Stage 3	Total
31 March 2019				
Balance at the beginning of the year	**48 396 664**	**29 604 173**	**4 011 413**	**82 012 250**
Transfer from Stage 1 to Stage 2	(1 645 374)	1 645 374	–	–
Transfer from Stage 2 to Stage 3	–	(2 072 475)	2 072 475	–
Transfer from Stage 1 to Stage 3	(573 253)	–	573 253	–
Transfer from Stage 2 to Stage 1	1 004 578	(1 004 578)	–	–
Transfer from Stage 3 to Stage 2	–	4 496	(4 496)	–
New disbursements	15 352 173	158 626	57 507	15 568 306
Repayments	(10 236 723)	(3 013 885)	(804 475)	(14 055 083)
Effective interest on development loans during the year	4 472 425	2 921 537	234 450	7 628 412
Contractual interest on Stage 3	–	–	365 645	365 645
Write-offs and waivers	–	–	(242 144)	(242 144)
Foreign exchange movements	2 097 918	2 255 339	665 062	5 018 319
Other movements – Fees	291 908	595	17 734	310 237
New loans recognised after substantial modification	3 212 981	–	–	3 212 981
Loans derecognised due to substantial modification	(3 212 981)	–	–	(3 212 981)
Movements in fees that are integral to the loan	(180 293)	–	(35)	(180 328)
Gross carrying amount	**58 980 023**	**30 499 202**	**6 946 389**	**96 425 614**
Less provisions for ECLs	(487 777)	(5 331 811)	(4 365 762)	(10 185 350)
Balance at the end of the year	**58 492 246**	**25 167 391**	**2 580 627**	**86 240 264**

In thousands of rands	Stage 1	Stage 2	Stage 3	Total
31 March 2019				
Balance at beginning of the year	**47 435 432**	**28 840 103**	**3 595 111**	**79 870 646**
Transfer from Stage 1 to Stage 2	(2 579 521)	2 579 521	–	–
Transfer from Stage 2 to Stage 3	–	(371 930)	371 930	–
Transfer from Stage 2 to Stage 1	2 299 738	(2 299 738)	–	–
New disbursements	8 807 786	–	–	8 807 786
Repayments	(13 228 960)	(4 022 969)	(394 217)	(17 646 146)
Effective interest on development loans during the year	4 629 159	2 967 951	128 652	7 725 762
Contractual interest on Stage 3	–	–	230 957	230 957
Write-offs	–	–	(258 568)	(258 568)
Foreign exchange movements	1 283 811	1 885 762	335 016	3 504 589
Movements in fees that are integral to the loan	(379 512)	16 448	1 534	(361 530)
Fees	130 546	9 025	3 068	142 639
Other transfers	(1 815)	–	(2 070)	(3 885)
Gross carrying amount	**48 396 664**	**29 604 173**	**4 011 413**	**82 012 250**
Less provision for expected credit losses	(197 946)	(3 288 607)	(2 709 191)	(6 195 744)
Balance at end of the year	**48 198 718**	**26 315 566**	**1 302 222**	**75 816 506**

The total amount of undiscounted expected credit losses at initial recognition for purchased or credit-impaired development loans recognised during the period amounted to R Nil. Modified development loans remained within the same stage.

In thousands of rands	2020	2019

14.12. Maximum exposure to loss

The gross carrying amount of development loans receivables and thus the maximum exposure to loss is as follows:

Development loans receivable net of expected credit losses	2020	2019
Stage 1 loans	58 980 023	48 396 664
Stage 2 loans	30 499 202	29 604 173
Stage 3 loans	6 946 389	4 011 413
Loss allowance	(10 185 350)	(6 195 744)
Development loans receivable net of expected loss	**86 240 264**	**75 816 506**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2020

14.13. Reconciliation of expected credit losses of development loans

The table below shows the reconciliation of provision for expected credit losses of development loans:

In thousands of rands	Stage 1 12 month-ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
31 March 2020				
Balance at 1 April 2019	**197 946**	**3 288 607**	**2 709 191**	**6 195 744**
Transfer from Stage 1 to Stage 2	(12 134)	47 335	–	35 201
Transfer from Stage 2 to Stage 3	–	(307 179)	1 097 187	790 008
Transfer from Stage 2 to Stage 1	45	(541)	–	(496)
Transfer from Stage 3 to Stage 2	–	1 092	(1 211)	(119)
Transfer from Stage 1 to Stage 3	(2 017)	–	149 109	147 092
New disbursements	100 577	–	–	100 577
Repayments	(1 695)	(305)	(4 126)	(6 126)
Suspended interest	–	–	365 645	365 645
New loans recognised after substantial modification	2 328	–	–	2 328
Loans derecognised due to substantial modification	(2 328)	–	–	(2 328)
Write-offs	–	–	(242 144)	(242 144)
Foreign exchange movements	8 895	389 839	400 469	799 203
Subsequent changes in ECL due to changes in risk parameters (PDs, LGDs, EAD)	196 160	1 912 963	(108 358)	2 000 765
Balance at end of the year	**487 777**	**5 331 811**	**4 365 762**	**10 185 350**
ECL allowance recognised to income statement	**289 831**	**2 043 205**	**1 533 069**	**3 866 105**

In thousands of rands	Stage 1 12 month-ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
31 March 2019				
Balance at the beginning of the year	**215 548**	**2 406 948**	**2 403 445**	**5 025 941**
Transfer from stage 1 to stage 2	(58 080)	482 006	–	423 926
Transfer from stage 2 to stage 3	–	(93 138)	273 885	180 747
Transfer from stage 2 to 1	47 701	(304 377)	–	(256 676)
New disbursements	8 985	–	–	8 985
Repayments	(750)	(2 281)	(4 806)	(7 837)
Modification of contractual cashflows of development loans	–	206 891	–	206 891
Impairment of interest	–	–	230 957	230 957
Write-offs	–	–	(258 568)	(258 568)
Foreign exchange movements	14 088	189 532	260 080	463 700
Subsequent changes in ECL due to changes in risk parameters (PDs, LGDs, EAD)	(29 546)	403 026	(195 802)	177 678
Balance at the end of the year	**197 946**	**3 288 607**	**2 709 191**	**6 195 744**
ECL allowance recognised in profit or loss	**(17 602)**	**881 659**	**333 357**	**1 197 414**

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

In thousands of rands	2020	2019
Expected credit losses		
ECL charged to the statement of comprehensive income (refer to note 34)	**3 866 105**	1 197 414

14.14. Analysis of current and non-current portion of development loans

Development loans		
Current	17 184 990	14 592 347
Non-current	79 240 624	67 419 903
Gross loan book	**96 425 614**	**82 012 250**
Provision for expected credit losses	(10 185 350)	(6 195 744)
Amortised cost	**86 240 264**	**75 816 506**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2020

14.15. Modification of financial assets measured at amortised cost:

Gross loan book

In thousands of rands	Stage 1		Stage 2		Stage 3	
	Amortised cost before modification	Net Modification gain/loss	Amortised cost before modification	Net Modification gain recognised	Amortised cost before modification	Net Modification gain/loss
2020						
Development loans	**3 212 981**	**–**	**–**	**–**	**–**	**–**
2019						
Development loans	–	–	1 130 937	–	–	–

For substantial modification of development loans which occurred during the reporting period, the fair value of the new loans recognised was determined to be equal to the carrying amount of the loans derecognised, where such fair values were determined on transaction date, being the date of modification and in accordance with the Bank's accounting policy for the initial measurement of financial instruments (refer accounting policy 1.2).

15. Property, equipment and right of use of assets

In thousands of rands	Cost/ Valuation	IFRS 16 adjustment	Accumulated depreciation	Carrying value
2020				
Land	94 000	–	–	94 000
Buildings	328 516	–	(42 516)	286 000
Furniture and fittings	16 537	–	(15 397)	1 140
Motor vehicles	3 152	–	(832)	2 320
Office equipment	28 351	–	(11 613)	16 738
Computer equipment	81 617	–	(67 904)	13 713
Leasehold improvements	770	–	(770)	–
Lease equipment	–	3 880	(2 150)	1 730
Leasehold property	–	3 104	(1 227)	1 877
Total	**552 943**	**6 984**	**(142 409)**	**417 518**

In thousands of rands	Cost/ Valuation	Accumulated depreciation	Carrying value
2019			
Land	94 000	–	94 000
Buildings	344 177	(38 177)	306 000
Furniture and fittings	16 061	(15 135)	926
Motor vehicles	3 329	(580)	2 749
Office equipment	21 077	(10 222)	10 855
Computer equipment	84 159	(63 669)	20 490
Leasehold improvements	770	(770)	–
Total	**563 573**	**(128 553)**	**435 020**

Reconciliation of property, equipment and right of use of assets – 2020

In thousands of rands	Opening balance	Additions	Disposals	Revaluations	Depreciation	Closing balance
Land	94 000	–	–	–	–	94 000
Buildings	306 000	–	–	(15 661)	(4 339)	286 000
Furniture and fittings	926	479	–	–	(265)	1 140
Motor vehicles	2 749	–	(49)	–	(380)	2 320
Office equipment	10 855	7 277	–	–	(1 394)	16 738
Computer equipment	20 490	1 458	(211)	–	(8 024)	13 713
Lease equipment	–	3 880	–	–	(2 150)	1 730
Lease property	–	3 104	–	–	(1 227)	1 877
	435 020	**16 198**	**(260)**	**(15 661)**	**(17 779)**	**417 518**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2020

15. Property, equipment and right of use of assets

Reconciliation of property, equipment and right of use of assets – 2019

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

Valuations

Land

Land constitutes Portion 465 (of Portion 442) of the Farm Randjesfontein 405 measuring 25 066, hectares donated by the South African Government in 1985. The land was fair valued by an Management at R94 million (March 2019: R94 million by an independent valuator).

Buildings

The existing buildings were erected in 1987 at a cost of R35.2 million. There were no improvements in the current financial year to the buildings, (March 2019: R1.3 million). The buildings were fair valued by management at R286 million (March 2019: R306 million by an independent valuator).

The historical carrying value of the existing buildings is R223 million (March 2019: R223 million).

16. Intangible assets

	2020			2019		
In thousands of rands	Cost	Accumulated amortisation	Carrying value	Cost/ Valuation	Accumulated amortisation	Carrying value
Computer software	202 518	(122 298)	80 220	193 890	(110 757)	83 133

Reconciliation of intangible assets – 2020

In thousands of rands	Opening balance	Additions	Amortisation	Closing balance
Computer software	83 133	8 629	(11 542)	80 220

Reconciliation of intangible assets – 2019

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

In thousands of rands	2020	2019

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

Financial liabilities at amortised cost		
Accrued interest (financial market liabilities – amortised cost)	422 226	363 447
Accrued interest – Repurchase agreements	7 233	–
Deferred income	15 145	16 179
Trade payables	98 166	103 638
Current portion of lease liabilities	3 457	–
Balance at end of the year	**546 227**	**483 264**
Non-financial liabilities		
Bonus provision	139 922	188 795
PAYE, VAT and Compensation Commissioner	10 175	6 932
Balance at end of the year	**150 097**	**195 727**
Total trade, other payables and accrued interest on debt funding	**696 324**	**678 991**

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

Analysis of trade, other payables and accrued interest on debt funding		
Current portion	681 180	662 812
Non-current portion	15 144	16 179
Balance at end of the year	**696 324**	**678 991**
Analysis of trade payables Agencies		
Municipal Financial Improvement Programme (NT MFIP)	506	506
Municipal Infrastructure Support Agency (MISA)	201	201
National Rural Youth Service Corporation (NARYSEC)	115	115
Balance at the end of the year	**822**	**822**
Other		
Former employees creditors	3	3
Accounts payable	31 099	20 783
Payroll	462	332
Accruals	65 780	81 698
Balance at the end of the year	**97 344**	**102 816**
Trade and other payables balance at the end of the year	**98 166**	**103 638**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2020

17. Trade, other payables and accrued interest on debt funding (continued)

Included in trade payables is bonus provision as reconciled below.

In thousands of rands	Opening balance	Utilised during the year	Reversal of prior period provision	Current year provision	Closing balance
Bonus provision	**188 795**	**(179 757)**	**–**	**130 884**	**139 922**

Reconciliation of deferred income

In thousands of rands	Opening balance	Utilised during the year	Reversal of prior period provision	Current year provision	Closing balance
31 March 2020					
Deferred income	**16 179**	**(1 034)**	**–**	**–**	**15 145**

Reconciliation of deferred income

in thousands of rands	Opening balance	Utilised during the year	Reversal of prior period provision	Current year provision	Closing balance
31 March 2019					
Deferred income	**428 655**	**(95 665)**	**44 719**	**(361 530)**	**16 179**

18. Provisions and lease liabilities

18.1 Provisions

Reconciliation of provisions – 2020

In thousands of rands	Opening Balance	Current year provision	Utilised during the year/ reversed	Closing balance
Developmental expenditure	62 992	16 691	(7 299)	72 382
Provision for expected losses on loan commitments	246 018	–	(238 908)	7 110
Strategic initiatives – COVID-19	–	150 000	–	150 000
	309 010	**166 691**	**(246 207)**	**229 492**

Reconciliation of provisions – 2019

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

Provision for developmental expenditure

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

Provision for expected losses on loan commitments

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

COVID-19 Provision

The outbreak of COVID-19 was declared a National Disaster by the South African Government on 15 March 2020. This required every stakeholder to work with Government to combat the spread of the pandemic particularly to the most vulnerable communities. The Bank is one of the key stakeholders expected to assist with the combating of this pandemic. DBSA responded as a key stakeholder.

18.2 Lease liabilities

In thousands of rands	Opening Balance	IFRS 16 Adjustments	Interest accrued	Repayments	Current portion	Total
Leases	**–**	**7 215**	**403**	**(3 797)**	**(3 457)**	**364**

There are no other potential future cashflows to which the Bank is exposed to other than those that are reflected in the lease liabilities.

18.3 Total of provisions and lease liabilities

In thousands of rands	2020	2019
Provisions	229 492	309 010
Lease liabilities	364	–
Total provisions and lease liabilities	**229 856**	**309 010**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2020

In thousands of rands	2020	2019

19. Liability for funeral and post-employment medical 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 R20 000 (31 March 2019: R 20 000) is paid to the family upon the death of an employee or retired employee. The obligation was valued by Alexander Forbes on 31 March 2020.

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

	2020	2019
Balance at beginning of the year	2 068	2 152
Increase/(decrease) in liability	173	(84)
Balance at the end of the year	**2 241**	**2 068**

A portion of the actuarial gains for the year were due to changes in economic assumptions of R0.017 million (31 March 2019: 0.2 million) and demographic assumptions of R0.017 million (31 March 2019: R0.2 million).

19.2 Liability for post-employment medical benefits

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

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

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

Present value of obligation

	2020	2019
Balance at the beginning of the year	42 416	44 604
Interest cost	4 199	4 140
Current service cost (includes interest to year end)	50	49
Past service cost	1 314	–
Benefits paid	(3 852)	(3 627)
Actuarial loss for the year	(3 483)	(2 750)
Balance at the end of the year	**40 644**	**42 416**
Total funeral and post-employment medical benefits liabilities	**42 885**	**44 484**

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

In thousands of rands	2020	2019
The amount recognised as an expense in the statement of comprehensive income in respect of the defined benefit plan is as follows:		
Interest cost	4 199	4 140
Current service cost	50	49
Past service cost	1 314	–
Total charge for the year (included in personnel expenses in the statement of comprehensive income – refer note 35)	**5 563**	**4 189**
The amount recognised as an expense in the statement of other comprehensive income in respect of the defined benefit plan is as follows:		
Actuarial loss for the year	**(3 483)**	**(2 750)**

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

	2020	2019
Discount rate before taxation (%)	**12.1**	10.4
Medical aid inflation rate (%)	**8.4**	8.1

19.4 Sensitivity analysis

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

	Central assumption	% point decrease	% point increase
Medical aid inflation rate (%)	8.4	(1.0)	1.0
Accrued liability 31 March 2020 (R'000)	40 644	37 640	44 124
% change	–	(7.4)	8.6
Current service cost + interest cost 2019/20 (R'000)	4 703	4 333	5 131
% change	–	(7.9)	9.1
Sensitivity results from previous valuation: Medical aid inflation rate 2018/19 (%)	8.1	(1.0)	1.0
Current service cost + interest cost 2018/19 (R'000)	4 249	3 880	4 685
% change	–	(8.7)	10.3

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

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19. Liability for funeral and post-employment medical benefits

19.5 The obligation for the three years prior to March 2019 is as follows:

In thousands of rands	
March 2018	44 604
March 2017	40 712
March 2016	239 289

In thousands of rands	2020	2019
19.6 Defined contribution plan		
The total amount expensed during the period (including group life assurance and income continuity benefits)	**65 600**	**66 527**

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 the employees of the Bank. The number of employees covered by the plan for March 2020 was 613 (March 2019: 597).

20. Debt funding designated at fair value through profit or loss

	2020	2019
Debt securities	**1 505 805**	**6 469 451**
Balance at beginning of the year	6 469 451	6 473 055
Discounts and premiums	30 928	32 900
Fair value adjustments	318 443	565 355
Interest repayment	(451 0 17)	(601 859)
Capital repaid	(4 862 000)	–
Balance at end of the year	**1 505 805**	**6 469 451**
Current portion	13 301	4 987 166
Non-current portion	1 492 504	1 482 285
Balance at end of the year	**1 505 805**	**6 469 451**

Debt securities designated at fair value through profit or loss consists of listed DV bonds. These instruments form part of a group of financial assets and liabilities that are managed and its performance evaluated on a fair value basis. These instruments were irrevocably designated at fair value through profit or loss at initial recognition because in doing so the Bank is significantly reducing a measurement inconsistency that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases. The valuation of debt securities held at fair value through profit or loss incorporates own credit risk adjustment of R32 million (March 2019: R64 million). The change in fair value attributable to changes in credit risk on debt securities in issue is calculated using the credit spread observed for recent issuances of similar debt, adjusted for subsequent changes in the credit spread observed on NCDs.

The carrying amount of the debt securities in issue at 31 March 2020 designated at FVTPL was R82m higher than the contractual amount due at maturity of R1.42 billion.

The carrying amount of Debt funding held at fair value through profit or loss for 31 March 2020 is inclusive of accrued interest amounting to R13 million.

In thousands of rands	2020	2019

21. Debt funding held at amortised cost

Debt securities	31 860 267	28 666 528
Lines of credit	27 180 228	15 849 662
Balance per statement of financial position	**59 040 495**	**44 516 190**
Accrued interest (refer to note 17)	422 226	363 447
Balance at end of the year including accrued interest	**59 462 721**	**44 879 637**

Reconciliation of debt funding at amortised cost

Balance at beginning of the year	44 516 190	47 040 916
Capital raised	24 755 028	13 102 081
Capital repaid	(14 608 027)	(18 618 727)
Discounts, premiums and transaction costs	308 814	285 165
Foreign exchange adjustments on lines of credit	4 068 490	2 706 755
Accrued interest (refer to note 17)	422 226	363 447
Balance at end of the year including accrued interest	**59 462 721**	**44 879 637**

Analysis of debt funding at amortised cost

Current portion	17 325 403	15 701 009
Non-current portion	41 715 092	28 815 181
Balance at end of the year	**59 040 495**	**44 516 190**

R80 billion Domestic Medium Term Note Programme is currently registered and listed on the JSE Securities Exchange as at 31 March 2020.

Debt securities designated at fair value through profit or loss consists of listed DV bond. The valuation of Debt securities held at fair value through profit or loss incorporates own credit risk adjustment of R32 million (2019: R64 million).

Debt securities carried at amortised cost consists of Eurorand bond issues, Money Market issuances (bridging bonds and short term Commercial paper), medium and long term fixed rate and floating rate bonds.

The Bank did not have any defaults of principal or interest or other breaches with respect to its debt securities during the years ended 31 March 2020 and 31 March 2019.

The total carrying amount of funding Debt securities held at amortised cost inclusive of accrued interest amount of R317 million is R32.18 billion.

The total carrying amount of funding lines of credit held at amortised cost inclusive of accrued interest amount of R49.8 million is R27.2 billion.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2020

In thousands of rands	2020	2019

21. Debt funding held at amortised cost (continued)

Floating rate notes and commercial paper – nominal values

Commercial paper – Short term notes	200 000	555 000
Floating rate notes – Medium term notes	12 243 000	7 650 000
Balance at end of the year	**12 443 000**	**8 205 000**

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

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

Debt funding at amortised costs – Repurchase agreements

Balance at the beginning of the year	–	–
Capital raised	587 338	–
Accrued interest (refer to note 17)	7 233	–
Balance at the end of the year including accrued interest	**594 571**	–

Analysis of funding of Repurchase agreements

Current	594 571	–
Balance at the end of the year	**594 571**	–

22. Share capital

Authorised

2 020 000 ordinary shares (31 March 2019: 2 020 000) at a par value of R10 000 each	**20 200 000**	**20 200 000**

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

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

Issued capital

20 000 ordinary shares (31 March 2019: 20 000) at a par value of R10 000 each	**200 000**	200 000

All issued capital is fully paid for.

In thousands of rands	2020	2019

23. Permanent government funding

Balance at the beginning of the year	**11 692 344**	**11 692 344**

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

24. Other reserves

24.1 Revaluation reserve on land and buildings

Balance at the beginning of the year	203 756	183 809
(Loss)/gain on revaluation of land and buildings (refer to note 15)	(15 661)	19 947
Balance at end of the year	**188 095**	**203 756**

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

24.2. Cash flow hedge reserve

Balance at the beginning of the year	25 918	74 897
Unrealised loss on cash flow hedges	(133 443)	(143 346)
Loss reclassified to profit or loss	78 839	94 367
Balance at the end of the year	**(28 686)**	**25 918**

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

24.3. Own credit risk reserve

Balance at 1 April	**64 134**	**76 986**
Movements due to own credit risk on financial liabilities designated at FVTPL	(31 794)	(12 852)
Balance at end of the year	**32 340**	**64 134**

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

Total of other reserves

Revaluation reserve on land and buildings	188 095	203 756
Cash flow hedge reserve	(28 686)	25 918
Own credit risk reserve	32 340	64 134
Total other reserves	**191 749**	**293 808**

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

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2020

In thousands of rands	2020	2019

25. Reserve for general loan risk

Balance at the beginning of the year	2 268 456	2 611 976
Transfer to/(from) general loan reserve	219 775	(343 520)
Balance at the end of the year	**2 488 231**	**2 268 456**

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

26. Interest income

Interest income calculated using the effective interest rate		
Cash and cash equivalents	269 218	237 124
Development bonds	122 301	122 054
Effective interest income on development loans*	7 628 412	7 798 627
Total interest income calculated using the effective interest rate	**8 019 931**	**8 157 805**
Other interest income		
Interest received on financial assets held at fair value through profit		
Derivatives hedging assets	70 886	70 935
Development loans at fair value through profit or loss	10 862	–
Equity investments - interest received from mezzanine instruments	14 328	31 960
Investment securities	170 310	149 139
Total other interest income	**266 386**	**252 034**
Total interest income	**8 286 317**	**8 409 839**

* Includes fees that form part of effective interest rate previously disclosed separately.

26.1. Interest income on development loans

Stage 1 loans	4 472 425	4 641 419
Stage 2 loans	2 921 537	3 022 102
Stage 3 loans	234 450	135 106
Total interest income on effective interest rate	**7 628 412**	**7 798 627**

In thousands of rands	2020	2019

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

Development finance institutions	18 800	28 384
Educational institutions	104 846	101 705
Local government	2 681 651	2 662 086
National and provincial government	179 129	293 989
Private sector intermediaries	1 927 327	2 037 978
Public utilities	2 716 659	2 674 485
Total interest income on effective interest rate	**7 628 412**	**7 798 627**

27. Interest expense

Interest expense on financial liabilities calculated using the effective interest rate		
Bank and other payables	16 988	9 971
Debt funding held at amortised cost	3 375 597	3 334 317
Total interest expense on financial liabilities calculated using the effective interest rate	**3 392 585**	**3 344 288**
Other interest expense		
Interest expense on financial liabilities held at fair value through profit or loss		
Derivatives hedging liabilities	(52 831)	(63 658)
Funding: debt securities at fair value through profit or loss	523 060	634 759
Total other interest expense	**470 229**	**571 101**
Total interest expense	**3 862 814**	**3 915 389**
Net interest income (Note 26 less Note 27)	**4 423 503**	**4 494 450**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2020

In thousands of rands	2020	2019

28. Net fee income

Gross fee income		
Lending fees	102 633	87 794
Management fees	216 848	169 177
Non-lending fees	364	3 399
Total fee income	**319 845**	**260 370**
Gross fee expense		
Fees on funding	12 457	23 053
Guarantee fees	39 903	40 885
Other fees	11 972	3 052
Total fee expense	**64 332**	**66 990**
Net fee income	**255 513**	**193 380**

Disaggregation of gross fee income

Lending fees		
RSA Municipalities	2 782	1 540
RSA Economic and Social	55 620	72 555
Rest of Africa	44 231	10 026
Other divisions	–	3 673
Total lending fees	**102 633**	**87 794**
Management fees		
RSA Economic and Social	2 500	–
Rest of Africa	1 143	4 146
Infrastructure Delivery Division	190 540	161 243
Other divisions	22 665	3 788
Total management fees	**216 848**	**169 177**
Non-lending fees		
Infrastructure Delivery Division	261	3 250
Other divisions	103	149
Total non-lending fees	**364**	**3 399**

Lending fees

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

Management fees

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

Non-lending fees

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

Contract assets and liabilities

As at 31 March 2020 the Bank had R50 million (31 March 2019: R39 million) in trade receivable assets as a result of contracts with customers relating to management fees and R41 million (31 March 2019: R12 million) relating to lending fees. As at 31 March 2020 the Bank had no trade payables as a result of contracts with customers.

In thousands of rands	2020	2019
Reconciliation of contract assets		
Balance at the beginning of the year	38 844	–
Repayments during the year	(38 249)	–
Raised and not paid during the year	49 174	38 844
Balance at the end of the year	**49 769**	**38 844**

Impairment on fee receivables and contract assets

During 2020, there were no material impairments recognised in relation to fees receivable and contract assets from management fees. Impairments relating to lending fees were recognised under development loans.

Remaining performance obligations

As at 31 March 2020, the Bank had no outstanding obligations emanating from contracts with customers for which a contract liability had been recognised.

Costs incurred in obtaining or fulfilling a contract

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

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2020

28. Net fee income (continued)

Management fees comprises:

In thousands of rands	2020	2019
Agence Francaise de Development PPS Fund	–	464
African World Heritage Fund (AWHF)	1 426	1 426
Department of Basic Education for Accelerated Infrastructure Schools Programme	29 394	24 269
Department of Energy – Independent Power Producer Office	11 301	–
Department of Trade and Industry	8 422	4 978
Eastern Cape Department of Education	8 284	22 450
Ekurhuleni Metropolitan Municipality	42 541	44 272
Elliotdale Human Rural Settlement (EHRS)	–	(759)
Department of corporate governance	1 183	–
Infrastructure Delivery Management System	27	–
Global Environment Facility	–	1 896
North West Department of Education	4 167	–
Infrastructure Investment Programme for South Africa (IIPSA)	108	–
KFW HIV/Voluntary Counselling and Testing Programme	–	172
KFW SADC Water Fund	–	18
KwaZulu-Natal Department of Education	30 013	20 113
Limpopo Department of Economic Development	809	3 241
Limpopo Department of Education	1 455	5 026
Limpopo Department of Health	–	138
Department of Arts and Culture	329	–
Limpopo Department of Public Works	925	912
Student Housing Infrastructure Programme	652	–
National Department of Health	27 190	10 977
National Department of Public Works	34 492	23 341
National Treasury Cities Support Programme (NTCSP)	1 054	780
Other entities	12 820	4 146
KFW SADC Water Fund	256	–
Sefako Makgatho University	–	1 316
Tripartite Aid for Trade Pilot (TTA DFID)	–	1
Total management fees	**216 848**	**169 177**

In thousands of rands	2020	2019

29. Net foreign exchange gain/(loss)

Unrealised – financial assets/liabilities at amortised cost		
Cash and cash equivalents: gain	67 497	29 478
Development loans: gain	4 664 691	3 050 274
Funding lines of credit: loss	(3 353 922)	(2 154 874)
Unrealised – financial assets/liabilities at fair value through profit or loss		
Equity investments: gain (refer to note 11.1)	587 709	473 606
Hedging derivatives – funding: loss	(384 284)	(503 903)
Hedging derivatives development loans: gain/(loss)	111 528	(152 472)
Total unrealised foreign exchange gain/(loss)	**1 693 219**	**742 109**
Realised – financial assets/liabilities at amortised cost		
Development loans: gain	385 534	475 536
Realised – financial assets/liabilities at fair value through profit or loss		
Equity investments: gain (refer to note 11.1)	117 701	25 864
Funding and hedging loss	(764 087)	(580 254)
Hedging derivatives: (loss)/gain	(260 848)	80 458
Total realised foreign exchange (loss)/gain	**(521 700)**	**1 604**
Net foreign exchange gain	**1 171 519**	**743 713**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2020

In thousands of rands	2020	2019

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

Net gain/(loss) on derivatives held for risk management at fair value through profit or loss other than held for trading		
Interest rate derivatives		
Realised	20 572	3 250
Unrealised	(53 688)	(76 336)
Net loss from interest rate derivatives	**(33 116)**	**(73 086)**
Foreign exchange derivatives		
Realised	(16 435)	(9 565)
Unrealised	(7 240)	15 990
Net (loss)/gain from foreign exchange derivatives	**(23 675)**	**6 425**
Investment securities at fair value through profit or loss – unrealised		
Government bonds	(37 321)	(17 482)
Municipal bonds	(20 864)	(14 374)
Investment in segregated funds	603	1 516
State owned entities bonds	(1 242)	(2 322)
Total investment securities at fair value through profit or loss – unrealised	**(58 824)**	**(32 662)**
Debt securities		
Designated at fair value through profit or loss – unrealised	97 419	129 526
At amortised cost – realised	(42 357)	–
Designated at fair value through profit or loss – realised	(12 099)	–
	42 963	**129 526**
Equity investments		
Held at fair value through profit or loss – unrealised (refer to note 11.1)	**(371 312)**	**41 457**
Development loans		
Development loans at FVTPL	**(77 482)**	**–**
Other financial assets		
Other financial assets held at fair value through profit or loss – unrealised	**(7 581)**	**(1 715)**
Total net (loss)/gain from financial assets and liabilities	**(529 027)**	**69 945**

The total unrealised (losses)/gains for the year related to level 3 positions held at year end are set below.

Equity investments (refer to note 12)	(45 461)	(121 423)

Included in the net gain/(loss) on derivatives held for risk management at fair value through profit or loss is a CVA adjustment loss of R51 million (March 2019: loss of R4 million) and a DVA adjustment gain of R37 million (March 2019: gain of R10 million).

In thousands of rands	2020	2019

31. Investment and other income

Investment income		
Dividend income	33 010	92 241
Realised gain on equity investments	142 889	22 020
Non-investment income		
Profit on sale of property and equipment	50	255
Sundry income	26 668	25 257
Total	**202 617**	**139 773**

32. Project preparation expenditure

Expenditure incurred on the planning, project definition, pre-feasibility, feasibility and structuring phase of projects	**41 539**	**1 405**

33. Development expenditure

In support of secondary and under-resourced municipalities	**47 192**	**20 505**

34. Expected credit losses on financial assets and commitments

Trade receivables and other assets (refer to note 6)	3 333	819
Development bonds (refer to note 13.3)	2 149	182
Development loans (refer to note 14.9)	3 866 105	1 197 414
Loan commitments (refer to note 46)	(238 908)	242 641
Total charge to profit or loss	**3 632 679**	**1 441 056**

35. Personnel expenses

Post-retirement medical benefits liability movement (refer note 19.2)	5 563	4 189
Personnel expenses	745 507	747 111
Total	**751 070**	**751 300**

Included in other personnel expenses are the following:		
Chief Executive Officer and Chief Financial Officer remuneration (refer to note 41)	17 330	16 535
Executive members' remuneration (refer to note 41)	45 903	39 410
Total executive remuneration	**63 233**	**55 945**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2020

In thousands of rands	2020	2019
36. General and administration expenses		
Auditor's remuneration	13 325	12 989
Communication costs	7 750	8 417
Consulting fees	23 332	22 946
Information technology costs	42 534	45 802
Legal expenses	17 698	11 164
Low value assets	2 594	346
Non-executive directors fees paid (refer to note 41)	8 943	9 753
Other expenses	112 301	99 247
Public relations activities	42 269	29 793
Strategic Initiatives – COVID-19	150 000	–
Subsistence and travel	68 992	51 946
Total	**489 738**	**292 403**
37. Depreciation and amortisation (refer note 15 and 16)		
Computer equipment	8 024	3 187
Furniture and fittings	265	768
Intangible assets	11 542	9 753
Lease equipment	2 150	–
Lease property	1 227	–
Leasehold improvements	–	235
Motor vehicles	380	344
Office equipment	1 394	980
Revalued buildings	4 339	4 312
Total	**29 321**	**19 579**

In thousands of rands	2020	2019

38. Grants

Association of African Development	150	–
Bontshe Inspirations Pty Ltd – scholar transport in Ukhanya District	–	161
Bright Kid Foundation	9 540	2 571
DBSA Youth Challenge Competition	2 357	–
Education Grant	21	–
Emfuleni Municipality – sponsorship for clean up services	–	83
Emfuleni School Sanitation	151	–
Enterprise development programmes	17	149
KZN Umbelethisi Programme	3 000	–
Mobile Tablet Trolley Project	223	–
Nelson Mandela Day Built Event	500	1 029
Neuro Coaching for Schools	480	–
OR Tambo School	335	1 132
Pan African Capacity Building Platform (PACBF)	–	6 667
Procuresense (Pty) Ltd – incubation services	249	168
PSACF Contribution	97	–
Rise against Hunger	435	290
SADC PPP Collaboration – Project preparation	–	165
Scholar Transport in Ukhanya District	1 046	–
Schools Capacity Support	1 196	–
Schools Space Solutions	2 216	–
Sizanani Business Coaches– Alex Hub Matric prize giving	–	28
Symphonia for South Africa	4 479	5 625
Vuyani & Maxhoba Project	1 000	–
Tau Tlou Creche Revamping	1 162	–
The Lickery Company (Pty) Ltd – CSI sponsored company	–	250
Total	**28 654**	**18 318**

These are discretionary grants and recognised as an expense when paid.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2020

In thousands of rands	2020	2019

39. Net (loss)/profit adjusted for non-cash items and items separately disclosed

Net profit for the year	503 932	3 096 695
Dividends received (refer to note 31)	(33 010)	(92 241)
Management fees – segregated funds	1 184	–
Depreciation and amortisation (refer to note 37)	29 321	19 579
Profit on sale of property and equipment (refer to note 31)	(50)	(255)
Revaluation of development loans at fair value through profit or loss	77 484	–
Grants, development expenditure and project preparation expenditure paid	117 385	40 228
Unrealised gain(loss) from financial assets and liabilities	193 824	(76 261)
Upfront fees deferred	256 146	32 674
Fees received	(106 277)	(10 318)
Debt guarantee fee raised	38 873	38 873
Unrealised foreign exchange loss (refer to note 29)	(1 171 520)	(742 109)
Capital gain on equity investments (refer to note 31)	(142 889)	(22 020)
Expected credit losses on financial assets (refer to note 34)	3 632 679	1 441 056
Change in liability for funeral benefits and post retirement medical benefit	(1 599)	478
Net interest income (refer to note 27)	(4 423 503)	(4 494 450)
Movements in provisions	112 562	(20 505)
(Increase)/Decrease in trade receivables and other assets	(6 558)	8 904
(Decrease)/Increase in trade, other payables and accrued interest on debt funding	(98 254)	33 903
Total	**(1 020 270)**	**(745 769)**

40. Reconciliation of financial liabilities from financing activities

Balance at the beginning of the year	51 349 088	54 043 997
Financial market liabilities repaid	(19 470 027)	(18 618 727)
Financial market liabilities raised	25 342 366	13 102 081
Interest repayment	(3 476 375)	(3 750 033)
Fair value movements	318 443	485 105
Interest accrual	3 064 223	3 024 926
Premiums, discounts and transaction costs	339 742	318 065
Foreign exchange rate movement	4 095 637	2 743 674
Total	**61 563 097**	**51 349 088**

Included in opening balance is debt securities held at fair value through profit or loss of R6 billion (March 2019: R6 billion), debt securities held at amortised cost of R33 billion (March 2019: R33 billion) and funding: lines of credit R15.85 billion (March 2019: R14 billion). Included in closing balance for year ended March 2020 is debt funding designated at fair value through profit or loss of R1.5 billion and debt funding held at amortised cost of R59.5 billion.

41. Schedule of Directors' and prescribed officers' emoluments

41.1 Executive members' remuneration and prescribed officers

	Basic salaries and fees R	Medical aid, group life and provident fund contributions R	Subsistence and travel R	Cell costs R	Performance bonus R	Retention bonus R	Total 2020 R	Total 2019 R
Executive Directors								
Mr P K Dlamini	5 642 412	1 081 264	147 278	–	2 142 000	3 150 000	12 162 954	11 702 156
Ms B Mosako	2 568 611	437 593	164 792	26 400	681 215	1 288 012	5 166 623	4 833 307
Executive Managers								
Mr P A Currie	3 775 608	525 345	36 517	39 600	945 945	1 842 750	7 165 765	6 967 844
Mr E Dietrich	2 417 257	622 359	82 931	66 000	688 787	1 302 328	5 179 662	5 128 422
Mr M Hillary	2 423 940	469 722	40 976	26 400	630 441	1 228 131	4 819 610	4 615 514
Mr M Kubelo	2 380 068	312 993	76 327	26 400	564 480	1 134 000	4 494 268	4 344 915
Ms N Mbele	2 400 445	466 857	28 235	26 400	611 520	1 228 500	4 761 957	4 618 511
Ms M S Motsepe	2 024 836	666 807	–	26 400	–	1 125 000	3 843 043	421 067
Mr M Rakgate	2 463 037	404 265	93 433	33 000	611 520	1 228 500	4 833 755	4 717 100
Mr C Ramphele	2 465 100	227 961	24 686	26 400	583 100	1 102 500	4 429 747	1 850 471
Ms S Sibisi	–	–	–	–	–	–	–	418 331
Mr M Vivekanandan	2 959 094	712 693	182 929	39 600	824 599	1 656 561	6 375 476	6 327 010
Total	**31 520 408**	**5 927 859**	**878 104**	**336 600**	**8 283 607**	**16 286 282**	**63 232 860**	**55 944 648**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2020

41. Schedule of Directors' and prescribed officers' emoluments (continued)

41.2 Remuneration of non-executive Directors and co-opted members of the Board

	Fees for services as directors R	Subsistence and travel R	Total 2020 R	Total 2019 R
Enoch Godongwana[1]	1 016 936	25 906	1 042 842	–
Prof M Swilling[2]	961 616	18 160	979 776	604 115
Mr PJ Moleketi	–	–	–	1 028 667
Mr FM Baleni	–	–	–	881 745
Ms M Janse Van Rensburg	1 017 375	–	1 017 375	897 195
Ms Z Monnakgotla	942 405	4 115	946 520	850 066
Ms G Mtetwa[3]	420 521	1 076	421 597	1 159 894
Mr B Mudavanhu	776 345	1 733	778 078	769 777
Ms B Ndamase	754 630	–	754 630	705 058
Mr L Nematswerane	601 973	2 599	604 572	599 061
Ms L Noge-Tungamirai	624 305	3 249	627 554	619 014
Ms P Nqeto	865 042	2 166	867 208	777 520
Ms A Sing	900 502	2 349	902 851	860 540
	8 881 650	**61 353**	**8 943 003**	**9 752 652**

1. Appointed as Chairman on 27 September 2019.
2. Was Chairman until appointed as a Deputy Chairman on 27 September 2019.
3. Resigned on 30 August 2019.
4. Terms for all non-executive directors with terms ending on 31 July 2020 were extended until 31 October 2020.

42. Risk management

42.1 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 by containing the innate interest rate and foreign currency risks within acceptable parameters.

Market risk management in the Bank is centralised in the treasury unit and is governed by the interest rate, currency and liquidity risk management policies. As with all risk management policies of the Bank, these policies reside under the authority of the Board of Directors. Whilst the ultimate responsibility for prudent and effective asset-liability management rests with the Board, the authority for policy formulation, revision, strategic management and administration is assigned to the Asset and Liability Management Committee (ALCO). ALCO is responsible for assessing and monitoring the Bank's market risk exposures and is supported in these functions by the Group Risk Assurance (GRA) division.

42.2 Interest rate risk

Interest rate risk refers to the susceptibility of the Bank's financial position to adverse fluctuations in market interest rates. Variations in market interest rates impact on the cash flows and income stream of the Bank through their net effect on interest rate sensitive assets and liabilities. At the same time movements in interest rates impact on the Bank's capital through their net effect on the market value of assets and liabilities. Interest rate risk in the Bank arises naturally as a result of its funding and lending operations, and occurs primarily in the form of re-pricing risk caused by mismatches in the amount of assets and liabilities re-pricing at any one time, and to a lesser extent, basis risk, the risk of spread compression between assets and liabilities priced off different reference rates.

The treasury unit, under oversight of the Board Audit and Risk Committee, is charged with managing and containing the Bank's interest rate risk exposures within Board approved limits. To this end, the Bank makes use of derivative instruments to achieve its desired interest rate risk profile.

The Bank's primary interest rate risk management objective is to protect its net interest income (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 with respect to both short term NII sensitivity using the 12-month cumulative re-pricing gap to total earning assets ratio, and in the longer term, with respect to the portfolio value analysis.

The management of interest rate risk against these limits is supplemented by scenario analysis, which measures the sensitivity of the Bank's Nil 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 re-pricing profile as at 31 March 2020 is encapsulated in the table below. As reflected in the 12-month cumulative re-pricing gap, the Bank is asset sensitive, with an immediate 50 basis points upward or downward shift in short term rates expected to result in an increase (decrease) in net interest income over the projected 12-month period of approximately R61.4 million (March 2019: R32.09 million).

42.3 Hedging interest rate risk

Desired changes to the Bank's interest rate risk profile are achieved through the use of derivative instruments, particularly interest rate swaps, in line with the Bank's hedging guidelines.

As at 31 March 2020, the Bank had a combined ZAR interest rate and USD interest rate swaps portfolio with a total notional amount of R1.38 billion (March 2019: R4.7 billion). The Bank classifies interest rate swaps as fair value hedges and states them at fair value (refer to note 8). The net fair value of these swaps as at 31 March 2020 was R11.13 million (March 2019: R47.15 million), comprising assets of R38.6 million (March 2019: R69.2 million) and liabilities of R27.5 million (March 2019: R22.05 million). These amounts are recognised as fair value derivatives. The table below shows the contractual re-pricing gap for 31 March 2020.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2020

42. Risk management (continued)

The table below shows the contractual repricing gap for 31 March 2020:

In millions of rands		<1M	1-3M
Cash and cash equivalents	ZAR	2 803	–
	USD	614	–
	EUR	42	–
Investment securities	ZAR	508	–
Development bonds	ZAR	–	–
Development loans	USD	3 518	5 902
	EUR	383	450
	ZAR	9 142	18 785
Derivatives assets held for risk management purposes – cross currency swaps	ZAR	–	97
	EUR	1 798	–
Derivative assets held for risk management – interest rate swaps	ZAR	–	180
	USD	–	–
Derivative assets held for risk management purposes – foreign exchange contracts	USD	869	–
Total Financial Market Assets		**19 677**	**25 414**
Derivative liabilities held for risk management purposes – cross currency swaps	EUR	–	–
	USD	(2 319)	(502)
	ZAR	–	(153)
Funding under Repurchase agreement	ZAR	–	–
Debt funding at amortised cost and FVTPL – funding bonds	ZAR	(4 349)	(8 094)
Debt funding at amortised cost – funding lines of credit	EUR	–	(692)
	USD	(2 373)	(6 626)
	ZAR	–	(1 427)
Derivative liabilities held for risk management purposes – interest rate swaps	ZAR	(250)	(825)
	USD	–	(7)
Debt funding at amortised cost – money market debt	ZAR	–	(400)
Derivative liabilities held for risk management purposes – forward exchange contracts	EUR	(856)	–
Total Financial Market Liabilities		**(10 147)**	**(18 726)**
Repricing Gap		**9 530**	**6 688**
Cumulative Repricing Gap		**9 530**	**16 218**

The above analysis excludes non-performing assets. Variable interest rate instruments are included in the maturity bucket in which they re-price. Fixed rate instruments, although not subject to re-pricing risk, are included in the maturity bucket in which they mature, due to the assumption that it will be rolled at maturity or that it will convert to cash.

3-12M	1-2 yrs	2-3 yrs	3-4 yrs	4-5 yrs	> 5 yrs	Total
–	–	–	–	–	–	2 803
–	–	–	–	–	–	614
–	–	–	–	–	–	42
100	–	75	284	231	525	1 723
–	–	–	–	502	750	1 252
10 971	274	269	271	274	527	22 006
1 003	–	–	–	–	–	1 836
1 444	4 605	1 585	1 400	1 618	28 086	66 665
184	281	281	220	115	463	1 641
–	–	–	–	–	–	1 798
–	500	250	–	325	–	1 255
–	–	7	–	–	–	7
–	–	–	–	–	–	869
13 702	**5 660**	**2 467**	**2 175**	**3 065**	**30 351**	**102 511**
–	–	–	–	–	–	–
–	–	–	–	–	–	(2 821)
(56)	(65)	(65)	(65)	(42)	(113)	(559)
(587)	–	–	–	–	–	(587)
–	(1 097)	(9 285)	(2 093)	–	(4 345)	(29 263)
(572)	(291)	(291)	(229)	(124)	(416)	(2 615)
(10 812)	(140)	(139)	(97)	(101)	(324)	(20 612)
(2 071)	–	–	–	–	(500)	(3 998)
–	–	–	(180)	–	–	(1 255)
–	–	–	–	–	–	(7)
(3 550)	–	–	–	–	–	(3 950)
–	–	–	–	–	–	(856)
(17 648)	**(1 593)**	**9 780**	**2 664**	**267**	**5 698**	**(66 523)**
(3 946)	**4 067**	**(7 313)**	**(489)**	**2 798**	**24 653**	
12 272	**16 339**	**9 026**	**8 537**	**11 335**	**35 988**	

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2020

42. Risk management (continued)

The table below shows the contractual repricing gap for 31 March 2019:

In millions of rands		<1M	1-3M
Cash and cash equivalents	ZAR	2 378	–
	USD	516	–
	EUR	17	–
Investment securities	ZAR	532	–
Development bonds	ZAR	–	–
Development loans	USD	1 465	5 347
	EUR	272	–
Derivative assets held for risk management purposes – cross currency swaps	ZAR	5 060	16 572
	ZAR	1 798	–
Derivative assets held for risk management purposes – interest swaps	EUR	–	–
	ZAR	250	505
Derivative assets held for risk management purposes – foreign exchange contracts	USD	–	–
	ZAR	255	116
Total Financial Market Assets		**12 543**	**22 540**
Derivative liabilities held for risk management purposes – cross currency swaps	USD	(1 883)	(524)
	ZAR	–	(172)
Debt funding at amortised cost and FVTPL – funding bonds	ZAR	(1 196)	(6 454)
Debt funding at amortised cost – funding lines of credit	EUR	–	–
	USD	(2 549)	(3 702)
	ZAR	–	(254)
Derivative liabilities held for risk management purposes – interest rate swaps	ZAR	(250)	(4 175)
	USD	–	(138)
Debt funding at amortised cost – money market debt	ZAR	–	(655)
Derivative liabilities held for risk management purposes – foreign exchange contracts	USD	(290)	(130)
Total Financial Market Liabilities		**(6 168)**	**(16 204)**
Repricing Gap		**6 375**	**6 336**
Cumulative Repricing Gap		**6 375**	**12 711**

During the year, the time buckets for disclosure purposes have been expanded and new time buckets have been added for disclosure purposes and in line with internal risk management processes. Where applicable the comparative amounts for prior year have been restated to reflect the detailed timing buckets and the total amounts remain the same as prior year comparative amounts. The above analysis excludes non-performing assets. Variable interest rate instruments are included in the maturity bucket in which they re-price. Fixed rate instruments, although not subject to re-pricing risk, are included in the maturity bucket in which they mature, due to the assumption that it will be rolled at maturity or that it will convert to cash.

3-12M	1-2 yrs	2-3 yrs	3-4 yrs	4-5 yrs	> 5 yrs	Total
–	–	–	–	–	–	2 378
–	–	–	–	–	–	516
–	–	–	–	–	–	17
–	100	–	75	284	756	1 747
–	–	–	–	–	1 252	1 252
8 225	392	239	181	193	583	16 625
–	–	–	–	–	19	291
2 094	1 568	4 542	1 519	1 311	26 354	59 020
–	–	–	–	–	–	1 798
26	–	–	–	457	1 138	1 621
1 350	2 000	500	–	–	–	4 605
–	–	–	138	–	–	138
392	–	–	–	–	–	763
12 087	**4 060**	**5 281**	**1 913**	**2 245**	**30 102**	**90 771**
–	–	–	–	–	–	(2 407)
–	–	–	–	–	(478)	(650)
(8 971)	–	(1 097)	(9 423)	(2 093)	(4 020)	(33 254)
(296)	–	–	–	(457)	(1 138)	(1 891)
(6 516)	–	–	(138)	–	(737)	(13 642)
(87)	–	–	–	–	–	(341)
–	–	–	–	(180)	–	(4 605)
–	–	–	–	–	–	(138)
(725)	–	–	–	–	–	(1 380)
(434)	–	–	–	–	–	(854)
(17 029)	**–**	**(1 097)**	**(9 561)**	**(2 730)**	**(6 373)**	**(59 162)**
(4 942)	**4 060**	**4 184**	**(7 648)**	**(485)**	**23 729**	
7 769	**11 829**	**16 013**	**8 365**	**7 880**	**31 609**	

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2020

42. Risk management (continued)

42.4 Foreign exchange risk

Foreign exchange risk is the risk of financial loss resulting from adverse movements in foreign currency exchange rates. Currency risk in the Bank arises primarily as a result of foreign currency denominated borrowings, foreign currency lending, equity investments, foreign currency net interest income, expenditure and dividends.

The Bank's primary currency risk management objective is to protect its net earnings against the impact of adverse exchange rate movements. Hedging of currency exposures is effected either naturally through offsetting assets and liabilities of substantially similar size, maturities, currency, and repricing bases; or in the absence thereof, through the use of approved derivative instruments transacted with approved financial institutions.

42.5 Hedging of foreign currency risk exposure

The Bank uses cross currency swaps, currency options and forward exchange contracts (FECs) to hedge its foreign currency risk. As at 31 March 2020, the Bank had cross-currency swaps with a notional amount of R3.38 billion (March 2019: R2.97 billion). In addition the Bank had foreign exchange contracts with notional amount of R869 million (March 2019: R762 million) and foreign exchange option hedges with notional amount of R4.9 billion (March 2019: R1.7 billion). The notional amounts indicate the volume of currency hedges outstanding at the balance sheet date and do not represent the amount at risk.

42.6 Foreign currency sensitivity analysis

Potential impact of rand volatility on profit/loss based on current net open position currency exposure.

	March 2020		March 2019	
Currency in thousands	**EUR**	**USD**	**EUR**	**USD**
Cash at bank	2 143	34 408	64	2 461
Loan assets	93 371	1 233 573	17 928	1 147 914
Equity Investments	31 187	178 379	32 067	174 028
Cross-currency swaps	83 387	(158 149)	99 747	(166 191)
Foreign exchange contracts	(43 490)	48 709	–	(59 000)
Liabilities	(132 885)	(1 155 316)	(116 416)	(941 930)
Forex options	3 285	51 832	–	(115 000)
Hedged future net interest income	(19 832)	(159 825)	–	–
	17 166	**73 611**	**33 390**	**42 282**

42.7 Foreign currency exchange rate (FX) sensitivity analysis

Sensitivity	%	EUR/ZAR	EUR potential impact	USD/ZAR	USD potential impact	FX Sensitivity combined
	(15)	16.7246	(50 664)	15.1642	(196 985)	(247 649)
	(10)	17.7084	(33 776)	16.0562	(131 323)	(165 099)
	(5)	18.6922	(16 888)	16.9482	(65 662)	(82 550)
	–	19.6760	–	17.8402	–	–
	5	20.6598	16 888	18.7322	65 662	82 550
	10	21.6436	33 776	19.6242	131 323	165 099
	15	22.6274	50 664	20.5162	196 985	247 649
Spot exchange rate used		19.6760		17.8402		

42.8 Liquidity risk

Liquidity risk is defined as the risk of failure to meet all financial obligations on a timely basis and in the currency due without incurring above normal costs. In the case of the DBSA this risk specifically would arise from an inability to honour obligations with respect to commitments to borrowers, lenders and investors and operational expenditure.

In order to shield the Bank against the risk of liquidity shortfall, the Bank's liquidity risk management policy requires the maintenance of prudential liquidity levels higher than or equal to the highest average monthly disbursements based on the previous four quarters. In addition, in the interest of added prudence, the Bank has adopted the Basel III recommended liquidity risk metrics, which are the liquidity coverage ratio and the net stable funding ratio as part of its liquidity risk management policy.

Liquidity is held primarily in the form of money market instruments such as call deposits, treasury bills, negotiable certificates of deposit, promissory notes as well as liquid debt issues from government, municipalities and other approved issuers.

Total liquidity at 31 March 2020 was R4.66 billion (March 2019: R4.67 billion). This includes cash and cash equivalents of R3.46 billion (March 2019: R2.92 billion), segregated money market funds of R508 million (March 2019: R537 million), SOE and municipal bonds of R690 million (March 2019: R690 million), and government bonds amounting to R0 million (March 2019: R525 million).

42.9 Available Liquidity

In thousands of rands	March 2020	March 2019
High quality liquid assets		
Cash and cash equivalents	3 458 836	2 922 876
Government bonds – nominal value	–	525 000
Other Less Liquid assets		
Investment in segregated funds	508 491	536 507
Municipal bonds – nominal value	615 000	615 000
SOE bonds – nominal value	75 000	75 000
Total Available Liquidity	**4 657 327**	**4 674 383**

In addition to holding a minimum level of liquidity in the form of cash and near cash equivalents (tradable market securities) as described above, the Bank has at its disposal a variety of funding sources should the need arise. These include uncommitted credit lines with reputable financial institutions, committed loan facilities with multilateral, bilateral and other development finance institutions, money and capital securities issuance under the Bank's domestic medium-term programme and capital market repurchase transactions. Total liquidity including undrawn credit facilities for the year amounted to approximately R6.2 billion (31 March 2019: R6.3 billion).

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 ALCO on a monthly basis. The 12 month cumulative liquidity gap as at 31 March 2020 was negative R2.05 billion (March 2019: negative R7.5 billion).

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2020

42. Risk management (continued)

The table below shows the contractual liquidity gap for 31 March 2020:

In millions of rands		<1M	1-3M
Cash and cash equivalents	ZAR	2 803	–
	USD	614	–
	EUR	42	–
Investment securities	ZAR	508	–
Development bonds	ZAR	–	–
Development loans	EUR	–	–
	USD	68	779
	ZAR	121	780
Derivative assets held for risk management purposes – Cross currency swaps	EUR	–	102
	ZAR	–	–
Derivative assets held for risk management purposes – forward exchange contracts	USD	869	–
Total financial market assets		**5 025**	**1 661**
Derivative liabilities held for risk management purposes – cross currency swaps	USD	–	(72)
	ZAR	–	(17)
Debt funding at amortised cost and FVTPL – funding bonds	ZAR	–	–
Debt funding at amortised cost – lines of credit	EUR	–	(102)
	USD	–	(185)
	ZAR	–	(757)
Fund under Repo	ZAR	–	–
Debt funding at amortised cost – money market debt	ZAR	–	(400)
Derivative liabilities held for risk management purposes – forward exchange contracts	EUR	(856)	–
Total Financial Market Liabilities		**(856)**	**(1 533)**
Liquidity gap		**4 169**	**128**
Cumulative liquidity gap		**4 169**	**4 297**

Note that the contractual liquidity gap has been adjusted to include the Bank's 2027 zero coupon liability at current book value. This bond contractually matures in 2027 and accrues interest semi-annually toward a maturity value of R7.27 billion.

As per the table above the Bank has a positive cumulative liquidity gap where the contractual inflows exceed outflows across all time buckets. This profile is anticipated due to the nature of the business where the Bank has raised long dated stable funding and generated short term amortising assets. There are no behavioural assumptions made on the liquidity gap and all assets and liabilities are disclosed with the underlying contractual maturity as determined by the cash flow profile for each record.

	3-12M	1-2 yrs	2-3 yrs	3-4 yrs	4-5 yrs	> 5 yrs	Total
	–	–	–	–	–	–	2 803
	–	–	–	–	–	–	614
	–	–	–	–	–	–	42
	100	–	75	284	231	525	1 723
	–	–	–	–	502	750	1 252
	–	27	141	366	368	936	1 838
	2 871	3 947	3 541	2 949	2 083	5 768	22 006
	7 306	5 703	2 581	2 484	2 949	44 741	66 665
	189	291	291	229	124	416	1 642
	719	719	360	–	–	–	1 798
	–	–	–	–	–	–	869
	11 185	**10 687**	**6 989**	**6 312**	**6 257**	**53 136**	**101 252**
	(999)	(1 071)	(607)	(72)	–	–	(2 821)
	(63)	(80)	(80)	(80)	(56)	(182)	(558)
	(848)	(3 392)	(10 816)	(3 093)	(4 755)	(6 359)	(29 263)
	(779)	(291)	(291)	(229)	(124)	(799)	(2 615)
	(8 117)	(1 235)	(3 280)	(1 031)	(1 034)	(5 729)	(20 611)
	(2 588)	(62)	(30)	(30)	(18)	(513)	(3 998)
	(587)	–	–	–	–	–	(587)
	(3 550)	–	–	–	–	–	(3 950)
	–	–	–	–	–	–	(856)
	(17 531)	**(6 131)**	**(15 104)**	**(4 535)**	**(5 987)**	**(13 582)**	**(65 259)**
	(6 346)	**4 556**	**(8 115)**	**1 777**	**270**	**39 554**	
	(2 049)	**2 507**	**(5 608)**	**(3 831)**	**(3 561)**	**35 993**	

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2020

The table below shows the contractual liquidity gap for 31 March 2019:

In millions of rands		<1M	1-3M
Cash and cash equivalents	ZAR	2 378	–
	USD	516	–
	EUR	17	–
Investment securities	ZAR	532	–
Development bonds	ZAR	–	–
Development loans	EUR	–	–
	USD	21	529
	ZAR	57	1 980
Derivative assets held for risk management purposes – cross currency swaps	EUR	–	84
Derivative assets held for risk management purposes – foreign exchange contracts	ZAR	255	116
Total financial market assets		**3 776**	**2 709**
Cross currency swaps	USD	–	(58)
Derivative liabilities held for risk management purposes – foreign exchange contracts	USD	(290)	(130)
	ZAR	–	(17)
Debt funding at amortised cost and FVTPL – Funding bonds	ZAR	–	(1 950)
Debt funding at amortised cost – lines of credit	EUR	–	(84)
	USD	(159)	(875)
	ZAR	–	(7)
Debt funding at amortised cost – money market debt	ZAR	–	(655)
Total Financial Market Liabilities		**(449)**	**(3 776)**
Liquidity gap		**3 327**	**(1 067)**
Cumulative liquidity gap		**3 327**	**2 260**

During the year, the time buckets for disclosure purposes have been expanded and new time buckets have been added for disclosure purposes and in line with internal risk management processes. Where applicable the comparative amounts for prior year have been restated to reflect the detailed timing buckets and the total amounts remain the same as prior year comparative amounts. Note that the contractual liquidity gap has been adjusted to include the Bank's 2027 zero coupon liability at current book value. This bond contractually matures in 2027 and accrues interest semi-annually toward a maturity value of R7.27 billion.

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.

3-12M	1-2 yrs	2-3 yrs	3-4 yrs	4-5 yrs	> 5 yrs	Total
–	–	–	–	–	–	2 378
–	–	–	–	–	–	516
–	–	–	–	–	–	17
–	100	–	75	284	756	1 747
–	–	–	–	–	1 252	1 252
–	–	22	24	25	220	291
2 300	2 687	2 600	1 864	1 518	5 105	16 624
4 501	2 578	5 749	2 575	2 338	39 242	59 020
182	240	240	240	189	446	1 621
392	–	–	–	–	–	763
7 375	**5 605**	**8 611**	**4 778**	**4 354**	**47 021**	**84 229**
(58)	(870)	(870)	(493)	(57)	–	(2 406)
(434)	–	–	–	–	–	(854)
(77)	639	639	281	(80)	(239)	1 146
(9 609)	(648)	(3 042)	(10 654)	(3 093)	(4 258)	(33 254)
(182)	(240)	(240)	(240)	(189)	(716)	(1 891)
(5 990)	(1 292)	(888)	(616)	(582)	(3 239)	(13 641)
(88)	(94)	(62)	(30)	(30)	(31)	(342)
(725)	–	–	–	–	–	(1 380)
(17 163)	**(2 505)**	**(4 463)**	**(11 752)**	**(4 031)**	**(8 483)**	**(52 622)**
(9 788)	**3 100**	**4 148**	**(6 974)**	**323**	**38 538**	
(7 528)	**(4 428)**	**(280)**	**(7 254)**	**(6 931)**	**31 607**	

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2020

42. Risk management (continued)

42.10 Cash Flow Hedges Nominal values

In millions of rands		1-3M	3-6M	6-9M	9-12M	1-2 Yrs	2-3 Yrs	3-5 Yrs	5-7 Yrs	7-10 Yrs	10-15 Yrs	Total
31 March 2020												
Cross currency swaps	EUR	83	–	83	–	166	166	148	86	95	60	887
Total Financial Market Assets		**83**	**–**	**83**	**–**	**166**	**166**	**148**	**86**	**95**	**60**	**887**
Cross currency swaps	EUR	(83)	–	(83)	–	(166)	(166)	(148)	(86)	(95)	(60)	(887)
	USD	(72)	–	(72)	–	(143)	(143)	(72)	–	–	–	(502)
	ZAR	(9)	–	(9)	–	(18)	(18)	(36)	(36)	(43)	(33)	(202)
Total Financial Market Liabilities		**(164)**	**–**	**(164)**	**–**	**(327)**	**(327)**	**(256)**	**(122)**	**(138)**	**(93)**	**(1 591)**
Liquidity gap		**(81)**	**–**	**(81)**	**–**	**(161)**	**(161)**	**(108)**	**(36)**	**(43)**	**(33)**	
Cumulative liquidity gap		**(81)**	**(81)**	**(162)**	**(162)**	**(323)**	**(484)**	**(592)**	**(628)**	**(671)**	**(704)**	

In millions of rands		1-3M	3-6M	6-9M	9-12M	1-2 Yrs	2-3 Yrs	3-5 Yrs	5-7 Yrs	7-10 Yrs	10-15 Yrs	Total
31 March 2019												
Cross currency swaps	EUR	69	–	69	–	139	139	227	75	102	67	887
Total Financial Market Assets		**69**	**–**	**69**	**–**	**139**	**139**	**227**	**75**	**102**	**67**	**887**
Cross currency swaps	EUR	(69)	–	(69)	–	(139)	(139)	(227)	(75)	(102)	(67)	(887)
	USD	(58)	–	(58)	–	(116)	(116)	(176)	–	–	–	(524)
	ZAR	(9)	–	(9)	–	(19)	(19)	(38)	(38)	(53)	(43)	(228)
Total Financial Market Liabilities		**(136)**	**–**	**(136)**	**–**	**(274)**	**(274)**	**(441)**	**(113)**	**(155)**	**(110)**	**(1 639)**
Liquidity gap		**(67)**	**–**	**(67)**	**–**	**(135)**	**(135)**	**(214)**	**(38)**	**(53)**	**(43)**	
Cumulative liquidity gap		**(67)**	**(67)**	**(134)**	**(134)**	**(269)**	**(404)**	**(618)**	**(656)**	**(709)**	**(752)**	

	2020	2019
42.11 Concentration of debt funding		
Concentration of debt funding as per source of funding	%	%
Domestic bond markets	42	59
Domestic money markets	13	6
European bond markets	6	7
International Development Finance Institution	18	15
International money markets	21	13
	100	100
Concentration of debt funding per currency		
USD	31	27
EUR	4	4
ZAR	65	69
	100	100

42.12 Credit risk

Definition of credit risk

Credit risk is the risk of economic loss should any of the Bank's clients or market counterparties fail to fulfil their contractual obligations and is mainly prevalent in the Bank's development financing and lending operations as a result of potential counterparty defaults on loan repayments. Credit risk may also arise in the equity investments of the Bank, where the downgrading of a client's rating causes the fair value of the investment in that entity to deteriorate. Country risk is taken into account when cross border loans are evaluated and form part of the credit risk rating of these loans. Any movement in the risk profile of a country in which an exposure or counterparty is domiciled, could therefore result in a changed credit rating and lead to a change in the value of the affected assets.

Management of credit risk

The Bank as a development finance institution, faces a unique challenge in maintaining a sustainable balance between maximising development returns and minimising financial loss in its lending and other investment operations. As a result, the performance of the Bank is to a large extent dependent on its ability to take credit risks responsibly in exchange for appropriate rewards and to manage the resultant exposure to credit risk effectively in the pursuance of its corporate objectives.

The Bank meets its credit risk management objectives through i) an enterprise-wide framework of credit risk oversight, governance and assurance, ii) an integrated system of internal credit risk ratings, pricing and mitigation guided by its risk appetite, and iii) a rigorous standard for the measurement, monitoring and control of credit risk exposures in the credit portfolios.

Credit risk oversight, governance and assurance

Credit risk oversight: The Board of Directors, as part of their oversight duties, sets the tone for the management of risk and defines the level of risk that the Bank is willing to assume, as well as considers the granting of large credits and reviews the overall performance in the management of risk through its subcommittees. A risk appetite statement that details the level of risk the Bank is willing to take in order to achieve its objectives and mandate, is approved annually by the Board of Directors.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2020

42. Risk management (continued)

Credit risk governance: The ongoing governance of the Bank's risk taking activities is devolved to management. For credit risk management, the Bank has in place board and corporate level credit committees mandated to maintain credit policies and standards, review and approve credits under delegated authority, as well as monitor and report the overall level of exposures to credit risk and performance in the management of these exposures. Portfolio reports are presented to the corporate credit committee on a quarterly basis and board valuations committee on a semi-annual basis. The board also reviews and approves the Bank's risk appetite statement on an annual basis.

Credit risk assurance: The quality of credit risk management is assured through a three way approach. Firstly, the Credit Analysts report into the Financing Operations Division having been deployed as a first line of defence to provide an objective view of the quality of individual credits under consideration and work closely with the frontline to monitor the performance of assets post approval, on an ongoing basis. Secondly, the Credit Lab that runs the models forms part of the Financing Operations Division with an independent reporting line to the Investment Technical Committee to validate its models. Finally, the Group Risk Assurance Division is responsible for the development of policies and monitoring thereof to support an efficient and effective Credit Risk Management throughout the Bank.

Credit risk ratings

Obligor credit risk ratings: The Bank is not regulated by the SARB under the Banks Act, but rather by the DBSA Act, and as such is not formally obligated to comply with the Basel II requirements. However, as a leveraged financial institution, prudence requires it to maintain adequate levels of capital to cover expected losses, for this reason the Bank complies with Basel standards in the development of risk models as industry best practice, more than for regulatory purposes. The key variables in the Bank's quantitative assessment of expected loss and by implication in setting risk-adjusted pricing are:

- **Probability of default (PD**), which determines the likelihood that the client will not be able to meet its debt repayments based on creditworthiness;
- **Exposure at default (EAD)**, which calculates the size of exposure and thus potential loss at the point of default; and
- **Loss given default (LGD)**, which estimates the portion of exposure that is expected not to be recovered in the event of default.

The Bank has developed a number of internal credit risk rating models for all of its major asset classes to calculate credit risk ratings as a basis for assigning a probability of default. All credit ratings are confirmed through the credit committee process to ensure consistency and effective challenge. The credit risk rating models are all subjected to validation and review before implementation.

The models are subjected to performance monitoring and validation by a technical committee as a part of governance requirements every three years. The principal objective for this is to ensure that assumptions used in model development are still appropriate and to ensure that any deficiencies are identified early and that the models produce the most accurate quantitative assessment of the credit risk to which the Bank is exposed, from the level of individual facilities up to the total portfolio. As part of model reviews, these models are calibrated to performance along with functional improvements to cater appropriately for the asset classes being measured.

A key element of DBSA's internal risk rating and pricing model is the PD master rating scale as shown below. This Scale was developed to distinguish meaningful differences in the 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. The master-scale is comparable and has been approximately benchmarked to rating agencies as well as similar financial institutions.

Rating Grade	Mid joint PD (%)	Lower bound PD (%)	Upper bound PD (%)	Mapping to S&P	Mapping to Moody's
MS 1	0.01 %	- %	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 17.1	17.20 %	16.00 %	22.10 %	CCC	Caa
MS 17.2	28.51 %	22.10 %	36.80 %	CCC	Caa
MS 17.3	47.40 %	36.80 %	61.10 %	CCC	Caa
MS 17.4	78.70 %	61.10 %	99.00 %	CCC	Caa
Default	100.00 %	99.99 %	100.00 %	Default	D

Pricing of loans

The pricing of loans has been stable and consistent through the use of a standardised pricing model applied since January 2013. The model was developed to take into account risk capital and deliver an accurate risk adjusted return on capital (RAROC), net present value (NPV) and sustainability profit on an economic basis.

The pricing model has been updated annually to take into account changes to cost structure and budget as well as credit risk performance. The risk ratings from credit risk models approved by the investment committee are used for both the calculation of expected loss in the cash-flow of the model as well as the influence on risk capital held at the cost of capital and the hurdle rate of return required on the risk capital.

Credit risk models

The credit risk models (PD, LGD, and EAD) for all major portfolios of the Bank's loan book (Municipal, Balance Sheet Lending, Project Finance and Higher Education) were subjected to review and further development during the 2017/18 financial year. This is required to be carried out on a 3 year cycle for governance purposes and approved by the Risk Models Technical Committee which is a sub-committee of Investment Committee.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2020

42. Risk management (continued)

The requirement to comply with IFRS9 in 2018/19 called for further enhancements of the outputs of the credit risk models. The new versions of the models are more adaptable and predictive. The models were recalibrated to current performance of the Bank's loan book and larger benchmark portfolios. The new versions of the credit risk models were successfully approved by the Technical Committee for implementation in 2018/19 financial year. Performance of these models will be tracked as part of governance requirements. Further enhancements to the outputs of credit risk models for the purposes of IFRS 9 compliance will be subject to the review process which governs the credit risk models 12 month PDs and LGDs were transformed to lifetime measures in order to consider the term structure of loans and enable the calculation of lifetime Expected Credit Loss (ECL) applicable to stage 2 classification loans contributing to the portfolio impairment. The results using the IFRS 9 compliant models for the calculation of ECL are included in the impairment of the loan book for the 2019/20 Annual Financial Statements.

Country risk ratings

Country risk ratings: The Bank has implemented an internal country risk rating model which uses external rating agency ratings as well as economic data from various sources such as IMF and the World Bank combined with in country visits by the Country Risk team. The Investment Committee reviews the country ratings on an annual basis or more frequently if adverse events take place.

The country risk rating methodology considers solvency, liquidity, economic and political issues to risk rate countries and generate 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. Using PD and LGD in the calculation of the risk limits per country, the limits set are also subject to the availability of capital and the number of simultaneous defaults that can be absorbed by that capital. All limits are set in line with the approved risk appetite.

Credit risk mitigation

In addition to pricing for risk, the Bank uses collateral and guarantees to enhance the quality of credit and/or reduce the expected losses in its lending portfolio. The amount and type of credit risk mitigation depends on the asset quality and nature of each transaction. The main types of collateral taken comprise mortgage bond over commercial and industrial properties, bonds over plant and equipment, and the underlying moveable assets financed. The Bank use various forms of specialised legal agreements such as guarantees and similar legal contracts in support of credit extension, where necessary.

Credit risk monitoring, measurement and reporting

The Bank dedicates considerable resources to monitor the quality of credit throughout the life time of assets and measure the exposure and performance of assets across portfolios.

At individual counterparty level:
- Performance of credit is monitored and reported in terms of adherence to terms and conditions;
- Credit risk ratings are reviewed and updated on an annual basis;
- Potential problem loans are identified based on early indications of distress and placed on a credit watch list;
- Non-performing accounts are transferred for independent workout and recovery;
- Financial covenants are an important tool for credit mitigation within the Bank in monitoring the quality and performance of counterparties; and
- A watch list process is in place where clients that are in stress, or where there are signs of possible future stress due to a changing operating environment are monitored closely and strategies are put in place to minimise the possibility of default.

At portfolio level:
- Limits are established within the Bank's risk appetite to monitor and control the aggregate amount of risk that the Bank is taking on; and
- Overall performance of portfolios is measured and reported on a quarterly basis in terms of standard KPIs.

Risk rating in relation IFRS 9 staging

Prior to IFRS 9 adoption and as part of the established credit risk management practices, the Bank classifies development loans as either High risk (MS14 – MS17.4), Medium risk (MS8-MS13) and Low risk (MS1-MS7) categories. This means a development loan can be originated at High risk category and be classified as stage 1 IFRS 9 purposes should there be no demonstrable significant increase in credit risk from initial recognition to reporting date.

42.13 Credit risk exposure

Maximum exposure

The Bank prepares monthly financial results as well as quarterly financial reports. These results are crucial for internal decision making. Consequently, it is imperative that the asset portfolio be comprehensively reviewed and significant risk indicators impacting the valuations and impairments be reflected timeously and adequately in the financial results. As a result, quarterly reviews are conducted on the loans and equities portfolio. The Back Office team reviews the accounting implications of credit risk and investment specific factors within the portfolio on a monthly basis. This ensures that the effect of the changes reported in the monthly financial results and quarterly financial statements are on a proactive and timely basis.

These reviews are conducted as part of and in complementing the Investment Committee process. The following factors are reviewed:

- Global and local economic factors;
- Observable and unobservable market factors;
- Asset specific factors affecting portfolio impairment levels; and
- Fair values and discount rates with the objective of ensuring that risk in the asset portfolio is adequately, fairly and timely reflected in the Bank's results.

The reviews include assessment of the impairment triggers and reversals within the asset portfolio, review of performance of the equity portfolio on a regular basis with the asset managers. In addition Watch list meetings are held monthly.

The following table sets out the maximum exposure on financial instruments within the scope of IFRS 9's impairment model to credit risk as well as the impact of collateral and other credit enhancements on credit risk.

Credit exposure per class of financial instruments

In thousands of rands	Maximum exposure to credit risk	Provision for expected credit losses	Collateral held as security
31 March 2020			
Cash and cash equivalents	3 458 836	–	–
Development bonds at amortised cost	1 290 855	(2 577)	–
Development loans at amortised cost	96 425 614	(10 185 350)	1 028 976
Development loans at fair value through profit or loss	22 413	–	–
Loan commitments	7 613 146	(7 110)	–
Trade receivables and other assets	169 060	(7 264)	–
	108 979 924	**(10 202 301)**	**1 028 976**
31 March 2019			
Cash and cash equivalents	2 922 876	–	–
Development bonds at amortised cost	1 290 607	(428)	–
Development loans at amortised cost	82 012 250	(6 195 744)	1 327 085
Loan commitments	8 492 767	(246 018)	–
Trade receivables and other assets	156 548	(3 931)	–
	94 875 048	**(6 446 121)**	**1 327 085**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2020

42. Risk management (continued)

The table below provides breakdown of municipal book:

In thousands of rands	Market 1*	Market 2**	Market 3***	Total 2020	Market 1*	Market 2**	Market 3***	Total 2019
Low risk	3 661 355	1 113 935	218 957	4 994 247	4 461 508	1 052 756	169 445	5 683 709
Medium risk	15 819 222	2 400 857	280 954	18 501 033	15 829 127	2 768 504	335 722	18 933 354
High risk	377 088	1 708 440	300 861	2 386 389	–	1 172 895	299 499	1 472 394
	19 857 665	5 223 232	800 772	25 881 669	20 290 635	4 994 155	804 666	26 089 457

* Metropolitan municipalities
** Secondary municipalities
*** Under resourced municipalities

Credit quality analysis

The following table sets out risk composition of the gross loan book.

Internal rate grade In thousands of rands	Internal rate description	2020	2019
MS1	Low risk	–	–
MS2	Low risk	–	–
MS3	Low risk	3 816 151	295 901
MS4	Low risk	65 322	4 108 895
MS5	Low risk	3 757 555	176 736
MS6	Low risk	284 154	694 442
MS7	Low risk	6 778 093	6 270 954
MS8	Medium risk	14 100 914	8 181 741
MS9	Medium risk	2 669 377	1 932 589
MS10	Medium risk	11 046 906	31 386 379
MS11	Medium risk	24 202 319	4 090 514
MS12	Medium risk	4 955 274	3 154 886
MS13	Medium risk	5 845 928	6 323 487
MS14	High risk	1 408 669	782 951
MS15	High risk	2 800 231	2 877 234
MS16	High risk	86 955	7 733 424
MS17	High risk	–	4 002 117
MS17.1	High risk	1 299 119	–
MS17.2	High risk	6 362 258	–
MS17.3	High risk	–	–
MS17.4	High risk	6 946 389	–
		96 425 614	**82 012 250**

The following table sets out information about the credit quality of financial assets measured at amortised cost unless, specifically indicated, for financial assets, the amounts in the table represent gross carrying amounts.

For loan commitments and financial guarantee contracts, the amounts in the table represent the amounts committed or guaranteed, respectively.

The total carrying amounts represent the maximum gross exposure to credit risk before collateral, expected credit losses and other securities at the reporting date.

In thousands of rands	Stage 1	Stage 2	Stage 3	2020	2019
Development loans at amortised cost					
Stage 3					
Municipalities	–	–	823 675	823 675	469 388
Other	–	–	6 122 714	6 122 714	3 542 025
Allowance for expected credit losses					
Municipalities	–	–	(90 793)	(90 793)	(74 882)
Other	–	–	(4 274 969)	(4 274 969)	(2 634 309)
Net carrying amount			**2 580 627**	**2 580 627**	**1 302 222**
Net carrying amount: Municipalities	–	–	732 882	732 882	394 506
Net carrying amount: Other	–	–	1 847 745	1 847 745	907 716
Net carrying amount	**–**	**–**	**2 580 627**	**2 580 627**	**1 302 222**
Low risk (MS1 – MS7)					
Stage 1 and 2					
Municipalities	4 994 247	–	–	4 994 247	5 683 709
Other	9 707 028	–	–	9 707 028	5 863 218
Allowance for expected credit losses					
Municipalities	(929)	–	–	(929)	(476)
Other	(9 125)	–	–	(9 125)	(3 537)
Net carrying amount	**14 691 221**	**–**	**–**	**14 691 221**	**11 542 914**
Net carrying amount – municipalities	4 993 318	–	–	4 993 318	5 683 233
Net carrying amount – other	9 697 903	–	–	9 697 903	5 859 681
Net carrying amount	**14 691 221**	**–**	**–**	**14 691 221**	**11 542 914**
Medium risk (M S8 – MS13)					
Stage 1 and 2					
Municipalities	16 539 082	973 190	–	17 512 272	18 933 354
Other	27 474 947	17 833 500	–	45 308 447	36 136 243
Allowance for expected credit losses					
Municipalities	(18 442)	(6 977)	–	(25 419)	(28 434)
Other	(457 310)	(995 881)	–	(1 453 191)	(1 005 361)
Net carrying amount	**43 538 277**	**17 803 832**	**–**	**61 342 109**	**54 035 802**
Net carrying amount: Municipalities	16 520 640	966 213	–	17 486 853	18 904 920
Net carrying amount: Other	27 017 637	16 837 619	–	43 855 256	35 130 882
Net carrying amount	**43 538 277**	**17 803 832**	**–**	**61 342 109**	**54 035 802**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2020

42. Risk management (continued)

In thousands of rands	Stage 1	Stage 2	Stage 3	2020	2019
High risk (MS14 – MS17.4)					
Stage 1 and 2					
Municipalities	66 137	1 496 576	–	1 562 713	1 003 006
Other	198 582	10 195 936	–	10 394 518	10 381 307
Allowance for expected credit losses					
Municipalities	(1 585)	(71 986)	–	(73 571)	(34 797)
Other	(386)	(4 256 967)	–	(4 257 353)	(2 413 948)
Net carrying amount	**262 748**	**7 363 559**	**–**	**7 626 307**	**8 935 568**
Net carrying amount: Municipalities	64 552	1 424 590	–	1 489 142	968 209
Net carrying amount: Other	198 196	5 938 969	–	6 137 165	7 967 359
Net carrying amount	**262 748**	**7 363 559**	**–**	**7 626 307**	**8 935 568**
Gross carrying amount	**58 980 023**	**30 499 202**	**6 946 389**	**96 425 614**	**82 012 250**
Provision for ECL	(487 777)	(5 331 811)	(4 365 762)	(10 185 350)	(6 195 744)
Net carrying amount	**58 492 246**	**25 167 391**	**2 580 627**	**86 240 264**	**75 816 506**
Development bonds at amortised cost					
Medium risk (MS8 – MS13)					
Stage 1 and 2					
Municipalities	517 918	772 937	–	1 290 855	1 290 607
Gross carrying amount	**517 918**	**772 937**	**–**	**1 290 855**	**1 290 607**
Provision for ECL	(238)	–	–	(238)	(428)
Balance at end of the year	**517 680**	**772 937**	**–**	**1 290 617**	**1 290 179**
Loan commitments					
Stage 3					
Other	–	–	1 250 258	1 250 258	435 745
Low risk (MS1 – MS7)					
Stage 1 and 2					
Municipalities	149 700	–	–	149 700	–
Other	100 000	–	–	100 000	1 097 301
Total	**249 700**	**–**	**–**	**249 700**	**1 097 301**
Medium risk (MS8 – MS13)					
Stage 1 and 2					
Municipalities	4 677	–	–	4 677	1 688 337
Other	6 006 343	–	–	6 006 343	4 627 612
Total	**6 011 020**	**–**	**–**	**6 011 020**	**6 315 949**

In thousands of rands	Stage 1	Stage 2	Stage 3	2020	2019
High risk (MS14 – MS17.4)					
Stage 1 and 2**					
Municipalities	30 000	–	–	30 000	50 000
Other	72 000	–	–	72 000	593 772
Total	**102 000**	**–**	**–**	**102 000**	**643 772**
Gross carrying amount	**6 362 720**	**–**	**1 250 258**	**7 612 978**	**8 492 767**
Provision for ECL	(7 110)	–	–	(7 110)	(246 018)
Balance at end of the year	**6 355 610**	**–**	**1 250 258**	**7 605 868**	**8 246 749**

* An additional R168 000 has been committed for development loans held at fair value through profit or loss.

** Refer to page 150 for risk rating in relation to IFRS 9 staging.

Cash and cash equivalents

The Bank held cash and cash equivalents of R3.46 billion at 31 March 2020. The cash and cash equivalents are held with financial institution counterparties that are rated at least AA+, based on a national scale credit rating.

Collateral held and other credit enhancements

The Bank holds collateral which it is entitled to sell in the case of default by the owner of the collateral. The amount and type of collateral held for the exposure depends on an assessment of the credit risk of the counterparty. Guidelines have been implemented regarding the acceptability of the types of collateral. The value of the collaterals are determined with reference to the realisable value of security under forced-sale conditions. Because of the Bank's focus on corporate customers' creditworthiness, the Bank does not routinely update the valuation of collateral held against all loans to corporate customers. Valuation of collateral is updated when the loan is put on a watch list and the loan is monitored closely.

The following types of collateral are held in respect of the above loans: guarantees, cession of debtors, cession of income streams, mortgages, investments, notarial bonds, sinking fund investments, promissory notes, insurance policies and treaty obligations.

Because of the Bank’s focus on corporate customers’ creditworthiness, the Bank does not routinely update the valuation of collateral held against all loans to corporate customers. Valuation of collateral is updated when the loan is put on a watch list and the loan is monitored more closely.

For credit-impaired loans, the Bank obtains appraisals of collateral because it provides input into determining the management credit risk actions.

At 31 March 2020, the gross carrying amount of credit-impaired loans amounted to R7 billion (2019: R4 billion) and the value of identifiable collateral held against those loans amounted to R531 million (2019: R502 million).

The carrying amount of collateral taken in possession during the year is R Nil (2019: R22 million).

The fair value of collateral held in respect of the above amounted to R1 billion (2019: R1.3 billion). For the purposes of calculating this aggregated total, the fair value of each collateral is limited to the carrying value for each individual loan.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2020

42. Risk management (continued)

The following table sets out the principal types of collateral held against different types of financial assets.

Collateral held

In thousands of rands	Nature of the collateral held	% of exposure that is subject to collateral requirements	2020	2019
Development loans	Bank account	28	469 543	636 601
Development loans	Floating charge	3	7 528	6 112
Development loans	Guarantee	84	110 736	199 982
Development loans	Mortgage bond	39	335 318	375 484
Development loans	Notarial bond	0	–	22 977
Development loans	Surety	33	105 851	85 929
			1 028 976	**1 327 085**

Financial assets that are credit impaired and related collateral held in order to mitigate potential losses are shown below.

Credit impaired – Stage 3

In thousands of rands	Gross exposure	Provision for ECL	Carrying amount	Fair value of collateral held
31 March 2020				
Development loans	6 947 923	(4 365 769)	2 582 154	531 028
31 March 2019				
Fair value of collateral held	4 011 413	(2 709 191)	1 302 222	501 674

Expected credit losses

The amount of Expected Credit Loss (ECL) is measured as the probability-weighted present value of all cash shortfalls over the expected life of the financial asset discounted at its original effective interest rate. The cash shortfall is the difference between all contractual cash flows that are due to the Bank and all the cash flows that the Bank expects to receive.

Because expected credit losses consider the amount and timing of payments, a credit loss arises even if the entity expects to be paid in full but later than when contractually due.

Assessments of clients

The Bank assesses credit risk on loans on an individual basis using all relevant information about the loan and the borrower. The Bank individually assesses significantly large exposures. There are no amounts that have been written off for which enforcement activity is still being enforced. Further, any recoveries post write off are accounted for in the income statement as bad debts recovered.

12-month expected credit losses

Represents the expected credit losses that result from default events on a financial instrument that are possible within the 12-month after the reporting date.

Lifetime expected credit losses

Lifetime Expected Credit Losses are the expected credit losses that result from all possible default events over the expected life of a financial instrument. Expected life is estimated by considering cash flows taking into account all contractual terms of the financial instrument (for example, prepayment, extension, call and similar options).

The maximum period to consider when measuring expected credit losses is the maximum contractual period (including extension options) over which the entity is exposed to credit risk and not a longer period, even if that longer period is consistent with business practice.

There is a presumption that the expected life of a financial instrument can be estimated reliably. However, in those rare cases when it is not possible to reliably estimate the expected life of a financial instrument, the entity shall use the remaining contractual term (Maturity) of the financial instrument.

A collective assessment of impairment takes into account data from the loan portfolio such as credit quality, levels of arrears, credit utilisation, loan to collateral ratios etc.

Significant increase in credit risk

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Bank considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Bank's historical experience and expert credit assessment and including forward-looking information, credit assessment and including forward-looking information.

- The objective of the assessment is to identify whether a significant increase in credit risk has occurred for an exposure by comparing: the remaining lifetime probability of default (PD) as at the reporting date; with
- The remaining lifetime PD for this point in time that was estimated at the time of initial recognition of the exposure (adjusted where relevant for changes in prepayment expectations).

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2020

42. Risk management (continued)

The Bank uses the table below to determine significant increase in credit risk.

Grade at origination date	Notch movement	Grade at reporting date	Stage
MS 1	6	MS 7	Stage 2
MS 2	6	MS 8	Stage 2
MS 3	6	MS 9	Stage 2
MS 4	6	MS 10	Stage 2
MS 5	6	MS 11	Stage 2
MS 6	5	MS 11	Stage 2
MS 7	4	MS 11	Stage 2
MS 8	4	MS 12	Stage 2
MS 9	3	MS 12	Stage 2
MS 10	3	MS 13	Stage 2
MS 11	2	MS 13	Stage 2
MS 12	2	MS 14	Stage 2
MS 13	2	MS 15	Stage 2
MS 14	2	MS 16	Stage 2
MS 15	2	MS 17.1	Stage 2
MS 16	1	MS 17.1	Stage 2
MS17.1	1	MS 17.2	Stage 2
MS17.2	1	MS 17.3	Stage 2
MS17.3	1	MS 17.4	Stage 3
MS17.4	Default	MS 17.4	Stage 3

Origination date and contractual life of loans

The Bank's development loans are mostly non-revolving credit facilities. The Bank defines the loan origination date as the date of initial recognition when the Bank becomes party to an irrevocable commitment. Where applicable this could be the date of signing of the lending agreement if conditions precedent are met or the date on which all remaining conditions precedent for disbursement are met and the Bank is irrevocably bound to the lending agreement. The tenor used in assessing significant increase in credit risk is the contractual tenor of the loan. The Bank assesses significant increase in credit risk from the origination date to date of transition and after transition date, assessments are done from origination date to date of reporting. The Bank lends long tenors sometimes extending up to 30 years and for some development loans that were very old at transition date, the Bank has assumed that the origination date is the first loan disbursement date and where applicable the Bank has used reasonable and supportable information without undue effort and costs in assessing origination date of some loans. The Bank currently has one revolving credit facility, the Bank has used the maximum contractual period, and the Bank has not applied the exception of using a shorter period for estimating expected credit losses.

The Bank use the number of days past due (DPD) to determine significant increase in credit risk. The Bank assigns each facility a credit rating at initial recognition based on available information about the borrower. Credit risk is deemed to have increased significantly if the credit rating has significantly deteriorated at the reporting date relative to the credit rating at the date of initial recognition. In addition, as a backstop, the Bank considers that significant increase in credit risk occurs when an asset is more than 30 DPD.

The Bank uses a series of quantitative, qualitative and backstop criteria to determine if a loan has experienced significant increase in credit risk. The assessment of whether there has been SICR is to be based on both of the following:

- A significant downgrade of a loan through the Bank's internal credit rating system where downgrade is not influence by changes in the model but influenced by actual deterioration of a borrower's/project's credit risk. This will be measured by the increase in a loan's lifetime forward looking PD at origination rating date compared to the remaining lifetime PD at reporting rating date; and
- Qualitative factors that are not captured through the Bank's internal credit rating process. The qualitative criteria include the observation of specific adverse events in the economy/industry/market the borrower is operating in, which events may have an adverse impact on the ability of the borrower to fulfil its obligations.

A backstop will be applied, whereby a loan is considered to have experienced SICR when a borrower is more than 30 days-past-due (DPD) on its contractual payments. The Bank monitors the effectiveness of the criteria used to identify significant increases in credit risk by regular review.

Key factors considered in assessing whether there is significant increase in credit risk:

- Negative changes in credit risk pricing;
- Terms, which would change if a loan, were granted again at reporting date;
- Market indicators;
- External ratings;
- Internal ratings;
- Business/economic conditions;
- Operating results of the borrower;
- Risk on other lending products extended to the borrower;
- Regulatory, technical or other economic changes;
- Reduced value of collateral;
- Deterioration in the quality of guarantees;
- Financial support;
- Expected breach of terms;
- Performance of behaviour;
- Changes in lender credit risk management approach; and
- Payments past due date.

Low credit risk assessment at reporting date

At reporting date, the Bank has assessed whether there has been significant increase in credit risk for all financial assets at amortised cost. The Bank has not made an election to assume that some financial instruments have low credit risk thereby requiring no assessment of significant increase in credit risk.

Lifetime PD

Lifetime PD is the probability of a default event when assessed over the lifetime of a financial asset.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2020

42. Risk management (continued)

There is no single method for estimating a lifetime PD measure as it applies to a very large variety of financial assets. The following dimensions are useful for classification:

- Referencing an individual entity versus collective assessment for pools;
- Model estimation based on market data or historical default data; and
- Credit process assumptions based on hazard rate models, markov chains and structural default models etc.

Categories of risks are detailed in the table below.

Development loans	Company definition of category	Basis for recognition of expected credit loss provision
Stage 1	Customers have a low risk of default and a strong capacity to meet contractual cash flows	12-month expected credit losses. Where the expected lifetime of an asset is less than 12-months, expected credit losses are measured at its Expected lifetime
Stage 2	Loans for which there is a significant increase in credit risk; as significant increase in credit risk is presumed if interest and/or principal repayments are 30 days past due except certain circumstances	Lifetime expected credit losses
Stage 3	Interest and/or principal repayments are 90 days past due	Lifetime expected credit losses
Write-off	Interest and/or principal repayments where there is no reasonable expectation of recovery	Asset is written off
Purchased or originated credit impaired loans	Loans that are credit impaired on initial recognition	Lifetime expected credit losses

Exposures are subject to ongoing monitoring, which may result in an exposure being moved to a different credit risk grade. The monitoring typically involves use of the following data:

- Information obtained during periodic review of customer files such as audited financial statements, management accounts, budgets and projections. Examples of areas of particular focus are: gross profit margins, financial leverage ratios, debt service coverage, compliance with covenants, quality of management, senior management changes;
- Data from credit reference agencies, press articles, changes in external credit ratings; and
- Significant actual and expected changes in the political, regulatory and technological environment of the borrower or in its business activities.

Generating the term structure of PD

Credit risk grades are a primary input into the determination of the term structure of PD for exposures. The Bank collects performance and default information about its credit risk exposures analysed by jurisdiction or region and by type of product and borrower as well as by credit risk grading. For some portfolios, information purchased from external credit reference agencies is also used.

The Bank employs statistical models to analyse the data collected and generate estimates of the remaining lifetime PD of exposures and how these are expected to change as a result of the passage of time. This analysis includes the identification and calibration of relationships between changes in default rates and changes in key macro-economic factors as well as in-depth analysis of the impact of certain other factors (e.g. forbearance experience) on the risk of default. For most exposures, key macro-economic indicators include: GDP growth, benchmark interest rates and unemployment. For exposures to specific industries and/or regions, the analysis may extend to relevant commodity and/or real estate prices.

Based on advice from the Bank Market Risk Committee and economic experts and consideration of a variety of external actual and forecast information, the Bank formulates a 'base case' view of the future direction of relevant economic variables as well as a representative range of other possible forecast scenarios (see discussion below on incorporation of forward-looking information). The Bank then uses these forecasts to adjust its estimates of PDs.

Modified financial assets

Generally, loan restructuring is a qualitative indicator of a significant increase in credit risk and an expectation of a restructure may constitute evidence that an exposure is credit-impaired or in default. A customer needs to demonstrate consistently good payment behaviour over a period of time before the exposure is no longer considered to be credit-impaired/in default or the PD is considered to have decreased such that the loss allowance reverts to being measured at an amount equal to 12-month ECL.

Credit impaired

For financial assets that have become credit impaired, a lifetime ECL is recognised and interest revenue is calculated by applying the effective interest rate to the amortised cost (net of provisions for doubtful debt) rather than the gross carrying amount. Unrecognised interest when a credit-impaired (stage 3) financial asset is subsequently paid in full or is no longer credit-impaired (cures) is recognised as a reversal of impairment losses.

Definition of default and credit impaired assets

In order to determine whether financial assets are credit-impaired The Bank considers:

- 90 days past due;
- Any bad debt write off;
- Distressed restructuring of credit obligations;
- Obligor's bankruptcy or similar protection such as Business Rescue; and
- The borrower is insolvent.

A financial contract (loan, other credit product, derivative etc.) is past due when a counterparty has failed to make a payment when that payment was contractually due.

The missed payment concerns any amount due under the contract (interest, principal, fee or other amount) that has not been paid in full at the date when it was due. An exposure should be considered past due from the first day of missed payment, even when the amount of the exposure or the past-due amount, as applicable, is not considered material. The default definition has been applied consistently to model of PD, EAD and LGD throughout the bank's ECL calculations.

A credit impaired asset is when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred.

Incorporation of forward-looking information

The Bank incorporates forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL. Based on advice from the economic experts and consideration of a variety of external actual and forecast information, the Bank formulates a 'base case' view of the future direction of relevant economic variables as well as a representative range of other possible forecast scenarios. This process involves developing two or more additional economic scenarios and considering the relative probabilities of each outcome.

External information includes economic data and forecasts published by governmental bodies and monetary authorities in the countries where the Bank operates, supranational organisations such as the OECD and the International Monetary Fund, and selected private-sector and academic forecasters.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2020

42. Risk management (continued)

The base case represents a most-likely outcome and is aligned with information used by the Bank for other purposes such as strategic planning, budgeting and capital management. The other scenarios represent more optimistic and more pessimistic outcomes. Periodically, the Bank carries out stress testing of more extreme shocks to calibrate its determination of these other representative scenarios.

The Bank has identified and documented key drivers of credit risk and credit losses for each financial instrument and, using an analysis of historical data, has estimated relationships between macro-economic variables and credit risk and credit losses. The economic scenarios used included the following ranges of key indicators for South Africa for the years ending 31 March 2020 and 2019.

The key indicators are:

- South African CPI;
- Sub-Saharan nominal GDP;
- Crude oil;
- 3-month Libor/Jibar; and
- ZAR/USD exchange rate.

In estimating the expected credit losses, the Bank considers a range of possible outcomes with the respective risks of default as weights. The Bank does not rely on one economic scenario. The Bank uses at least three scenarios for the purposes of incorporating forward-looking information and the various inputs to the scenarios are relevant and appropriate to the classes of financial assets and off balance sheet items across the various geographies in which the Bank operates. In incorporating forward-looking information as well estimating the expected credit loss assessment, the Bank uses reasonable and supportable information available without undue effort and costs.

In estimating the expected credit losses, the Bank considers the probability of default on a loan level over the lifetime of the assets, forward looking information, which has an impact on the loan book and weightings for each of the scenarios based on the likelihood of each scenario. For the purposes of incorporating forward-looking information in the calculation of ECL, the Bank uses three macro-economic scenarios. The Bank has considered the base case scenario, which simulates the most expected economic conditions for the Bank's loan portfolio given current economic state i.e. conditions similar to what is known at year end. The best case scenario represents the most favourable economic conditions for the performance of Bank's loan book. The worst case scenario represents unfavourable economic conditions for the performance of the Bank's loan book. The Bank considers several factors such as interest rates, GDP growth rates, exchange rate and inflation as macroeconomic drivers.

The expected credit losses are an estimate and therefore there is an inherent degree of subjectivity and that the current estimate of the expected credit losses may not perfectly predict the actual outcome in future. The Bank has applied the principles of unbiased probability weighted average, time value of money and has used reasonable and supportable information without undue effort and costs in the estimation process. In estimating the expected credit losses, the Bank has considered the base case scenario, which simulates the most expected economic conditions for the Bank's loan portfolio given current economic state i.e. conditions similar to what is known at year end. The best case scenario represents the most favourable economic conditions for the performance of Bank's loan book. The worst case scenario represents unfavourable economic conditions for the performance of the Bank's loan book. The Bank considers several factors such as interest rates, GDP growth rates, exchange rate and inflation.

The Bank conducts back testing of macro-economic forecasts. Further, the Bank has introduced a Financial Planning Working Group, which reports to ALCO and Investment Committee comprising of various specialists within the Bank. The Working Group reviews various sources of economic data (both internal and external) and formulates a house view of key macroeconomic variables for use in all models within the bank. These scenarios are relevant and appropriate to the classes of financial assets and off balance sheet items across the various geographies in which the Bank operates. The Bank has applied regression analysis of the macroeconomic variables against the observed default rates. The Credit Lab performs a regression analysis at least annually and where applicable marginal adjustments are made to the PD curves to incorporate future looking information. The PD and LGD used for the ECL calculation are produced from benchmarked credit risk models which are reviewed and calibrated to performance. A regression analysis of PD against the forecasts of macro variables informs the forecast change in PDs given the forecast of macro variables. The outcome of the regression analysis is updated annually and where applicable marginal adjustments are made to the PD curves to incorporate future looking information.

The Bank has applied the principles of unbiased probability weighted average, time value of money and has used reasonable and supportable information without undue effort and costs in the estimation process. Where applicable overlays are applied depending on various factors and considerations including the directionally relationship between changes in expected credit loss and results of observable data. The overlays are subject to strict governance and approval process by the Bank's Investment Committee and Board Audit and Risk Committees.

The most significant period end assumptions used in the ECL calculation are set out below:

Economic Variable	2019	2020	2021	2022
South African CPI				
Mild case	5.50	3.55	5.56	5.68
Base case	4.80	3.45	4.66	4.58
Best case	4.06	3.50	4.36	4.43
Sub-Saharan nominal GDP				
Mild case	2.45	(11.10)	(0.84)	1.93
Base case	3.50	(5.10)	0.37	3.44
Best case	4.14	(3.10)	3.87	4.84
Crude oil				
Mild case	59.95	25.50	27.13	37.50
Base case	65.35	31.75	32.63	41.75
Best case	76.95	37.25	44.88	58.25
Month Libor				
Mild case	2.48	0.86	0.43	0.43
Base case	2.73	1.06	0.68	0.83
Best case	2.93	1.26	1.43	1.43
ZAR USD exchange rate				
Mild case	15.35	22.59	20.96	20.59
Base case	14.53	19.28	19.31	18.59
Best case	13.00	16.90	15.85	16.36

The forward looking information is incorporated into the PD curves used for the lifetime ECL calculation. Multivariate non-linear regression analysis is conducted to take into account economic forecasts of variables which affect the assets in the loan portfolio, and their effect on our prediction of PD forward looking. This analysis is an accurate prediction for the shape of the PD curves for the following four years. Following the first four years, the shape of the PD curves uses the TTC (through the cycle) PD of the DBSA loan portfolio. Each loan's PD will however be at the level of PD as determined by its MS rating. The ECL is calculated over the full life of the loan for stage 2 assets.

Weightings of best, worst and base case:

	Best case	Base case	Worst case
Weightings	5%	45%	50%

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2020

42. Risk management (continued)

Macro-economic factors

IFRS 9 requires the use of macro-economic factors when calculating ECL. To the extent that is relevant and practical the Bank has used macro-economic factors in the ECL methodology. Incorporating forward looking information increases the level of judgement as to how changes in these macro-economic factors will affect ECL. The methodology, assumptions and macro-indices, including any forecasts of future economic conditions are reviewed annually.

Measurement of expected credit losses

The key inputs into the measurement of ECL are the term structure of the following variables:

- Probability of default (PD);
- Loss given default (LGD); and
- Exposure at default (EAD).

These parameters are generally derived from internally developed statistical models and other historical data. They are adjusted to reflect forward-looking information as described above.

PD estimates are estimates at a certain date, which are calculated based on statistical rating models, and assessed using rating tools tailored to the various categories of counterparties and exposures. These statistical models are based on internally compiled data comprising both quantitative and qualitative factors. Where it is available, market data may also be used to derive the PD for large corporate counterparties. If a counterparty or exposure migrates between rating classes, then this will lead to a change in the estimate of the associated PD. PDs are estimated considering the contractual maturities of exposures and estimated prepayment rates

LGD is the magnitude of the likely loss if there is a default. The Bank estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties. The LGD models consider the structure, collateral, seniority of the claim, counterparty industry and recovery costs of any collateral that is integral to the financial asset. For loans secured by retail property, LGD estimates are recalibrated for different economic scenarios. They are calculated on a discounted cash flow basis.

EAD represents the expected exposure in the event of a default. The Bank derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract including amortisation. The EAD of a financial asset is its gross carrying amount. For lending commitments and financial guarantees, the EAD includes the amount drawn, as well as potential future amounts that may be drawn under the contract, which are estimated based on historical observations and forward-looking forecasts. For some financial assets, EAD is determined by modelling the range of possible exposure outcomes at various points in time using scenario and statistical techniques.

As described above, and subject to using a maximum of a 12-month PD for financial assets for which credit risk has not significantly increased, the Bank measures ECL considering the risk of default over the maximum contractual period (including any borrower's extension options) over which it is exposed to credit risk, even if, for risk management purposes, the Bank considers a longer period. The maximum contractual period extends to the date at which the Bank has the right to require repayment of an advance or terminate a loan commitment or guarantee.

In the current year, there has been no change in probability weightings applied to the scenarios in determining the expected credit losses.

	2020 %	2019 %	2018 %
Best case	5	5	5
Base case	45	45	55
Worst case	50	50	40
	100	**100**	**100**

In the current year, there have been changes to the expected credit losses. There have been changes in the assumptions used, however; there have been no changes in the estimation techniques used to measure the expected credit losses except the changes due to COVID-19 where multivariate approach was used.

Methods used to determine	Method	Inputs	Assumptions	Estimation
12-month and lifetime expected credit losses	Expected loss methods based on PD, LGD and EAD; expected credit losses are discounted to the reporting date using the effective interest rate.	1PD, LGD and EAD over current PDs survival rate and expected credit losses.	Current PDs are the output of the calibrated rating model; PDs in subsequent years are determined based on survival rate, seasoning and cyclicality effects. The current LGD is the output of the LGD model; analyses showed that the subsequent LGDs are the same as the first year's LGD. Lifetime is the contractual tenor of the loan; no prepayments assumed.	PDs: migration matrices for multi-year migration effects, term structure analysis for seasoning effect, macro-economic overlay for cyclically. LGD: LGD model calibrated with own data history. EAD: Inclusion of repayment schedules.
Whether a credit risk has increased significantly since initial recognition	According to the Stage 2 definition; different Bank specific identifiers including the minimum 30 days past due criteria (after relevant exclusion rules have been applied) have been selected for the identification of SICR.	Information on single loan level, such as Loans management risk indicators, arrears information, etc.	While each loan is firstly considered on its own, the final classification is assessed at an individual loan level.	Stage classification is fact based using current flags and information available in the Bank's data base.
Whether a financial asset is a credit-impaired financial asset	Definition; in general, unlikeliest to pay as well as >90 days past due are the criteria considered; these criteria are interpreted in terms of The Bank's identifier e.g. for specific cases of unlikeliest to pay.	Information on single loan level, such as Loans management risk indicators, arrears information, etc.	While each loan is firstly considered on its own, the final classification is performed on a client level, i.e. if one loan is considered to be credit impaired (stage 3) then all loans of the same clients are considered to be so as well.	Stage classification is fact based using current flags and information available in the Bank's data base. Maximum stage across all loans per client rule applies.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2020

42. Risk management (continued)

Sensitivity analysis

The most significant assumptions affecting ECL are GDP, crude oil prices, interest rate and ZAR/USD exchange rate. Detailed in the table below are changes to the ECL that will result from changes in the weightings applied due to changes in the economic indicators used in the Bank's economic variable assumption.

Loans	Actual Weight %	Adjusted Weight %	% Change	Actual ECL R'000	Adjusted ECL R'000	% Change ECL
Base case	45	50	5	2 376 919	2 641 021	–
Worst case	50	45	(5)	3 284 984	2 956 486	–
Best case	5	5	–	167 372	167 372	–
Weighted ECL – Stage 1 and 2				**5 829 275**	**5 764 875**	**(1)**
Stage 3 ECL				4 365 721	4 365 721	–
Total ECL				**10 194 996**	**10 130 596**	**(1)**

The following table shows a comparison of the forward-looking impact on the ECL provision based on the probability weightings of the above three scenarios resulting from recalculating each of the scenarios using a 100% rating of the above factors:

Loans	Weight %	Unweighted ECL R'000	Difference to weighted ECL R'000	% Difference to weighted ECL
Base case	100%	9 647 856	(547 140)	(5.4)
Worst case	100%	10 935 839	740 843	7.3
Best case	100%	7 713 174	(2 481 822)	(24.3)

The Bank monitors concentrations of credit risk by sector, region and by geographic location. An analysis of concentrations of credit risk from development loans, development bonds, trade and other receivables, loan commitments and financial guarantees

	Development loans		Loan commitments	
Concentration of risk	2020	2019	2020	2019
Gross carrying amount/amount committed (R'000)	**96 425 614**	**82 012 250**	**7 613 146**	**8 492 767**
Concentration by Sector: Energy %	55	58	46	54
Concentration by Sector: South Africa %	70	75	65	41
Concentration by location: Currency (ZAR) %	71	76	65	94

Concentration by location for development loans, loan commitments and financial guarantees is based on the customers country of domicile.

(a) Geographical analysis of development loans at amortised cost

In thousands of rands	Stage 1	Stage 2	Stage 3	Total 2020	Total 2019
Stage 3					
South Africa	–	–	2 402 662	2 402 662	1 317 000
Rest of Africa	–	–	4 543 726	4 543 726	2 694 413
Total	**–**	**–**	**6 946 388**	**6 946 388**	**4 011 413**
Allowance for ECL					
South Africa	–	–	(1 282 362)	(1 282 362)	(736 937)
Rest of Africa	–	–	(3 083 400)	(3 083 400)	(1 972 254)
Total	**–**	**–**	**(4 365 762)**	**(4 365 762)**	**(2 709 191)**
Carrying amount: South Africa	–	–	1 120 300	1 120 300	580 063
Carrying amount: Rest of Africa	–	–	1 460 326	1 460 326	722 159
Carrying amount – Stage 3	**–**	**–**	**2 580 626**	**2 580 626**	**1 302 222**
Stage 1 and 2					
South Africa	46 521 517	18 618 935	–	65 140 452	60 106 287
Rest of Africa	12 458 505	11 880 269	–	24 338 774	17 894 550
Total	**58 980 022**	**30 499 204**	**–**	**89 479 226**	**78 000 837**
Allowance for ECL					
South Africa	(297 176)	(1 357 856)	–	(1 655 032)	(2 227 563)
Rest of Africa	(190 601)	(3 973 955)	–	(4 164 556)	(1 258 990)
Total	**(487 777)**	**(5 331 811)**	**–**	**(5 819 588)**	**(3 486 553)**
Carrying amount: South Africa	46 224 341	17 261 079	–	63 485 420	57 878 724
Carrying amount: Rest of Africa	12 267 904	7 906 314	–	20 174 218	16 635 560
Carrying amount – Stage 1 and 2	**58 492 245**	**25 167 393**	**–**	**83 659 638**	**74 514 284**
Gross carrying amount	58 980 022	30 499 204	6 946 388	96 425 614	82 012 250
Allowance for ECL	(487 777)	(5 331 811)	(4 365 762)	(10 185 350)	(6 195 744)
Carrying amount	**58 492 245**	**25 167 393**	**2 580 626**	**86 240 264**	**75 816 506**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2020

In thousands of rands	2020	2019

42. Risk management (continued)

Expected credit losses excluding suspended interest	2020	2019
12-month ECL	487 777	197 946
Lifetime ECL – not credit impaired	5 331 811	3 288 607
Lifetime ECL – credit impaired	3 803 643	2 478 234
Grand Total	**9 623 231**	**5 964 787**

Suspended interest amounts to R562 million (31 March 2019: R230 million).

(b) Development bonds

In thousands of rands	12 month ECL	Lifetime ECL – not credit impaired	Lifetime ECL – impaired credit	2020	2019
Performing					
Municipal	517 918	772 937	–	1 290 855	1 290 607
Provision for expected credit losses	(238)	–	–	(238)	(428)
Net carrying amount	**517 680**	**772 937**	**–**	**1 290 617**	**1 290 179**

The maximum exposure relating to development bond is R1.3 billion (March 2019: R1.3 billion).

(c) Trade receivables and other assets

In thousands of rands	Default rate 0%	Default rate 17%	Default rate 100%	2020	2019
Trade receivables					
Trade debtors	106 751	31 373	1 977	140 101	154 454
Provision for expected credit losses	–	(5 287)	(1 977)	(7 264)	(3 931)
Net carrying amount of trade receivables	**106 751**	**26 086**	**–**	**132 837**	**150 523**
Financial and other assets					
Deposits				4	4
Interest accrued				28 888	1 954
Prepayments				162 532	211 368
Payroll expenses receivable				45	4
Staff loans				67	136
Subsistence and travel				1 064	883
VAT receivable				2 632	707
Total other assets				**195 232**	**215 056**
Grand Total				**328 069**	**365 579**

(d) Commitments (Loans signed, but not yet fully disbursed)

In thousands of rands		2020	2019
Low Risk	• Municipal	149 700	–
	• Other	100 000	1 097 301
Medium risk – Municipal	• Municipal	4 677	1 688 337
	• Other	6 006 343	4 627 612
High Risk	• Municipal	30 000	50 000
	• Other	1 322 426	1 029 517
Gross carrying amount		**7 613 146**	**8 492 767**
Provision for ECL		(7 110)	(246 018)
Net carrying amount		**7 606 036**	**8 246 749**

(e) Loans that are past due not individually impaired

In thousands of rands	2020					2019				
	Total	< 3 months	3 – 6 months	6 – 12 months	> 12 months	Total	< 3 months	3 – 6 months	6 – 12 months	> 12 months
Overdue amounts	646 122	623 774	19 016	1 305	2 027	1 676 020	731 688	9 457	521 342	413 533
Not yet due	9 020 264	–	–	–	–	12 699 947	–	–	–	–
Total	**9 666 386**	**623 774**	**19 016**	**1 305**	**2 027**	**14 375 967**	**731 688**	**9 457**	**521 342**	**413 533**

An amount of R117 million (March 2019: R128 million) was received after the reporting date but before the authorisation of the Annual Financial Statements.

The fair value of collateral held in respect of the above amounted to R Nil (March 2019: R347 million). For the purposes of calculating this aggregated total, the fair value of each collateral is limited to the carrying value for each individual loan.

The above collaterals consist of guarantees, cession of debtors, mortgages, investments, notarial bonds, sinking fund investments and insurance policies.

In thousands of rands	2020	2019
(f) Financial counterparty exposure		
Bonds	2 467 000	1 747 359
Cash and equivalents	3 458 836	2 922 876
Derivatives	39 659	409 600
Segregated funds	508 491	536 507
Total	**6 473 986**	**5 616 342**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2020

42. Risk management (continued)

42.14 Capital management

The Bank objectives when managing capital are:

- To safeguard the Bank's ability to continue as a going concern, through ensuring a sufficient cushion against unexpected losses, and to provide for an acceptable growth rate in the Bank's development finance activities;
- To maintain an adequate credit rating to ensure that the Bank continued access to Fund at optimal rates in support of its mission to provide affordable development finance solution; and
- To align the returns on the Bank's assets to its associated risks.

The Bank monitors and manages its capital adequacy within the regulatory leverage constraint and in line with the capital adequacy framework approved by the Board. Whereas the Bank has adopted a self-imposed capital adequacy framework that differentiates between the risks assumed on different asset classes and provides for market and operational risk, the overarching regulatory capital requirement applicable to the institution is derived from the debt-equity maximum of 250%. Implicit in this is a minimum unweighted capital requirement of 28.6%.

The leverage ratio is calculated as total debt divided by shareholders' capital, where total debt comprises total liabilities excluding other creditors (as shown on the statement of financial position). Capital comprises share capital, permanent government funding, retained earnings, and reserves. As at 31 March 2020, the debt to equity stood at 165% (31 March 2019: 138.1%). The capital ratio is calculated as shareholders' capital divided by unweighted assets, where unweighted assets comprise total assets (as shown on the statement of financial position). Shareholders capital comprises share capital, permanent government funding, retained earnings, general provisions and the fair reserve. As at 31 March 2020, the capital ratio stood at 37.3 % (31 March 2019: 41.5%).

42.15 COVID-19 Impact

Asset portfolio

Credit models

The base credit models applied in finalising expected credit losses remained consistent with the prior year. No changes were made to the base credit models in the year under consideration in response to COVID-19. The base credit models will be reviewed in the 2020 – 2021 financial year.

Forward looking information models

IFRS 9 requires assessment of credit risk to incorporate forward looking information. Credit models should recognise expected credit losses considering all reasonable and supportable information, including that which is forward looking. The model methodology was re-assessed to determine applicability given the current market conditions. In response to COVID-19 pandemic the DBSA Credit Lab revised the Forward-Looking Model based on linear regression methodology. Given the COVID-19 and economic conditions, linear regression model proved to be unreliable by under and overestimating expected credit losses at various time periods. Linear regression approach limitation is only predicting linear relations between dependent variables. Non-linear methodologies were investigated; and nonparametric regression methods were considered a good option given the shape of the development data. The Generalised Additive Model (GAM), a form of non-parametric regression was utilised to model the effects of macroeconomic factors on the DBSA PDs in order to appropriately determine the expected credit losses as at year end.

Staging impact

DBSA did not offer blanket payment holidays in response to COVID-19 pandemic. There was no change of staging automatic triggers in response to COVID-19 and the Bank applied banking guidance provided where loans with satisfactory performance prior to COVID-19 outbreak are not automatically changed in terms of IFRS 9 loan staging.

Post balance sheet

In the past, the Bank used forward looking information obtained about a month before reporting date. This date has been consistently applied except in 2020 financial year due to COVID-19 and the Bank treated the COVID-19 pandemic and its effects as an adjusting post balance sheet event. Given the COVID-19 pandemic, the forward-looking information for February 2020 changed significantly and the Bank revised and updated the forward-looking information as at February 2020 using data as at 31 March 2020 but obtained in early April 2020.

Expansion of the master rating scale

In terms of Principle 10 of Basel Principle of Credit Risk Management, Banks are encouraged to develop and utilise internal risk rating systems which should be consistent with the nature, size and complexity of a bank's activities. DBSA reviewed and expanded the MS17 category of the Master scale rating. DBSA master scale limitation has been the broad range of PD between MS16 and MS17 class with a rapid increase of PD from 12% to 58% based on one risk class migration.

The expansion of the MS17 category into four sub-categories within this category, allows for more granularity within MS17 category to more accurately assess and reflect each clients credit risk deterioration. The expansion followed an exponential extrapolation method, overall PD ranges remained unchanged from last year from 12% to 99% and these new grades which adds more granularity and credit risk differentiation were benchmarked with rating agencies. The expansion of the MS17 grade was approved by Investment Committee Technical Committee.

A new MS17 Framework was approved by Investment Committee and in response to the COVID-19 pandemic all significantly large exposures were reviewed and assessed for COVID-19 impact. The additional risk rating grades provided adds to a well-structured rating system which provide a good means of differentiating degree of credit risk of different exposures and allow more enhanced determination of overall characteristics of credit portfolio, concentrations, problem credits and adequacy of loan loss reserves/ expected credit losses.

Change in weightings

In the prior year, DBSA increased weightings for the Worst case to 50% in expectation of RSA country downgrade and due to the higher probability assigned to Worst Case, the Worst Case became the Base Case. Since IFRS 9 adoption, there has been overall continuing negative trend on most macro-economic factors. The Bank proactively had increased the negative weighting and the negative weightings had a higher probability. The Bank ran various scenario analyses and stress testing of the expected credit losses, and the summary below shows results from the stress testing and changing the weightings.

Increase in worst case by 5% causes ECL to increase by approximately 0.1%
Increase in worst case by 10% causes ECL to increase by approximately 0.1%
Increase in worst case by 15% causes ECL to increase by approximately 0.1%

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2020

42. Risk management (continued)

IFRS 9 Post-implementation plan

Regular reviews of the IFRS 9 models are normally done every 3 years. The Bank adopted IFRS 9 in the prior year. During the year under review, the Bank developed an IFRS9 post implementation plan aimed at continuous improvements and exploring further enhancements informed by best practice where applicable. During the year under review the IFRS 9 FLI models were reviewed in response to the COVID-19 pandemic.

Liabilities Portfolio

Liquidity risk management

The Bank primarily sources funding from lines of credit, debt capital market and repurchase agreements. The Bank has enhanced its liquidity management process and established a dedicated EXCO sub – committee which has been meeting on a weekly basis. In addition, the Bank has increased the frequency of cash flow forecasting using different scenarios and assumptions. The Bank experienced an increase in cost of raising new liquidity considering the COVID-19 impact on markets and ability to raise long term funding. There has been no default or breaches relating to the borrowings recognised during and at the end of the reporting period. Apart from the challenges in the domestic market, the Bank foreign currency borrowing limit was approved at a higher limit and this enabled DBSA to raise funding in the international markets.

Hedge Accounting

The Bank continues to apply the provision of IFRS 9 in the management of risks associated with hedging activities. The Bank continues to use various derivative instruments for risk management and there was no change in the derivative instruments used for risk management.

In applying hedge accounting, the Bank has considered appropriateness of the cash flow hedging accounting and concluded that forecast transactions remain highly probable. The Bank's cashflow hedges comprises predominantly of currency swaps and currency options. These are highly probable transactions for which there is a minimal risk of uncertainty and these instruments have been effective in managing currency risk.

Post financial year end there has been no reclassification of irrecoverable loss from the cashflow hedge reserve to profit or loss. The currency swaps are 100% effective and the time value of money component of currency options is recognised in cashflow reserve.

43. Non-current asset held for sale

As a result of a calling on its security against a loan in default, the Bank obtained a 100% shareholding in a property investment company with a view to sell. All assets in the company have been sold and the amount due to the Bank is R0.28 million. Frandevco is in the process of being deregistered.

44. Related parties

44.1 Related party relationships

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

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

The South African government, through National Treasury (the shareholder), is the parent of the Bank and exercises ultimate control. The Bank has a 100% shareholding in Frandevco (refer to 44.2.3).

44.2. Transactions with related parties

The following is a summary of transactions with related parties during the year and balances due at end of year.

44.2.1. National public entities

The total book debt of loans extended to national public entities amounts to R23.4 billion (March 2019: R17.9 billion). None of these loans are non-performing.

44.2.2. National mandates

The net amount outstanding, included in note 6: trade receivables and other assets, at year end amounted to R126 million (March 2019: R145 million).

44.2.3. Frandevco

The Bank has 100% shareholding in Frandevco (March 2019: 100%). There were no transactions with Frandevco during the year (March 2019: R Nil). Frandevco is in the process of been deregistered.

45. Contingencies

Contingent liabilities

The Bank operates in a legal and regulatory environment that exposes it to litigation risks. As a result the Bank is involved in disputes and legal proceedings which arise in the ordinary course of business. The Bank does not expect the ultimate resolution of any of the proceedings to have a significant adverse effect on the financial position of the Bank. The Bank has assessed the contingent liabilities based on information at balance sheet date and has concluded that the possibility of an outflow of economic benefits is remote. Therefore no contingent liabilities have been disclosed.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2020

In thousands of rands	2020	2019

46. Commitments

At the reporting date, the Bank had the following commitments:		
Capital commitments	202 081	125 204
Development expenditure	23 999	66 642
Development loan commitments	7 613 146	8 492 767
Equity investments commitments	734 255	786 410
Project preparation expenditure	247 951	81 031
Gross commitments	**8 821 432**	**9 552 054**
Provision for expected credit losses	(7 110)	(246 018)
Net commitments at end of the year	**8 814 322**	**9 306 036**

46.1. Development loan commitments

As the disbursement pattern for loans committed but not disbursed is a primary function of individual borrowers' implementation and administrative capacities, this pattern is not quantifiable. Loan commitments are to be financed from funds generated from operations and funds raised from local financial markets and foreign sources.

Client classification		
Educational institutions	71 999	–
Local government	184 378	1 738 337
National and provincial government	905 096	–
Private sector intermediaries	3 943 001	6 503 160
Public utilities	2 508 672	251 270
Balance at end of the year	**7 613 146**	**8 492 767**

Geography		
Eastern Cape	71 999	–
Free State	–	2 079
Gauteng	2 578 580	3 860 257
KwaZulu-Natal	104 676	279 711
Limpopo	30 000	50 000
Northern Cape	1 732 909	2 217 919
Western Cape	502 760	1 484 103
Rest of Africa	2 592 222	598 698
	7 613 146	**8 492 767**

In thousands of rands	2020	2019
Rest of Africa		
Côte d'Ivoire	905 096	–
Congo	399 907	–
Ethiopia	58 966	47 868
Ghana	575 532	–
Madagascar	108 581	115 085
Mauritius	535 374	434 475
Zimbabwe	8 766	1 270
	2 592 222	**598 698**
Sector		
Water	239 200	1 750 000
Roads and drainage	918 537	30 981
Energy-electricity	3 383 054	4 002 721
Energy – Non-grid standalone	–	122 825
Communication and transport	2 702 752	2 209 216
Social infrastructure	30 000	377 024
Education	71 999	–
Sanitation	267 604	–
	7 613 146	**8 492 767**

The table below shows the reconciliation of the opening balance to the closing balance of development loan commitments gross carrying amount and provision for expected credit losses:

In thousands of rands	Stage 1	Stage 2	Stage 3	Fair value	Total
March 2020					
Reconciliation of carrying amount					
Balance at beginning of the year	7 463 250	593 772	435 745	–	8 492 767
Transfer from Stage 2 to Stage 3	–	(545 725)	545 725	–	–
Transfer from Stage 1 to Stage 3	(713 872)	–	713 872	–	–
New loan commitments issued	19 057 361	–	–	93 367	19 150 728
Disbursements	(15 510 799)	–	(57 507)	(73 046)	(15 641 352)
Withdrawals	(2 764 175)	(48 047)	(545 725)	–	(3 357 947)
Foreign exchange gains	(1 169 045)	–	158 148	(20 153)	(1 031 050)
Balance at end of the year	**6 362 720**	**–**	**1 250 258**	**168**	**7 613 146**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2020

46. Commitments (continued)

In thousands of rands	Stage 1	Stage 2	Stage 3	Total
Reconciliation of provision for expected credit losses				
Balance at 1 April 2019	1 933	244 085	–	246 018
New loan commitments issued	2 734	–	–	2 734
Withdrawals	–	(244 085)	–	(244 085)
Subsequent changes in expected credit losses due to changes in risk parameters (PDs, LGDs, EAD)	2 407	–	–	2 407
Foreign exchange movements	36	–	–	36
Balance at end of the year	**7 110**	**–**	**–**	**7 110**
Expected credit losses				
Expected credit losses recognised in the income statement	5 177	(244 085)	–	(238 908)
	5 177	**(244 085)**	**–**	**(238 908)**

In thousands of rands	Stage 1	Stage 2	Stage 3	Total
March 2019				
Reconciliation of carrying amount				
Balance at beginning of the year	7 295 957	–	–	7 295 957
Transfer from Stage 1 to Stage 2	(514 227)	514 227	–	–
Transfer from Stage 1 to Stage 3	(435 512)	–	435 512	–
New loan commitments issued	11 710 113	–	–	11 710 113
Disbursements	(8 807 363)	–	–	(8 807 363)
Withdrawals	(1 861 812)	–	–	(1 861 812)
Foreign exchange gains	76 094	79 545	233	155 872
Balance at end of the year	7 463 250	593 772	435 745	8 492 767
Reconciliation of provision for expected credit losses				
Balance at 1 April 2018	**3 377**	**–**	**–**	**3 377**
New loan commitments issued	–	244 085	–	244 085
Subsequent changes in expected credit losses due to changes in risk parameters (PDs, LGDs, EAD)	(1 460)	–	–	(1 460)
Foreign exchange movements	16	–	–	16
Balance at end of the year	**1 933**	**244 085**	**–**	**246 018**

The expected credit losses allowance recognised for the year was impacted by transfers between Stage 1 and Stage 2.

Expected credit losses

Expected credit losses recognised in the income statement	(1 444)	244 085	–	242 641

46.2. Development expenditure, project preparation expenditure, equity investments and capital commitments

The commitments approved are to be financed from funds generated from operations and funds raised from local financial markets and foreign sources.

47. Lease obligations

In thousands of rands	2020	2019
Minimum lease payments due (IAS 17)		
– within one year	–	1 323
– in second to fifth year inclusive	–	1 648
Total	**–**	**2 971**
Minimum lease payments due (IFRS 16)		
– within one year	3 457	–
– in second to fifth year inclusive	364	–
Total	**3 821**	**–**

Reconciliation of operating lease commitments as at 31 Mach 2019 to the operating lease liability on transition to IFRS 16 on 1 April 2019

Opening balance	2 971	–
IFRS 16 impact – classification of leases	4 244	–
	7 215	**–**

The Bank has entered into commercial lease on property. These leases have an average life of between one (1) and three (3) 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.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2020

In thousands of rands	2020	2019

48. Irregular, fruitless and wasteful expenditure

48.1. Irregular expenditure

Balance at beginning of the year	394	–
Incurred in the current year	2 744	394
Condoned	(388)	–
Removed – not irregular	(6)	–
Balance at end of the year	**2 744**	**394**

Details of irregular expenditure		
Extension of the lease agreement for two years without prior approval from National Treasury, where a contract is varied or expanded by more than 15%	–	388
Appointment of a supplier for a three year lease without following a competitive procurement process	–	6
Contract increased in expenditure due to increase in scope	282	–
Contracts continued post expiry date	2 462	–
Total	**2 744**	**394**

Incidents of irregular expenditure occurred during the current and previous years. Appropriate corrective measures are being applied as relevant to each case.

49. Funds administered on behalf of third parties

Balance at beginning of the year	1 537 837	1 037 012
Funds received	4 372 606	3 691 178
Interest, foreign exchange and other movements	139 904	80 701
Funds disbursed	(4 255 359)	(3 271 054)
Balance at end of the year	**1 794 988**	**1 537 837**

In thousands of rands	2020	2019

50. Third party managed funds cost recovered

Third party funds and mandates

African World Heritage Fund	4 689	3 613
Anglo American	–	120
Department of Basic Education for Accelerated Infrastructure Schools Programme	2 142	2 111
Department of Energy – Independent Power Producer Office	62 206	75 113
Eastern Cape Department of Education	486	1 404
Ekurhuleni Metropolitan Municipality	–	172
Gautrain Management Agency	–	309
Global economic	18	–
Green Fund	2 869	5 355
Infrastructure Delivery Management System	1 112	–
Infrastructure Investment Programme for South Africa (IIPSA)	6 070	5 330
Investment Climate Facility (Anglo)	–	(4)
Jobs Fund	4 827	4 874
KFW/HIV/VCT 2 by Voluntary Counselling and Testing Programme	–	1 297
KFW SADC Water Fund	1 978	1 331
Limpopo Department of Health	–	718
Limpopo Department of Public Works	–	1 013
National Department of Health	7 199	7 005
National Treasury Cities Support Programme (NTCSP)	12 419	1 512
Newcastle Local Municipality	4 500	–
Pan African Capacity Building Platform (PACBP)	6 833	4 680
Total costs recovered	**117 348**	**115 953**

Third party managed funds managed per division

Finance	11 522	8 293
Infrastructure Delivery	29 854	16 679
Project Preparation	75 972	90 981
Total	**117 348**	**115 953**

Cost recovery for each division

Corporate Services	69 575	112 407
Finance	11 523	5
Infrastructure Delivery	36 250	3 492
Project Preparation	–	49
Total	**117 348**	**115 953**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2020

51. Taxation

The Bank is exempt from South African normal taxation in terms of section 10(1)(t)(x) of the Income Tax Act, 1962 (Act No. 58 of 1962), as amended, and consequently no liability for normal taxation has been recognised. The bank is registered for VAT, PAYE, SDL and UIF.

52. Events after the reporting period

There were no material adjusting events after the reporting date other than those already addressed in the notes to the Annual Financial Statements (refer to note 42 page 127).

ABBREVIATIONS AND ACRONYMS

ALCO	Assets & Liability Management Committee
B-BBEE	Broad-Based Black Economic Empowerment
BRICS	Brazil, Russia, India, China and South Africa
COVID-19	Coronavirus disease 2019
CPI	Consumer Price Index
CVA	Credit Value Adjustment
DBSA	Development Bank of Southern Africa Limited
DFID	The United Kingdom's Department for International Development
DFI	Development Finance Institution
DVA	Debit value adjustment
EAD	Exposure at default
ECL	Expected credit loss
EIR	Effective interest rate
FVTPL	Fair value through profit or loss
FVTOCI	Fair value through other comprehensive income
GDP	Gross domestic product
IASB	International Accounting Standards Board
ICT	Information and communications technology
IESBA	International Ethics Standard Board for Accountant
IFRS	International Financial Reporting Standards
IIPSA	Infrastructure Investment Programme for South Africa
IPP	Independent Power Producers
IRBA	Independent Regulatory Board for Auditors
ISA	International Standard on Auditing
JSE	Johannesburg stock Exchange
KfW	The German agency Kreditanstalt für Wiederaufbau
LGD	Loss given default
MIG	Municipal Infrastructure Grant
MISA	Municipal Infrastructure Support Agency
MTEF	Medium term Economic Framework
NAV	Net Asset Value
NDP	National Development Plan
NII	Net Interest Income
NTCSP	National Treasury Cities Support Programme
OCI	Other Comprehensive Income
PAA	Public Audit Act
PD	Probability of default
PFMA	Public Finance Management Act, No 1 of 1999
PPA	Purchase Power Agreement
POCI	Purchased or originated credit impaired loans
SADC	Southern African Development Community
SARB	South African Reserve Bank
SICR	Significant Increase in Credit Risk
SMME	Small, medium and micro-enterprise
SOC	State-owned company
SPPI	Solely Payment of Principal and Interest
SOE	State Owned Entity

FINANCIAL DEFINITIONS

Callable capital	The authorised but unissued share capital of the DBSA
Cost-to-income ratio	Operating expenses, (including personnel, general and administration, depreciation and amortisation expenses), project preparation and development expenditure as a percentage of income from operations
Income from operations	Net interest income, net fee income and other operating income
Interest cover	Interest income divided by interest expense
Long term debt-to-equity ratio	Total liabilities, excluding other payables, provisions and liabilities for funeral benefits, as percentage of total equity
Long term debt-to-equity ratio (including callable capital)	Total liabilities, excluding other payables, provisions and liabilities for funeral benefits as a percentage of total equity and callable capital
Net interest margin	Net interest income (interest income less interest expense) as a percentage of interest bearing assets
Return on average assets	Net profit or loss for the year expressed as a percentage of average total assets
Return on average equity	Net profit or loss for the year expressed as a percentage of average total equity
Sustainable earnings	Profit or loss from operations before net foreign exchange gain/(loss) and net gain/(loss) from financial assets and financial liabilities, but including revaluation on equity investments

GENERAL INFORMATION

Registered Office	Headway Hill 1258 Lever Road Midrand Johannesburg, South Africa
Postal Address	PO Box 1234 Halfway House 1685 South Africa
Banker	The Standard Bank of South Africa
Registered Auditor	Auditor-General of South Africa
Preparer	The Annual Financial Statements were compiled under the supervision of the Chief Financial Officer, Boitumelo Mosako CA(SA)
JSE Debt Sponsor	Nedbank
Company Registration Number	1600157FN
Primary Debt Listing	JSE
Telephone	+ 27 11 313 3911
Fax	+ 27 11 313 3086
Home page	www.dbsa.org
LinkedIn	www.linkedin.com/company/dbsa/
Twitter	twitter.com/DBSA Bank
Instagram	www.instagram.com/dbsabank/
Email	dbsa@dbsa.org

www.dbsa.org