

A photograph of a renewable energy site featuring two large white wind turbines in the background and several rows of solar panels in the foreground, all set against a cloudy sky.

INTEGRATED
ANNUAL REPORT

2014



DBSA Projects: Wind & Solar Energy

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ABOUT THIS REPORT AND THE DBSA'S INTEGRATED REPORTING JOURNEY

The Development Bank of Southern Africa (DBSA) is pleased to publish its second Integrated Annual Report, its principal communication to stakeholders. The report is produced annually and is aimed primarily at providers of financial capital (our shareholder, the Government of the Republic of South Africa, and the debt capital markets) but aims also to be of benefit to all stakeholders interested in the Bank's ability to create value over time.

We aim to give a comprehensive report on the operational and financial performance and position of the DBSA, its stakeholders, governance, material issues, risks and opportunities, and how these underpin and inform our strategic objectives. In so doing, we aim to communicate to our stakeholders how we create value as an integral part of the South African development arena and how we will ensure that our value creation is sustainable in the long run.

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

ENHANCEMENTS IN THE YEAR

We aim to improve the quality of the information we provide year-on-year, giving our stakeholders a balanced and transparent account of our business. For this year's report we worked on refining the structure and design to present a clear and concise story that assists stakeholders in making a more informed assessment of the DBSA.

Improvements in the year include the disclosure of the process to determine the materiality of the matters that affect the organisation's ability to create value over time, as well as the disclosure of the various capitals that the DBSA uses or affects, along with the Bank's business model. We have provided more details on our strategy and the environment in which we operate, as well as on risks facing the organisation and the steps taken to mitigate these. On page 34, we provide some of our key targeted deliverables over the next three years. For the first time, we also provide a remuneration report.

While many organisations aid socio-economic development by channelling funds into corporate social investment projects, the work of the DBSA is truly developmental in nature, and our objective is to optimise the development outcomes of our business. For this year's report, we have expanded information regarding our development impact, acknowledging that measuring impact is complex and we seek to further improve reporting on this in the years ahead.

In an effort to provide a truly integrated report, we have combined information traditionally disclosed in our sustainability report into this one. We have relooked at our disclosure on governance and given attention to disclosing the areas of expertise that each board member brings. All this work reflects the very real changes at the DBSA since the organisational restructuring and our efforts to become both the leading development finance institution in the region and the leading state-owned company with a high-performance culture.

We hope that this report will give you a better understanding of our business – who we are, how we do business and create value over time, and where we hope to be in the future. We are committed to improving on this report and would appreciate your feedback. Comments can be sent to Johan Conradie, Manager: Strategy at corporatestrategy@dbsa.org, or submitted to the DBSA premises at 1258 Lever Road, Headway Hill, Midrand.

SCOPE AND BOUNDARY

This report covers the financial, environmental and social performance, operational highlights and strategic objectives of the DBSA and its governance. It covers the period 1 April 2013 to 31 March 2014. There have been no restatements of financial information in respect of prior periods. The principle of materiality has been applied in determining the content and extent of disclosure in the Integrated Annual Report. For more details on how we determine materiality, see below.

REPORTING PRINCIPLES AND ASSURANCE

This report is compiled and presented considering the requirements of the King Code of Governance Principles for South Africa 2009 (King III) and the International Integrated Reporting Council's (IIRC) International <IR> Framework. Both of these have introduced new standards of global best practice in reporting, and we are on a journey to implement them within our organisation. Although we have made some progress in this regard, we acknowledge that we still have some way to go. This Integrated Annual Report also incorporates the guidance provided by the Global Reporting Initiative (GRI) in setting targets, measuring and reporting on activities affecting the Bank's long-term sustainability.

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

The DBSA applies GRI G3 principles, and has declared a B application level in terms of these guidelines based on the disclosure in the GRI tables, which are available online at www.dbsa.org/investor_relations. The disclosures provided in GRI tables have been reviewed on a sample basis by the DBSA Internal Audit team.

The DBSA applies a combined assurance model to optimise the assurance obtained from its risk management department and the internal and external assurance providers on risks affecting the Bank. For more information, see the Report of the Audit and Risk Committee on page 65.

The DBSA receives external assurance from external auditors Nkonki Inc. on the fair presentation of the Bank's annual financial statements. Our external auditors have also issued a report, issued not for the purposes of expressing an opinion, but to report on the findings relating to performance against predetermined objectives, compliance with laws and regulations and internal control. The findings are included in the Independent Auditors Report to Parliament as reflected on pages 68 and 69. We do not yet obtain assurance on other matters covered in this report but will work towards this in future.

DETERMINING MATERIALITY

The Integrated Annual Report aims to provide an accurate, accessible and balanced overview of the DBSA's strategy, performance and outlook in relation to material economic, financial, social, environmental and governance issues. It concentrates on items of both a qualitative and quantitative nature that are material to the DBSA's ability to deliver on its mandate and strategy. To identify those matters which are material, as a starting point the DBSA's integrated reporting team consulted a wide range of resources. These included:

- The shareholder's compact.
- The outcome of engagements with the National Treasury and Finance Minister.
- The DBSA's corporate plan.
- Reports submitted to and produced for the Board and Executive Committee.
- The DBSA's key risks identified during the risk management process.
- The DBSA's strategy.
- Stakeholder opinion, gathered through both formal channels and informally.
- Media commentary.
- Various policies and regulations applicable to the Bank and the sectors in which it operates.

While the DBSA gives consideration to all items raised by stakeholders, it does not report on all of these in its integrated report. The team applied its judgement to determine the appropriate level of disclosure of material matters in the integrated report, taking the report to both the Executive and the Board for opinion.

FORWARD-LOOKING INFORMATION

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

APPROVAL BY THE BOARD

The Board is ultimately responsible for overseeing the integrity of the Integrated Annual Report. The Audit and Risk Committee assists in this task. The Board was further supported by DBSA management, which convened internal teams with the relevant skills and experience to undertake the reporting process and provided management oversight. Internal parties have devoted significant thought to how best to communicate the DBSA story. The report was prepared under the supervision of the Group Executive: Strategy, Mohan Vivekanandan and the Chief Financial Officer, Kameshni Naidoo CA(SA). The report was approved by the Board on 26 June 2014.



Student Accommodation: Argon Building - Johannesburg

PROFILE

"The DBSA, owned by the government of the Republic of South Africa, is one of the leading development finance institutions in Southern Africa. Over the past 30 years we have worked to accelerate sustainable socio-economic development to improve the quality of life of the people of the region. Leveraging the skills and expertise of our employees, the DBSA aims to advance the development impact within, and in time beyond, the Southern African Development Community and the African continent through the expansion of access to infrastructure development solutions.

Following an extensive organisational restructuring, in 2013/14 the Bank got to work on delivering on its new strategy, accelerating the provision of finance to numerous social and economic infrastructure projects and stepping up efforts to assist the South African government to supply quality infrastructure directly to communities.

At year-end, the DBSA had development assets of R55.5 billion spread across 13 SADC countries, mainly in the energy, roads, water, transport and social infrastructure sectors. While encouraged by the significantly positive impact on development achieved so far, we acknowledge that much work still needs to be done to achieve the vision of a prosperous and integrated region, progressively free of poverty and dependency. Undaunted, we look to the future with confidence."

Patrick Dlamini,
Chief Executive Officer of the DBSA

VISION

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

MISSION

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

VALUES

- High performance • Shared vision • Integrity
- Innovation • Service orientation

MESSAGE FROM THE GOVERNOR

Investment in infrastructure is an important catalyst for a robust and more productive economy. In this regard, the South African Government has embarked on an era of nation building, working with key partners to build world-class infrastructure to boost the country's productive capacity and improve the living standards of its people. Over the past five years alone, Government has invested R1 trillion in infrastructure across various sectors.

As important as investment in infrastructure is, so too are Government's efforts to overhaul the way we plan, regulate and maintain infrastructure so as to effectively deliver on infrastructure projects and tackle bottlenecks and capacity constraints that currently exist in the economy. While much has been achieved in recent years, there is more to be done.

The challenges that the economies of the world, including South Africa, face are well documented and have become more complex over the years. This is particularly true for the public sector and the development finance community, both of which are expected to take counter-cyclical measures to help stimulate economic activity. The South African Government plans to invest R847 billion over the next three years in infrastructure across a number of important sectors such as energy, transport, water and social services; and is counting on the assistance of institutions like the Development Bank of Southern Africa (DBSA) in this investment activity.

Over the past few years, the Bank has undergone an extensive review of its operations to better position it to support the objectives of Government, including greater investment in infrastructure. In this regard, I am pleased to report that this restructuring process has been successfully concluded and will enable the DBSA to increase its levels of targeted support in the years ahead. For the 2013/14 financial year, this Integrated Annual Report shows a meaningful acceleration in the Bank's infrastructure development activities, which was achieved despite a difficult operating environment. It shows that the DBSA has become a more relevant and successful development institution through its commitment to support the poorest and least-capacitated municipalities, whilst facilitating investment in priority areas such as energy generation, social infrastructure and regional integration projects.

In 2013/14, the DBSA provided a total of R12.7 billion in infrastructure financing, bringing to R46.5 billion the total disbursements over the past five years. Within the municipal market, the Bank's total funding reached R1.7 billion for the year. It is estimated that over 263 000 households will benefit once these projects are completed. In an effort to expedite the delivery of infrastructure within under-capacitated municipalities, the DBSA has implemented an innovative finance solution by providing bridging finance to those municipalities ahead of payment to them of the annual municipal infrastructure grant from the National Treasury. It is estimated that approximately 109 000 households will benefit from access to electricity, water and sanitation when these projects are completed. In addition, the Bank provided project planning and implementation support services to various municipalities.

The Bank's role in implementing projects for various national and provincial Government departments continues to expand in the areas of education, health and housing. In the year under review, the DBSA built 32 schools, 560 rural houses, 41 doctors' consulting rooms and refurbished 68 clinics.

The DBSA remains the key implementing agent for the Jobs Fund. After three funding windows, 93 projects have been approved for funding and R5.0 billion has been allocated while a further R6.1 billion was leveraged from project partners. To date, R969.2 million has been disbursed. It is estimated that 140 000 jobs will be created by those projects and 56 000 work seekers will be placed in employment during the projects' life-span.



My congratulations go to the DBSA Board, management and staff on the Bank's results for 2013/14 and on making a growing contribution to the delivery and sustainable development of infrastructure in the country and region. I have no doubt that the DBSA will continue to explore innovative ways of addressing historical challenges, including sustaining jobs and accelerating infrastructure delivery at all levels of Government, especially within under-capacitated municipalities. Although the provision of 'hard' economic infrastructure is important for sustainable growth for the long term, the provision of social infrastructure in sectors such as education, health and sanitation can bring about meaningful relief for the poor and strengthen the fabric of society.

The promotion of regional integration through infrastructure development is a key pillar in Africa's growth and development agenda. Infrastructure development in the transportation, energy and water sectors are examples of what is deeply needed. The DBSA must position itself to make a contribution in these critical areas. I would like to take this opportunity to acknowledge the significant contribution of my predecessor, Mr. Pravin Gordhan, in ensuring that the DBSA is a strong and sustainable institution. I look forward to working with the Bank under the leadership of Mr. Jabu Moleketi and the DBSA Board, as well as Mr. Patrick Dlamini and his executive team and staff in pursuit of our goals and objectives.

A handwritten signature in dark ink, appearing to read 'Nhlanhla Nene', is positioned above the printed name.

Nhlanhla Nene, MP
Minister of Finance

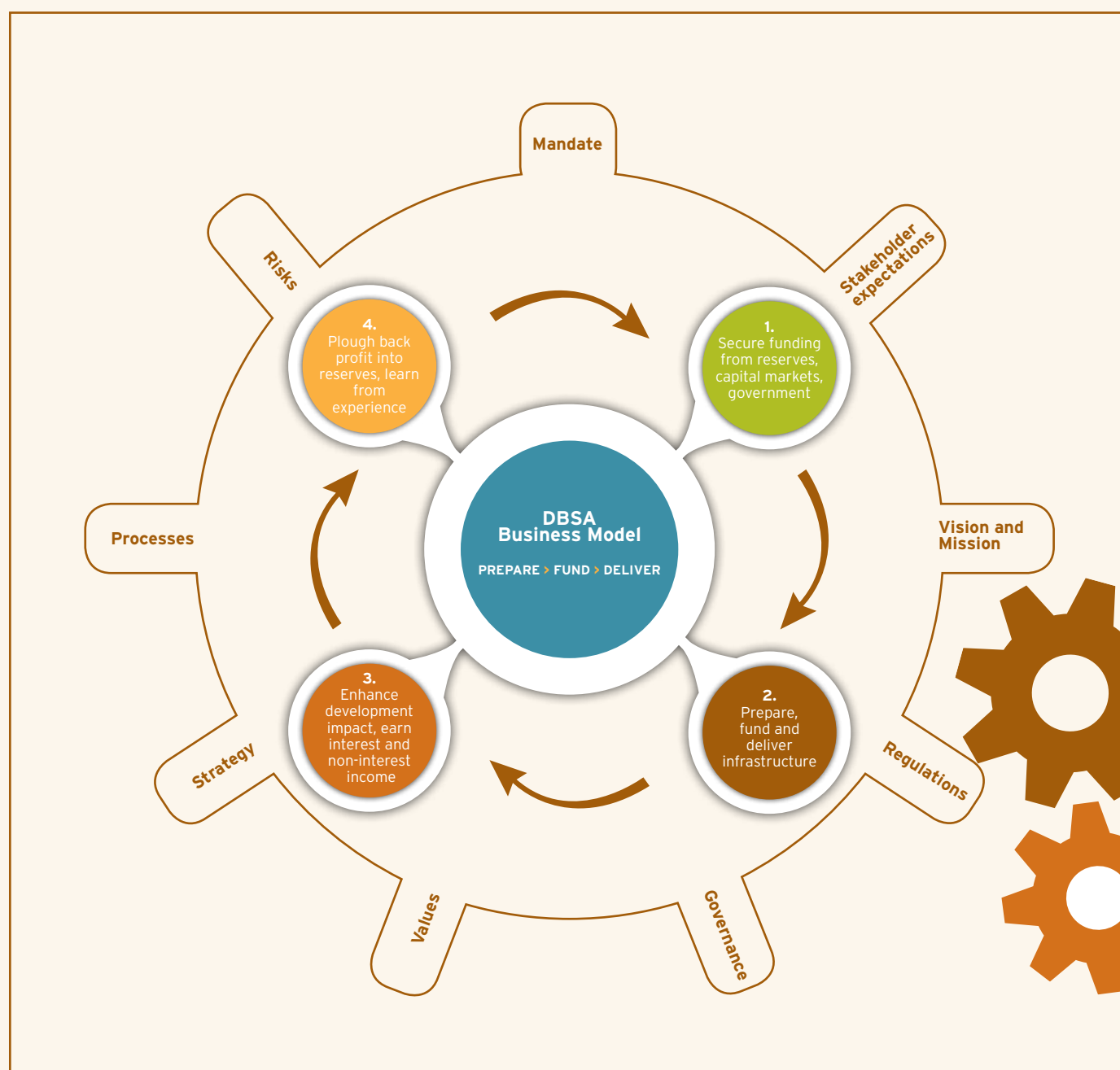
HOW WE SUPPORT INFRASTRUCTURE DEVELOPMENT AND CREATE VALUE

The DBSA supports infrastructure development and creates value through the provision of a range of innovative services to South Africa and the broader region. To ensure the Bank's sustainability, our business model takes into account the Bank's vision, mission and strategy, supported by robust governance structures and processes. The environment in which we operate, as well as our engagement with our stakeholders, play a critical role in identifying risks and opportunities. Our strategy strives to maximise these opportunities and mitigate the risks effectively and our management structure enables delivery of our strategy.

The DBSA's business model is based on the requirements that the Bank should remain financially sustainable whilst delivering its development mandate.

As reflected below, the Bank's business model is premised on the following four main components:

1. Secure funding from reserves, capital markets, other DFI's and government.
2. Prepare, fund and deliver infrastructure, whilst supporting the transfer of skills and knowledge. Some of our funding activities are provided on concessionary terms and conditions.
3. Enhance development impact in defined areas, whilst earning interest and non-interest income.
4. Plough back profits into reserves and learn from experiences.



HOW THE DBSA CONTRIBUTES TO THE REGION'S DEVELOPMENT

The DBSA has a strong record of supporting the SADC region's transformation. Through our portfolio of lending operations as well as project implementation and programme management support activities, we are promoting growth which is both inclusive and sustainable in nature. Measuring the Bank's overall contribution to the region's development is a challenging and a complex undertaking. The Bank is just one of many players promoting development, alongside other government agencies, development partners, companies and civil society organisations. In this context, it is difficult to attribute overall development results to the work of a single organisation. We therefore assess our results by building a picture of our support from the project level.

The diagram to the right illustrates the contribution the Bank is making towards development through its operations, taking into account the various capital components including intellectual, social, financial and human.

The success of many projects financed is dependent on actual disbursements which could occur over many years, and project implementation. Consequently the estimated project impact for the infrastructure financing activities is calculated based on funds committed by the DBSA.

In addition, various disbursements were made to private equity funds, however, only limited data is available at a project level to estimate DBSA's contribution to development. As such the development outcomes reflected in the diagram reflects a summary of the projects supported by our private equity partners.

OUR RESOURCES

Our strong brand, reputation and relationships are key **intellectual capital inputs**.

2014

- Experience in infrastructure development: 30 years
- Owned by the South African government

The communities in which we operate are at the core of our **social capital inputs**. Clients, partners and government relationships are very clearly central to our business to support infrastructure development.

2014

- Countries in which we operate: 13
- Key regulators: the National Treasury, Parliament and the Department of Labour, Johannesburg Securities Exchange
- Infrastructure development services: project preparation, financing and implementation

Our **financial capital inputs** are funds available for us to use in our business. These include financing resources, such as debt and equity, as well as funds generated through our operation and investments.

2014

- Capital and reserve: R20.0 billion
- Additional capital received from government to support growth: R2.4 billion
- Interest bearing liabilities: R42.9 billion
- Cash generated from operations: R1.9 billion

Our **human capital inputs** comprise of the people we employ as well as others we work with their health, knowledge and skills.

2014

- Number of employees: 425
- Spending on training: R2.4 million
- Spending on employee wellness: R726 000

OUR OUTPUTS

Harnessing our **intellectual, human and financial capital**, our products and services helps us close the infrastructure development gap.

Project preparation

- Function established
- Appointed as managing agent for €100 million Infrastructure Investment Programme for South Africa (IIPSA)

Infrastructure financing

- Total infrastructure disbursements: R12.7 billion
 - » Energy: R6.7 billion
 - » Water: R989 million
 - » Transport: R2.3 billion
 - » Communications: R652 million
- 116 projects supported
- Disbursement to municipalities in South Africa: R1.6 billion of which R596 million to secondary municipalities and R219 million to under-resourced municipalities
 - » Number of municipal clients: 224
 - » Book debt to secondary and under-resourced municipalities: R6.1 billion
- Disbursements to the rest of SADC: R3.6 billion
- Planning support to municipalities:
 - » Function established during the year
 - » 6 municipalities supported
 - » Number of projects in planning stage: 29
 - » 70 projects in construction
 - » 25 projects completed

Infrastructure implementation

- Schools completed (phase I): 32
- Schools in construction (phase II): 18
- Houses built: 560
- Doctors' rooms completed: 41
- National Youth Service Corps (NARYSEC) programme: 2 057 apprentices placed

Financial results

- Net profit: R787 million
- Paid to providers of capital (interest expense): R2.5 billion
- Staff costs: R561.6 million

DEVELOPMENT OUTCOMES

Infrastructure financing

Municipal (South Africa)

- Energy (includes upgrading of substations and electrification of households: 18 433 households (Total project impact: 33 640 households)
- Rehabilitation of roads: 2 138 households (total project impact: 28 648 households)
- Water (includes reticulation & provision of bulk water) 48 529 households (total project impact: 117 418 households)
- Sanitation includes reticulation, upgrading and construction of waste water treatment works: 22 166 households (total project impact: 83 900 households)

Non-municipal (South Africa and SADC)

- Energy generation
 - » Renewable: 412 MW (total project impact: 2 588 MW)
 - » Coal: 68 MW (total project impact: 9 000 MW)
- Education
 - » Student accommodation: 749 beds (total project impact 1 630 beds)
- Housing
 - » Affordable housing units: 36 000 (total project impact: 120 000 units)
 - » Roads: 1 035 km (total project impact: 1 883 km)

Projects supported by private equity partners

- ICT broadband cable system
- Two new airports in Africa and the expansion of one in South Africa
- Cellular operations in the rest of Africa
- Various renewable energy projects 280MW of power

Implementation support to municipalities (non-lending)

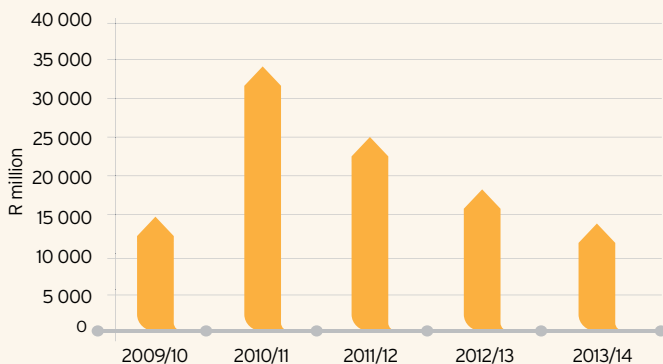
- 109 000 households provide access to new and improved service in water, sanitation and electricity
- 4 600 temporary job opportunities created

Infrastructure implementation

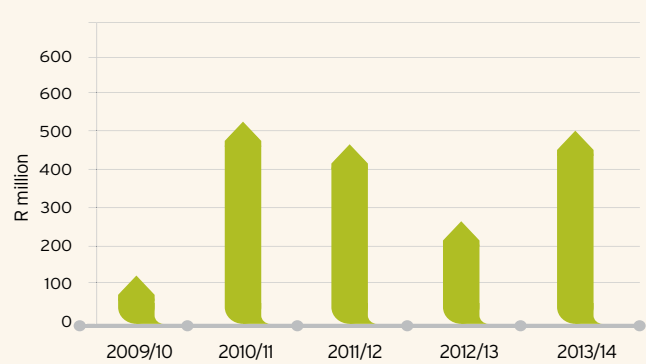
- Schools
 - » Almost 9 000 learners enrolled during 2014
 - » Jobs created: 3 453
 - » SMME'S benefiting: 55
- Houses
 - » Jobs created: 260

FIVE YEAR PERFORMANCE OVERVIEW

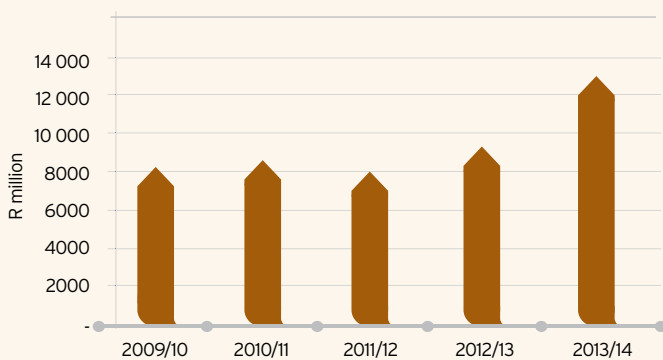
Total approvals



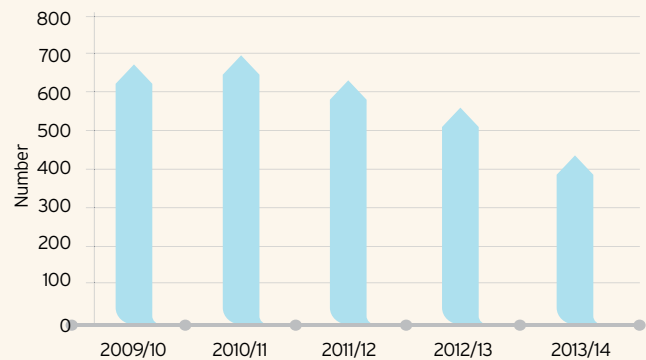
Average value per approval



Total disbursements



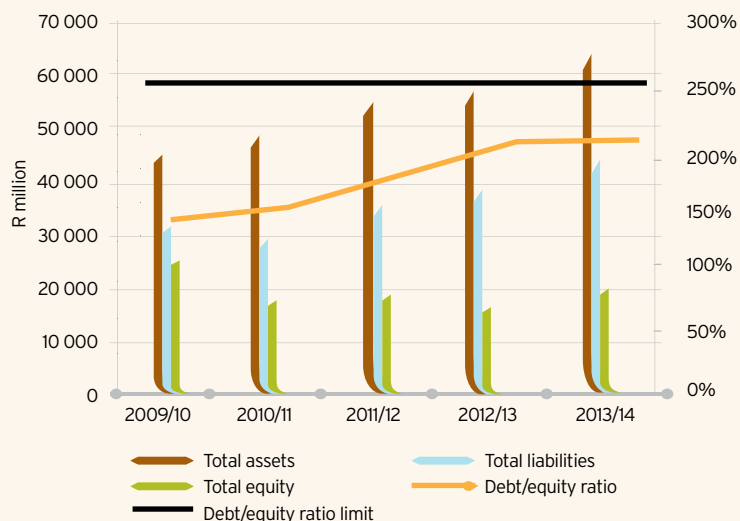
Headcount, excluding Development Fund employees and contractors



Interest and net interest vs cost-to-income ratio



Balance sheet growth vs debt/equity ratio



		2009/10	2010/11	2011/12	2012/13	2013/14
Financial position						
Cash and cash equivalents	R million	2 707	1 180	2 113	1 252	4 136
Financial market assets	R million	5 521	4 159	4 842	4 859	3 470
Investment in development activities ¹	R million	36 133	41 323	44 432	47 075	55 459
Other assets	R million	695	736	950	779	761
Total assets	R million	45 056	47 397	52 337	53 965	63 826
Financial market liabilities ²	R million	26 327	28 588	33 612	36 159	42 887
Other liabilities	R million	943	957	1 198	1 100	1 038
Total liabilities	R million	27 270	29 546	34 810	37 259	43 925
Total equity	R million	17 786	17 851	17 528	16 706	19 901
Financial performance						
Interest on development loans	R million	3 077	3 119	3 514	3 631	4 205
Interest on investments	R million	525	469	468	437	372
Total interest received	R million	3 602	3 588	3 982	4 068	4 576
Interest expense	R million	1 971	1 945	2 286	2 442	2 488
Net interest income	R million	1 631	1 642	1 697	1 626	2 088
Operating income ³	R million	1 751	1 794	1 950	1 938	2 667
Operating expense ⁴	R million	716	758	779	948	758
Sustainable earnings/(loss) ⁵	R million	807	808	677	(615)	1 154
Profit/(loss) for the year	R million	518	29	(371)	(826)	787
Financial ratios						
Total capital and reserves to development loans	%	53.9	47.2	43.4	39.2	39.7
Long-term debt/equity	%	149.4	161.6	193.8	217.3	216.3
Debt/equity (including callable capital) ⁶	%	117.6	127.4	152.2	168.8	174.3
Cash and cash equivalents to total assets	%	6.0	2.5	4.0	2.3	6.5
Total capital and reserves to assets	%	39.5	37.7	33.5	31.0	31.2
Financial market liabilities to investment in development activities	%	72.9	69.2	75.6	76.8	77.3
Non-performing book debt as a percent of gross book debt	%	4.9	4.2	4.9	7.3	5.8
Return/(loss) on average total equity	%	3.0	0.2	(2.1)	(4.8)	4.3
Return/(loss) on average total assets	%	1.2	0.1	(0.7)	(1.6)	1.3
Interest cover	Times	1.8	1.8	1.7	1.6	1.8
Net interest income margin ⁷	%	45.3	45.8	42.6	40.0	45.6
Cost-to-income ratio	%	40.5	42.2	39.9	48.9	28.4

1. Development activities includes development loans, development bonds and equity investments.

2. Financial market liabilities comprise medium to long-term funding debt securities, medium to long-term funding lines of credit, funding under repurchase agreements, and derivative assets held for risk management.

3. Operating income excludes net foreign exchange gain/(loss), net gain/(loss) from financial assets and liabilities, and impairments.

4. Operating expense comprises personnel expenses, general and administration expenses, and depreciation.

5. Sustainable earnings/(loss): Net profit/(loss) before grants and adjustments to foreign exchange and financial assets and liabilities.

6. Measure includes R4.8 billion callable capital.

7. This ratio is calculated as net interest income (interest income less interest expense) over interest income.

CHAIRMAN'S STATEMENT

Sub-Saharan Africa is one of the fastest growing regions in the world, however the development challenges within the region and the continent as a whole remain extensive. In South Africa, economic growth remained subdued in 2013 and a far higher rate of growth is needed to address poverty and draw unemployed South Africans into economic activity. It is critical that South Africa and the rest of Africa capitalise on infrastructure development and intra-continental trade to spur higher levels of industrialisation and economic growth. This means leveraging infrastructure investments to not only improve connectivity and trade within the continent, but also boost the development of local industries and markets.

Increasing integration of the region's infrastructure and expanding markets are particularly important for South Africa's own growth path. Progress in this regard continues to be impeded by institutional weaknesses and inadequate planning capabilities; regulatory barriers; limited sovereign fiscal freedom combined with thin capital markets in many African countries. This contributes to the widening gap between infrastructure needs, access to infrastructure finance and the rate of infrastructure delivery as well as the slow rate of industrialisation. Development finance institutions, such as the DBSA, have an important role to play in bridging this infrastructure development gap while also adapting to changes in the environment in which they operate.

During 2013/14, the DBSA completed an intense 18-month period of substantial change including reviewing the strategy to better align it to shareholder expectations, respond to growing funding needs in national network infrastructure and adapt to changes in the operating environment. The organisation was also significantly restructured to meet the challenges of delivering on its broad development mandate. Although this process was undoubtedly demanding, the Bank has emerged more resilient, with clearer goals, stronger leadership and improved engagement with its stakeholders.

Increasing infrastructure financing and implementation

With regard to the Bank's overall business performance in 2013/14, I am pleased to report that the DBSA achieved remarkable results across most of its business operations, despite the challenges in the operating environment and in the context of the organisational restructuring. This was particularly notable considering the numerous personnel changes in the past few years. Among these were the appointment in the previous financial year of the Chief Executive and the Chief Financial Officers. I am impressed that both Patrick Dlamini and Kameshni Naidoo were able to hit the ground running, and would like to thank them – as well as other executives – for their determination to turn around this important organisation. Their labours are bearing fruit.

The DBSA's total disbursements increased by 39 percent from R9.2 billion to R12.7 billion, with 72 percent allocated

to projects in South Africa. These disbursements enabled the Bank to grow its infrastructure development assets by 17.9 percent to R55.5 billion. Financing activities beyond South Africa more than doubled to R3.6 billion from 2012/13's levels. The Bank's mandate has also recently been expanded from one concentrated on the Southern African Development Community states to all countries on the continent. While this offers the DBSA exciting opportunities, the Bank needs to ensure it has the capacity to execute this mandate effectively. In this regard, the Board needs to consider establishing a presence elsewhere on the continent, perhaps in West, Central and East Africa.

Supporting municipalities remained an important focus area for the DBSA in the year. Total disbursements to municipalities amounted to R1.7 billion of which R815.0 million was allocated to secondary and under-resourced municipalities.



The DBSA allocates five percent of operating income to support planning and implementation as well as subsidised lending to under-capacitated municipalities. This allocation contributed significantly to expediting infrastructure delivery and increased the levels of financing to under-resourced municipalities to R219.0 million. Furthermore, the Bank concluded agreements with two municipalities to provide infrastructure planning support, and six municipalities were supported in accelerating various projects. At year-end, 29 projects were in planning, 70 in construction and 25 had been completed.

In the context of the significant gap left by weak implementing agents of the state as well as limited institutional capacity, the Bank continued to lay the foundation to provide innovative turnkey infrastructure implementation and project management solutions to government. Key achievements for the year include the construction of 32 schools, 560 rural houses and 41 doctors' consulting rooms as well as the refurbishment of 68 clinics. Many lessons were learned which will be considered in the design and implementation of future programmes. A significant milestone in achieving these results was the ability of the Bank to recover all direct programme expenditure, a key shift from how non-financing activities were funded in the past. This model will enable the Bank to replicate and expand its service to other key government implementation programmes, while not being a financial burden on other DBSA operations.

The DBSA's role is one that is best measured in terms of infrastructure development support rather than profitability, and its positive contribution towards enhancing development in the year is evident in the various operational reports included in this report. However profitability is clearly necessary to bolster the Bank's foundation for further growth. In the year to the end of March 2014, the Bank returned to profitability. It reported net profit of R787.0 million from a net loss of R825.9 million the previous year, while total assets grew 18.3 percent to R63.8 billion. The year also marked the end of a period of significant impairments of the Bank's assets. A thorough analysis of the cause of these losses was carried out in an effort to ensure that future investments are selected and managed appropriately and that areas of potential difficulty ahead are anticipated.

Engaging with stakeholders

The Bank worked hard to improve its engagement with all stakeholders - from its shareholder, the Government of South Africa, to its customers (many of which are government departments), its finance providers and employees, as well as the communities in which it operates.

I would like to thank Minister Pravin Gordhan for his invaluable guidance and support and wish him well in his new portfolio at the Department of Cooperative Governance and Traditional Affairs. I also like to welcome the new governor of the DBSA, Minister Nhlanhla Nene, to the Bank. I look forward to working with you.

Bolstering governance

As important as stakeholder engagement is, so too is sound corporate governance. This safeguards the DBSA's sustainability. The Bank continued to hone its governance structures, policies and procedures to ensure alignment with best practice as well as adapt to changes in business requirements. In the year, the Board reconstituted its committees to streamline their activities and improve overall efficiency. Details of the work of the four committees (from six previously) is provided in the governance section of this report on page 18.

Albertina Kekana, an independent Non-executive Director since August 2011, resigned from the Board with effect from 30 June 2013. We thank her for her contribution and wish her well in her new role as CEO of Royal Bafokeng Holdings (Pty) Ltd. I would also like to thank all the members of the Board for their wise counsel in challenging times, and look forward to their continued valuable contribution in the year ahead.

Looking ahead

As an innovative learning institution, the DBSA needs to leverage its knowledge in different markets. It must be a pro-active funder of first choice, focusing on the needs of clients. It is clear that the Bank must also continue to centre its efforts on municipal markets - not just metros, but also the municipalities of secondary cities as well as those of under-resourced areas, where the risk of default is higher and a measure of subsidy is required.

Ideally, the DBSA needs to be able to participate to a greater extent in early stage project development as a way of building a pipeline for the years ahead.

Of critical importance is to find projects that are developmental, sustainable, and that offer acceptable financial returns. Although the Bank is clearly not profit-driven, it cannot fulfil its development mandate if it is not financially sustainable. As a result, the Bank needs to ensure that innovation of its product offering continues and that partnerships with other public and private enterprises are forged. The continuous development of the skills within the DBSA will also remain an important consideration.

This report has given me an opportunity to reflect on the performance of the Bank in the past year. It has also given me a chance to gauge its readiness to deliver on its mission. The tenacity of its executives and systems has been tested. My colleagues on the Board and I have no doubt that the Bank is up to the task. We have every confidence in the executive and will continue to offer them our support in the year ahead.



Jabu Moleketi
Chairman of the DBSA Board



DBSA BOARD OF DIRECTORS



1
Mr Phillip Jabulani Moleketi (56)
Director of Companies

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

Chairman of the DBSA Board as from 1 September 2010

Expertise

Financial economist, strategic leadership.

Academic qualifications

- Advanced Management Programme, Harvard Business School, Boston.
- Masters of Science in Financial Economics, University of London.
- Post-graduate diploma in Economic Principles, University of London.

Other directorships

- Annuity Properties Limited: Chairman (Non-executive Director).
- Brait SE: Chairman (Non-executive Director).
- Harith Fund Managers: Chairman (Non-executive Director).
- MMI Holdings: Non-executive Director.
- Remgro: Non-executive Director.
- TCX Investment Management Company BV: Non-executive Director.
- Vodacom: Non-executive Director.

12
Mr Frans Msokoli Baleni (54)
General Secretary: National Union of Mineworkers

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

Deputy Chairman of the DBSA Board as from 1 September 2010

Expertise

Political science, trade unionism and social development.

Academic qualifications

- BA (Social Science Development Studies), University of Johannesburg.
- Diploma in Political Science and Trade Unionism, Whitehall College, Bishop Stadsford, United Kingdom.

Other directorships

- Elijah Barayi Memorial Training Centre: Non-executive Director.
- IndustriALL: Executive Member.
- JB Marks Bursary Trust Fund: Trustee.
- Mineworkers Investment Trust: Chairman (Non-executive).
- University of Johannesburg: Deputy Chairman of Council (Non-executive).

8
Mr Patrick Khulekani Dlamini (44)
Chief Executive Officer

DBSA Chief Executive Officer as from 1 September 2012

Expertise

Strategic leadership, human capital development and finance.

Academic qualifications

- Advanced Executive Programme,

Kellogg School of Management.

- EDP, University of the Witwatersrand's Business School.
- Business Studies Unit, Natal Technikon.
- BCom, University of KwaZulu-Natal.

Other directorships

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

5
Dr Lungile Bhengu-Baloyi (57)
Founder and Director: Development and Leadership Consulting

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

Expertise

Research, policy analysis, project management, public health law practitioner, poverty reduction & development strategist and management, leadership coaching and author.

Academic qualifications

- Post-Doctoral fellowship (School of Management and Economics), Durban University of Technology.
- Doctorate (Public Administration), University of KwaZulu-Natal.
- MA (Social Policy), University of KwaZulu-Natal.
- LLM (Public Health Law), University of KwaZulu-Natal
- Advanced University Diploma (Adult Education), University of KwaZulu-Natal.
- BSc (Dietetics), MEDUNSA.

Other directorships

- AIDS Foundation of Southern Africa: Chairperson (Non-executive).

- Inaugural Governor of South African Agro-ecology National Initiative (SACANI).
- Inaugural Provincial Planning Commissioner (KZN).

9
Mr Andrew Boraime (55)
Chief Executive: Western Cape Economic Development Partnership
Adjunct Professor: African Centre for Cities, University of Cape Town

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

Expertise

Macro-economics and municipal development economics, public administration, development partnerships.

Academic qualifications

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

Other directorships

- Cape Town International Convention Centre Company (Pty) Ltd (Convenco): Director.

11
Ms Themba Dinga (40)
Consultant and Director of Companies

DBSA Non-executive and Independent director as from 1 August 2007

Expertise

Project finance, tax and legal.

Academic qualifications

- H Dip Tax, University of the Witwatersrand.

- LLM, Harvard University, Boston.
- LLB, University of KwaZulu-Natal.
- BProc, University of KwaZulu-Natal.

Other directorships

- ABSA Bank Unlimited: Non-executive Director.
- ABSA Bank Pension Fund: Trustee.
- Adapt IT Holdings Ltd: Non-executive Director.
- Afripack (Pty) Ltd: Non-executive Director.
- Apollo Tyres South Africa (Pty) Ltd: Non-executive Director.
- Cardiac Mobile (Pty) Ltd: Non-executive Director.
- Centric (Pty) Ltd: Non-executive Director.
- Imperial Holdings Ltd: Non-executive Director.
- Rivalo Investments (Pty) Ltd: Non-executive Director.
- Skweyiya Investment Holdings (Pty) Ltd: Non-executive Director.
- Thermico (Pty) Ltd: Non-executive Director.
- THESHA (Pty) Ltd: Non-executive Director.
- Ukhamba Holdings: Non-executive Director.
- University of KwaZulu-Natal: Member of Council (Governing Body).
- Zeigler Investments (Pty) Ltd: Non-executive director.

4

Mr Anthony Frank Julies (49)
Chief Director: Strategy and Risk Management, National Treasury

DBSA Non-executive Director as from 1 January 2013

Expertise

Risk, compliance, development finance and financial markets.

Academic qualifications

- MBA Banking, University of London.
- Master of Arts (Economics), Wesleyan University.
- Bachelor of Education (B.Ed), University of Western Cape.
- Higher Diploma in Education (H.D.E.), University of Western Cape.

Other directorships

- South African National Roads Agency Ltd: Non-executive Director.

10

Mr Omar Aboobaker Latiff (60)
Director and Partner: PriceWaterhouseCoopers

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

Expertise

Auditing, accounting, governance and risk management.

Academic qualifications

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

Other directorships

- Hasma Investments (Pty) Ltd: Non-executive Director.
- Jodya cc: Member.
- PriceWaterhouseCoopers Advisory Services (Pty) Ltd: Director.
- PriceWaterhouseCoopers Incorporated: Director.
- PriceWaterhouseCoopers Partnership: Partner.
- Styleprops 104 (Pty) Ltd: Non-executive Director.
- 373 Loop Street PMB cc: Member.

2

Ms Busisiwe Abigail Mabuza (50)
Director of Companies

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

Expertise

Finance, business and investment analysis.

Academic qualifications

- MBA, Leonard Stern School of Business, New York University/BA (Mathematics and computer science).
- City University of New York (Hunter College).

Other directorships

- Airports Company South Africa: Non-executive Director.
- Central Energy Fund (Pty) Ltd: Non-executive Director.

- Nehawu Investment Holdings: Non-executive Director.
- Industrial Development Corporation: Non-executive Director.

3

Dr Claudia Manning (47)
Director of Companies

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

Expertise

Economic development, infrastructure development and project management.

Academic qualifications

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

Other directorships

- Basil Read Holdings: Non-executive Director.
- Sangena Investments: Non-executive Director.
- Mondi Zimele: Chairperson (Non-executive Director).

7

Ms Dawn Marole (53)
Chairman: Executive Magic (Pty) Ltd Consulting

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

Expertise

Strategic management, finance, human capital and business development.

Academic qualifications

- Executive Leadership Development Programme, Gordon Institute of Business Science.
- MBA NEU Boston Massachusetts.
- Dip Tertiary Education, University of South Africa.
- BCom (Acc), University of Zululand.

Other directorships

- Eyomhlaba Investment Holdings (Pty) Ltd: Non-executive Director.
- MTN Group Ltd: Non-executive Director.
- Richards Bay Minerals (Pty) Ltd: Non-executive Director.
- Santam Ltd: Non-executive Director.

6

Ms Kameshni Naidoo (39)
Chief Financial Officer

DBSA Chief Financial Officer as from 1 September 2012

Expertise

Finance

Academic qualifications

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

Other directorships

None

13

Ms Mary Vilakazi (36)
Chief Executive Officer: MMI Holdings Limited - Balance Sheet Management

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

Expertise

Business Management, auditing and financial management.

Academic qualifications

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

Other directorships

- Holdsport Ltd: Non-executive Director.
- Momentum Investments: Non-executive Director.
- Zenzele Development Trust: Trustee.
- Women's Legal Centre: Trustee.

14

Ms Bathobile Sowazi (42)
DBSA Company Secretary

DBSA Company Secretary as from 1 May 2010

Academic qualifications

- BA Law, University of Swaziland.
- LLB, Rhodes University.

CHIEF EXECUTIVE OFFICER'S REPORT

The 2013/14 financial year was a demanding yet rewarding one for the DBSA. We came through a challenging restructuring process and achieved record results in our infrastructure financing business. We also successfully launched a new business focusing on the delivery of social infrastructure implementation solutions.

Crucially, we did this in a financially sustainable manner. In all our efforts we continued to seek to promote the improvement in the quality of people's lives and support economic growth as well as regional integration.

So at the outset, I would like to express my appreciation to all employees for their commitment to deliver, as well as the responsible manner in which they participated in the DBSA's restructuring and enabled the Bank to achieve these results in a very challenging environment. I would also like to thank the Board of Directors for its sage leadership at this time of change, as well as acknowledge the support of the Bank's shareholder, represented by the National Treasury.

Highlighting key achievements

In light of the organisational restructuring, the continuing uncertain economic climate as well as the competition experienced in some of our markets, the performance of the DBSA in the year was pleasing.

Details of the performance of the main divisions are provided on pages 37 to 48, but I would like to discuss a few of the year's highlights here.

In line with the South African government's infrastructure development priorities, we continued to expand our infrastructure financing activities. Loan disbursements in South Africa and the region amounted to R12.7 billion, supporting 116 projects and up from the R9.2 billion recorded in the previous year. These disbursements represent a new record for the DBSA (from a previous high of R9.3 billion in 2008/09). Of the total disbursements, R10.6 billion was allocated to our core sectors of energy (R6.7 billion), transport (R2.3 billion), water (R989 million), and communications (R652 million). The Bank also recorded approvals of R14.0 billion (2012/13: R18.1 billion) and committed R12.2 billion (2012/13: R13.2 billion).

In South Africa, the Bank continued to support the financing of infrastructure to provide essential services to people mainly at the local government level, as well as the bulk enabling and economic infrastructure needed to unlock the country's economic growth potential. Total disbursements in South Africa amounted to R9.2 billion with disbursements of R5.8 billion largely geared towards energy generation infrastructure, which is a strategic priority for the country.

Supporting municipalities, the key delivery agents for social services in the country, remained an important focus area for the DBSA. Institutional and human capacity

constraints, weak governance, ageing infrastructure and flawed and inadequate maintenance significantly affect the ability of many municipalities to fulfil their obligations. Although competition to fund the metropolitan municipal market remained intense in the year, the Bank's lending to this important sector increased marginally to R835.0 million. We also accelerated our work to assist secondary and under-resourced municipalities to expedite service delivery, in particular through the Bank's newly established project planning and implementation support units. Disbursements to these municipalities - much of it to projects developing capacity in water, electricity and sanitation - totalled R815.0 million. Around 109 000 households are expected to benefit from these projects in these municipalities.

Following a disappointing year in 2012/13, our operations beyond South Africa recovered remarkably, recording total disbursements of R3.6 billion compared to R1.6 billion in the previous financial year. Significant progress was made in financing energy infrastructure projects, increasing our country exposure in support of regional integration as well as expanding our product offering to include mandate lead arranging services. The recent extension of the DBSA's geographic investment mandate to the whole of Africa capped the year off on a high note.



The new Infrastructure Delivery division came into its own in the year, having been established late in the previous financial year. Its role is to provide innovative infrastructure solutions by implementing, managing and coordinating projects mainly on behalf of government departments - many of which suffer from limited institutional capacity which affects how projects are planned, costed, packaged, executed and maintained. Among key achievements was the completion of the final batch of 32 schools in a project to build 49 new schools in the Eastern Cape to the benefit of almost 9 000 learners. During this project, the Bank developed effective contingency plans to assist future projects located in similarly difficult environments. It also embarked on a project to build a further 71 schools for the Department of Basic Education.

Working for the Eastern Cape Department of Human Settlements, the DBSA completed 560 new rural houses. It also worked on various projects to improve health facilities, such as the completion of 41 doctors' consulting rooms and the refurbishment of 68 clinics across South

Africa, using for the first time more cost- and time-efficient alternative building technologies. Apart from the physical facilities that these projects provide, their development impact spans social inclusion, higher living standards, employment opportunities and the development of small businesses. All are carried out in a cost-competitive manner for our clients, while ensuring that the DBSA covers its own costs.

Another highlight of the year was the launch of the €100 million Infrastructure Investment Programme for South Africa. The fund, established by the government of South Africa and the European Union, will provide EU grant funding in support of project preparation for essential infrastructure projects in South Africa and the region, and will be managed by the DBSA.

Recording a strong financial turnaround

After a tough 2012/13, the Bank's financial performance in 2013/14 was much improved, with net profit for the year of R787.0 million from a net loss of R825.9 million in the previous year.

Simply put, this was achieved as the result of more focus: we worked hard to reduce the Bank's cost of funding by diversifying our funding sources, as well as curbing other costs. We concentrated our financing efforts on four key sectors - energy, transport, water and communications, rather than spreading ourselves too thinly across more sectors. We put the client at the centre of our work. We also changed the way we appraise and assess the risk of projects, and as a result have become better at choosing to support projects that have a better chance of success.

Operating income (excluding adjustments for foreign exchange and the revaluation of financial instruments) reached R2.7 billion, significantly higher than the R1.6 billion recorded in the previous year. The increase was largely attributable to the increase in the levels of disbursements as well as the benefits realised in managing our cost of debt due to the refinement of our borrowing

strategies. These factors contributed to the improvement in our net interest margin from 40.0 percent to 45.6 percent. We also began work to increase our non-interest income, through a broadening of our product offering.

The overall financial position of the Bank remained sound, with the Bank's credit ratings maintained in line with the sovereign rating. Total assets grew by 18.3 percent to R63.8 billion. The quality of the development loan book remained acceptable with non-performing loans as a percentage of the gross loan book at 5.8 percent (2012/13: 7.3 percent). The debt-equity ratio of 216.3 percent was well within the statutory limit of 250 percent. Cash flow from operating activities remained strong, with R1.9 billion generated against R794 million in the previous financial year.

For more details on the Bank's financial performance see the CFO's report on pages 56 to 62.

Reflecting on some of our challenges

As we continue on our chosen path, I am mindful of some of the challenges facing our business. While enthusiastic to participate in narrowing the continent's enormous infrastructure financing gap, we are realistic about the limits to our capital base.

This means we need to develop more innovative ways of participating in funding, such as by acting as mandate lead arranger, as well as consider balance sheet optimisation opportunities. In this way, we could then free up our capital for other select projects, while diversifying our income sources. To bolster the Bank's ability to finance more infrastructure investment, the National Treasury provided a capital injection of R2.4 billion in the year - the first of three transfers over three years totalling R7.9 billion. These will go some way to supporting the DBSA's growth objectives and so maintain the Bank's financial sustainability.

Our people are undoubtedly our most valuable resource and we are committed to attracting, developing, retaining and rewarding the best people by nurturing a challenging and stimulating environment as well as encouraging individual development and growth. At end-March 2014, the DBSA employed 425 permanent and fixed-term contract employees, 49.3 percent below the number at the start of the organisational review, and had 71 vacant positions.

Our focused retention efforts during the restructuring ensured that critical skills remained within the Bank. We recognise, however, the need to further strengthen our skills base and are actively recruiting for key vacant positions and developing skills in-house, while continuing to seek other expertise externally. Attracting external talent in certain areas is proving to be challenging in an environment of scarce skills and skills which are in high demand in the market.



Limpopo Roads construction project

Our transformation journey has just begun and a lot still needs to be done. As part of our restructuring programme, the Bank identified various transformation initiatives to improve key systems and processes. We will continue work to improve our credit loan processes to be quicker and more efficient, develop and sustain key relationships, as well as reshape our culture to one of high performance. Rebuilding the DBSA brand and improving on our marketing and communications efforts also require significant attention.

Looking ahead

The outlook for the DBSA in the year ahead is favourable, with numerous opportunities for us to make a much bigger and more positive impact on the lives of people across South Africa and indeed the continent.

In South Africa, there is a pressing need for the Government to improve services through significant investment in infrastructure. There is much work to be done to improve the financial, technical and project management capacity of municipalities – particularly smaller municipalities – and the DBSA is looking at innovative ways to help local government access grant funding and so ensure that municipalities deliver the services people so desperately need.

We see great potential to drive important infrastructure projects in South Africa and the rest of Africa, where we can leverage our skills and so encourage economic integration, particularly given the recent expansion of our mandate to the whole continent.

In order to contribute to the reduction in Africa's infrastructure financing gap, we have committed to expand our annual disbursements to R15.4 billion in the new financial year, and then further to R17.8 billion and R22.0 billion respectively for 2015/16 and 2016/17. These are indeed ambitious targets which will require the collaboration of all key stakeholders and role-players to be achieved.

A key focus in the year ahead will be on developing the

project preparation skills urgently required to progress projects from concept to bankability. By so doing, more projects will be moved to the stage at which potential funders will consider lending to them. We plan to cultivate these skills (including those necessary for scoping, pre-feasibility and feasibility work) with other DFIs, to develop a strong pipeline of projects for not only the DBSA and other DFIs to fund, but where appropriate to crowd-in private sector funders through syndication.

Our infrastructure implementation and delivery services provide us with significant opportunities to further support national and provincial government departments in making a meaningful contribution to the alleviation of social infrastructure backlogs, especially in the fields of education, health, housing as well as municipalities.

Our mission is clear – we are here to advance development impact in the region by expanding access to development finance and effectively integrating and implementing sustainable development solutions. We are driven to deliver, motivated by our vision of a prosperous and integrated region, progressively free of poverty and dependency.



Patrick Dlamini
Chief Executive Officer



EXECUTIVE MANAGEMENT



3

Mr Patrick Khulekani Dlamini (44)
Chief Executive Officer

DBSA CEO as from 1 September 2012

Academic qualifications

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

Other directorships

- BOPHYLD: Director.
- Bridges Worldwide SA: Director.
- Xcargio: Director.

1

Mr Paul Currie (52)
Chief Risk Officer

DBSA Group Executive as from 17 May 2010

Academic qualifications

- Advanced Management Programme, INSEAD.
- MBA (with distinction), Institute of Financial Management, Manchester Business School and University of Wales.
- Chartered Accountant (SA).
- Postgraduate Diploma in Accountancy, University of Port Elizabeth.
- BCom (Accounting), University of Port Elizabeth.

- BSc (Physiology), University of Cape Town.

Directorships

- Pan Infrastructure Development Fund: Trustee (DBSA nominee).
- Old Mutual Housing Impact Fund: Investment Committee member (DBSA nominee).

6

Mr Michael Hillary (43)
Group Executive: Financing Operations

DBSA Group Executive as from 1 October 2012

Academic qualifications

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

Directorships

None

4

Ms Dolores Mashishi (45)
Group Executive: Corporate Services

DBSA Group Executive as from 1 September 2011

Academic qualifications

- General Management Programme, Harvard Business School.
- Strategic Management: Human Resources, Wits Business School.
- Management Advancement Programme, Wits Business School.

- MSc Ed: Development Psychology, University of Illinois, Chicago.
- BEd: Psychology, Wits University.
- BA Ed: Education and Psychology, University of North West.

Directorships

None

8

Ms Kameshni Naidoo (39)
Chief Financial Officer

DBSA Group Executive as from 1 September 2012

Academic qualifications

- Chartered Accountant (SA).
- Advanced Certificate in Auditing, University of Johannesburg.
- Certificate in the Theory of Accounting Science (CTA), University of KwaZulu-Natal.
- Bachelor of Accountancy, University of KwaZulu-Natal.

Other directorships

None

5

Mr Tshokolo Petrus Nchocho (46)
Group Executive: South Africa Financing

Group Executive as from 1 April 2010

DBSA staff member as from 1 February 2002

Academic qualifications

- M.Sc (Development Finance), London School of Economics.

- Programme for Venture Capital and Private Equity, Wits Business School.
- MBL, Graduate School of Business Leadership, University of South Africa.
- BCom, University of the North.

Directorships

- Old Mutual Housing Impact Fund: Trustee (DBSA nominee).
- Shanduka Value Partners Fund: Trustee (DBSA nominee).

9

Mr Rieaz (Moe) Shaik (54)
Group Executive: International Financing

DBSA Group Executive as from 13 August 2012

Academic qualifications

- AMP, Harvard Business School, Boston.
- Masters degree in Optometry (Cum Laude), University of Kwazulu-Natal.
- B Optometry, University of Kwazulu-Natal.
- BSc (Computer Science), University of Kwazulu-Natal.

Directorships

- Foresight Advisory Services (Pty) Ltd: Non-executive Director.

7

Ms Sinazo Sibisi (46)
Group Executive: Infrastructure
Delivery

**Group Executive as from
1 April 2012**

**DBSA staff member as from
1 November 2007**

Academic qualifications

- Partner Development Programme, GIBS.
- Executive Development Programme, IMD, Lausanne.
- Post-Graduate Diploma in HRM, University of Cape Town.
- BA Honours in History with Economic and Social History, Birmingham University, UK.
- Executive MBA, University of Cape Town, South Africa.

Directorships
None

2

Mr Mohan Vivekanandan (40)
Group Executive: Strategy

**DBSA Group Executive as from
24 March 2014**

Academic qualifications

- MBA, Kellogg School of Management.
- Bachelor of Arts (Hons) in Economics and Applied Mathematics, Northwestern University, USA.

Directorships
None



CORPORATE GOVERNANCE

The DBSA's approach to corporate governance is based on a set of values and principles that underpin the day-to-day activities of the organisation which include responsiveness, collaboration, transparency, integrity and accountability.

This approach encompasses a commitment to excellence in governance standards, which are seen as fundamental to the sustainability of the DBSA's performance. The DBSA Board

of Directors and senior management are acutely aware that the Bank must not only focus on its core mandate, as required by the shareholder, but that it must also deal with the expectations of all stakeholders. In addition, its activities are set against the backdrop of sustainability, ethics and environmental and social responsibility.

The DBSA governance framework is set out below.

Ministry of Finance (sole shareholder) Minister Nhlanhla Nene				
DBSA Board Chairman: Jabu Moleketi				
	Audit and Risk Committee	Board Credit and Investment Committee	Human Resource, Nomination, Social and Ethics Committee	Infrastructure Delivery & Knowledge Committee
Members	Mary Vilakazi (Chairperson) Themba Dinga Anthony Julius Dawn Marole	Themba Dinga (Chairperson) Patrick Dlamini Brian Figaji (co-opted) Omar Latiff Busisiwe Mabuza Claudia Manning Jabu Moleketi Kameshni Naidoo Mary Vilakazi	Dawn Marole (Chairperson) Frans Baleni Lungile Bhengu-Baloyi Brian Figaji (co-opted) Busisiwe Mabuza Claudia Manning Jabu Moleketi	Andrew Boraine (Chairperson) Frans Baleni Lungile Bhengu-Baloyi Patrick Dlamini Omar Latiff Claudia Manning Jabu Moleketi
Responsibilities	Oversees the Bank's internal control framework, review and evaluate the integrity of financial and other statutory reporting, financial strategy, budget, capital expenditure, treasury strategies, loan impairments, risk management process and compliance with laws and regulations. The committee further oversees the internal and external audit functions, reviews the internal audit plan and the annual assessment of significant risk exposures, as well as the Office of the Chief Financial Officer. See pages 66 to 67 for the Audit Committee Report	Reviews the Bank's credit strategy, credit risk management policy and programme, trends in portfolio quality, adequacy of provision for credit losses. The committee approves all credit and investment proposals exceeding R100 million on a single obligor basis.	The Committee supports the implementation of the human capital strategy, the nomination of Directors, executive remuneration for the DBSA, Board of Directors' affairs and governance, as well as social and ethics matters.	Oversees the implementation of the strategic mandate and infrastructure delivery programmes, as well as the Bank's policy, advisory and knowledge management function.
DBSA Executive Management Committee Chairman: Patrick Dlamini				
Steering Committee	Finance and Treasury Committee Chairperson: Kameshni Naidoo	Investment Committee Chairperson: Paul Currie	Corporate Services Committee Chairperson: Dolores Mashishi	Infrastructure Delivery & Knowledge Management Committee Chairperson: Sinazo Sibisi

Application of governance principles

The Board is committed to applying the recommendations of King III and complying with legislation, chief among these being the Development Bank of Southern Africa Act, No 13 of 1997, and the Public Finance Management Act (PFMA), No. 1 of 1999. The DBSA Board of Directors continually assesses the governance landscape of the Bank and is satisfied that it has adequately discharged its responsibilities with regard to the different legislative requirements as well as the main recommendations of the King III Report.

The DBSA is aligned with and supports all the relevant legislation in South Africa and in the SADC region that applies to its activities. The Bank is also aligned with international development finance best practice and subscribes to the Corporate Governance Development Framework for integrated corporate governance into investment operations as well as the Association of

African Development Finance Institutions (AADFI) Prudential Standards Guidelines and Rating system. Due to organisational review, the Bank did not participate in the 2013 review but will participate again in the 2014 review which is expected during the first half of the new financial year. The DBSA was awarded an A-rating during the 2012 assessment.

During the year the DBSA was also accepted as a signatory to support the ten principles of the United Nations Global Compact (UNGC) promoting human rights, labour, environment and anti-corruption.

Partnerships with other initiatives provide a good mechanism for entities to support activities and form a platform for promoting accountability and good practices. Key partnerships include:

Institute	Benefits/Remarks
SADC Development Finance Resource Centre (DFRC)	Together with the IDC, the DBSA is one of the main supporters of the SADC/ DFRC, a resource centre for development finance, which provides significant support to the network of development finance institutions in SADC.
Association for African Development Finance Institutions (AADFI)	The main activities of the AADFI are the provision of information and training in the techniques of banking and finance, as well as policy development advice to African bankers and finance officers. The AADFI is a strategy network and resource base for the DBSA's interactions with other development finance institutions on the African continent.

During the year, the Board continued to focus on the organisational review process, which entailed reviewing the strategic and operational direction of the Bank to position it as a centre of excellence in infrastructure development. Part of the exercise involved the Board also looking at itself, to see how it could be better positioned to assist the Bank in delivering on the objectives agreed with the shareholder. Board committees were restructured and governance structures were reviewed to ensure that they fall within the broad objectives of the Bank's strategy. As a result, the Board committee structures, mandates and membership were reviewed and the number of committees reduced from six to four.

The mandate of the Finance Committee was collapsed into the mandate of the Audit and Risk Committee and the Infrastructure Development and Knowledge Committee was given oversight of the planning, development and strategic mandates. In line with the recommendations of King III, the social and ethics mandate was introduced and linked to the Human Capital, Remuneration and Nominations Committee. The terms of reference were reviewed to ensure that all the mandates are captured correctly and an annual plan was developed for each committee. The membership of the committees was also changed to ensure that there is a match of appropriate skills to each committee.

Similarly changes were effected to the management committees to align with the Board changes. Mandates were reviewed and terms of references drawn up. Clear delegation frameworks were developed to ensure that decisions are being taken at the right levels. The effectiveness of these changes will be reviewed and reported on.

Shareholder linkages

The DBSA is wholly owned by the South African government and is incorporated in terms of the DBSA Act, which determines the mandate of the Bank. In his capacity as governor and shareholder representative, the Minister of Finance holds the Board of Directors accountable for managing the Bank to deliver on this mandate. The DBSA is regulated in terms of the DBSA Act, the PFMA and its accompanying Treasury Regulations, and is classified as a Schedule 2 public entity under the PFMA. During the year, the Bank held an annual general meeting with the shareholder where specific resolutions were taken. This provided an opportunity for the shareholder and the Board to engage on strategic and operational matters.

Currently, the Development Bank of Southern Africa Amendment Bill is being considered. The main objectives of the draft Bill are to propose amendments to the DBSA Act, to enable the extension of the operations of the Bank to any

national territory on the African continent and its oceanic islands, to increase the authorised share capital of the Bank and enable further increases, to provide for the application of certain legislation to the Bank including the power to regulate the use of callable capital to calculate the leverage ratio, and to adjust the regulation-making powers. Changes to the regulation governing the DBSA were approved during December 2013, incorporating amendments to the definition of the “region” to extend the mandate of the Bank beyond SADC.

Strategic objectives and performance management

In line with section 52 of the PFMA, the Bank submit a Shareholder Compact and Corporate Plan to the National Treasury during February of each year. This serves as an agreement between the Bank and the shareholder, and documents the key performance measures and targets against which organisational performance is assessed. The Board reports on performance and related matters to the shareholder by way of annual and interim reports, and regular meetings are held between the Board Chairman, the Chief Executive Officer and the Governor.

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

The DBSA uses the Balanced Scorecard (BSC) methodology to implement its strategy and to monitor and report on performance against predetermined targets. The Bank has reviewed its key performance indicators and the results of

this evaluation are shown in the Directors' Report on pages 70 and 71. The Audit and Risk Committee of the Board evaluated the organisational performance, while the Human Resources, Nominations, Social and Ethics Committee oversaw the performance assessment of the Chief Executive Officer and the Executive Management team.

Ethical leadership and corporate citizenship

The DBSA's Board aims to integrate responsible corporate citizenship into both the Bank's daily operations and its growth strategy to ensure the Bank's sustainability. In accordance with the Board Charter, the Board is the guardian of the values and ethics of the organisation. The Board strives to lead by example and to embody the values set out in the Bank's Code of Ethics. As a business imperative, the Directors strive to ensure that the Bank conducts its business with the utmost integrity towards all its stakeholders.

The Code of Ethics (“the Code”)

The Code provides guidance as to ethical conduct in all areas, appropriate policies in respect of the safeguarding of assets and information, and appropriate measures of enforcement. The underlying principles of the Code are integrity, loyalty, equity, tolerance, impartiality and discretion.

Values

Following the finalisation of the organisational review, the Bank also recently adopted a new set of values to drive the right behaviour within the organisation. The values include:

High performance	Shared vision	Integrity	Innovation	Service orientation
We are enabled, empowered and inspired to deliver consistent quality, effective and efficient results we are accountable and rewarded for.	We share and keep the sustainability, strategic intent and mandate of the DBSA top of mind in all our decisions and actions.	Our deals, interactions and actions are proof of transparent and ethical behaviour that show respect and care for all our people (employees, stakeholders, shareholders, clients and communities).	We challenge ourselves continuously to improve what we do, how we do it and how well we work together.	We deliver responsive & quality service that speaks to the need of our clients and continuously build relationships that result in win-win outcomes.

Corruption and anti-competitive behaviour

The DBSA has a zero tolerance approach to dishonest, corrupt and illegal conduct. This approach is central to the Bank's Code of Ethics. Risks are investigated and appropriate measures taken before investing in areas where such practices may be more prevalent.

Criminal behaviour is not tolerated and formal charges are laid against any perpetrator. Internal proceedings are also instituted against perpetrators, who are dismissed if found to have participated in unacceptable behaviour.

The Bank's comprehensive risk management approach covers all operations and risks associated with corrupt and dishonest behaviour. These are analysed and assessed as part of the risk management process.

The DBSA does not condone anti-competitive behaviour.

Ethics management

The Bank continues to promote ethics within its working environment. In the financial year under review, the Bank updated its ethics policies in line with the latest development

in this area of work. Employees were also provided with ethics training and the focus is on new recruits as well the existing employees. The training content is based on the DBSA Code of Ethics. The ethics officer plays a critical role in offering counsel on request to staff members to ensure that ethical principles are clearly understood. A dedicated ethics helpline encourages staff to seek advice on ethical issues and report any concerns in this regard.

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

No related-party transactions with Board members occurred during the financial year, except for payments in respect of attendance at Board and Board committee meetings. Directors' fees are disclosed as part of the annual financial statements in note 47.2.

The Human Resources, Nomination, Social and Ethics Committee monitors compliance with the Bank's Code of Ethics and other relevant social, ethical and legal requirements as well as best practice, and ensures that the DBSA is meeting its responsibilities to its various stakeholders. This includes social transformation in the workplace, and the safety, health and dignity of all employees.

Board and directors

Role and function of the Board

The Board takes overall responsibility for directing the DBSA towards the achievement of its strategic objectives, vision and mission, as well as the Bank's overall performance. The DBSA Board is governed by a Board Charter, which outlines the principal provisions of the DBSA Act, the fiduciary responsibilities of directors, the relationship with executive management, and matters of policy that the shareholder and the Board ought to follow in order to ensure good corporate governance. The Board regards the Charter as a living document, updated periodically to align with changes required by relevant legislation and regulation. The Board embraces the principles set out by King III, and acknowledges that:

- The Board should act in the best interest of the DBSA.
- The Board is the custodian of corporate governance and undertakes to provide leadership based on an ethical foundation, as well as ensuring that ethics are managed effectively.
- The DBSA is, and should be seen to be, a responsible corporate citizen, including doing business ethically,

consider and manage the impact of the Bank's operations on the natural environment as well as internal and external stakeholders.

- Strategy, risk, performance and sustainability are inseparable.
- The DBSA must have an effective and independent audit committee.
- The Board is responsible for the governance of risk, including technology risk, as well as for determining the Bank's levels of risk tolerance.
- The Board should ensure that risk monitoring is a continual process and that risk assessments are performed on an ongoing basis with appropriate risk responses, notwithstanding that management is responsible for implementing the risk management plan and providing assurance to the Board in this regard.
- The Board should ensure that the risk frameworks are such that they increase the probability of anticipating unpredictable risks and that appropriate risk disclosure is made to stakeholders.

Board effectiveness assessment

A formal independently conducted Board evaluation is conducted on a bi-annual basis and self-assessment done during the interim periods.

During the financial year, the DBSA conducted a web-based self-assessment using the Governance Assessment Instrument (GAI) as made available by the Institute of Directors in Southern Africa. The GAI assists organisations to review and consider King III and other relevant governance legislation, and provide detailed assessment, gap analysis and reporting functionality. The GAI also provides for one national benchmark governance platform.

The Bank does not only subscribe to good governance practices but also ensures that these practices are implemented and monitored. Consequently, the Bank is a participant to this assessment instrument and this indicates that the Bank is on the right track in terms of implementing good governance best practices. The results of the assessment indicated an overall assessment grading of AAA, representing a "highest application" level across the various assessed categories.

A formal, independent evaluation of the Board and individual Directors was conducted after year-end and the results are currently being evaluated.

Composition of the Board

The Board currently consists of 13 directors, ten of whom are independent non-executives. Independence of Directors is considered based on the following criteria: has no involvement in the day-to-day operations of the Bank nor has any financial or other interest which may influence that Directors' independence.

The Chief Executive and Chief Financial Officers are the only executive directors in line with the recommendations of King III. A member from the National Treasury, Anthony

Julies, serves on the Board as a shareholder representative. In terms of the Board Charter, no distinction is made with respect to the fiduciary responsibility of shareholder representatives and the independent non-executive directors.

The Non-executive Directors have diverse backgrounds in commerce and industry. Their collective experience enables them to provide sound, objective judgement in decision-making. All directors exercise unfettered discretion in the fulfilment of their duties, resulting in constructive debate at meetings that continues to yield well-considered decisions.

The current composition of the Board and brief résumés of its members can be found on pages 10 to 11.

The position of chairman is currently held by an independent Non-executive Director, Jabu Moleketi, whose role is clearly defined and separated from that of the CEO, Patrick Dlamini. Likewise, the responsibilities of CEO and Chief Financial Officer (CFO) are strictly separated from those of the Non-executive Directors to ensure that no single executive director can exercise unilateral decision-making. The Chairman provides leadership and guidance to the Board and encourages proper deliberation on all matters requiring directors' attention, while obtaining input from other directors. The CEO is responsible for implementing the strategy and operational decisions.

The independent and other Non-executive Directors are not involved in the daily operations of the DBSA.

Changes to the Board

During the period under review and with effect from 30 June 2013, Albertina Kekana resigned to focus on her duties as Chief Executive Officer of Royal Bafokeng Holdings (Proprietary) Limited.

Directors' appointment, rotation and induction

The DBSA Act regulates the appointment of directors to the DBSA Board. The Act charges the shareholder with appointing directors based on their abilities in relation to socio-economic development, finance, business, banking or administration. The Human Resources, Nominations, Social and Ethics Committee of the Board nominates candidates and makes recommendations to the Board for further recommendation to the Minister for approval. Directors are appointed for three years and are eligible for reappointment. The rotation of Board members is staggered in order to retain valuable skills and introduce

new ideas and expertise. The Act further allows the Board to co-opt persons with special knowledge to its committees.

The contract terms for each of the directors are on page 73 of the Directors' Report.

The service contracts for Thembisa Dinga and Omar Latiff were recently extended for a further three years to 31 July 2016. Andrew Boraie and Claudia Manning are currently serving their third term as Non-executive Directors (due to end on 31 July 2014).

The Board has commenced the process to identify and recommend suitable individuals as Non-executive Directors to the Minister of Finance.

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

Board committees

The DBSA Act gives the Board a mandate to appoint the committees necessary to carry out its fiduciary responsibilities. In line with the principles of the King III Report, all committees of the Board have formally approved terms of reference to ensure effective decision-making, monitoring and reporting. The terms of reference are reviewed periodically, along with the overall effectiveness and performance of the committees. Each of the committees is chaired by an independent Non-executive Director. Each committee comprises of both Non-executive and executive Directors, with the exception of the Audit and Risk Committee and the Human Resources, Nominations, Social and Ethics Committee which only comprise of non-executive directors. In line with the recommendations of King III, all members of the Human Resources, Nominations, Social and Ethics Committee are independent Non-executive Directors.

The membership and responsibilities of each of the Board committees are reflected in the diagram on page 18.

Board and Committee record of attendance

The Board met seven times during 2013/14. Details of directors' attendance at Board and committee meetings for the financial year are set out in the table on page 23.

DBSA Board and Committee record of attendance at meetings, 2013/14

	DBSA Board ²	Audit and Risk Committee ³	Board Credit and Investment Committee ⁴	Infrastructure Delivery and Knowledge Committee	Human Resources, Nomination, Social and Ethics Committee
Number of meetings	7	7	11	4	4
Directors					
Jabu Moleketi (Chairman) ^A	7		9	3	4
Frans Baleni (Deputy Chairman) ^A	5			2	4
Patrick Dlamini (Chief Executive Officer)	7	6	11	2	4
Lungile Bhengu-Baloyi ^A	7			4	4
Andrew Boraine ^{A, E}	4	6		4	
Thembisa Dinga ^{A, D}	7	7	11		
Anthony Julies ^B	5	7			
Albertina Kekana ^{1, A}	0/1	0/2			
Omar Latiff ^A	7		10	4	
Busisiwe Mabuza ^A	7		9		3
Claudia Manning ^A	6		11	3	4
Dawn Marole ^{A, F}	7	6			4
Kameshni Naidoo (Chief Financial Officer)	7	7	8		
Mary Vilakazi ^{A, C}	6	7	10		
Members co-opted to Board Committees					
Prof B Figaji	4 ^G		8/11		4

1. Resigned from the Board with effect from 30 June 2013.

2. Board meetings include: Four scheduled meetings, one special Board meeting, Annual General Meeting as well as one Strategy Board meeting.

3. Audit and Risk Committee includes four scheduled meetings, two special meetings as well as a workshop.

4. Board Credit and Investment Committee includes ten scheduled meetings as well as a workshop.

A. Independent Non-executive Director.

B. Non-executive Director.

C. Chairperson of the Audit and Risk Committee.

D. Chairperson of the Board Credit and Investment Committee.

E. Chairperson of the Infrastructure Delivery and Knowledge Committee.

F. Chairperson of the Human Resources, Nomination, Social and Ethics Committee.

G. By invitation.

Directors' remuneration

Details of the directors' remuneration are discussed in the Remuneration Report on page 29.

Company Secretary

All directors have access to the advice and services of the Bank's Company Secretary, Bathobile Sowazi. The Board is satisfied that the Company Secretary maintains an arms-length relationship with the Board at all times and is sufficiently qualified to act in accordance with, and update directors of the recommendations of the King III Report and other relevant regulations and legislation. The role and function of the Company Secretary include:

- Providing the directors, collectively and individually, with guidance in respect of their duties, responsibilities and powers.
- Providing information on laws, legislation, regulations and matters of ethics and good corporate governance relevant to the DBSA.
- Making directors aware of any laws or regulations relevant to the Bank.
- Properly recording the minutes of meetings, *inter alia*, meeting attendance registers, resolutions, directors' declarations and all notices and circulars issued by the DBSA.
- Preparing the notice of the annual general meeting.

It is further the responsibility of the Company Secretary to keep the Board updated in regard to ethics, governance and regulations. The Board then reviews any changes and appropriate measures are implemented to comply with best practice in such a way as to support sustainable performance.

All directors are entitled, at the expense of the DBSA, to seek independent professional advice on any matters concerning the affairs of the Bank.

Internal control environment

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

The Internal Audit function conducts periodic reviews of key processes linked to the significant risk of the Bank to provide independent assurance to the Board and management on the effectiveness of the internal control system. Members of the Audit and Risk Committee review the work of Internal Audit, and the Chief Audit Executive has unfettered access to the chairperson of the Committee and the Board to ensure the escalation of any significant

audit matters requiring immediate Board attention.

Quality Assurance assessments for the Internal Audit function (internal and external)

Internal Audit conforms to the International Standards for the Professional Practice of Internal Auditing as published by the Institute of Internal Auditors. The Internal Audit function undergoes an external quality assurance assessment every five years as required by King III. The function has further implemented a quality assurance and Improvement Program where internal quality assurance assessments are conducted on an ongoing basis for all audit engagements. Additionally, periodic self-assessments are conducted to assess the function as a whole in terms of quality and areas of improvements.

With regards to the external quality assurance assessment, the last assessment was conducted during January 2012, which revealed that the DBSA Internal Audit Department "Generally Conforms" to the International Standards for the Professional Practice of Internal Auditing (Institute of Internal Auditors).

Combined assurance

Per the requirements of King III, the DBSA has implemented a combined risk assurance model. King III describes the combined assurance model as "Integrating and aligning assurance processes in a company to maximise risk and governance oversight and control efficiencies, and optimize overall assurance to the audit and risk committee, considering the company's risk appetite".

The DBSA combined assurance model reflects the key risks facing the DBSA coupled with the key processes and controls in place to ensure the mitigation and/or minimisation of these key risks. Along with the five levels of defence strategy the DBSA has adopted (refer page 26 of the risk management report), the combined assurance model seeks to identify the assurance providers of the identified key risks. The assurance providers are delineated in the Combined Assurance Plan and report accordingly to the required governing bodies regarding the outcome of the assessment of the risks and control environment in place to mitigate those risks.

Additionally, the Internal Audit function issues a written assessment annually to the Audit and Risk Committee as required by King III. The written assessment provides assurance by Internal Audit on the overall control environment taking cognisance of the governance, information technology, risk management and operational/financial risk areas. The assurance provided is informed by the outcome of the audits/reviews conducted based on an approved risk-based audit plan.

Fraud prevention and whistle-blowing

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

Hotline statistics

Details	2013/14
- Hotline reports	1
- Direct reports	7
Total allegations	8
- Founded	4
- Unfounded	4
- In progress	-
Disciplinary action on founded matters	
- Criminal/civil action	3
- Other corrective action	1



RISK MANAGEMENT

As a development finance institution, the DBSA is required to manage risks as it pursues its development mandate. Risk management plays a crucial role to ensure that the Bank delivers on its mandate while remaining financial sustainable in its infrastructure investments and interventions.

The DBSA Board is ultimately accountable for the effective management of risks within the Bank and has adopted an enterprise risk management (ERM) approach to managing risk exposures. This involves the embedding of frameworks, policies, methodologies, processes and systems for managing all risk exposures inherent in the Bank's strategies, operations and business processes.

Risk is managed on three levels in the Bank, namely strategic, operational and business.

- Strategic risk, as the chance that unforeseen opportunities or threats may render the DBSA's strategy ineffective or uncompetitive or that events or circumstances may occur which could hinder the ability of the DBSA to implement its strategy successfully.
- Operational risk, as the chance that internal or external events and circumstances can have a disruptive impact on the reliability, continuity, quality and efficiency of the DBSA's operations or cause damage to tangible assets and harm to intangible assets.
- Business risk, as the chance that unknown events or circumstances can result in deviations from the returns expected on individual business propositions or impact on the planned outcomes of specific value-creating initiatives.

There are three primary focus areas, namely:

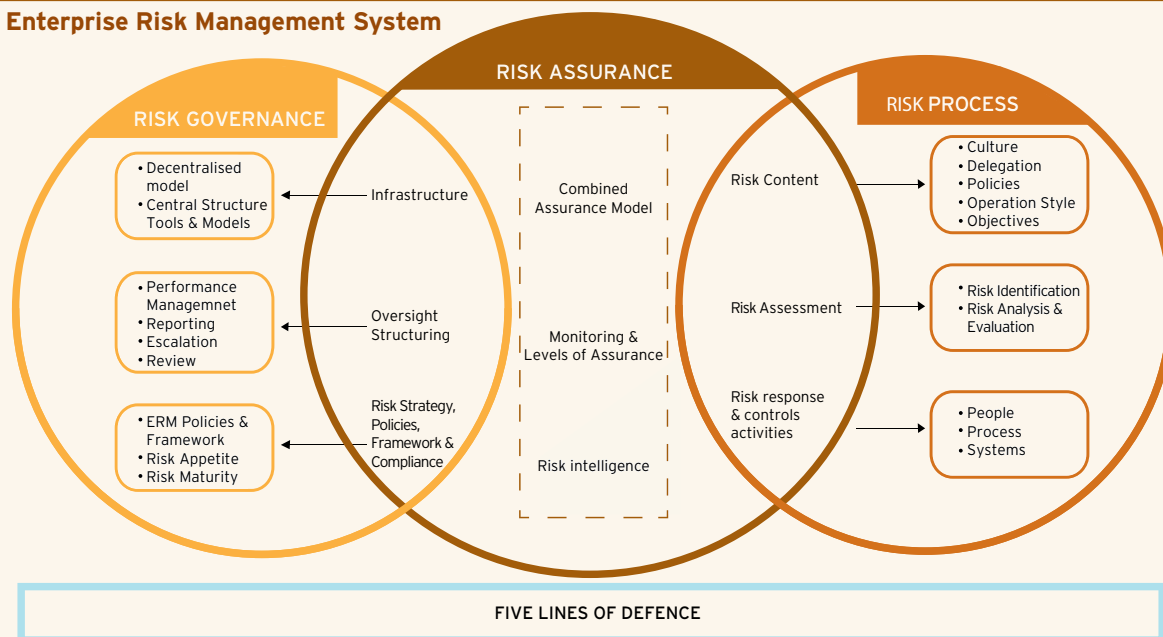
- Enterprise-wide risk management, which includes the management of risks related to people, processes and systems.
- Regulatory compliance, legal risk and business continuity, credit and investment risk management, which includes development impact and investment risk.
- Financial risk management, which includes the management of market and capital management risks.

The DBSA Board and management team continuously review the top corporate risks to ensure an appropriate understanding of the Bank's operating environment. The table on page 28 sets out the main risks identified as well as key mitigation plans implemented.

As shown in the graphic below, the DBSA's risk management system comprises the following interrelated functions:

- The five lines of defence risk management strategy that allocates roles and accountabilities at various tactical levels in the Bank.
- Risk governance which entails the creation of an enabling environment for the structured management, oversight and reporting of risks.
- Risk process which entails the planning, understanding and responding to risks inherent in the DBSA's strategy, operations and business.
- Risk assurance which entails the combined efforts of various parties in monitoring and assessing the adequacy, effectiveness and economy of the governance, control and oversight of risks.

The DBSA's Enterprise Risk Management System



During the 2013/14 financial year, the DBSA adopted the five lines of defence model in line with ERM best practice. The benefits of the model are that it clearly defines the roles and responsibilities for the management for risk within the DBSA and emphasises the fundamental concept that risk

ownership and management is everyone's responsibility from the Board right through to the client-facing units. The model is summarised overleaf:

Five lines of defence	Role	Responsibility
First line	Business units, support functions, line management and all staff	Implementation and management of risk.
Second line	Group Risk Assurance	Perform a policy-setting and monitoring role to ensure implementation of risk management principles and adherence to regulation and legislation.
Third line	Internal & External Audit	Independent assurance on effectiveness of risk management.
Fourth line	Executive Committee	Responsibility and oversight of DBSA activities to ensure that they are consistent with business strategy and policies as approved by the Board.
Fifth line	Board	Overseeing the activities of the DBSA and is accountable to the shareholder for the Bank's strategy and performance.

The DBSA's Group Risk Assurance division provides risk policies, strategies and best practice standards for the DBSA as a whole, in order to mitigate the main risk exposures inherent in its mandate. Each division is responsible for controlling and monitoring the risks in its operating environment while the Group Risk Assurance division undertakes risk monitoring and consolidated reporting at a Bank-wide level, drawing on and aggregating the risk reporting from the divisions.

The Board's Audit and Risk Committee is mandated to oversee the implementation of the Bank's ERM framework, and assesses key risk reports and indicators on a quarterly basis.

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

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

During the financial year, the DBSA appointed an external service provider, Outsourced Risk and Compliance Assessment (ORCA), to review the adequacy and

effectiveness of the DBSA's Compliance function for the financial year ending 31 March 2014. As a result of work performed, the level of assurance over the risk of failure to ensure compliance with all legislative and regulatory requirements has been assessed as "Satisfactory to Good" as controls evaluated are adequate, appropriate and effective to provide reasonable assurance that compliance risks subject to review, are being managed. Good progress has been made over the past year in further embedding compliance within the Bank and developing fit-for-purpose policies".

Credit and investment risk management

The Board has delegated the responsibility for the management of credit and investment risk to its Board Credit and Investment Committee, supported by the management-level Investment Committee. The Board Credit and Investment Committee is responsible for the approval of all transactions that would result in the Bank's aggregate exposure to a single obligor exceeding R100 million.

The Investment Committee, which is chaired by the Chief Risk Officer, is responsible for approving all transactions that would result in the Bank's aggregate exposure to a single obligor being below R100 million. The Committee is also responsible for recommending aggregate exposures of more than R100 million to the Board Credit and Investment Committee.

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

Refer to 60 to 62 of the Chief Financial Officer's Report for an overview of the quality of the credit portfolio.

Key risks and mitigation plans

Risk	Impact	Mitigation	Residual risk
Strategy and execution			
Incorrect investment strategy to deliver on infrastructure funding targets	<ul style="list-style-type: none"> Failure to deliver on disbursement targets and the required development impact. 	<ul style="list-style-type: none"> Board approved strategies and investment targets. Detailed analysis and research undertaken prior to approval. Establishment of project preparation function to support the development of the project pipeline. Provision of planning and implementation support to under capacitated municipalities. 	Moderate
Inability to secure deals competitively on a portfolio basis	<ul style="list-style-type: none"> Failure to deliver on infrastructure disbursement targets. Lower returns and reduction in surpluses available to support development activities. 	<ul style="list-style-type: none"> Dedicated market analysis. Continuous assessment of alternative sources of funding. Review and improvements of pricing model. Pro-active monitoring of the credit portfolio. 	High
Failure to remain financially sustainable	<ul style="list-style-type: none"> Inability to continue to deliver on mandate. Require review and restructuring of operations. Need for capital support from government. 	<ul style="list-style-type: none"> Financial sustainability criteria of inflation linked return-on-equity agreed with the shareholder. Strategy, financial plan and three year financial forecast annually reviewed and approved by Board. Continuous assessment of alternative sources of funding. Cost management programme implemented. 	High
Failure to deliver on non-financing mandate	<ul style="list-style-type: none"> Negative impact on relationship and reputation with mandating authorities. Non-recovery of costs incurred. 	<ul style="list-style-type: none"> Dedicated implementation division established with the necessary skills and resources. Review of operations by the Board. 	Moderate
Non-recovery of costs incurred on non-financing activities	<ul style="list-style-type: none"> Lower surpluses available to the Bank. 	<ul style="list-style-type: none"> Cost recovery principles incorporated in memorandum of agreements. Improved pricing and cost model implemented. 	High
Failure to adapt the business model due to changes in the business environment	<ul style="list-style-type: none"> Failure to deliver on infrastructure disbursement targets as well as non-financing programmes. 	<ul style="list-style-type: none"> Annual review of strategy and operating model by the Board, taking into account changes in the operating environment. 	High
Processes and staff			
Ineffective and inefficient internal processes	<ul style="list-style-type: none"> Slow turnaround times. Possibility of fraud and inaccurate data. 	<ul style="list-style-type: none"> Various initiatives identified and implemented to improve process efficiencies. 	High
Failure to recruit, develop and retain key staff	<ul style="list-style-type: none"> Impairment of the Bank's ability to implement its strategic objectives. 	<ul style="list-style-type: none"> Retention strategy taking into account performance incentives, remuneration benchmarks, performance evaluation and personal development plans. Succession plan reviewed regularly. 	High
Fraud and corruption	<ul style="list-style-type: none"> Financial losses incurred. 	<ul style="list-style-type: none"> Internal controls reviewed on a regular basis. Implementation of a fraud prevention plan as well as a fraud hotline. 	Moderate
Compliance risk			
Failure to comply with legislation	<ul style="list-style-type: none"> Fines and penalties. Reputational loss. 	<ul style="list-style-type: none"> Compliance reviewed by Audit and Risk Committee. Dedicated compliance and legal functions established in the Bank. 	Moderate

REMUNERATION REPORT

For the DBSA to achieve its mandate, the organisation is committed to a remuneration philosophy that:

- Supports the execution of the DBSA's mandate and business strategy.
- Promotes good governance and risk management.
- Aligns its policies, procedures and practices with best practice, and legislation (the PFMA, and King III, in particular).
- Motivates and reinforces performance at all levels (organisational, divisional, unit and individual).

The DBSA's application of its remuneration philosophy aims to meet the strategic objectives of:

- Aiming to be market competitive in specific labour markets in order to attract, retain and motivate key and talented people.
- Determining the value proposition of the various job levels required by the DBSA.
- Ensuring that the hybrid of performance and competency management forms an integral part of remuneration, thereby influencing the remuneration components of base pay and incentives.
- Payment of fair, appropriately structured and competitive remuneration.
- Applying good governance to remuneration practices within approved structures.
- Supporting the DBSA's culture as embedded in its values.

Governance

The Board has ultimate responsibility for the remuneration policy and may depart from this policy if there are particular reasons to do so in an individual case. The Human Resources, Nominations, Social and Ethics (HRNSE) Committee operates in accordance with a Board-approved mandate. The committee meets at least four times a year.

It is chaired by an Independent Non-executive Director and is made up of only Independent Non-executive Directors.

The CEO and any other Directors or Group Executives may attend meetings by invitation, but are excluded from deliberations relating to their individual remuneration.

A formal terms of reference codifies the tasks and responsibilities of the committee. Updates to the charter to effect application of King III recommendations, or other identified best practice, are made on a continuous basis.

The Board can utilise the services of independent advisors on matters relating to remuneration.

The committee:

- Reviews the Non-executive Directors' fees and makes recommendations to the Board and the Minister for consideration and approval.
- Reviews and recommends to the Board the DBSA's remuneration philosophy and policies for staff.

- Ensures that the remuneration strategy reflects the interest of stakeholders, is comparable to the general remuneration environment in the sector, and complies with relevant principles of good governance.
- Considers whether the objectives of the remuneration policy have been achieved.
- Ensures that the fixed and variable pay is aligned with the company's strategic objectives.
- Considers the performance of the Chief Executive Officer and Chief Financial Officer, as directors and executives, when determining their remuneration.
- Deliberates on independent advice received from remuneration advisors.
- Oversees the preparation of the remuneration report included in the integrated annual report, to ensure that it is accurate, complete and transparent and that it provides a clear explanation of how the remuneration policy has been implemented.

Board remuneration

The DBSA compensates and remunerates Non-executive Directors in a manner which enables the Bank to attract and retain high calibre and professional directors to ensure that the Board has at all times the necessary skills required for the Bank to execute on its mandate.

Non-executive Directors are remunerated according to their scope of responsibility and contribution to the DBSA's operating and financial performance, taking into account industry norms including the State-Owned Enterprise Remuneration Guidelines and the external market and benchmarks.

Non-executive Directors receive fees according to their attendance at meetings. In addition to these, the Chairman of the Board and the Chairpersons of the Board Committees receive annual retainer fees so that they are also available to provide strategic advice to the Chief Executive and management outside Board and committee meetings.

Non-executive Directors are not entitled to receive short- or long-term incentives.

Board members are also compensated for expenses incurred in pursuance of the Bank's business.

Details of fees earned by the Non-executive Directors are reflected in note 47.2 of the Annual Financial Statements.

Employee remuneration

The Board of Directors is committed to attracting, motivating, managing and retaining Group Executives of the highest calibre for the DBSA through the payment of fair, appropriately structured and competitive remuneration. The DBSA recognises a mix of both competencies and performance in its remuneration structure.

The remuneration packages for the Group Executive team are divided into fixed and variable components including short-term performance incentives. The Bank is currently designing a long-term incentive scheme which it expects to finalise during the 2014/15 financial year. The long-term incentives will seek to ensure that the Bank's ultimate long-term delivery outcomes are achieved.

Guaranteed packages

All employees, including Executive Directors and Group Executives, receive a guaranteed package (GP) based on their roles and responsibilities. Contribution to retirement and insured benefits are included in the GP. Employees can choose to participate in a Bank-nominated medical aid scheme.

The HRNSE Committee reviews the Chief Executive Officer's and Group Executives' remuneration and makes recommendations to the Board and the Minister for consideration.

All permanent employees and employees with contracts longer than three years have to join the DBSA Provident Fund, a defined contribution scheme. Besides the retirement fund contributions, lump sum contributions may be made to the fund.

The retirement age for DBSA employees is 60. Some employees who have been with the DBSA for longer than 18 years have a retirement age ranging from 60 to 65 years, depending on their respective employment contracts.

The Bank operates an unfunded defined post-retirement medical benefit plan for qualifying employees. In terms of the plan, the Bank pays 100 percent of the medical aid contributions of qualifying pensioners. Pensioners include retired employees and their widow(ers). Refer to note 20.2 of the Annual Financial Statements for further details of post-medical benefits liability.

Funeral benefit cover is provided to all current and retired employees of the Bank. In respect of these employees, a gross amount of R33 000 is paid to the family upon death of an employee or retired employee.

Increases in GP for employees are based on a review of market data, the consideration of individual performance and potential, and the business priorities of the DBSA.

The DBSA provides a range of benefits to employees over and above their guaranteed remuneration packages. Key benefits include study assistance for employees, study assistance for employees' children in tertiary education, annual leave, sick leave, as well as maternity and paternity leave.

Short-term incentives

All employees, including Executive Directors and Group Executives, participate in a yearly short-term incentive plan. Bonus payments are discretionary and depend on business performance and individual contribution.

The performances of the executive management team are measured against pre-determined goals as approved by Board. All bonuses are capped at the following percentage of the GP:

Role	Maximum percentage
Chief Executive Officer	100%
Chief Financial Officer	80%
Group Executives	80%

Retention payments

Following the finalisation of the organisational review in the first half of the financial year, the Board approved the implementation of a once-off retention payment scheme for identified individuals. This was aimed at ensuring that critical skills were maintained within the Bank, providing stability in the organisation. Of the 205 key employees awarded incentives with a claw-back period of between one and three years, 195 accepted. By year end, a 90.1 percent retention rate of critical skills was achieved.

Details of the remuneration of Executive Directors and Group Executives are reflected in note 47.1 of the Annual Financial Statements.

THE ENVIRONMENT IN WHICH WE OPERATE

The world economy has changed dramatically over the past five years. Developing countries are increasingly accounting for a larger share of global trade and investment and sub-Saharan Africa in particular is now one of the world's fastest growing regions, trailing only developing Asia.

Global financial and monetary trends, new technologies, urbanisation, climate change and demographic shifts pose complex challenges for both developed and emerging economies. In seeking to improve the livelihoods of their people, lower the cost of doing business and enhance the state's overall performance, governments must consider difficult trade-offs with regard to macroeconomic policies, industrial development, the role of state-owned companies, economic regulation, taxes and spending programmes.

Africa is experiencing a new commercial vibrancy and the acceleration in its growth rate is the result of more than just its natural resource endowments. The International Monetary Fund expects sub-Saharan Africa to grow by 5.5 percent in 2014 from 4.9 percent in 2013. The key reasons for Africa's faster growth rate are improved political and macroeconomic stability arising from the economic reforms of the late 1990s and early 2000s. This initially included the cessation of deadly hostilities in several states, creating the political stability necessary to foster economic growth. Governments then took action to lower inflation, trim foreign debt and shrink budget deficits. Finally, policies to stimulate economic activity and deepen markets were adopted. These included privatising state-owned enterprises, reducing trade barriers, cutting corporate taxes and strengthening the regulatory and legal systems.

Such economic growth and expansion have attracted significant interest from investors across the globe and introduced new competitive and operating dynamics on the continent. These dynamics, as well as the high cost of funding in capital and lending markets, make it more difficult for projects to meet the required hurdle rate.

This is particularly challenging for the infrastructure sector and for projects that have long-term goals and offer relatively low financial returns.

South Africa's economy continued to grow in 2013, albeit slowly, and remained well below its potential. Strong capital investment by the public sector, the continued development of electricity-generating capacity, relatively stable inflation and low interest rates are expected to support improved growth rates over the medium term. However, a far higher rate of growth is needed, particularly in the private sector, to address poverty, draw unemployed South Africans into economic activity, and generate the revenue needed to support the government's long-term development goals.

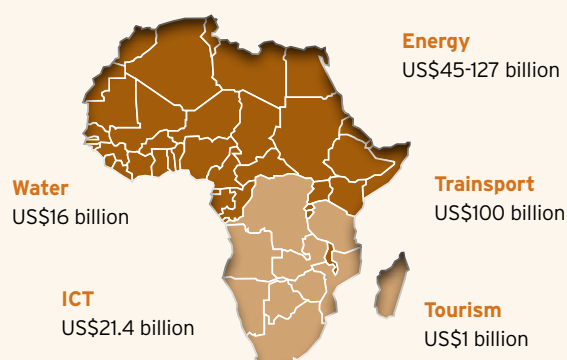
The South African government's National Development Plan (NDP) sets out an integrated strategy for accelerating growth, eliminating poverty and reducing inequality – recognising that the country's urbanising, youthful population is a strength on which to build. The plan promotes enhanced competitiveness, expanded infrastructure, greater spatial efficiency in growing cities as well as accelerated rural development. It also prioritises measures to build a capable and effective state that delivers services to citizens while encouraging business investment and growth.

However, the NDP acknowledges that transforming the economy will take time. Complementary policies are needed to boost employment and economic participation, basic education and skills acquisition. Greater competitiveness will enable local firms to access new markets and hire more people.

Greater regional integration has also provided a new growth opportunity for South African businesses. Africa is however faced with the challenge of overcoming a huge infrastructure deficit, which limits the benefits of initiatives to achieve regional integration. Greater integration will positively influence the rate of development on the continent, and is therefore considered an essential building block towards a prosperous Africa. Without sound and well-maintained infrastructure, national economic development will remain severely constrained. Improvements to the continent's infrastructure in recent years have been responsible for more than half of Africa's recently better economic performance, and have the potential to contribute even more in the future. By the same token, inadequate infrastructure holds back faster growth on the continent.

Current estimates of the infrastructure investment required annually across Africa are in the order of US\$93 billion, with investment at around US\$45 billion, leaving a considerable shortfall (source: *Africa's Infrastructure: A Time for Transformation* – World Bank, 2009). Clearly then, the potential opportunities are enormous.

Estimated SADC Infrastructure financing gap



Source: *Initial Investment Costs: SADC Regional Infrastructure Development Master Plan (2012)*

After spending of some R1 trillion on infrastructure in South Africa over the past five years, spending by the public sector is planned to reach R847 billion over the period of the government's medium-term expenditure framework to 2017. Despite the heavy investments already made, more funding is required. Investment in infrastructure is considered critical to increase the ability of the economy to grow in an inclusive way and to improve the delivery of basic services to all citizens.

The Presidential Infrastructure Coordinating Commission (PICC) has a pipeline of projects under consideration to address infrastructure backlogs, and the NDP provides guidelines for capital investment priorities and the sequences of decisions required to ensure that the country's infrastructure needs are provided for in a sustainable, equitable, affordable and practical manner.

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

South Africa is well placed to support infrastructure development and strengthen regional economic collaboration within the African continent. The DBSA, as a vehicle of the state and a development finance institution, is recognised as a single yet critical component of the infrastructure development system with a mandate to contribute meaningfully towards national infrastructure objectives.

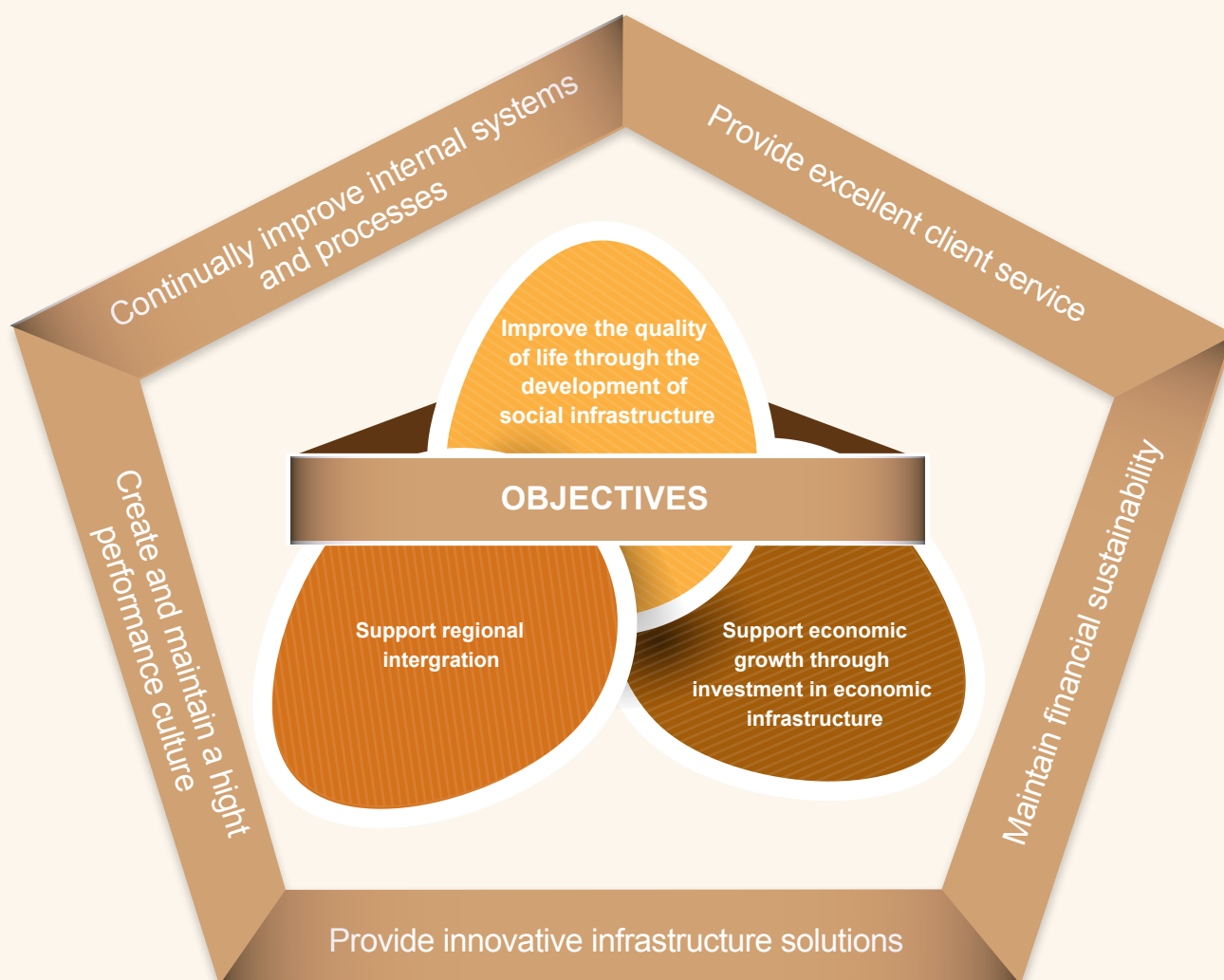


WHO WE ARE AND WHAT WE WANT TO ACHIEVE

At the core of our mandate, the DBSA seeks to play a pivotal role in delivering developmental infrastructure in South Africa and the rest of Africa. The strategy of the DBSA is to:

Provide sustainable infrastructure project preparation, finance and implementation support in selected African markets to improve the quality of life of people, in support of economic growth and regional integration.

These strategic objectives in turn are underpinned by five strategic imperatives: maintain financial sustainability; provide innovative infrastructure solutions; create and maintain a high-performance culture; continually improve internal systems and processes; provide excellent client service.



The DBSA infrastructure development strategy is driven through three strategic objectives and is designed around the need to improve the quality of life of people through the development of social infrastructure, and to support economic growth through investments in economic infrastructure as well as to support regional integration. Our work targets investments mainly in the energy, transport, water and communications sectors. We also provide support to sectors such as health, education and housing.

Underpinning these objectives is the desire to provide excellent client service and innovative infrastructure solutions, to continuously improve internal systems and processes as well as to create and maintain a high-performance culture.

Recognising that the role of the DBSA is not to maximise profitability but rather to act as a catalyst for development across the targeted areas, maintaining financial sustainability nevertheless forms the foundation for future growth and overall sustainability. Consequently, the DBSA targets an inflation-linked annual growth in average total equity.

Over the next three years, the DBSA will seek to significantly expand its development role.

The table overleaf summarises the targeted sector coverage, the DBSA's role, client segments, the division responsible for delivering the outcomes, as well as the targeted deliverables.

DBSA support areas over the next three years

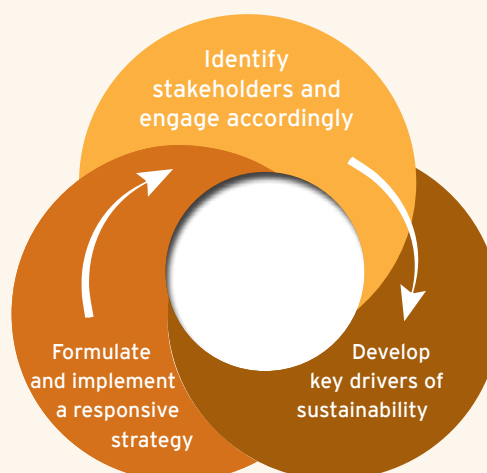
Focus areas	Key sector coverage	DBSA's roles	Counter party entities	Responsible division	Key deliverables over the next three years to 2016/17
Improve the quality of life of people through the development of social infrastructure	Municipal (including water & sanitation, electricity, roads, and refuse)	Lending	Municipalities (all)	South Africa Financing	Total cumulative disbursements: R16.8 billion
		Project planning support (pre-financing support)	Secondary and under-resourced municipalities	South Africa Financing	Completion of the following outcomes for selected municipalities: <ul style="list-style-type: none"> Investment plans Feasibility plans Funds sourcing
		Project implementation support (post-financing support)	Secondary and under-resourced municipalities	South Africa Financing	Completion of the following outcomes for selected municipalities: <ul style="list-style-type: none"> Technical planning Procurement Contract management
		Implementation support to SIP 6, National Integrated Municipal Infrastructure Programme	<ul style="list-style-type: none"> PICC Municipalities 	Infrastructure Delivery	Integrated infrastructure plans completed and implementation support
	Education, health and housing (non-municipal)	Lending	<ul style="list-style-type: none"> PPPs Higher education SOCs (such as Water Boards) Private companies Investment funds 	South Africa Financing	Total cumulative disbursements: R4.2 billion
		Implementation support to: <ul style="list-style-type: none"> SIP 13: National Schools Build Programme Accelerated Schools Infrastructure Delivery Initiative Eastern Cape Rural Housing programme Various health programmes 	<ul style="list-style-type: none"> National and provincial government 	Infrastructure Delivery	Support the development of integrated schools infrastructure plan, construction of 71 schools, 1 000 housing units, 50 doctors consulting rooms, support repairs and maintenance at 368 health clinics, support Gauteng Hospital Revitalisation programme.
Support economic growth through investment in economic infrastructure	<ul style="list-style-type: none"> Bulk water Transportation / logistics Power/energy Telecommunications Liquid fuels (oil/gas) 	Project preparation	<ul style="list-style-type: none"> National and provincial government PPPs SOCs Private companies 	Financing Operations	Value of cumulative projects prepared: R12 billion
		Lending and/or direct investment	<ul style="list-style-type: none"> PPPs and IPPs SOCs Private companies 	South Africa Financing	Total cumulative disbursements: R17.5 billion
		Fund management services	National government	Financing Operations	Support various funds with management services
Support regional integration	<ul style="list-style-type: none"> Water Energy Transportation Telecommunications 	Lending for regional integration	<ul style="list-style-type: none"> PPPs SOCs 	International Financing	Total cumulative disbursements: R16.7 billion

HOW WE ENGAGE WITH OUR STAKEHOLDERS

In all its activities, the DBSA maintains an open dialogue with its stakeholders. We believe this dialogue and the development of strategic partnerships are not only fundamental sources of information but are also important for responsible corporate governance. In short, stakeholder dialogue is vital for the effective execution of the DBSA's mandate.

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

A stakeholder engagement-driven strategy

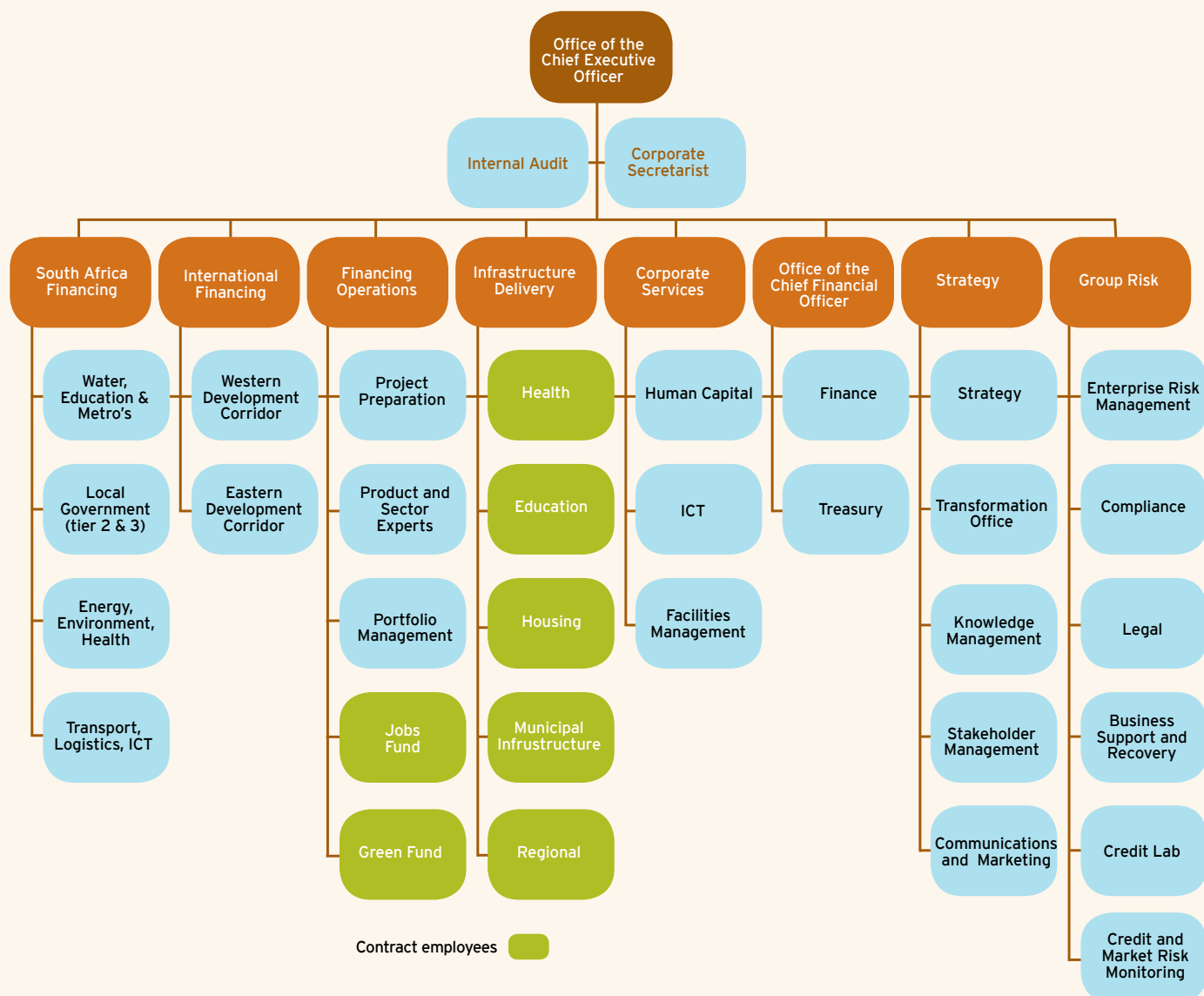


Stakeholders and why we engage	How we engage	What we engage on
Government (shareholder representative) To facilitate the alignment of the DBSA with national priorities	Regular meetings with the governor and the National Treasury	DBSA's developmental role; long-term sustainability; financial performance
Regulators To meet legislative requirements	Regular communication, meetings and reports with/to: <ul style="list-style-type: none"> • Standing Committee on Finance • Select Committee on Finance • National Treasury • Financial Intelligence Centre • Department of Labour • Johannesburg Securities Exchange 	Compliance requirements; needs and expectations; feedback on performance; human capital matters
Clients and partners To understand our clients and partners' needs and enhance our development impact	Client and partner surveys; client and partner meetings; marketing campaigns	Client needs (funding and non-funding support); implementation support (non-funding support); perceptions and expectations; job creation; environmental impact
Providers of finance To inform perceptions and create a positive investment environment	Meetings with analysts and rating agencies; investor road shows; announcement of results; website	Financial performance; market trends and issues; future prospects; organisational sustainability
Employees To enhance employees' engagement and commitment and align their work with the corporate strategy	Staff engagements at numerous levels; training and development needs analysis; results presentations; performance reviews; internal media; whistle-blower's hotline; staff surveys	Strategy; financial performance; people development and training, transformation and employment equity; code of conduct
Suppliers To understand our procurement needs	One-on-one meetings; presentations	Contract and service agreements; performance
Community To identify social responsibility expectations, including job creation and environmental impact	Project implementation; community surveys; marketing campaigns; website	Investment in socio-economic development; access to basic services; local labour opportunities
Media To communicate key strategic, operational and financial information	Media briefings; press conferences and releases; print media	Key strategic initiatives; project information; operational and financial performances

ORGANISATIONAL STRUCTURE

To support the implementation of the strategy and ensure operational efficiencies, the Bank's operating structure is designed around eight divisions. Lending operations are split on a geographical basis with the *South Africa Financing* division focussing on all lending activities within South Africa whilst the *International Financing* division focusses on those activities beyond South Africa. The *Financing Operations* division supports the two lending divisions with

project preparation, product and sector expertise, as well as portfolio management services. It also oversees the Jobs Fund and Green Fund. The *Infrastructure Delivery* division is responsible for the delivery of important infrastructure development programmes, such as the education and health sectors. Finally, support functions are configured into four divisions: *Corporate Services*, *Finance*, *Strategy* and *Group Risk*.



SOUTH AFRICA FINANCING

- **Disbursements: R9.2 billion (from R7.5 billion in 2012/13), with a focus on weak municipalities and renewable energy projects.**
- **Employee numbers: 73.**
- **Net profit R739.8 million (2012/13: Loss of R196.0 million).**
- **Total assets R39.7 billion (2012/13: R36.3 billion).**

Helping municipalities deliver services, unlocking economic growth

The South Africa Financing division plays an important role in helping the South African government deliver the infrastructure the country requires to provide essential services to its people mainly at the local government level, as well as the bulk enabling and economic infrastructure needed to unlock the country's economic growth potential.

Through our work in the municipal space, we focus on improving social infrastructure - water and sanitation, electricity, community facilities, roads and transportation. This is aimed at delivering a better quality of life to citizens as well as ensuring economic growth.

The division's support to enhance the country's economic infrastructure is centred on energy generation, bulk water supply, industrial transport and telecommunication services. Investment in these sectors is considered essential to ensure that the country has the capacity required to foster sustainable economic growth and development.

While the bulk of our funding is to public sector customers in South Africa, we also support selected private sector clients. We have recently broadened our product range to provide more non-financial services, such as debt lead arranging and transaction advisory services, as well as providing specific planning and implementing support for infrastructure projects at the municipal level.

Building a foundation for the future

The South Africa Financing division had a good year in which we consolidated our structure following the organisational review and put the appropriate people, processes and systems in place to deliver on the Bank's strategy.

In the year, we approved lending facilities totalling R10.0 billion (compared to R12.6 billion in the previous year), signed commitments worth R7.6 billion (compared to R12.5 billion in 2012/13) and made disbursements of R9.2 billion (from R7.5 billion in 2012/13).

Of the approvals, R4.6 billion was allocated to energy projects, R2.3 billion to metros, R1.9 billion to secondary and under-resourced municipalities and R1.3 billion to social infrastructure. Disbursements in the year were the highest on record, supporting growth in the loan book from R33.4 billion in 2012/13 to R38.2 billion for 2013/14, an increase of 14.4 percent.

Supporting social development and service delivery

Assisting the weakest municipalities, as well as the metros

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

Our financing of the country's eight metros increased marginally from 2012/13, but competition from commercial banks in the metropolitan market remained strong. In the year, apart from approvals of R2.3 billion, we committed R750 million and disbursed R835 million (2012/13: R817.6 million) to this market. The most significant transaction was the purchase by the Bank of R750 million worth of City of Tshwane bonds. Going forward, we will seek to broaden our offering to metros, providing additional services such as tools to better determine and manage water and electricity losses.

In the year, we significantly increased our support to the country's weakest municipalities and built up strong approvals and disbursements to those in secondary cities. We enhanced our support to the weakest municipalities by sharply increasing disbursements to those in the under-capacitated category. Totalling R815.0 million, the level of disbursements to both secondary (R596.0 million) and under-resourced (R219.0 million) municipalities was the highest in three years, and represented an increase of 136 percent from the previous financial year. More than half (57 percent) of the disbursements were part of our bridging finance programmes (see details below). The rest were long-term loans (R350 million). The growth in the disbursements to these municipalities enabled the division to maintain its financial exposure of R5.3 billion to secondary municipalities, supporting 83 of 90 municipalities, and R790.0 million to under-resourced municipalities, supporting 141 of 180 of these municipalities. Approvals of R1.8 billion and commitments of R1.4 billion concluded during the year will provide a sound foundation for disbursements in the new financial year.

The South Africa Financing division worked alongside various national and provincial departments to speed up the reduction of infrastructure backlogs by providing bridging finance to municipalities ahead of the payment to them of municipal infrastructure grants (MIG) directly from the National Treasury. We refer to this as MIG frontloading.

By accelerating the provision of essential services to communities, MIG frontloading also helps municipalities avoid cost escalations for infrastructure projects. In the year we disbursed R413.5 million in MIG frontloaded projects compared to R20.0 million the previous year.

It is anticipated that approximately 69 000 households will benefit from access to water and sanitation when these MIG projects are completed.

In terms of the Integrated National Electrification Programme (INEP), projects worth R445.9 million to electrify houses in poor communities were approved and disbursements worth R50.0 million were made. The funding will assist these municipalities to connect approximately 28 700 households. As many municipalities lack the institutional capacity to plan and implement projects, and so provide services to their communities, a highlight of the year was the establishment of two dedicated units to offer

under-capacitated municipalities support in firstly planning infrastructure projects, and secondly in implementing them. These units are made up mainly of development planners and engineers.

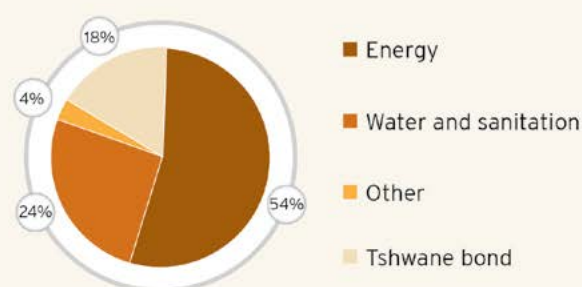
During the year the Municipal Infrastructure Planning Support Unit focused on delivering assistance to the Mopani, Amatole and Harry Gwala district municipalities and the Letsemeng, Victor Khanye, Ga-Segonyane and Mogalakwena local municipalities. Two planning mandates were concluded by year-end.

The Project Implementation Support Unit prioritised

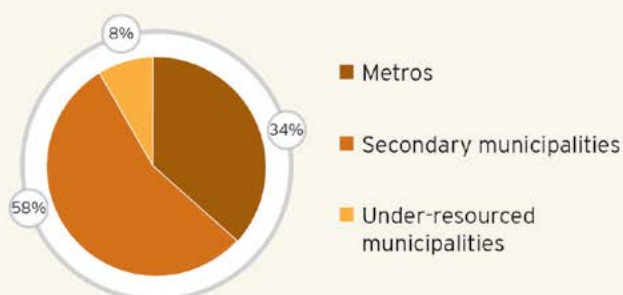
Municipal approvals per category, 2013/14



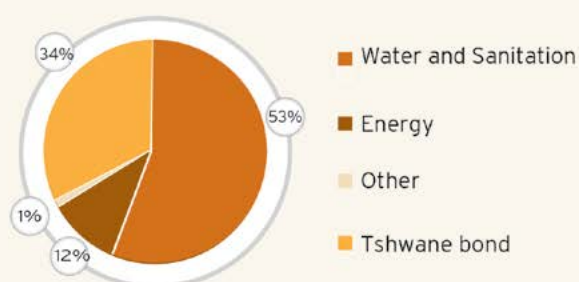
Municipal approvals per sector, 2013/14



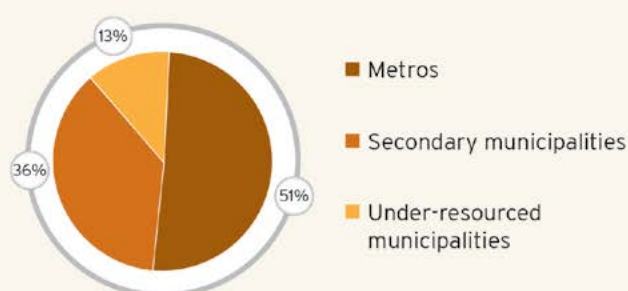
Municipal commitments per category, 2013/14



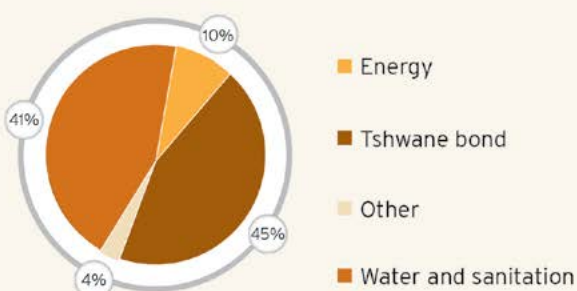
Municipal commitments per sector, 2013/14



Municipal disbursements per category, 2013/14



Municipal disbursements per sector, 2013/14



assisting the Ngaka Modiri Molema, Alfred Nzo and uMzinyathi district municipalities and the KwaDukuza, Sol Plaatje and uMgungundlovu local municipalities. By year-end, it had helped move 30 projects from planning to construction, and 25 projects were completed. Another 29 were in the planning stage. Through these implementation projects it is estimated that about 109 000 households received new or improved access to water, sanitation and electricity services and more than 4 600 temporary jobs were created.

Bolstering the supply of affordable housing and student accommodation

In an effort to assist with the eradication of backlogs in housing in South Africa, we continued to invest in a variety of student accommodation, affordable housing schemes and externally managed funds with mandates aligned with that of the DBSA. In the year, we disbursed R56 million to support the development of the student village at the University of Western Cape and invested R194 million in the Old Mutual Housing Impact Fund which is financing the construction of affordable homes for sale and rent, as well as providing housing loans and rental accommodation for families and students.

Economic infrastructure and growth

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

Enhancing investment in power generation

The division targets priority economic sectors for investment, based on national infrastructure requirements. A key focus area during the year was the continued support for energy generation capacity, including renewable energy as well as coal and gas-fired power sources in the country, a strategic imperative given current supply constraints.

In the renewable energy sector, the division exceeded expectations in extending debt finance through its participation in the Renewable Energy Independent Power Producers Procurement (REIPPP) programme. This programme is being driven by the Department of Energy to create an enabling environment for private sector investment in biomass, solar, wind and small-scale hydro energy generation facilities as well as seek to involve broad-based black economic empowerment parties and, in particular, to ensure that their capacity is built to participate competitively in future energy sector programmes. The DBSA supported the programme by contracting and managing transaction advisors to assist in designing and developing documentation for procuring at least 3 625MW of renewable energy from independent power producers. The DBSA's role in the programme further includes financing the debt of the project sponsors, as well as financing the equity portion required by BBBEE entities, as well as providing administrative support to community trusts involved in the projects. In the year, Round II of the

REIPP programme reached financial close.

The division further sustained its support of coal power-generating programmes, disbursing R2.0 billion in the year. We also committed R2 billion in loan and guarantee facilities to the GDF Suez Peakers Independent Power Producers Consortium, for which the Bank was awarded the "African Power Deal 2013" award and the "Overall African Deal of the Year Award 2013" by Euromoney Project Finance magazine. The consortium's two new peaking power stations in KwaZulu-Natal and the Eastern Cape will typically operate in standby mode, and commence operation when there is peak demand for power from the electricity grid. The two projects will produce a combined net capacity of 1 005MW of power.

For the year, the division committed R3.1 billion for Round II of the REIPP and Peakers programmes and disbursed R3.8 billion for Rounds I and II of the REIPP and Peakers programmes. Of these amounts, R826 million was committed and R867 million was disbursed in favour of BBBEE enterprises.

Augmenting bulk water infrastructure

Investments in bulk water infrastructure are required to address both growing household demand and the needs of the mining, manufacturing and agricultural sectors, which are heavily reliant on water for production. As part of our bulk water funding strategy, we disbursed a further R250 million in the year to the Trans-Caledon Tunnel Authority (TCTA) for the Mooi-Mgeni Water Augmentation Scheme in KwaZulu-Natal.

Supporting transport infrastructure

Investment to enhance industrial transport facilities is another important government focus. This is to support national efforts which include moving more freight from road to rail, reducing the country's carbon footprint, growing the mining sector, creating jobs and positioning South Africa as a regional trans-shipment hub.

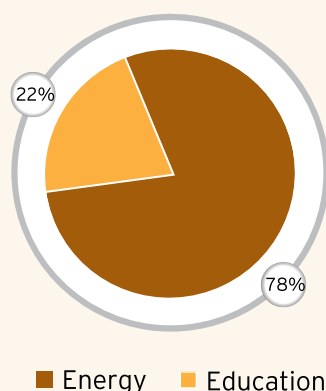
Among highlights in this sector in the year was the appointment of the Bank, alongside HSBC plc and Pamoja Capital Proprietary Limited, as transaction advisors and debt arrangers to the Tshwane Rapid Transit system.

Reporting stronger financial results

South Africa Financing division recorded a net profit of R739.8 million (2012/13: loss of R196.0 million) in the year despite increased pricing competition, especially in the metros and better secondary municipality markets.

Interest income earned from development loans increased to R3.4 billion compared to the prior year's R2.9 billion. Interest expense also increased to R2.0 billion from R1.8 billion in line with the increase in the debt-to-equity ratio. This contributed to an improvement in the net interest income ratio from 38.5 percent to 43.0 percent. At R65.3 million, operating expenses (2012/13: R128.2 million) declined significantly with the cost-to-income at 4.0 percent from 9.4 percent in the previous financial year.

Non-municipal approvals, 2013/14

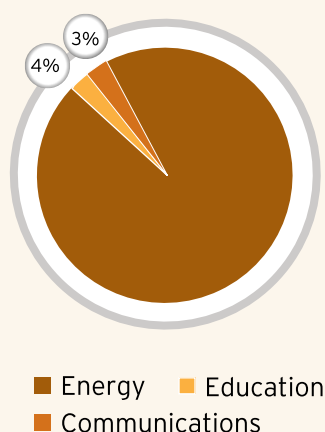


The impairment loss of R559.6 million was significantly lower than the R1.3 billion recorded in 2012/13. The prior year impairment charge was largely concentrated on the division's non-public sector investments book, which is more susceptible to changes in economic conditions.

Looking ahead

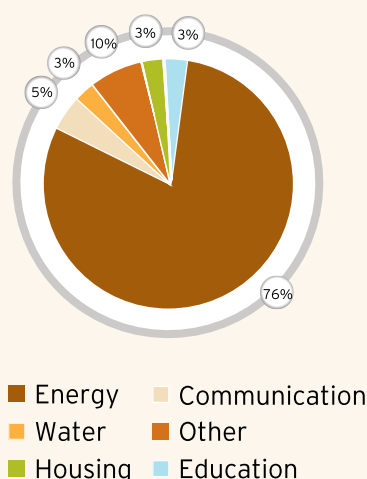
In the year under review we improved our support to under-resourced municipalities and, importantly, built a strong foundation on which to build in the new year. The same can be said for our efforts in the energy and transport sectors. Our continued engagement with independent power producers laid a basis for good disbursements in 2014/15. Preparatory work for clients in the transport industry (with regard to rail and ports in particular) will also see our involvement in this sector increase in the next two years.

Non-municipal commitments, 2013/14



However, we are realistic about the challenges that we face. The scale of planning that is required in local government is such that it is something that the DBSA's efforts will only be able to meet partially. We look forward to working together with other parties in this regard. Similarly, procurement processes in local government are often complex, inhibiting the expeditious delivery of infrastructure. We will continue to engage with the appropriate parties to help ease the blockages that exist, and so assist in providing much-needed social infrastructure, guided by the national imperatives of job creation and economic development.

Non-municipal disbursements, 2013/14



INTERNATIONAL FINANCING

- **Disbursements: R3.6 billion (from R1.6 billion), with a focus on road and energy projects. Employee numbers: 28.**
- **Net profit R3.0 million (2012/13: R303.5 million).**
- **Total assets R15.7 billion (2012/13: R14.3 billion).**

Leveraging infrastructure development opportunities in southern Africa

The International Financing division supports the South African government's vision and the DBSA's strategy to leverage infrastructure development opportunities and stimulate economic growth beyond South Africa's borders and into Southern Africa. We provide financial products and services to a range of public and private sector clients as well as partners in the region.

In December 2013, the South African government extended the Bank's geographic mandate to the whole of the African continent. We will continue to expand our investment activities in SADC while pursuing a gradual approach in the rest of the continent.

Financing infrastructure and economic development in the region is a complex task that requires creativity and responsiveness to the challenges of the region. The DBSA's strategy for the continent builds on the development strategies of the region and its countries. These strategies place a high priority on infrastructure development; the lack thereof is one of the leading constraints to socio-economic development and regional economic integration.

Our operations are informed by the guiding principles of the New Partnership for Africa's Development (NEPAD) and SADC's regional integration agenda to 2020, as well as by the infrastructure priorities of the various regional economic communities (RECs). Our priorities are further broadly aligned with the South African government's medium-term strategic plan for international relations and cooperation in the region which aims to deepen regional integration to ultimately bring about an end to poverty, and stimulate broad-based economic growth.

Reviewing our approach

In the past two years, the DBSA's International Financing division has comprehensively reviewed its approach to ensure that it finances projects with the greatest development impact while providing the DBSA with an important source of revenue to fund future operations.

This review included studies to deepen our understanding of the African infrastructure landscape, identifying all the major projects planned or considered necessary by the various African governments, as well as their readiness to be financed.

We also invested resources to develop, with co-partners, a tool to assess whether projects meet the required investment criteria of the Bank, both strategic and financial, as well as indicate the likely economic development impact.

The review highlighted the lack of available ready-to-finance projects and the urgent need for project preparation support – bringing projects to the point at which they are bankable. Going forward, we will concentrate our efforts on providing support to the early stages of project development in order to fast-track infrastructure development.

We have also refined our focus to the four sectors which we believe to be critical enablers of economic development: energy, transport, water and – to a lesser extent – information and communication technologies (ICT), where we are looking to define, prepare and finance projects.

Recording outstanding operational results

After a challenging 2012/13, the International Financing division recorded outstanding results in 2013/14. We were particularly successful in converting the exceptionally high approval and commitment levels of the previous year into disbursements, leading to record disbursement levels of R3.6 billion – more than double the previous year's R1.6 billion.

Total approvals amounted to R4.0 billion (US\$344 million), compared with R5.6 billion in 2012/13. We expect most of these projects to move closer to being concluded during 2014/15 and so support the pipeline for future disbursements. Approvals in the year were predominately in the energy sector concentrated in Zambia, Tanzania, Angola, Ghana and the Democratic Republic of Congo.

The recent extension of the Bank's mandate and focus on project preparation capacity will assist in building the future approvals pipeline.

Total commitments amounted to R4.6 billion (US\$429 million), sharply up from the R665 million (US\$75 million) recorded in the previous financial year. These were led by projects in the energy sector, followed by those in the transport sector in two countries – Tanzania and Angola.

The division increased its development loan book by 23.5 percent in the year. Investments in Zambia constituted 28 percent of our loan exposure, followed by Angola and Zimbabwe.

These three countries together made up just under 64 percent of the division's loan portfolio. Here, our commitment to the development of the North-South Corridor is evident in the roads sector constituting 45 percent of the portfolio, followed by the energy sector with 25 percent.

The division has traditionally been primarily a provider of senior debt. However, with the assistance of the Financing Operations' project preparation unit, in the year we also provided transaction advisory services for a gas-fired power project in Tanzania. The investment value of the project is US\$87.2 million, of which the DBSA has approved the total amount.

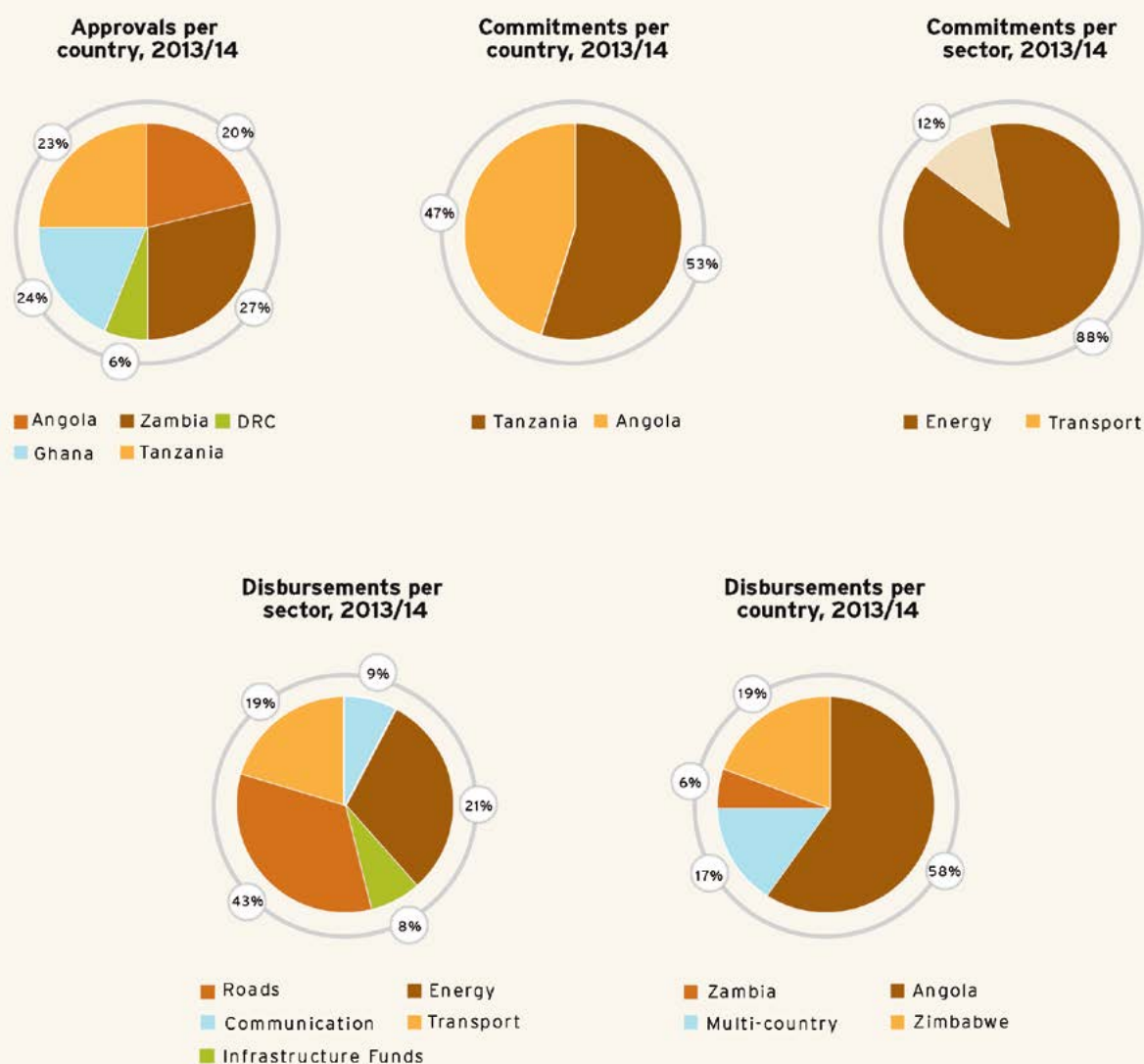
Another example of the broadening of our product offering was our arranging of a US\$612 million loan facility for an infrastructure programme in Angola. Of the total, the DBSA provided US\$150 million debt financing and facilitated the participation of others in the international finance market for the remaining portion. The facility will be used to finance the rehabilitation of infrastructure – particularly national roads – in Angola, a country devastated by years of war and a lack of infrastructure maintenance. It aims to address the challenges of development expeditiously and promote economic growth and regional integration as these roads link the Democratic Republic of Congo, Angola and Zambia. Going forward, the Bank will seek to build on the lessons learned and actively pursue the role of mandate lead arranger on infrastructure development projects. This role will also assist the division in diversifying its income sources.

Development of the North-South Corridor

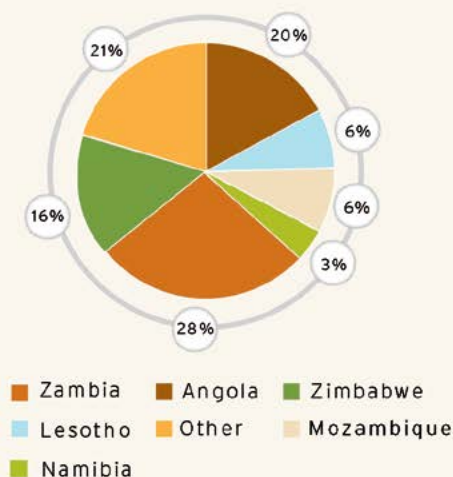
Regional integration is critical to the growth of the South African economy as well as that of the broader continent. To promote regional integration, the Bank supports key

infrastructure corridors, such as the North-South Corridor (NSC). This development corridor was established under the auspices of the Tripartite Alliance of the SADC, the Common Market for Eastern and Southern Africa (COMESA) and the East African Community (EAC), and endorsed by the African Union. The programme is directed towards regional economic integration through the upgrade and extension of transport links (road, rail, ports and one-stop border posts) in southern and east Africa. South Africa champions this initiative through the Presidential Infrastructure Champions Initiative, which President Jacob Zuma chairs.

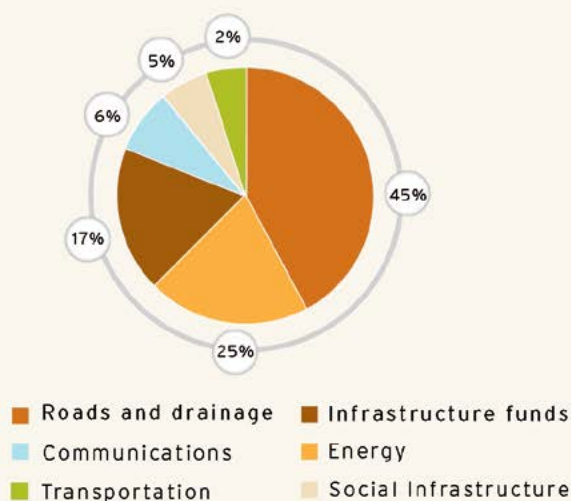
The DBSA is working with the Department of International Relations and Cooperation (DIRCO) secretariat with regard to overall decision-making on projects affecting the NSC; providing the Presidency, the NSC Steering Committee and the working groups with regular feedback on the state of play and developments on the NSC and other strategic initiatives; and facilitating effective participation of South African entities and companies in the development of the NSC (including working closely with international DFIs, organisations and the private sector).



Loan exposure per country as at 31 March 2014



Loan exposure per sector as at 31 March 2014



In January 2014, the DBSA, in partnership with DIRCO, the Presidency, Transnet, and the Department of Trade and Industry (DTI), completed the annual North-South Corridor Update Report. This report was distributed at the AU's 30th NEPAD Heads of State and Government Orientation Committee (HSGOC) meeting, as part of President Zuma's North-South Corridor Progress Report. The division further provided project preparation financing to four projects on the priority list.

Supporting partnerships and project origination development

The International Financing division regards partnership and project origination development as an important initiative for both development and business strategy. While the initiative supports the development of infrastructure solutions for the region, it is also a competitive business strategy that enables the division to play a proactive role in shaping projects and securing financing opportunities.

During the year, we continued to build strong local know how through forging in-country partnerships (such as the cooperation agreement signed with Tanzania Investment Bank in February 2014) as well as supporting the drafting of two concept papers requested by the NEPAD/Africa Development Bank/ PIDA Africa Infrastructure Initiative. The one paper was on early stage project finance and the other on transnational infrastructure programme management.

These concept papers were introduced at the World Economic Forum (WEF) Africa meetings in Davos in January 2014. This initiative highlights the importance of project preparation funds that are required for project development in Africa and the effective management of cross border or transnational infrastructure projects. It also identified the Central Corridor as the pilot infrastructure programme to be accelerated. The DBSA assisted this initiative due to our significant experience in managing project preparation funds and in preparing projects for finance. The DBSA intends to support the development and acceleration of the Central Corridor and the WEF programme going forward.

Regional deployment

The division continued to deploy staff within SADC to expand the scope and depth of our operations in the region. This initiative is aimed at enhancing relationships in strategic markets and improving operational collaboration with relevant development institutions on the continent. The deployment of staff also assists in improving the standards of operations of the host institutions, harmonising approaches to dealing with development challenges, and creating a mechanism to increase the rate of project identification and development. At year-end, two of our people had been seconded to institutions in Tanzania and the Democratic Republic of the Congo.

Benefiting with strong financial results

The expansion of our business in the year led to a sharp improvement in our financial results, with operating income increasing from R464.5 million to R730.7 million, driven by the improvements in interest income earned from development loans (R804.1 million compared to R693.0 million earned in 2012/13). Non-interest income of R221.2 million exceeded the R44.0 million recorded in the previous financial year, thanks to additional dividend income, mandate lead arranging fees and other operating income earned. The net interest margin improved from 60.7 percent in 2012/13 to 63.4 percent.

The division's efforts to manage its costs continued to deliver, with the cost-to-income ratio improving to 4.8 percent (2012/13: 5.6 percent).

Total assets increased from R14.3 billion to R15.7 billion, in line with the increase in disbursements for the year. Overall, the credit profile of the loan book remained well managed. Impairment losses declined to R173.3 million from R277.0 million in the previous financial year.

However, due to the continuing difficulties experienced in various economic sectors in SADC, the division experienced a deterioration in certain of its equity investments with a

net unrealised revaluation loss on equity investments of R519.2 million (2012/13: gain of R141.9 million) recognised in the year. This adjustment contributed to the decline in net profit for the year of R3.0 million compared to the R303.5 million profit recognised during 2012/13.

Looking ahead

A thorough review of our operations has pointed to the need for the International Financing division to prepare and finance the projects that matter, ensuring that the DBSA becomes a conduit through which the South African government can achieve its economic integration and development objectives for the continent.

In the year ahead, we expect to benefit from the expansion of our investment mandate to the African continent; focusing on early stage project development; broadening our product offering; developing targeted expertise and leveraging partnerships with leading infrastructure agencies from Europe, Asia and the BRICS nations to secure opportunities to co-finance regional projects. Crucially, however, we believe that our new approach will bring about important strategic development benefits to both South Africa and the rest of the continent.



INFRASTRUCTURE DELIVERY

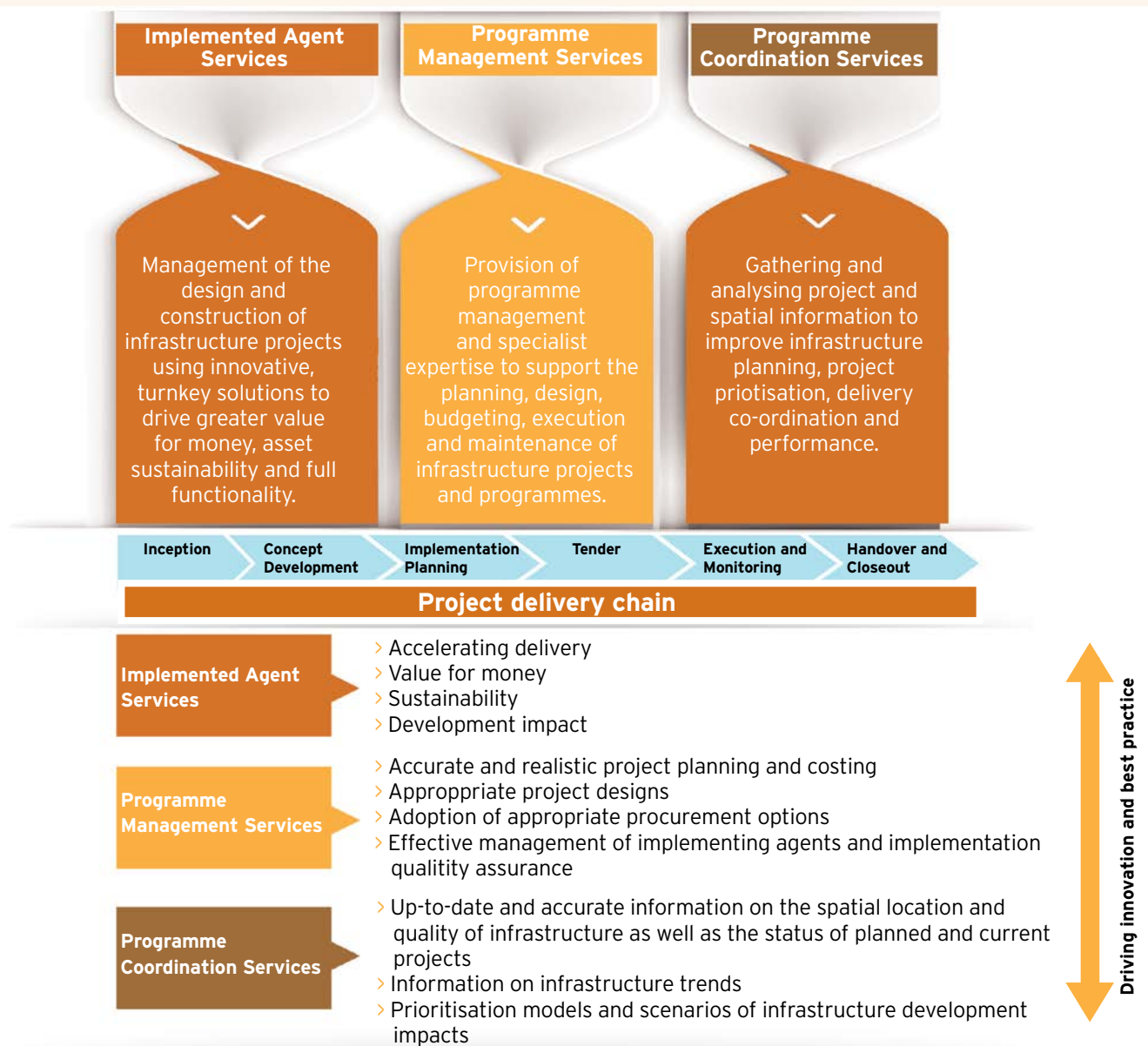
- **Employee numbers: 8 permanent, 63 contactors (mostly engineers, construction project managers, programme managers and quantity surveyors).**
- **Completed 32 schools, 560 rural houses, 41 doctors' consulting rooms and refurbished 68 clinics.**
- **120 percent of programme expenditure recovered.**

Assisting the government to provide essential infrastructure

The Infrastructure Delivery division helps the South African government supply quality infrastructure to communities. The 2013/14 financial year marked its first full year of operations, after being established in January 2013 following the restructuring of the Bank and the subsequent closure of the Development Fund, some of whose functions it incorporated.

The division aims to become a centre of excellence in infrastructure delivery, implementing innovative turnkey solutions which offer good value for money and are sustainable. We aim to attract the best skills for use by both the Bank and our clients. We also endeavour to be the first port of call for up-to-date, accurate infrastructure data to enable effective planning and performance.

The division's identity is distinct from the infrastructure funding mandate of the Bank in that it acts as an implementing agent as well as a programme manager and coordinator for infrastructure projects. It supports the government by filling the gap left by weak implementing agents of the state that have underperformed in the delivery of social infrastructure. Many government departments suffer from limited institutional capacity, which impacts on the way infrastructure projects are planned, costed, packaged, executed and maintained. We aim to help by providing a professional, cost-effective service, while recovering all our costs.



Getting established while continuing to deliver

We had a busy year, in which we built up the division while not compromising on the delivery of projects to our clients, particularly in the health, education and housing sectors. At the outset, we needed to secure the right skills for all approved programmes, develop efficient processes and procedures, secure core partnerships and start to build a pipeline for the long term in our targeted focus areas. By year-end, we had developed 23 processes and approved them for standardisation across the division. These range from scope management, resource management and contract management to accounts receivable and cost management.

Implementing projects

The core function of the Infrastructure Delivery division is to implement projects in the field of education, health and housing. We achieved much in this regard in 2013/14.

Schools

Phase 1

After building 17 schools in 2012/13, we completed the first phase of a project for the Department of Basic Education to build 49 new schools in the Eastern Cape by completing the remaining 32 schools in 2013/14. They form part of the department's Accelerated Schools Infrastructure Delivery Initiative (ASIDI), the primary medium-term objectives of which are to replace schools built of inappropriate materials (such as mud) with properly constructed facilities which meet basic levels of functionality in terms of water, sanitation, electricity and fencing. ASIDI is part of the department's overall plan to bring about better access to education and improve learning outcomes.

The construction of the 32 Eastern Cape schools led to the creation in 2013/14 of 653 employment opportunities, and benefited 57 SMMEs. Since 2012, a total of 3 453 employment opportunities have been created under this programme. In the 2014 school year, almost 9 000 learners enrolled at these new schools. During the rollout, the DBSA learned valuable lessons with respect to integrated planning, the provision of basic services as well as the management of contractors. Many contractors were not able to cope with the challenges posed by the difficult terrain in which the schools were built, as well as the accelerated nature of the programme. This is evidenced by the rate of contractor default and liquidations.

As a result, we had to come up with a number of contingency plans. Among these, we terminated the contracts of non-performing contractors and extended the contracts of those who produced workable recovery plans. We increased our monitoring of sites to speed up progress and chose to pay many material suppliers directly. We also increased the number of sub-contractors on site.

Going forward, we understand the need to agree more realistic construction schedules and make financial contingencies for programme and budget overruns. We have already embarked on establishing professional service provider panels as well as contractor panels, and have set up strategic partnerships with materials providers. We are also creating partnerships to provide working capital to contractors.

We are considering the use of different building technologies to speed up construction of more schools, as well as reviewing the mix of grade 8 and 9 general building contractors and smaller contractors in order to fulfil both our empowerment and developmental goals.

Phase 2

During the year, we advanced our plans to build another 71 schools for the DBE in six provinces. We appointed 19 professional service providers for the detailed planning, design and procurement support and construction oversight of these schools, most of which are in the Eastern Cape. Despite some revisions from the client, which led to delays, the professional service providers completed all site development plans and detailed designs in the year. By year-end, construction of the first 18 schools had begun following the handover of sites to contractors. We expect construction of the remaining 53 schools to begin in the new financial year.

Housing

The Infrastructure Delivery division's work in the housing sector is centred on a pilot project in Elliotdale in the Eastern Cape. After building and handing over 200 houses in Phase 1 of this project in 2012/13, in the 2013/14 year we completed another 560 units. Although this represented much quicker delivery than the previous year, it was short of the 800 houses we had targeted. This was due to a number of challenges experienced during construction, including the topography of the area and poor road conditions which affected the timely delivery of building materials. Another challenge was the delay in loading data on the housing beneficiaries, which delayed the selection of appropriate housing types.

Health

Doctors' Consulting Rooms

In the year, we completed the construction and fitting of 41 doctors' consulting rooms at clinics across the country in areas identified as National Health Insurance (NHI) pilot districts. The project was a turnkey one, in which we also sourced and supplied the medical equipment and furniture required. For the first time, we used alternative building technologies, which were far less costly and quicker to erect than traditional bricks and mortar, without compromising the quality of the facilities.

We learned valuable lessons in this project, which we will use for our work going forward, as well as for the balance of 61 consulting rooms we are committed to deliver under the R218 million programme.

Clinic Facilities Maintenance

In June 2013, the national Department of Health appointed the Bank to carry out the minor refurbishment and maintenance of facilities at 94 clinics in NHI districts across the country. By year-end, we had completed work on 68 clinics, and for the first time linked artisans (students and graduates of further education and training colleges) to contractors to gain experience on the job. We intend to extend this model to help provide essential maintenance of public facilities and at the same time securing employment for young people.

Gauteng Hospital Revitalisation Programme

In March 2012, we were appointed to work on the upgrade and refurbishment of six health facilities in Gauteng. These include the Chris Hani Baragwanath Hospital in Soweto, the Khayalami District Hospital in Kempton Park, the Lenasia South Level 1 Hospital, the Discoverers Level 1 Hospital in Florida, the Johannesburg Forensic Pathology Mortuary and the new Bronkhorstspuit Forensic Pathology Mortuary.

This programme has faced numerous delays, including of approvals by the client. During August and September 2013, we appointed professional service providers for the Lenasia and Discoverers hospitals. However, the estimated project costs to upgrade these two dilapidated hospitals was much higher than the client had budgeted and so we have not yet received approval to proceed with detailed designs.

Managing programmes

The division's programme management unit helps support the planning, design, budgeting, execution and maintenance of infrastructure projects to both government and private clients. Achievements for the year includes:

The National Rural Youth Service Corps

The National Rural Youth Service Corps programme, established in 2010, aims to create economic opportunities for the rural youth, including skills training. The Bank hosts the programme's technical support unit, providing monitoring of and quality assurance support to the Department of Rural Development and Land Reform. In the year, 2 057 learners were placed in infrastructure employment opportunities through the programme. We concluded 50 agreements with potential host employers in the infrastructure sector to provide experiential learning. We also helped facilitate the registration of eight youth enterprises by learners who are leaving the programme.

The aim is to nurture and develop these into sustainable enterprises.

Anglo American South Africa Municipal Support Programme

In 2012/13 we entered into a partnership with Anglo American South Africa to help improve the capacity of and service delivery by municipalities in and around the company's mining operations and the areas from which it sources many of its workers. As part of this public/private sector partnership, we signed service level agreements with seven municipalities (Thabazimbi, Rustenburg, Moses Kotane, Ga-Segonyana, Gamagara, Tsatsabane and Joe Morolong) and are working towards agreements with another four. They aim to build more effective partnerships between private companies and local government in municipal service delivery.

Among the interventions being implemented in the Northern Cape are those aimed at enhancing municipalities' revenue, obtaining technical data on the status of municipal master plans as well as operations and maintenance plans and reviewing municipal building plans. We are in talks with a number of other companies on establishing similar partnerships.

National Department of Health Programme Management Support

The DBSA provides support to the infrastructure units in the national Department of Health - providing programme management advisory services to improve the ability of the department to monitor, manage and accelerate the delivery of health infrastructure to agreed quality standards and budgets. This support is considered temporary until such time as sufficient officials with the necessary built environment qualifications are appointed to take over these functions.

Among achievements in the year were the submission to the department of a draft infrastructure maintenance framework as well as the development with the department of detailed draft frameworks for maintaining healthcare technology and facilities. We also made good progress implementing a project management information system to support the monitoring of project milestones.

We completed a master plan for 19 nursing colleges and provided technical advice and support at all stages of the department's project implementation cycle: from budgeting, to project inception and planning, to project construction and implementation.

Regional Spatial Development Initiative Programme

In line with the regional integration efforts of the Southern African Development Community, this programme is aimed at assisting other African countries to prepare high quality, viable economic anchor projects which would be able to attract both private and public sector investment. The approach is to provide technical assistance to help define a package of measures designed to accelerate the process of preparing a cluster of bankable projects in regions with high growth potential.

In the year, we completed the first phase of work in Tanzania and Namibia and expect to support at least five projects in these countries in the year ahead.

Coordinating programmes

The division works to gather and analyse project and spatial information to improve infrastructure planning - including prioritising projects and coordinating their delivery - on behalf of government departments and other clients.

The South African cabinet has approved 18 strategic integrated projects (otherwise known as SIPs), each one made up of a large number of infrastructure components, to support economic development. We have been appointed to coordinate SIP 6 - the Integrated Municipal Infrastructure Project. It aims to address maintenance backlogs and upgrades required in, among others, bulk water reticulation, sanitation, electricity and roads in the 23 least-resourced district municipalities.

As the SIP 6 coordinator, we need to collate information from all relevant agencies, departments and implementing agents and report quarterly to the Presidential Infrastructure Coordinating Commission. Among the key stakeholders with whom we engage are Eskom, the Council for Scientific and Industrial Research, the South African National Roads Agency Ltd, the national departments of water affairs, energy, basic education, health, public works, rural development and land reform, transport, cooperative governance and traditional affairs as well as municipalities, district municipalities and water boards.

In the year, we submitted three quarterly reports, with only the submission of the fourth quarter report outstanding at year-end due to delays experienced by our data sources. Although we have encountered a number of challenges with regard to the non-submission of information, as well as receiving incomplete information from some stakeholders, the coordination of SIP 6 improved in the year.

Financial results

A key component of the implementation of the Infrastructure Delivery division's strategy is to structure the service offering on a full cost-recovery basis, including indirect expenses. However, the Bank recognises the need to support the division during its inception phase and has committed to continue to do so over the medium term.

For the year, programme income amounted to R72.8 million, representing 120 percent of programme expenditure of R60.9 million (excluding the costs of the Office of the Group Executive, the Vulindlela Academy and certain DBSA internal costs). The Bank funded R14.1 million as part of the set-up costs and non-recoverable expenditure, including Vulindlela Academy.

Looking ahead

After a year in which we established all the necessary systems, processes and people required to deliver on our mandate, the Infrastructure Delivery division is expected to gather further momentum in the year ahead. We have learned a number of valuable lessons in the past year, and we will apply these to our work ahead. Among those not mentioned previously, such as difficult logistics, we acknowledge the need for effective stakeholder management.

We see numerous opportunities to assist in the delivery of infrastructure, but are realistic about the challenges we face. These include delays in decision-making by our clients, poor performance of some of our contractors, lack of a culture of innovation and failure to meet appropriate profit margins and recover our operational costs. As a result, we have put in place controls and plans to mitigate these challenges and ensure that they do not disrupt the implementation of programmes and our overall strategic objectives.

The 2013/14 year ended with a number of projects still in the procurement and early implementation stages. In the year ahead, we will focus on bringing these projects into full implementation and some to completion. We will also seek to establish an innovation and design lab, providing a platform for clients and partners to assess best practices and cutting-edge alternative building technologies in our priority sectors and so remain abreast of the latest technologies. We also intend to set up a thorough contractor database, which will allow us to respond quickly to new opportunities, and we would also like to develop this into a service we offer our clients.

We will continue work to develop and implement a project and portfolio management system to centralise the management of our numerous and diverse projects.

HUMAN CAPITAL INVESTMENT AND DEVELOPMENT

- **425 permanent and fixed-term contract employees.**
- **41 fixed-term contractors for selected programmes and agencies.**
- **68 percent black representation.**
- **Staff retention ratio of 90.1 percent.**
- **R30.0 million disbursements per employee (2012/13: R13.7 million).**

Investing in our major asset - employees

Following the organisational review, it was critical for the Bank to stabilise operations during 2013/14 and begin to transform the DBSA into a high-performance entity. Employees are a critical driver of the Bank's business performance and sustainability and the high calibre of the DBSA's current management at senior operational level is instrumental in creating value and long-term sustainability for the DBSA.

However, there is a shortage in the supply of many of the business- critical skills we require to deliver on our strategy.

As a result, the Bank has undertaken a number of initiatives to attract the best talent and make the DBSA an attractive place for our staff to work and develop their careers.

Although good progress has been made to date, we acknowledge that significant work still remains to be done.

Finalising the organisation review

The changes made during the organisational review resulted in the need to repopulate the management layer, with most positions successfully filled by internal candidates by the close of the 2012/13 financial year. As part of the reorganisation process, employees were afforded the opportunity to choose voluntarily severance or early retirement packages as a means to exit the organisation.

Following extensive consultation with union and non-unionised staff representatives, the operating structure below management level was concluded during the 2013/14 financial year and the DBSA-approved headcount was reduced from 839 (including the DBSA Development Fund) to 496. In addition, 129 contract positions were approved to support the various infrastructure delivery programmes of the Bank. At year-end, the DBSA had 71 vacancies. No employees were retrenched during the reorganisation process, however 199 selected voluntary severance and 45 took early retirement packages.

Total number of DBSA employees who joined and left the Bank during the year under review

Age group	18 - 30		31 - 40		41 - 50		51 - 60		Above 60		Total by gender		Grand total
	F	M	F	M	F	M	F	M	F	M	F	M	
Total employed at 31 March 2013	16	16	142	104	103	107	61	74	7	37	329	338	667
Joined the Bank	1	7	14	18	2	9	2	3	0	3	19	40	59
Left the Bank	7	8	64	46	36	42	30	30	4	34	141	160	301
Total employed at 31 March 2014	10	15	92	76	69	74	33	47	3	6	207	218	425

Staff retention remained a crucial focus area and the Board approved various retention incentives for critical skills in the year. Of the 205 key employees awarded incentives with a claw-back period of between one and three years, 195 employees accepted. The retention rate of critical skills was 90.1 percent at the end of March 2014 against a target of 70 percent.

Employment

The DBSA implements an employment policy that informs and regulates the management of people within the Bank.

The policy outlines employee benefits, general working conditions, and learning and development opportunities. The management of discipline is guided by the disciplinary code and procedures. All employee-related policies are available on the Bank's internal portal. Policies are reviewed from time to time to ensure compliance with legislation and to accommodate a flexible working environment.

Decision-making with respect of human capital policies is informed by a structured consultation process via internal committees, such as the Human Capital Management Committee (which has employee representation across the various business units) and the Employment Equity and Skills Development Committee.

Diversity and equal opportunity

The DBSA is committed to creating and maintaining an environment which provides equal opportunities for all employees, with special consideration given to previously disadvantaged groups. The formal company employment equity policy codifies this commitment and stipulates the promotion of equal opportunity, the elimination of unfair discrimination and the implementation of positive measures to redress disadvantages previously experienced by designated groups.

Equal remuneration for women and men

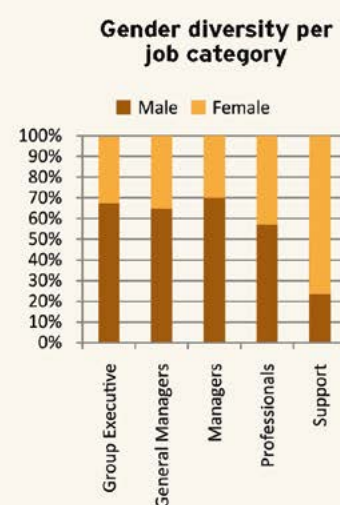
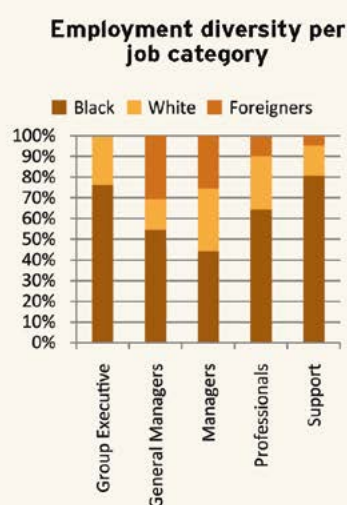
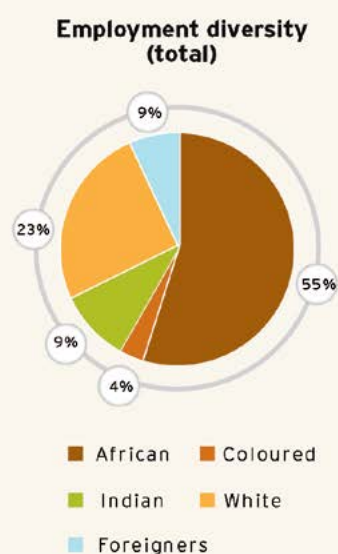
Remuneration and employee benefits are attractive, well structured and competitive, and are aligned with legislation. Remuneration practices are regularly reviewed and the Bank is committed to removing unfair discrimination in pay scales. Pay differentials are disclosed in terms of employment equity legislation. The income levels of men and women are continually reviewed and any possibly unfair anomalies are addressed.

Positions are evaluated and graded in terms of job outputs - race and gender are not considered in the evaluation process. This ensures a like-for-like comparison in the marketplace. The DBSA has only one pay scale, based on job contribution and market comparisons.

The Bank's remuneration policy is detailed further on pages 29 and 30 of this report.

Total workforce by employment type, gender and designated group, as at 31 March 2014 (excludes agencies/programmes)

	Indian		African		Coloured		Black		White		Foreign National		Total by gender		Grand total
	F	M	F	M	F	M	F	M	F	M	F	M	F	M	F + M
Permanent	22	18	120	109	8	7	150	134	40	52	12	16	202	202	404
Management	6	4	7	13	0	2	13	19	4	10	3	4	20	33	53
Non-managerial	16	14	113	96	8	5	137	115	36	42	9	12	182	169	351
Contract	0	0	1	3	0	1	1	4	2	2	2	10	5	16	21
Management	0	0	0	1	0	0	0	1	0	1	0	5	0	7	7
Non-managerial	0	0	1	2	0	1	1	3	2	1	2	5	5	9	14
Total	22	18	121	112	8	8	151	138	42	54	14	26	207	218	425



Skills Development Investment

Research consistently highlights the importance of talent management to the success of an organisation

It has become one of the key focal points for executive teams. Success, though, depends on the degree to which an organisation's policies and processes support one another and the single goal of talent management. To this end, the Bank has critically reviewed and updated policies associated with talent management, including the employee policy and the development policy. In addition, a particular focus has been placed on executive and leadership development, with the creation of a behavioural competency framework for leadership and an associated development strategy.

The DBSA is firmly committed to the development of its employees. The DBSA invests heavily in developing our internal skills pipeline and resourcing from the external talent base to combat the skills shortage that exists in the development finance sphere. At least three percent of the Bank's payroll is set aside for training and development of staff.

All employees are encouraged to take ownership of their developmental journey. Employees together with their managers are expected to complete individual development plans on an annual basis. This is to ensure that they consistently stay relevant in their fields of expertise, close any skills gaps and build their careers accordingly.

During the year, a combination of internal and outsourced training sessions were conducted covering, among others, the following key technical business management skills:

- Project finance.
- Deal syndication.
- Business development.
- Advanced corporate credit skills.

During the year, R2.4 million (2012/13: R5.4 million) was invested in staff training, supporting 277 employees (138 women and 139 men) in 482 interventions. Of the total, 64 percent of the employees trained were from the black designated group. The decrease in the amount spent on training was the result of the suspension of training during the period of the organisational review. Going forward, it is anticipated that the Bank will invest significantly in the training of our staff, especially in the areas of new business development skills, deal and syndication structuring expertise as well as municipal pre- and post-financing support. This is in order to support the Bank's ambitious objectives. As part of the managers' development programme, in the year ten managers enrolled in and completed the Management Development Programme.

Employee wellbeing

The DBSA Wellness Programme gives the Bank the opportunity to make our employees healthier and in this way help reduce costs related to health care, productivity and absenteeism. It helps encourage the healthy behaviour

of our employees in both the workplace and at home. In this way, a targeted wellness programme may help not only improve the DBSA's financial performance but also the health and sustainability of our communities in the long term.

The programme directly supports the attraction and retention of key talent and the enhancement of employee productivity and overall performance. It also provides for psychosocial wellness through external counselling services, for general health management through medical aid consultation, for measurement of health through the annual DBSA Wellness Day, for disability and disease management and occupational health and safety through an on-site nurse and work safety programme. The Bank will continue to increase the level of participation in these offerings and is currently reviewing its Wellness Programme, in which it invested R726 000 in the year.

Occupational health and safety

Occupational health and safety standards are covered by prevailing legislation. The DBSA's operations conform to the principles of the International Labour Organization's Guidelines on Occupational Health and Safety.

Occupational health and safety concerns are the direct responsibility of the Chief Executive Officer. The Corporate Health and Safety policy statement outlines the intentions and principles in relation to the Bank's overall safety and health performance. The policy statement provides the basis for the framework for action during the year. Formal health and safety committees with management and worker representatives cover all staff.

To provide an operational forum for the management and governance of health and safety in the workplace, the DBSA has implemented an Occupational Health and Safety Committee. All divisions are required to nominate a representative to serve on the Committee. In total, 11 staff members, representing 2.6 percent of the workforce, formed part of the Committee. 27 health and safety team members support the Bank. One Bank-wide evacuation drill was conducted during the year. Two lost-time injuries were reported to the Commissioner and 26 minor injuries were reported and treated by our on-site occupational nurse. These injuries all occurred at the DBSA premises in Midrand. The table below summarises these incidences and their impact.

Occupational health and safety incidents during the year

Item	Number of incidents	Impact
First aid (minor)	26	Immaterial
Lost-time injury (disabling)	2	0 workdays lost

ENVIRONMENTAL AND SOCIAL COMMITMENT

The DBSA regards sustainable development as a fundamental aspect of sound business management. It appreciates that sustainable development is an institutional commitment, and it forms a primary part of the Bank's quest for good corporate citizenship and sound business practices. The Bank further subscribes to a precautionary approach to environmental and social matters, seeking to anticipate and prevent possible negative impacts on the environment and society.

The DBSA's contribution towards the development of a sustainable South Africa and a green economy

The Bank is actively involved in broadening its support for the development of a greener economy and sustainable green infrastructure across its mandate areas. In particular, the Bank is working with the Department of Environmental Affairs (DEA) and the National Treasury with the aim of facilitating and ensuring greener infrastructure and sustainable development across the region.

The Bank is also involved in the following environment and sustainable development-related initiatives:

- Collaboration in the environmental sector with the DEA. This programme is aimed at knowledge sharing, sustainable development and the development of greener infrastructure. This applies to both the built environment and the natural environment, in South Africa. This involves policy work, such as the use of the budget, in the future in mainstreaming decisions in infrastructure and other incentives to green behaviour.
- Implementing the Green Fund: Management of an R800 million Fund to March 2015, to assist a transition to a more sustainable society.
- Research and publications related to the greening of the economy, green jobs, climate change and green infrastructure development.
- Funding of the Independent Power Producers and renewable energy projects.
- Several Clean Development Mechanism (CDM) projects aimed at carbon emission reductions.

The DBSA's Environmental Policy and Environmental Framework require all programmes and projects considered for funding support to undergo a rigorous environmental appraisal as part of the broader investment appraisal process, underscoring its commitment to sustainable and equitable development.

In addition, the Bank has developed (and continues to refine) its environmental appraisal procedures (EAP), which outline the Bank's approach to environmental appraisal and due diligence. The DBSA EAPs are aligned with national and international best practice for environmental assessment and are implemented by the Bank's environmental specialists. The EAPs ensure that the Bank's environmental appraisals are applied in a consistent manner that supports

and enhances the Bank's decision-making processes and mitigates and manages environmental risk while also ensuring increased development impact.

Environmentally sustainable operations

The Bank is working towards reducing the environmental impact of its operations through focusing on initiatives related to:

- Energy demand management and the generation of energy from renewable energy sources.
- Business travel management.
- Office paper use and recycling.
- Solid waste generation and recycling.
- A reduction in water consumption.
- Sustainable campus management.

These initiatives reduce the Bank's carbon emissions, water use and waste generation and maintain a sustainable campus with the ultimate aim of reducing the Bank's ecological impact. As the DBSA strives to conduct its activities as a responsible corporate citizen, it has not attracted any material monetary fines or sanctions resulting from non-compliance with environmental laws and regulations.

Biodiversity

The DBSA is situated in Gauteng province, South Africa. More specifically, it is in Midrand, west of the N1 highway between Samrand Road and Olifantsfontein Road. The site is classified as Egoli Granite Grassland and is considered sensitive, with Archaean granite and gneiss of the Halfway House Granite at the core of the Johannesburg Dome supporting leached, shallow, coarsely grained, sandy soil which is poor in nutrients.

The 25.1 ha site consists mainly of open natural grassland, dominated by *Hyparrhenia hirta* grass, surrounded by development and roads. The vegetation type of this site is Egoli Granite Grassland of the Mesic Highveld Grassland Bioregion, with *Hyparrhenia* the dominant species. This grassland falls within a strongly seasonal summer rainfall region, which has very dry winters with frequent frosts.

The site is relatively small and ecologically isolated, with a uniform habitat, which translates into small-mammal richness. It has a long history of intensive land use, as a result of which sensitive species have long since yielded.

The presence and abundance of bird species in this habitat varies from season to season – the area is lush and green in summer after the rains and dry and brown or burnt during winter. It favours ground-living bird species, such as lapwings, francolins, pipits, long claws, larks and chats. Areas of the DBSA campus are ecologically sensitive and, as a consequence the Bank has implemented a programme to protect its ecological resources and habitats. In addition, it includes mandatory ecological assessments, the implementation of mitigation measures, and monitoring in its projects.



The Green Fund is a national fund aimed at supporting South Africa's transition to a green economy. The vision of the Green Fund is to "provide catalytic finance to facilitate investment in green initiatives". The DBSA manages the Green Fund on behalf of the Department of Environmental Affairs (DEA).

What is a green economy?

The United Nations Environmental Programme (UNEP) defines the green economy as one that results in "improved human well-being and social equity, while significantly reducing environmental risks and ecological scarcities". The South African government has initiated a range of strategic policy imperatives to accelerate the entrenchment of green approaches in the development process and thus aid South Africa in transitioning to a green economy. The Green Fund is one of the key initiatives which have emerged from this national policy framework.

Goals of the Green Fund

The Green Fund aims to support initiatives contributing to South Africa's transition to a low carbon, resource efficient and climate resilient development path delivering high impact economic, environmental and social benefits. The Fund responds to market weaknesses currently hampering the transition to a green economy by:

- Promoting innovative and high impact green programmes and projects.
- Reinforcing sustainable development objectives through green interventions.
- Building an evidence base for the expansion of the green economy.
- Attracting additional resources to support South Africa's green economy development.

Funding windows

The focus area of the Green Fund is defined through three thematic windows. The window design reflects the policy priorities in the National Development Plan, the New Growth Path and the National Strategy on Sustainable Development. Funding Windows through which project proposals are solicited are as follows:

- 1 Green cities and towns. Strive for well run, compact and efficient cities and towns that deliver essential services to their residents, utilising available natural resources efficiently and sustainably.
- 2 Low carbon economy. Strive towards a low carbon growth trajectory in line with national climate change policy principles.
- 3 Natural resource management: Strive for the protected and conserved resources for sustained development.

Green Fund performance

The Green Fund was established during April 2012. Since then, the Fund's funding activities have progressed. During the 2013/14 year, the Fund approved 27 projects to the value of R339.8 million, bringing total approvals to date to R671.1 million. Commitments for the year amounted to R232.6 million while disbursements increased significantly to R189.3 million, an increase of 539.3 percent.

Reducing the waste we generate

A critical aspect of the DBSA's waste management strategy is the extensive recycling of various types of waste, including cans and tins, cardboard, newspapers and magazines, plastic and paper.

Energy

The DBSA focuses on reducing its consumption of energy, mainly in the form of electricity. We have implemented a range of initiatives to reduce consumption, including installing timers on light switches and on circuits to control air conditioning.

During 2013/14, the Bank reduced its energy consumption by 9.0 percent from 3.65 MW to 3.32 MW. Since 2007, the DBSA has reduced its direct electricity consumption by 58.2 percent. As a responsible corporate citizen, aligned with global imperatives, we have set an aspirational target to improve our non-renewable energy efficiency by ten percent in the short to medium term.

Water

The DBSA is committed to being a responsible custodian of water by measuring, monitoring, managing and reporting our water use as standard business practice and where possible, proactively implementing initiatives to conserve water.

The Bank recognises that water is an increasingly scarce and critical global resource. Although our operations are not particularly water-intensive, we have committed to more efficient water consumption through reduced consumption on our campus. We also support various projects that enhance the capacity of the population to adapt to water scarcity, as well as water management solutions.

Total water used on the DBSA campus from municipal water sources is reflected in the graph below. During the year, we noticed a marked increase in the average monthly water consumption. Given the recent reduction in staff numbers as well as the various water-saving initiatives we have implemented, the cause of the significant increase remains unclear. The matter was reported to the municipality and remained under investigation at year-end.

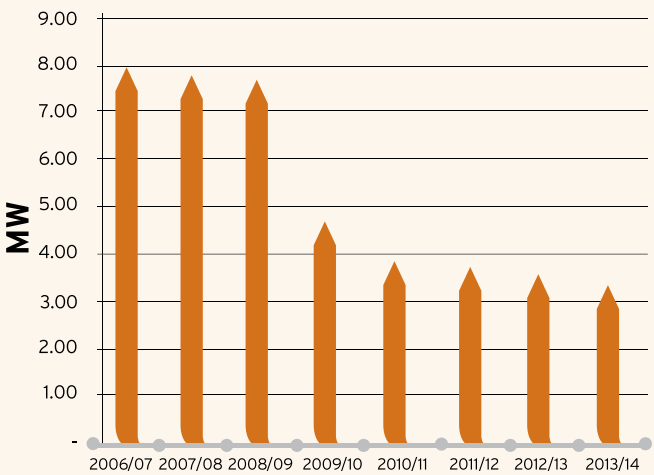
Paper recycling and our smart-printing programme

We are making good progress with our programme to recycle paper, which was introduced in July 2011. For 2013/2014, the target was to recycle 15 percent of the paper we used, however we exceeded this target mainly as a result of recycling old documentation and files.

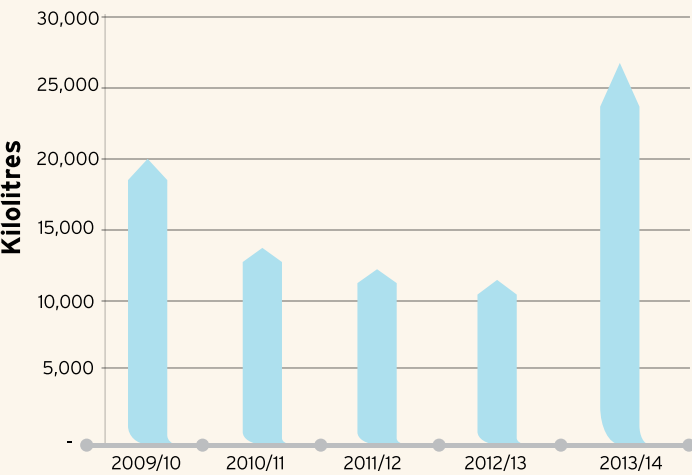
Paper usage and recycling

Description	2013/14	2012/13
Paper used during the period	22.3 tons	35.6 tons
Paper recycled during the year	27.8 tons	20.3 tons
Percentage recycled	125 percent	57 percent

Electricity consumption in MW



Water consumption in kilolitres



Emissions, effluents and waste

The Bank has implemented a wide range of energy-reduction initiatives to lower our greenhouse gas emissions. These include communication, monitoring and reporting, as well as operational initiatives such as efficient maintenance and the use of environmentally friendly cleaning products.

Effluents emanate mainly from the routine cleaning and maintenance of the campus. All effluents are cleaned of pollutants and grey water is discharged into municipal reticulation systems. Waste material is disposed of through legitimate contractors at certified waste disposal facilities. Although the Bank does not generate significant volumes of waste, we aim to recycle as much as possible.

Social commitment

Improving the quality of life of communities and individuals

The DBSA is involved in projects and programmes in various areas throughout the SADC region, and its direct influence on communities is therefore substantial. The Bank supports the employment of local people and continually interacts with local stakeholders, as appropriate. Given the nature of its operations, such interaction typically relates to development matters and any possible negative impacts of projects.

The DBSA strives to create value for local suppliers through its preferential procurement practices, and supports the appointment of previously disadvantaged individuals, benefiting communities in South Africa and the region. The DBSA is a Level 3 contributor and achieved a total score of 83.2 out of 100 on its latest BBBEE assessment.

Description	Weighting (%)	DBSA score
Management and control	15	16.00
Employment equity	15	11.63
Skills development	20	9.97
Preferential procurement	20	15.56
Enterprise development	15	15.00
Socio-economic development	15	15.00
Total	100	83.16



Jobs Fund

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

The government seeks to create 150 000 jobs over the life of the programme. During the 2013/14 financial year, the Jobs Fund worked on three rounds of applications across the four project stages: origination, approval, contracting and implementation. The portfolio of approved and committed projects, representing 93 projects, increased from R3.4 billion on 31 March 2013 to R5.0 billion on 31 March 2014 across the four funding windows.

Jobs Fund grants were matched by R6.1 billion worth of contributions from project partners. It is estimated that in excess of 140 000 new permanent jobs will be created and the placement of 56 000 beneficiaries in existing jobs will be facilitated over the implementation period. By 31 March 2014, 61 clients had signed grant agreements with the Jobs Fund. During the third call-for-proposals, the Fund received 570 eligible applications. 27 projects to the value of R1.5 billion were approved and R2.4 billion was committed by project sponsors. Based on the 27 projects approved an estimated 49 495 new permanent positions will be created and 6 993 beneficiaries placed in positions.

Disbursements for the financial year totalled R720.1 million, bringing the total value of disbursements from inception to R969.2 million. To date, the Jobs Fund has concluded various agreements and it is forecast that 143 914 jobs will be created over the life of the projects, while 12 836 actual jobs were created during the period under review.

CHIEF FINANCIAL OFFICER'S REPORT

Recording good progress in securing financial sustainability

In their reports, both the Chairman and Chief Executive Office clearly outline the key features of the DBSA's performance in the 2013/14 financial year. Many of these relate to the completion of the organisational review and the restructuring of the Bank, as well as the repositioning of some businesses and the turnaround in the DBSA's finances. All of these are significant and illustrate the Bank's progress in delivering on its strategic objectives despite the challenging environment.

In my report, I would like to discuss more particularly the Bank's key achievements with regard to delivering on its strategic imperative to maintain financial sustainability so that it can continue to achieve its desired development impact. The key indicators we target in our efforts related to financial sustainability are return on equity, quality of earnings, a more diversified product base, income and cost containment.

In 2013/14, the DBSA generated profits last seen three years ago (after reporting a net loss for the previous two financial years), we developed a new financial strategy and in June 2013 we received the first of three capital injections from our shareholder which will be worth a total of R7.9 billion over three years. These capital inflows are central to the many initiatives being undertaken on planned asset growth, to strengthen our balance sheet and increase internal reserves, with the ultimate goal of both deepening and widening the Bank's development impact.

Managing the challenges around the cost of debt

In the year, the Bank's interest expense increased by 1.9 percent, markedly below the 43.5 percent increase in the level of disbursements to R12.7 billion. This was thanks to the adoption by the DBSA of a much more active treasury function, as well as the benefits gathered from much greater interaction with the debt market and a widening of our investor base. These factors positively impacted the pricing of our debt products and enhanced our net interest margin. In the year, we moved away from relying mostly on long-dated fixed-rate bonds for our funding, instead issuing more short-dated variable-rate bonds. This enabled better matching of assets and liabilities, leading in turn to a strengthening of the balance sheet. We also secured two dates (rather than just one) a month on which to enter the market, giving us greater flexibility with regards to capital raising. We also engaged with financial institutions that offer US dollar-based facilities and were encouraged by the strong market interest in providing such facilities to the DBSA.

Aligning our pricing approach to the Bank's strategy

To ensure that we deliver to our clients as well as remain competitive, it is imperative that the Bank's pricing approach be aligned to the DBSA's overall strategic objectives. This was achieved in the year as we set an

economic ROE linked to our various sector targets. From the perspective of improving governance, we ensured that the executive-level Investment Committee oversaw our pricing approach. We also started holding more regular Asset and Liability Committee meetings (instead of quarterly meetings only).

Containing costs

In an effort to better contain costs, in the year we improved a number of our processes. This included changing the way we get suppliers to contract to the Bank and improving the tendering process for fixed services. We also worked to better control the level of variable expenses, focusing our expenditure only on those items that have a notable impact on enhancing the delivery of the Bank's strategy. Within divisions and departments we began work to drive accountability and responsibility in cost management. There was also greater focus on capital management, requiring that all projects in which the Bank invests first clearly demonstrate that they are critical to achieve the DBSA's clearly defined strategic objectives.

Making subsidisation more targeted

The cost-containment focus throughout the Bank is evidence of our efforts to do more with less. In the days of the Development Fund, the Bank's grant-based support was approximately R300 million a year. This is now limited to R80 million and any lending of this kind must be in full alignment with the Bank's mandate, i.e., be to the municipalities that need it the most. This funding is used for subsidisation of lending i.e., a reduction of rates to lower-tiered municipalities, staff costs to provide planning and implementation funding to assist secondary and under-resourced municipalities, implementation and planning review to stimulate and increase our lending pipeline to lower-tiered municipalities. This approach targets and aligns subsidisation activities to the core of development impact to communities via municipalities in addressing service delivery challenges.

Achieving better operational efficiency

In the year, we introduced quarterly financial reporting. By preparing a full set of financials every three months, our view of financial performance is enhanced. This allows for better net interest maximisation as well as improved management and oversight of volatility in impairments and foreign exchange and interest rates.

Organisational restructuring

The organisational restructuring of the DBSA was a difficult yet necessary step in ensuring the Bank's future financial sustainability as well as the shareholder's desired return on development impact and return on equity. It took into account the Bank's strategic role in supporting the development mandate of the Government of the Republic of South Africa and servicing the SADC region as well as the Bank's prospects to grow in the rest of Africa.

As part of the restructuring, the Bank wound down the Development Fund (which had been a significant contributor to the DBSA's cost base) and established the Infrastructure Delivery division. This division operates on the basis of full cost recovery. In its first year of operation it received a grant of R16 million from the Bank. On this basis the division attained a profit of R12 million.

Following the organisational restructuring, the DBSA-approved headcount was reduced from 839 (including

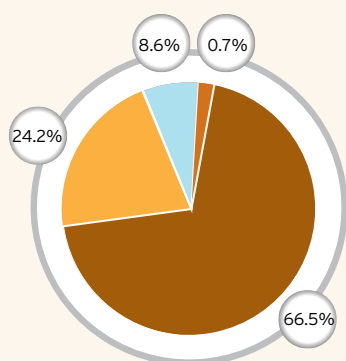
the DBSA Development Fund) to 496. In addition 129 contract positions were approved to support the various infrastructure delivery programmes of the Bank.

The implementation of the recommendations of the organisational review resulted in R153 million being paid out in the 2013/14 financial year in both voluntary severance and retention payments and a provision of R54 million being made to cover the continuing costs of further transforming the DBSA in the post-restructuring period.

Value added statement

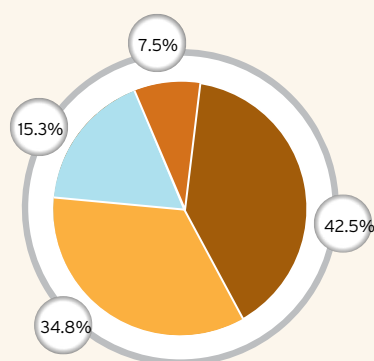
	2014		2013	
In thousand of rands		%		%
Interest income	4 576 209		4 068 007	
Interest expense	(2 487 759)		(2 441 908)	
Wealth created by trading operations	2 088 450		1 626 099	
Fee Income	334 630		188 010	
Foreign exchange gain	278 338		346 978	
Loss from financial assets and financial liabilities	(627 889)		(403 157)	
Other operating income	244 074		124 092	
Total wealth created	2 317 603	100.0	1 882 022	100.0
Distribution as follows				
Retained growth	1 540 540	66.5	799 096	42.5
Impairment loss on financial assets	734 871	31.7	1 605 632	85.3
Depreciation and amortisation	18 627	0.8	19 378	1.0
Profit for the year attributable to the shareholders	787 042	34.0	(825 914)	-43.9
Employees	561 597	24.2	654 307	34.8
Benefits & remuneration	561 597	24.2	654 307	34.8
Suppliers	198 465	8.6	287 455	15.3
Expenses	198 465	8.6	287 455	15.3
Grants and project preparation	17 001	0.7	141 164	7.5
Grants and project preparation	17 001	0.7	141 164	7.5
	2 317 603	100.0	1 882 022	100.0

2014 Distribution



■ Retained for Growth ■ Employees
■ Suppliers ■ Grant and Project Preparation

2013 Distribution



■ Retained for Growth ■ Employees
■ Suppliers ■ Grant and Project Preparation

Net interest margin

Maximising the Bank's net interest margin remains a priority. This is driven by a pricing approach that inherently provides for financial sustainability. As the Bank is not a deposit-taking institution, we continue to work to find innovative ways to reduce the average cost of debt through a diverse funding base and by matching funding from a currency and tenor perspective. This is critical in light of the expansion of the Bank's mandate to the rest of Africa. So too is the effective management of interest rate risk through a portfolio of derivative instruments.

In 2013/14, the net interest margin increased from 40.0 percent to 45.6 percent, driven mainly by greater disbursements in the year, as well as various margin-management initiatives. Interest income increased by 12.9 percent, while the Bank's interest expense increased by 1.9 percent. The rise in interest income was mainly due to an increase of 43.6 percent in development loans and bond disbursements. Some R12.7 billion was disbursed in the year under review – the highest disbursement level the Bank has ever achieved. Municipalities, state-owned entities and participants in the independent power producers' programme continued to dominate the profile of the Bank's disbursements. In the years ahead, the Bank expects to increase its level of disbursements in support of its mandate.

Operating profit

The Bank achieved operating profit of R787 million in the year, an increase of 195.3 percent from the prior year. This was the result of: 1) a reduction in operational expenses following the organisational review; 2) an increase in fee income; 3) a decrease of 75.5 percent in grant funding to R38 million (R159 million 2012/13) as the Development Fund was wound down; 4) foreign exchange gains; and 5) a decrease in the fair value adjustment of the Bank's equity portfolio. There was also a significant decrease of 54.2 percent to R735 million (R1.6 billion in 2012/13) in the impairment charge to the income statement as the Bank now normalises its loan book assets. This followed large impairments in 2012/13 which were mainly of investments made in the private sector.

The Bank's sustainability earnings improved to R1.2 billion from a loss of R615 million in 2012/13. Sustainability earnings are the normalised earnings of the Bank that do not take into consideration fair value adjustments and foreign exchange gains or losses. They reflect more accurately the operational performance of the Bank.

Balance sheet strengthening

A key factor in ensuring financial sustainability is to have a strong balance sheet to fund growth of the asset portfolio.

The capital injection by the government therefore aims at increasing the equity capital base to fund growth while ensuring it remains below the prudential debt/equity ratio limit of 250 percent excluding callable capital. It is

imperative, however, that in strengthening the balance sheet the Bank achieves resilience particularly considering the uncertainty of the economic environment globally.

In the year, the strengthening of the balance sheet was aided by the capital injection by the shareholder of R2.4 billion and a narrowing of the asset and liability matching gap. For the first time, a floating rate bond issue was raised and US dollar funding was sourced from funders outside the normal credit lines provided by international development finance institutions. This was to ensure currency matching so as to minimise volatility. The Bank's balance sheet remains asset sensitive and the debt/equity ratio is managed within the 250 percent limit.

Asset portfolio

Development loans

The Bank aims to grow the loan book but not at the expense of quality. This is particularly important given the successful completion of the restructuring process. The loan disbursements for the year amounted to R11.2 billion (2012/13: R8.4 billion).

Despite the extension of the Bank's mandate to the rest of Africa; the DBSA will continue in the next few years to fund disbursements for South Africa and rest of Africa in the same proportions, i.e., around 70 percent within South Africa and the balance on the rest of the continent. Within South Africa, the sector focus is expected to remain primarily on transport, energy, ICT, municipalities and water. With the expanded mandate, the DBSA will be exposed to more opportunities which have the desired catalytic development impact.

Impairments - development loans

The strength and quality of the development book continues to be within acceptable levels. In line with the Bank's credit review process, the recoverability from the loan book is regularly assessed. Based on the detailed assessment conducted, the non-performing development loan book decreased from R3.2 billion in March 2013 to R3.0 billion as at 31 March 2014 and the impairment provision increased to R2.4 billion at 31 March 2014 from R2.3 billion in March 2013. At 5.8 percent at end-March 2014, the value of non-performing loans as a percentage of the gross development loan book is within the target of 6 percent (2012/13: 7.3 percent). The increase in the impairment level in the 2013/14 financial year continues to be in line with the new recovery rates, changes in risk ratings and specific impairment considerations.

Development bonds

As part of our product diversification approach, some development loans were structured as development bonds. These amounted to R750 million. In the last few years, metropolitan cities have started using bonds to fund their infrastructure development needs. As a Bank that supports municipalities, the DBSA has invested in these bond issues

which are held as part of the strategic liquid portfolio. In the 2013/14 financial year this became evident with the Bank's purchase of a R750 million bond, for which it created a separate asset class. The development bond portfolio is designated as 'held to maturity' and 'held at amortised cost'.

This designation is in support of balance sheet strengthening in maintaining appropriate levels of volatility introduced by fair value designation.

Equity investments

The carrying value of the Bank's equity investments increased from R4.4 billion at 31 March 2013 to R4.6 billion in March 2014. This made up 7.2 percent of the asset portfolio. The disbursement on the commitment within the equity portfolio amounted to R688 million. As reported in the prior year, the Bank's approach to equity holdings has been revised following the non-performance within its equity portfolio. The Bank will not be entering into any new private equity funds. However the DBSA will still participate in direct investments arising from the business activities generated out of the project preparation business unit. This is part of efforts to diversify income sources.

Valuation of equity investments

The fair value adjustment downwards on the equity portfolio for the year amounted to R778 million. Given that the Bank remains concerned about the disappointing performance of its investments in private equity and the volatility in investment valuation, the Bank will consolidate and exit investments where there are performance issues or where there is no strategic fit with the DBSA's new strategy. The Bank continues to have a commitment of R1.9 billion for future investment in equities.

Liquid portfolio

The Bank's liquidity pool comprises operational and strategic liquidity. The Bank's cash and cash equivalent holdings increased from R4.7 billion to about R6.3 billion. The Bank's holdings in investment securities decreased from R3.4 billion to R2.1 billion due to the maturing of some of its investment securities in the year and fair value adjustments. The DBSA aims to hold optimal liquidity in order to meet the disbursement and operational requirements as they fall due with a view to minimising the costs of carry on the liquidity portfolio holdings.

Liability portfolio

Funding activities

Despite some debt repayments, the Bank's total funding-debt securities increased from R26 billion at 31 March 2013 to R29 billion at 31 March 2014 due to new short-term and medium- to long-term debt issuances to fund disbursements. At 31 March 2014, 60 percent of the funding was sourced from the debt capital market compared to

72 percent in the prior year and this shows the successful implementation of the Bank's funding diversification efforts.

Derivative assets and liabilities held for risk management

As part of the Bank's risk management approach, the DBSA uses swaps and foreign exchange contracts as hedging instruments. Derivative assets decreased from R1.4 billion to R1.3 billion during the year mainly due to the upward shift in the yield curve and the depreciation of the rand.

Exchange rate risk management

The foreign currency exchange gain for the year amounted to R280 million. This was largely driven by the Bank's unrealised dollar asset position. As reported in the prior year's report, a decision was taken in October 2012 to hedge certain equity investments, however the hedging instruments were unwound at 31 March 2014 resulting in an unhedged position of US dollar equity investments.

Revaluation of financial assets and financial liabilities

The loss from the revaluation of financial assets and liabilities widened from R403 million in 2012/13 to R629 million in 2013/14. The net movement in the valuation of financial assets and liabilities resulted from the following: increase from debt portfolio R707 million; decrease from equities portfolio (R779 million), decrease from investment securities (R117 million) and a decrease in the derivative portfolio of (R438 million). The movement in the swap portfolio is mainly due to yield curve movements and the relative movement between bonds and swaps remains a high risk to the Bank. It has the potential to offset the gains realised in interest expenses. The valuation on the DBSA's DV bond liabilities relates to DV bond liabilities which are hedged by both swaps and investment assets.

Working capital management

The Bank continues to manage its working capital closely for operational cash flow purposes. In addition, the Bank manages working capital for the operations, agencies and mandates that remain after the winding down of the Development Fund. Trade creditors and sundry debtors are made up mainly of transactions between the Bank and agencies. Comprehensive disclosure is provided under notes 6 and 18 respectively of the annual financial statements.

Liquidity management

Liquidity management is a key focus for the DBSA's Treasury Unit. Unlike commercial banks where the liquidity holding and management is governed by the Banks Act and Basel III regulations, the DBSA is neither governed by the Banks Act or Basel III regulations. In the interest of ensuring that the Bank is aligned to an optimal risk management framework, some of the liquidity targets are drawn from

these rules and guidelines as well as from the best practice guidelines as issued by National Treasury.

In the year under review, better forecasting techniques were used for cash flow management, working capital facilities to address timing differences for US dollar cash flows were concluded and the investor base was widened through the issuance of commercial paper. This resulted in the DBSA having sufficient liquidity to meet all financial obligations on a timely basis. Our efforts to access the bond markets more frequently was increased from once a month to twice a month with effect from April 2014. Access to the capital markets is aligned to the state-owned entity auction calendar.

Funding

Funding requirements increased on the back of record disbursements. There was an increased focus on diversification of funding sources (through appropriate funding and post-funding strategies) to achieve a funding mix at an optimal cost to promote financial sustainability. Foreign borrowings were sourced to match foreign loan book assets. Work to build the funding curve resulted in four new bond issuances in the year.

Foreign currency management

The rand started the year at R9.22/\$, depreciated to R11.27/\$ in January and ended at R10.52/\$ on the 31 March 2014. We adopted an approach to hedge currency exposure naturally through offsetting assets and liabilities of substantially similar nominal positions, maturities and currencies. The impact of this was a substantially reduced derivate asset/liability position at year end. The impact of the volatility on the income statement of the currency translation effect amounts to R280 million.

We will continue to evaluate opportunities for offshore public debt issuances in an effort to identify opportunities to reduce the cost of funding, reduce volatility through a natural hedge and to alleviate our dependence on the domestic market.

Interest rate management

The Bank provides clients with the flexibility they require, to the extent that the resulting risk remains manageable within the confines of the risk appetite of the DBSA. This is necessary not only to ensure the financial feasibility of the development projects financed by the Bank, but also to ensure its long-term competitiveness in its primary markets. As a result, the optimal mix of fixed versus floating rate debt funding is driven by borrower demand, rather than some predetermined ratio. While much of the resulting interest rate risk is eliminated naturally through the matching of assets and liabilities, a substantial portion of residual risk remains, necessitating the use of derivative instruments to lock in the net interest margin in our work to ensure long-term financial sustainability. The repricing gap is R16 billion versus R10.6 billion in 2012/2013.

Winding down of the Development Fund

The winding down of the Development Fund led to the Bank bringing to an end a large number of agency relationships and continuing only with those aligned to the DBSA's mandate.

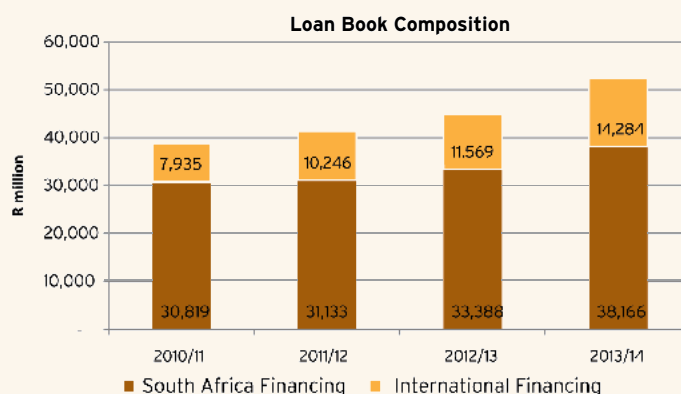
Those agency relationships that are aligned with the Bank's mandate were absorbed into the Infrastructure Delivery division. It operated on a cost-recovery basis in the year and is expected to grow into a profitable business in the years ahead. Those agencies that provide strategic alignment are managed by other divisions within the Bank. This move marked a significant shift in attaining financial sustainability while fulfilling the development mandate as these initiatives now have the potential to add to the profitability of the Bank and not cost the Bank in grant funding. In the past three financial years the Development Fund had cost the DBSA over R600 million.

The Bank's grant to the Development Fund was reduced to nil in the year under review from R120 million in the prior year, however direct grants by the DBSA amounted to R29 million in 2013/14 and indirect grants totalled R9 million. Indirect grants are services provided to agencies and various mandates for which the DBSA does not recover costs but continues to support. Detailed disclosure is provided under note 41 of the annual financial statements.

Risk enhancements profiling

Quality of the credit portfolio

The total loan book increased by 16.7 percent from R45.0 billion in 2012/13 to R52.4 billion at the end of 2013/14. The South Africa Financing division experienced growth of 14.3 percent and the International Financing division grew its gross loan book by 23.5 percent.



During the year, the overall credit portfolio migrated from low to medium risk because of the downgrade of certain of our major clients as well as the impact of the disbursements to the various participants in the IPP programme, which is rated as medium risk. The change in the profile is also a function of improved measurement of risk through the continuous enhancement of our credit methodologies, risk assessment tools and default risk models. Existing models were enhanced in order to increase risk measurement accuracy and new processes were put in place to ensure appropriate and effective challenges of rating models outputs. As part of

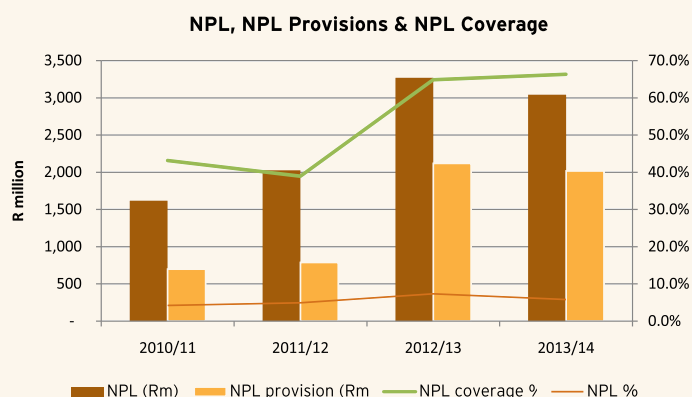
the annual client review process, during the year most of the existing large-exposure clients were rated for the first time using these enhanced models. This resulted in changes to risk classifications of some of these clients, thereby significantly changing the weighted average risk rating of the Bank's loan book. In reality, the actual risk profiles of these clients have not changed. What has changed is the approach to risk measurement to more accurately reflect the risk profile of the Bank's clients. The overall migration is however not unexpected in the context of the required role of a development financial institution.

Going forward, it is expected that as the process of client annual reviews continue, there will be further changes in the risk profile of the loan book to be more reflective of the overall risk. These reviews are however not expected to have a significant impact on the overall risk profile as the larger exposures have already been factored into the current rating.

Non-performing loans (NPL) decreased from R3.3 billion at 31 March 2013 to R3.0 billion at the end of 2013/14, a decrease of 13.1 percent. NPLs as a percentage of the total loan book improved from 7.3 percent to 5.8 percent, below the maximum acceptable threshold of 6.0 percent. The decrease was a result of the write-off of unrecoverable portions of some of the loans impaired during previous financial years.

Provisions against NPLs (specific impairments) decreased from R2.1 billion to R2.0 billion in the year and the NPL coverage ratio marginally increased from 64.8 percent to 66.3 percent. The NPL coverage ratio is a measure of the amount of specific impairment provision held against the NPLs and management expects to recover the unimpaired portion through the realisation of securities and other recovery methods.

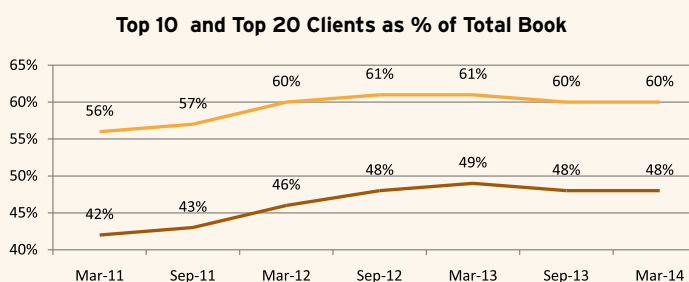
Provisions against the performing book (portfolio impairments) increased from R218 million (0.5 percent of the performing loan book) to R355 million (0.7 percent of the performing book), an increase of 62.8 percent, mainly attributable to the growth in the loan book and the shift in the risk profile of the book from low to medium.



The credit impairment charge through the income statement for the year was significantly lower than that of the previous financial year, declining from R1.4 billion

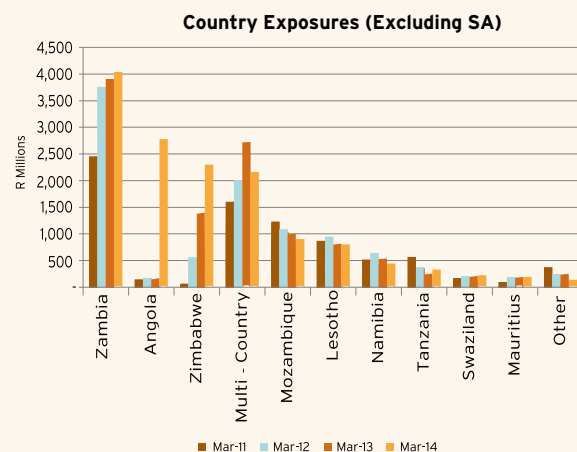
(3.1 percent of loan book) to R721 million (1.4 percent of loan book). This decline was attributable to the higher-than-expected required impairment charge for the private sector book during the previous financial year.

As detailed in the following graph, the Bank's top 10 and top 20 exposures comprised 48.0 percent and 60.0 percent of the total book respectively. The level of concentration in these obligors has stabilised over the past year compared to the increasing trend of previous financial years. This has been due to the high disbursements to relatively smaller clients within the IPP and local government space.



Country exposure

Zambia (R4.0 billion) remains the country outside of South Africa to which the DBSA's exposure is the largest. During 2013/14, Angola (R2.8 billion) and Zimbabwe (R2.3 billion) became the countries to which the DBSA had the second and third largest rest-of-Africa exposure. Outside of these top three countries, the Bank's exposure to other countries has declined or remained fairly consistent.

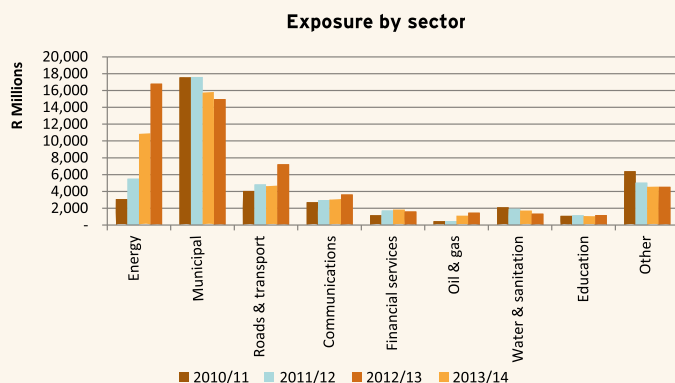


Sector exposure

The Bank's exposure to the energy sector of R16.8 billion (2012/13: R10.9 billion), excluding energy exposure to the municipal market as well as certain energy-related oil and gas projects, has for the first time exceeded the exposure to the municipal market. This is mainly a result of the Bank's funding of the IPP programme as well as other key energy projects in South Africa and the rest of the region.

Exposure to the roads and transport sector also increased, rising from R4.7 billion at 31 March 2013 to R7.2 billion at the end of the financial year, representing an increase of 54.3 percent. Direct loan exposure to municipalities, excluding

bonds, continued to decline in the year, decreasing from R15.8 billion to R15.0 billion, a decline of 5.35 percent.



Events after the reporting period

After year-end, Standard & Poor's downgraded South Africa's sovereign credit rating by a notch to BBB- and Fitch Ratings cut the country's credit-rating outlook to negative from stable. Being linked to the sovereign, the DBSA was impacted by these moves. However, I am pleased to report that we have not seen interest in our issues diminish since then.

Looking ahead

We expect 2014/15 to be a better, albeit challenging, year as operations normalise after the organisational restructuring and as the Bank's strategy continues to gain traction. Interest rates are expected to increase while the outlook for the US dollar/rand exchange rate remains uncertain.

Financial sustainability remains a key strategic imperative and we will continue to focus on net interest margin maximisation, balance sheet strengthening, foreign exchange management as well as liquidity management. The Bank's financial strategy will continue to support the DBSA's growth in lending, including the extension of the mandate to the rest of Africa, as well as the work of the Infrastructure Delivery division and the project preparation investment initiatives.

In the last two years, the DBSA has written off significant private sector investments. We are working to manage these impaired assets prudently and will consider exiting certain of these investments as and when offers that we consider acceptable are forthcoming. We will ensure that we time any exit in line with maximising the value we can extract and will continue to carefully assess all offers received.

In the past year, the DBSA has invested in the processes and the people we need to allow us to grow our product offering and ultimately diversify our income sources. The aim is to achieve maximum development impact by facilitating more infrastructure funding. In the year ahead we will be very selective in the choice of products into which we diversify, learning from our experience as we carefully venture into new product offerings. However, we would like to encourage

municipalities (particularly non-metros) to stretch us to provide innovative funding solutions so that together we can achieve sustainable development impact.

We see our role as a development finance institution which takes on some of the early-stage project risk by helping prepare and finance certain projects, and then selling on the funding of these projects to other funders once the risk is reduced. We consider the effect of stimulating infrastructure financing critical to maximising development impact due to the counter-cyclical role it plays.

Driven by the Bank's new financial strategy, the focus of our financial performance for 2014/15 is as follows:

- Consistent net interest margin maximisation.
- Implementation of various balance sheet-strengthening initiatives, along with the next R2.5 billion tranche of the shareholder's capital injection.
- Targeted containment of cost increases to below the rate of inflation.
- A strong contribution from meeting and exceeding disbursements targets.
- Maintenance of NPLs below 6 percent while the gross loan book continues to grow with quality assets.
- Containment of volatility arising out of uncertainty with regards to impairment levels considering the expected increase in interest rates.
- Strong risk awareness while managing the balance between operational, strategic and financial risks.
- Good line of sight to economic and cash-based forecasting and analytics to support decision making.

Appreciation

I would like to thank investors and ratings agencies for the greater levels of engagement we enjoyed with them in the year, when we engaged on both our strategic outlook and our financial performance. Feedback from the investor community helped us design more innovative ways of engaging with the capital markets, and linking this more directly to how we manage the cost of debt. I would also like to note my appreciation for the National Treasury's robust engagement in the year as well as its support as we move to a more active role for the DBSA's treasury. My gratitude goes to the staff of the Bank for their commitment and hard work and I would like to commend them for coping positively with the change.

Kameshni Naidoo
Chief Financial Officer



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DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL REPORTING

For the year ended 31 March 2014

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

In preparing the financial statements:

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

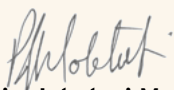
To enable the Directors to meet their financial reporting responsibilities:

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

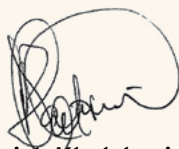
Based on the information received from management, internal and external auditors, nothing has come to the attention of the Directors to indicate a material breakdown in the systems of internal control during the year under review.

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


The financial statements that appear on pages 70 to 150 were approved by the Board of Directors on 26 June 2014 and signed on its behalf by:



Phillip Jabulani Moleketi
Chairman of the Board



Patrick-Khulekani Dlamini
Chief Executive Officer



Mary Vilakazi
Chairperson of the Audit and Risk Committee

REPORT OF THE AUDIT AND RISK COMMITTEE

For the year ended 31 March 2014

We are pleased to present our report for the financial year ended 31 March 2014.

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

Membership

The Audit and Risk Committee members and attendance are reflected on page 23 in the corporate governance report. In compliance with Treasury Regulations 271.3 and 271.4, the Chairperson is a Non-executive Independent Director and has the requisite business, financial and leadership skills for the position. All the committee members are financially literate, with the majority being non-executive members. The names and qualifications of Directors serving on the Audit and Risk Committee are detailed in the Board of Directors section of the annual report on pages 10 and 11.

Audit and Risk Committee responsibility

The Audit and Risk Committee reports that it has complied with its responsibilities arising from section 51(1)(a) of the PFMA and Treasury Regulations 271.7 and 21.1.10(b) and (c).

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

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

The Audit and Risk Committee's responsibility also includes:

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

Combined assurance

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

Assurance by management

- Received and reviewed the reports from management regarding the adequacy of development loan and equity investment impairments.
- Received and reviewed the accounting policies, practices, judgments and estimates adopted in the preparation of the annual financial statements and found those to be appropriate.
- Reviewed reports from management regarding the going concern and financial sustainability of the organisation, noted the challenges and declining financial performance over the last four years not including year ended 31 March 2014. Appropriate measures are urgently being reviewed to improve the long-term financial sustainability.
- The continued preparation of the financial statements on a going concern basis was adopted.

REPORT OF THE AUDIT AND RISK COMMITTEE CONTINUED

For the year ended 31 March 2014

Assurance by Group Risk Assurance (GRA)

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

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

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

Assurance by Internal Audit

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

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

Assurance by the Independent External Auditors

- Reviewed and approved the External Audit Plan, including the proposed scope and audit fee and determining the nature and scope of non-audit services
- Received and reviewed external audit reports for the year which included the annual report for the year ended 31 March 2014, the interim results for the six months ended 30 September 2013 and the reports on the effectiveness of internal controls, systems and processes
- Made appropriate recommendations to the Board regarding the rotation of the external audit function.

Fraud and corruption

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

- Risk incidents are logged in an operational risk register and monitored
- There is sufficient forensic capability in Internal Audit, with an appointed forensic specialist
- The Bank has a toll-free whistleblowing hotline operated by Deloitte and employees are encouraged to report any suspected corrupt, fraudulent, criminal or unethical practices. A summary of the hotline statistics and resulting disciplinary actions where this was required is included in the corporate governance report on page 25.

IT governance

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

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

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

The effectiveness of internal control

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

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

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

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

Evaluation of financial statements

The Audit and Risk Committee has:

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

The Audit and Risk Committee has evaluated the annual report and sustainability report for the year ended 31 March 2014 and considers that it complies, in all material respects, with requirements of sections 27 to 31 of the Companies Act, the PFMA, IFRS and that the adoption of the going concern basis in preparing the annual financial statements is appropriate. The Audit and Risk Committee is of the opinion that these annual financial statements fairly present the financial position of the DBSA as at 31 March 2014 and the results of its operations and cash flow information for the year then ended and concurs and accepts the independent external auditor's conclusions on the annual financial statements. It is of the opinion that the audited annual financial statements should be accepted and read together with the report of the independent external auditors.



Mary Vilakazi

Chairperson of the Audit and Risk Committee

INDEPENDENT AUDITOR'S REPORT TO PARLIAMENT

For the year ended 31 March 2014

Report on the financial statements

Introduction

We have audited the financial statements of the Development Bank of Southern Africa as set out on pages 75 to 150, which comprise the statement of financial position as at 31 March 2014, the statement of comprehensive income, statement of changes in equity and the statement of cash flows for the year then ended, and the notes, comprising a summary of significant accounting policies and other explanatory information.

Accounting authority's responsibility for the financial statements

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

Auditor's responsibility

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Development Bank of Southern Africa as at 31 March 2014, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards, the requirements of the Public Finance Management Act of South Africa and section 27 to 31 of the Companies Act of South Africa, being the relevant and corresponding sections of those specified in the Development Bank of Southern Africa Act.

Other reports required by the Companies Act

As part of our audit of the financial statements for the year ended 31 March 2014, we have read the Directors' Report and the Audit and Risk Committee's Report for the purpose of identifying whether there are material inconsistencies between these reports and the audited financial statements. These reports are the responsibility of the respective preparers. Based on reading these reports we have not identified material inconsistencies between these reports and the audited financial statements. However, we have not audited these reports and accordingly do not express an opinion on these reports.

Report on other legal and regulatory requirements

In accordance with the Public Audit Act and the general notice issued in terms thereof, we report the following findings relevant to performance against predetermined objectives for the selected objectives presented in the integrated annual report, non-compliance with laws and regulations as well as internal control. We performed tests to identify reportable findings as described under each subheading but not to gather evidence to express assurance on these matters. Accordingly, we do not express an opinion or conclusion of these matters.

Predetermined objectives

We performed procedures to obtain evidence about the usefulness and reliability of the reported performance information for the following selected objectives presented in the annual performance report of the Bank for the year ended 31 March 2014:

- Objective 1: Providing infrastructure development finance on page 71.
- Objective 2: Infrastructure delivery support and programme implementation on page 71.
- Objective 3: Achieve financial sustainability on page 71.

We evaluated the reported performance information against the overall criteria of usefulness and reliability.

We evaluated the usefulness of the reported performance information to determine whether it was presented in accordance with the National Treasury's annual reporting principles and whether the reported performance was consistent with the planned objectives. We further performed tests to determine whether indicators and targets were well defined, verifiable, specific, measurable, time bound and relevant, as required by the National Treasury's Framework for managing programme performance information (FMPPI).

We assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.

We did not raise any material findings on the usefulness and reliability of the reported performance information for the selected objectives.

Additional matter

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

Achievement of planned targets

Refer to the annual performance report on pages 70 and 71. for information on the achievement of planned targets for the year.

Compliance with legislation

We performed procedures to obtain evidence that the Bank had complied with legislation regarding financial matters, financial management and other related matters. We did not identify any instances of material non-compliance with specific matters in key legislation, as set out in the general notice issued in terms of the PAA.

Internal control

We considered internal control relevant to our audit of the financial statements, annual performance report and compliance with legislation. We did not identify any significant deficiencies in internal control.

Nkonki Inc.

Nkonki Inc.

Sangeeta Kallen CA(SA)

Registered Auditor

31 July 2014

1 Simba Road

Sunninghill

Johannesburg

2157



DIRECTORS' REPORT

For the year ended 31 March 2014

The Directors have pleasure in presenting this report as part of the annual financial statements of the Development Bank of Southern Africa (DBSA) for the year ended 31 March 2014.

Nature of business

The DBSA was reconstituted in terms of the Development Bank of Southern Africa Act, 1997 (Act No.13 of 1997) (DBSA Act) as a development finance institution wholly-owned by the South African government. The Bank aims to deepen its development impact in South Africa and the rest of the African continent by expanding access to development finance while effectively integrating and implementing sustainable development solutions. Since its founding in 1983, the DBSA has expanded its role to serve as financier, advisor, partner, implementer and integrator to the benefit of its clients.

Corporate Governance

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

Financial results and activities

The financial results of the Bank are fully disclosed on pages 75 to 150. The key financial indicators for the year under review are:

- Operating income increased by 23 percent to R2.3 billion (2012/13: R1.9 billion). Operating income rose on the back of an increase in net interest income (2013/14: R2.1 billion, 2012/13: R1.6 billion) despite an increase in losses on financial assets and liabilities (2013/14: R629 million; 2012/13: R403 million).
- Cost-to-income ratio improved significantly to 28.4 percent (2012/13: 48.9 percent). The DBSA has seen a favourable decrease in its cost-to-income ratio due to the combination of a decrease in operating expenses and an increase in net fee income, other income and net interest income.
- DBSA returned to profitability with net income of R787 million compared to a loss of R826 million in 2012/13. The DBSA recorded a profit for the year largely, in addition to the above figures, attributable to a decrease in net impairment losses on financial assets (2013/14: R735 million, 2012/13: R1.6 billion).
- Development loans, bonds and equity investments disbursed of R12.7 billion, an increase of 39.1% compared to the R9.2 billion disbursed during 2012/13.
- Provision for loan impairment increase by: 2 percent R2.4 billion (2012/13: R2.3 billion). Although the provision for loan impairment increased, the quality of the loan book remains within acceptable parameters with non-performing loans at 5.8 percent of the total loan book (2013: 7.3 percent).
- Debt-to-equity ratio improved marginally to 216.3 percent (2012/13: 217.4 percent).

Summarised information on the financial performance of the Bank is included in the unaudited financial overview section on pages 56 to 62.

High-level Performance Overview

The DBSA's strategy highlights the importance of achieving development impact while maintaining financial sustainability. The Balanced Scorecard (BSC) methodology is utilised to implement and monitor strategy. To this end, corporate strategic objectives and targets are developed and approved by the Board of Directors. The table overleaf compares the planned and related actual performance on the high-level corporate strategic objectives for 2013/14.

The Bank achieved satisfactory results during 2013/14, meeting most of its strategic objectives whilst the targets for the following key performance indicators were not met:

- Disbursements to metropolitan cities and secondary municipalities. Planned disbursements to the municipal market space were lower due to increased competition in the metro and stronger secondary municipalities, as well as the inability of secondary municipalities to take up debt financing due to absorption capacity constraints.
- Disbursements to social infrastructure. The under-performance was largely attributed to the cancellation of various health PPP projects by the Department of Health.
- ASIDI schools (phase II). The 20 schools were not completed during the current financial year due to delays in finalising site verifications, approval of site development plans by the Department of Basic Education as well as various changes in scope. At year-end 18 schools were in construction.

- Elliotdale Housing Programme. Programme was delayed due to unfavourable weather conditions and the under-performance of some contractors.
- Value of funds disbursed and number of jobs created by the Jobs Fund. Delays in approving the grants and signing of grant agreements with the grantees contributed to the under-achievement of the set targets.
- Implementation of transformation initiatives. Eleven transformation initiatives were identified for implementation, seven initiatives were completed by year-end and four initiatives were still in progress at year-end and took longer to implement than planned.

Performance information

Strategic objective	Key performance indicator	Target	Results
Providing infrastructure development finance	Disbursements to priority segments	R11 000 million	R12 735 million
	South Africa		
	Municipalities	R2 400 million	R1 650 million
	• Metropolitan cities	R1 400 million	R835.1 million
	• Secondary municipalities	R900 million	R596.0 million
	• Under resourced municipalities	R100 million	R219.0 million
	Social infrastructure	R500 million	R136.2 million
	• Other public	R500 million	R136.2 million
	Economic infrastructure	R4 800 million	R7 371 million
	• SOEs	R2 000 million	R2 250 million
	• Independent Power Producers	R2 200 million	R3 750 million
	• Private	R600 million	R1 371 million
	Africa (outside RSA)	R3 300 million	R3 579 million
Infrastructure delivery support and programme implementation	Number of units: completed		
	• Schools (phase II)	20	0
	• Houses	800	560
	Percentage completed on time		
	• Schools (phase II)	80%	0%
	• Housing	80%	35%
	Hospital construction/renovation	2 hospitals designed	Preliminary designs complete and submitted to the Department of Health
	Cost recovery/fees generated on delivery projects	Full cost recovery	All direct programme expenditure recovered
	Jobs Fund		
	• Value of funds disbursed	R1.6 billion	R720.1 million
	• Actual number of jobs created based on contracted projects	11 000	12 836
	Green Fund disbursement	R197 million	R189.3 million
Achieve financial sustainability	Net profit	R22 million	R787.0 million
	Return/(loss) on average equity	0.1%	4.3%
	Cost-to-income	55.8%	28.4%
	Non-performance loan book	<6%	5.8%
Rights people, governance and processes	Development of talent matrix	Matrix developed	Matrix developed and approved by the Board
	Retention of key skills	70% of key skills retained	90.1%
	Remuneration and compensation: Building and refining the current reward framework in line with the talent strategy.	An approved remuneration and compensation framework and implemented	Remuneration & compensation developed and approved by Board
	Implementation of transformation initiative	Complete 11 of 13 transformation initiatives	7 initiatives completed
	ICT governance maturity (composite measure of ICT governance, ICT strategy, ROI of IT and reporting to Board)	Rating of 3.75 out of 5	Rating of 3.8 out of 5
	Transversal knowledge management system	Framework developed and implemented	KMI strategy approved by the Board and implementation currently underway

DIRECTORS' REPORT CONTINUED

For the year ended 31 March 2014

Dividend

No dividend has been declared for the current and previous financial year. The DBSA does not have a dividend policy as part of its contract with the shareholder. The benefits of reinvesting in the mandate of the DBSA far outweigh the benefit of a dividend to the shareholder.

Share capital

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

Authorised capital

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

Callable capital (authorised but unissued share capital)

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

The Minister of Finance has agreed to recommend to Parliament an amendment to the DBSA Act to increase the callable capital of the Bank from R4.8 billion to R20 billion.

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

Issued capital

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

Going concern

The Directors noted the challenges and declining financial performance over the last three years, and appropriate measures to improve the long-term financial sustainability is being implemented. The 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.

In billions of rand	2014	2013
Approved annual borrowing program	R10.0	R10.0
Debt raised during the year	R6.1	R4.4
Unutilised under the annual borrowing program	R3.9	R5.6
Closing unutilised borrowing capacity after debt raised during the year	R6.9	R6.3
Total borrowing capacity (excluding callable capital)	R49.8	R42.8
Closing medium to long-term debt, including repurchase agreements and derivative liabilities	R42.9	R36.2

Directorate and Secretariat

Details pertaining to the names of Board members and the Secretariat appear on pages 10 and 11.

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

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

			Current service contract	
Name	Position	Number of terms served as Non-executive Director	From	To
Current				
Mr PJ Moleketi	Independent Non-executive Chairperson	2	1 January 2013	31 December 2015
Mr FM Baleni	Independent Non-executive Deputy Chairperson	2	1 January 2013	31 December 2015
Mr PK Dlamini	Chief Executive Officer and Managing Director	Not applicable	1 September 2012	31 August 2016
Dr L Bhengu-Baloyi	Independent Non-executive Director	1	1 August 2011	31 July 2014
Mr A Boraine ²	Independent Non-executive Director	3	1 August 2011	31 July 2014
Ms. T. Dingaan	Independent Non-Executive Director	2	1 August 2013	31 July 2016
Mr A Julies	Non-executive Director (Shareholder representative)	1	1 January 2013	31 December 2015
Ms A Kekana ¹	Independent Non-executive Director	1	1 August 2011	31 July 2014
Mr. O Latiff	Independent Non-executive Director	2	1 August 2013	31 July 2016
Ms B Mabuza	Independent Non-executive Director	1	1 August 2011	31 July 2014
Dr C Manning ²	Independent Non-executive Director	3	1 August 2011	31 July 2014
Ms D Marole	Independent Non-executive Director	1	1 August 2011	31 July 2014
Ms M Vilakazi	Independent Non-executive Director	11	1 August 2011	31 July 2014
Ms K Naidoo	Chief Financial Officer	Not Applicable	1 September 2012	31 August 2015

1. Resigned from the Board with effect from 30 June 2013.

2. These Directors' contracts come to an end during the 2015 financial year.

The details of the Directors' interests in related party transactions and Directors' emoluments are set out in notes 43 and 47 respectively of the financial statements. The Governance structure is detailed on page 18.

Remuneration policy

The Human Resources, Nomination, Social and Ethics Committee ensure that employees are fairly rewarded for their contributions to the performance of the Bank. The provision of performance bonuses is the sole discretion of the Board. Performance bonuses of R 135 million were provided for the 2014 financial year. This decision is aligned with the improved financial performance of the Bank.

Retention bonuses were paid to certain employees to ensure their employment throughout and post the organisational review.

Sign on bonuses were paid to qualifying employees to attract sufficiently skilled and experienced individuals.

Business and registered address

The Bank's business and registered address details appear on page 152.

DIRECTORS' REPORT CONTINUED

For the year ended 31 March 2014

Taxation status

The Bank is exempt from normal taxation in terms of section 10(1)(t)(x) of the Income Tax Act, 1962 (Act No. 58 of 1962), as amended. The Bank is subject to and complies with all other South African taxes, including employees' tax and value added tax. The DBSA paid VAT amounting to R23,9 million during 2014 financial period.

Changes in accounting policies

The accounting policies applied during the year ended 31 March 2014 are in all material respects consistent with those applied in the annual financial statements for the year ended 31 March 2013, as no changes in accounting policies were effected in the 2014 financial year.

Events after the reporting period

The Directors are not aware of any matters or circumstances arising since the end of the financial year which will have a significant effect on the operations of the Bank, the results of the operations or the financial position of the Bank, other than that in note 50 in the annual financial statements.

Litigation

The Directors are not aware of any litigation against the Bank other than that disclosed under contingent liabilities in note 42 in the annual financial statements.

Related party transactions

Details of the DBSA's related party transactions are set out in note 43 in the annual financial statements.

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

- I. Particulars of material losses through criminal conduct and any irregular expenditure and fruitless and wasteful expenditure that occurred during the year. Refer to note 53 in the annual financial statements.
- II. Particulars of any criminal or disciplinary steps taken as a consequence of such losses or irregular expenditure or fruitless and wasteful expenditure: there were no instances where the Bank sustained material losses.
- III. Particulars of any losses recovered or written off: no material losses were recovered or written off other than in the ordinary course of business.
- IV. Particulars of any financial assistance received from the state and commitments made by the state on behalf of the DBSA: no such financial assistance was received.

STATEMENT OF FINANCIAL POSITION

As at 31 March 2014

in thousands of rand	Notes	2014	2013
Assets			
Cash and cash equivalents	5	4 135 667	1 252 142
Other receivables	6	145 296	148 386
Investment securities	7	2 161 341	3 435 922
Derivative assets held for risk management	9.1	1 308 325	1 422 719
Post-retirement medical benefits investment	10	63 209	64 848
Home ownership scheme loans	11	7 544	8 932
Equity investments	12	4 610 448	4 455 721
Development bonds	14	772 743	-
Development loans	15	50 076 235	42 619 769
Property and equipment	16	461 873	470 298
Intangible assets	17	82 860	86 499
Total assets		63 825 541	53 965 236
Liabilities			
Other payables	18	813 665	796 594
Provisions	19	55 998	151 009
Liability for funeral benefits	20.1	3 100	4 300
Liability for post-retirement medical benefits	20.2	165 051	148 421
Funding: debt securities	21	29 216 814	25 790 079
Funding: lines of credit	22	13 606 441	10 081 507
Funding under repurchase agreements	23	-	201 752
Derivative liabilities held for risk management	9.2	63 899	85 849
Total liabilities		43 924 968	37 259 511
Equity			
Share capital	24	200 000	200 000
Retained earnings		11 296 416	11 031 631
Permanent government funding	25	6 192 344	3 792 344
Revaluation reserve on land and buildings	26	253 487	253 487
Hedging reserve	27	61 958	40 617
Reserve for general loan risks	28	1 893 983	1 371 726
Fair value reserve	29	2 385	15 920
Total equity		19 900 573	16 705 725
Total liabilities and equity		63 825 541	53 965 236

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 March 2014

in thousands of rand	Notes	2014	2013
Interest income	30	4 576 209	4 068 007
Interest expense	31	(2 487 759)	(2 441 908)
Net interest income		2 088 450	1 626 099
Net fee income	32	334 630	188 010
Net foreign exchange gain	33	279 945	346 978
Net loss from financial assets and financial liabilities	34	(629 496)	(403 157)
Other operating income	35	244 074	124 092
Other income		229 153	255 923
Operating income		2 317 603	1 882 022
Project preparation	36	(20 867)	(13 444)
Net impairment loss on financial assets	37	(734 871)	(1 605 632)
Personnel expenses	38	(561 597)	(654 307)
Other expenses	39	(177 597)	(274 011)
Depreciation and amortisation	40	(18 627)	(19 378)
Income/(loss) from operations		804 044	(684 750)
Grant to DBSA Development Fund	43.1.2	-	(119 665)
Grants	41	(17 002)	(21 499)
Income/(loss) for the year		787 042	(825 914)

STATEMENT OF OTHER COMPREHENSIVE INCOME

For the year ended 31 March 2014

in thousands of rand	Notes	2014	2013
Income/(loss) for the year		787 042	(825 914)
Loss on revaluation of land and buildings	26	-	(1 601)
Net unrealised gain on cash flow hedges	27	109 108	59 866
Net losses on cash flow hedges reclassified to statement of comprehensive income	27	(87 767)	(56 970)
Change in value of available-for-sale financial assets	29	(13 535)	2 772
Other comprehensive income		7 806	4 067
Total comprehensive income/(loss) for the year		794 848	(821 847)

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 March 2014

in thousands of rand	Share capital	Hedging reserve	Revaluation reserve on land and buildings	Fair value reserve	Permanent government funding	Reserve for general loan risks	Retained earnings	Total equity
Balance at 1 April 2012	200 000	37 721	255 088	13 148	3 792 344	1 262 026	11 967 245	17 527 572
Loss for the year	-	-	-	-	-	-	(825 914)	(825 914)
Other comprehensive income/(loss)								
Loss on revaluation of land and buildings	-	-	(1 601)	-	-	-	-	(1 601)
Net unrealised gain on cash flow hedges	-	59 866	-	-	-	-	-	59 866
Net losses on cash flow hedges reclassified to statement of comprehensive income	-	(56 970)	-	-	-	-	-	(56 970)
Change in value of available-for-sale financial assets	-	-	-	2 772	-	-	-	2 772
Transfer to reserve for general loan risks	-	-	-	-	-	109 700	(109 700)	-
Total changes	-	2 896	(1 601)	2 772	-	109 700	(935 614)	(821 847)
Balance at 31 March 2013	200 000	40 617	253 487	15 920	3 792 344	1 371 726	11 031 631	16 705 725
Government capitalisation	-	-	-	-	2 400 000	-	-	2 400 000
Income for the year	-	-	-	-	-	-	787 042	787 042
Other comprehensive income/(loss)								
Net unrealised gain on cash flow hedges	-	109 108	-	-	-	-	-	109 108
Net losses on cash flow hedges reclassified to statement of comprehensive income	-	(87 767)	-	-	-	-	-	(87 767)
Change in value of available-for-sale financial assets	-	-	-	(13,535)	-	-	-	(13 535)
Transfer to reserve for general loan risks	-	-	-	-	-	522 257	(522 257)	-
Total changes	-	21 341	-	(13 535)	2 400 000	522 257	264 785	3 194 848
Balance at 31 March 2014	200 000	61 958	253 487	2 385	6 192 344	1 893 983	11 296 416	19 900 573
Notes	24	27	26	29	25	28		

STATEMENT OF CASH FLOWS

For the year ended 31 March 2014

in thousands of rand	Notes	2014	2013
Cash flows from operating activities			
Income/(loss) for the period		787 042	(825 914)
Adjustments for:			
Depreciation and amortisation	40	18 627	19 378
Grants paid		37 868	34 943
Dividends received	35	(30 618)	(25 635)
Upfront fees deferred		8 135	-
Fees accrued (development loans)		8 306	(16 732)
Realised capital gain on equity investment	12	(168 481)	(77 055)
Unrealised loss from financial assets and liabilities		615 224	371 917
Unrealised foreign exchange loss/(gain)		77 662	(231 480)
Net impairment loss on financial assets	37	734 870	1 605 632
Net interest income		(2 088 450)	(1 626 099)
		185	(771 045)
Movements in provisions		(95 011)	151 009
Increase in other receivables		(7 763)	(25 645)
Decrease in home ownership scheme loans		1 388	2 335
(Decrease)/increase in other payables		(53 725)	84 440
Change in liability for funeral benefits and post-retirement medical benefits		15 430	(207 320)
		(139 496)	(766 226)
Interest received		4 315 032	3 871 508
Interest paid		(2 250 987)	(2 336 868)
Dividends received		30 618	25 635
Net cash generated from operating activities		1 955 167	794 049
Cash flows used in development activities			
Development loan disbursements	15	(11 281 242)	(8 385 207)
Development loan principal repayments		4 695 035	6 562 759
Development bonds		(750 000)	-
Net increase in equity investments		(444 707)	(292 633)
Grants paid		(37 868)	(34 943)
Net advances/(receipts) on national mandates		(2 028)	78 415
Net cash used in development activities		(7 820 810)	(2 071 609)
Cash flows from investing activities			
Purchase of property and equipment	16	(85)	(3 422)
Purchase of intangible assets	17	(6 479)	(6 635)
Movement in financial market assets		326 243	48 144
Net cash generated from investing activities		319 679	38 087
Cash flows from financing activities			
Receipts from National Treasury	25	2 400 000	-
Financial market liabilities repaid		(8 050 173)	(3 996 143)
Financial market liabilities raised		14 125 210	4 371 570
Net cash generated from financing activities		8 475 037	375 427
Net increase/(decrease) in cash and cash equivalents		2 929 073	(864 046)
Effect of exchange rate movements on cash balances	33	(45 548)	3,034
Movement in cash and cash equivalents		2 883 525	(861 012)
Cash and cash equivalents at the beginning of the year		1 252 142	2 113 154
Cash and cash equivalents at the end of the period	5	4 135 667	1 252 142

ACCOUNTING POLICIES

For the year ended 31 March 2014

1. Statement of compliance

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

The financial statements were approved by the Board of Directors on 26 June 2014.

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

1.1 Basis of preparation

1.1.1 Basis of measurement

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

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

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

1.1.2 Use of estimates and judgments

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

- **Note 1.2.5 - Derivative and hedge accounting:**

On the date that a derivative contract is designated as a hedging instrument, the Bank designates the derivative as either a hedge of the fair value of a recognised asset or liability or a firm commitment (fair value hedge) or a hedge of a highly probable future cash flow attributable to a recognised asset or liability or a forecast transaction (cash flow hedge). All derivatives are recognised initially at fair value. Subsequent to initial recognition, they are remeasured at fair value which include an estimated component relating to credit risk adjustment.

- **Note 1.4.3 and 1.5.3 - Depreciation and amortisation and the useful lives of property and equipment and intangible assets:**

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

ACCOUNTING POLICIES CONTINUED

For the year ended 31 March 2014

- **Notes 7, 8, 12, 15, 16, 20, 21, and 22 - Valuation of financial instruments:**

Note 7 - Investment securities

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

Note 8 - Investments under resale agreements

Where the Bank does not obtain the risks and rewards associated with the assets received as collateral, such assets are not recognised, whereas corresponding financial asset considerations paid are recognised in investments under resale agreements.

Where the Bank retains substantially all of the credit risks and rewards associated with transferred assets, it continues to recognise these investments within investment securities, whilst the corresponding financial liability considerations received are recognised in funding under repurchase agreements.

Note 12 - Valuation of equity investments

Equity investments are designated as held-to-maturity if they have fixed or determinable payments and fixed maturities that management has the positive intention and ability to hold to maturity. All other equity investments are designated at fair value through profit and loss which is determined from observable market data in respect of similar financial instruments. Where market observable data is not available, they are estimated based on appropriate assumptions.

Note 15 - Measurement of the recoverable amounts of development loans

Development loans are carried at amortised cost. However judgements are applied when determining fair value disclosures.

Note 16 - Valuation of land and buildings

Land and buildings are measured at fair value less accumulated depreciation and impairment losses, in terms of the revaluation model.

Note 20 - Measurement of funeral benefit obligations and post-retirement medical benefit

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

Note 21 - Debt securities

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

Note 22 - Lines of credit

Lines of credit are carried at amortised cost. However judgements are applied when determining fair value disclosures.

These disclosures supplement the commentary on financial risk management (refer note 48).

1.1.3 Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 19 - Provisions. Provision is made for undrawn loan commitments if it is probable that the facility will be drawn and result in the recognition of an asset at an amount less than the amount advanced.

1.1.4 Loan commitments

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.

1.2 Financial instruments

Financial instruments consist of cash and cash equivalents, investment securities, derivatives assets and liabilities, equity investments, development loans and bonds and other loans and other receivables, home ownership scheme loans, other payables, binding liabilities, funding: debt securities, funding: lines of credit and repurchase agreements:

1.2.1 Financial assets

The Bank classifies its financial assets into the following categories:

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

The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of financial assets on initial recognition and re-evaluates this classification at every reporting date. All financial assets are initially recognised at fair value plus transaction costs, except those measured at fair value through profit or loss. The best evidence of fair value on initial recognition is the transaction price, unless the fair value is evidenced by comparison with other observable current market transactions in the same instrument or based on discounted cash flow models.

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

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

Financial assets at fair value through profit or loss

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

A financial asset is classified as held-for-trading if acquired principally for the purpose of selling in the short-term, if it forms part of a portfolio of financial assets in which there is evidence of short-term profit-taking or if so designated by management. Derivatives are also classified as held-for-trading, unless they are designated as hedges at inception. The Bank does not speculate in financial instruments and therefore there are no financial assets classified as held-for-trading.

ACCOUNTING POLICIES CONTINUED

For the year ended 31 March 2014

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

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

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

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and include purchased loans.

This category does not include those loans and receivables that the Bank intends to sell in the short-term or that it has designated as at fair value through profit or loss or available-for-sale. This category comprises development loans, cash and cash equivalents, other receivables, home ownership loans and collateralised advances.

Subsequent to initial recognition, loans and receivables are measured at amortised cost using the effective interest method, less any allowance for impairment as per note 1.2.8.

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

Held-to-maturity financial assets

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

Financial assets classified as held-to-maturity include preference shares, debentures, credit-linked notes shareholders' loans under equity investments and investments in municipal and government bonds.

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

Available-for-sale financial assets

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

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

1.2.2 Financial liabilities

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

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

Financial liabilities at fair value through profit or loss

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

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

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

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

Financial liabilities at amortised cost

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

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

1.2.3 Derivative financial instruments

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

ACCOUNTING POLICIES CONTINUED

For the year ended 31 March 2014

Qualifying derivatives

Derivatives qualifying for hedge accounting are accounted for in terms of hedge accounting (refer note 1.2.5).

Non-qualifying derivatives

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

1.2.4 Derecognition

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

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

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

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 (a) the recognition of an asset to be received and the liability to pay for it on the trade date, and (b) de-recognition 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 (a) the recognition of an asset on the day it is received by the entity, and (b) the de-recognition 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 and loss for assets classified as financial assets at fair value through profit or loss and for available-for-sale assets, the change in fair value is recognised in other comprehensive income.

1.2.5 Hedge accounting

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

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

A hedging relationship exists where:

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

Hedge accounting requires that the hedging instrument be measured at fair value. The fair value of derivative hedging instruments is calculated in the same way as the fair value of instruments held at fair value through profit or loss (refer note 1.10).

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

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

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

Fair value hedge

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

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

Cash flow hedge

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

ACCOUNTING POLICIES CONTINUED

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

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

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

Hedge of monetary assets and liabilities

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

1.2.6 Repurchase and resale agreements

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

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

1.2.7 Offsetting of financial instruments

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

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

1.2.8 Impairment of financial instruments

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

Objective evidence that financial assets are impaired includes default or delinquency by a borrower, restructuring of a loan or advance by the Bank on terms that the Bank would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the

disappearance of an active market for a security or other observable data relating to a group of assets, such as adverse changes in the payment status of borrowers or issuers in the group or economic conditions that correlate with defaults in the group.

Available-for-sale financial assets

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

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

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

Calculation of recoverable amount

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

Reversals of impairment

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

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

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

Impairment of development loans

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

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

ACCOUNTING POLICIES CONTINUED

For the year ended 31 March 2014

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

1.2.9 Cash and cash equivalents

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

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

1.2.10 Loans to shareholder, directors, managers and employees

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

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

1.3 Impairment of non-financial assets

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

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

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

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

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

1.4 Property and equipment

1.4.1 Recognition and measurement

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

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

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

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

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

Freehold 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.

1.4.2 Subsequent costs

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

1.4.3 Depreciation

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

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

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

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

ACCOUNTING POLICIES CONTINUED

For the year ended 31 March 2014

1.5 Intangible assets

1.5.1 Recognition and measurement

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

1.5.2 Subsequent expenditure

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

1.5.3 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

1.6 Share capital and reserves

1.6.1 Share capital

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

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

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

1.6.2 Permanent government funding

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

1.6.3 Hedging reserve

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

1.6.4 Fair value reserve

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

1.6.5 Reserve for general loan risks

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

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

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

1.6.6 Revaluation reserve on land and buildings

This reserve represents the fair value adjustment recognised on the revaluation of land and buildings. Land and buildings are subsequently carried at fair value, based on periodic valuations 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.

1.7 Revenue

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

1.7.1 Interest

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

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

ACCOUNTING POLICIES CONTINUED

For the year ended 31 March 2014

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

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

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

1.7.2 Fees and commission

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

Upfront fees are deferred and recognised over the term of the loan.

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

1.8 Foreign currency translations

Functional and presentation currency

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

At each statement of financial position date:

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

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

Foreign exchange gains and losses arising in entity accounts

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

- Assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position.
- Income and expenses for each statement of comprehensive income item are translated at exchange rates at the dates of the transactions.

- All resulting exchange differences are recognised as a separate component of equity.

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

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

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

1.9 Net income from other financial instruments at fair value

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

1.10 Determination of fair values

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

1.10.1 Property and equipment

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

1.10.2 Post-retirement medical benefits investment

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

1.10.3 Financial instruments

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

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

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

- Level 1 - Unadjusted quoted prices in active markets where the quoted price is readily available and the price represents actual and regularly occurring market transactions on an arm's length basis.
- Level 2 - Valuation techniques using market observable inputs. Such techniques may include: using recent arm's-length market transactions, reference to the current fair value of similar instruments and discounted cash flow analysis, pricing models or other techniques commonly used by market participants.

ACCOUNTING POLICIES CONTINUED

For the year ended 31 March 2014

(c) Level 3 - Valuation techniques, as described in (b) above, for which not all inputs are market observable prices or rates.

Such a financial instrument is initially recognised at the transaction price, which is the best indicator of fair value, although the value obtained from the relevant valuation model may differ. The difference between the transaction price and the model value, commonly referred to as day one profit and loss, is either amortised over the life of the transaction, deferred until the instrument's fair value can be determined using market observable inputs, or realised through settlement.

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

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

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

Equity investments

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

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

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

- Price of recent investment, if available;
- Discounted cash flow analysis based on free cash flows, earnings or dividends using market-related adjusted discount rates;
- Price earnings growth (PEG); and Option pricing models.

The Bank ensures that these valuation techniques:

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

Equity investments held-to-maturity consist of preference shares and debentures.

Capital market securities

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

Derivatives

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

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

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

Interest-bearing loans and borrowings

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

Interest rates used for determining fair value

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

1.11 Provisions, contingent liabilities and contingent assets

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

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

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

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

ACCOUNTING POLICIES CONTINUED

For the year ended 31 March 2014

1.12 Financial guarantees

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

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

1.13 Employee benefits

1.13.1 Defined contribution plan

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

1.13.2 Defined benefit plan

The Bank contributes to a defined benefit plan for post-retirement medical benefits for a closed group of eligible employees and pensioners. The Bank currently holds an investment that is used to part fund the liability for the post-retirement medical benefit. This investment does not meet the definition of a "Plan Asset" and is not offset against the post-retirement obligation.

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan.

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

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

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

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

1.13.3 Termination benefits

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

1.13.4 Short-term employee benefits

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

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

1.13.5 Home ownership scheme

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

1.14 Contingent liabilities and commitments

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

1.15 Other operating income

Other fee income is recognised as the related services are performed.

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

1.16 Events after the reporting period

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

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

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

1.17 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.

ACCOUNTING POLICIES CONTINUED

For the year ended 31 March 2014

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.

1.18 Leases

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

Operating leases - lessee

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

1.19 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.

1.20 Segmental reporting

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

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

For the year ended 31 March 2014

1. New standards and interpretations not yet effective

The following new standard has been issued by the IASB and is not yet effective.

- IFRS 9: Financial Instruments (1 January 2018).

2. Segmental reporting

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

- South Africa Financing.
- International Financing.
- Infrastructure Delivery Division.
- Treasury.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS CONTINUED

For the year ended 31 March 2014

Operating reportable segments

	South Africa Financing		International Financing		Infrastructure Delivery		Treasury		All other*		Total	
in thousands of rands	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013
Interest income on development loans	3 401 681	2 937 986	802 936	693 017	-	-	-	-	-	-	4 204 617	3 631 003
Interest income on investments	62 028	1 678	1 193	-	35	-	308 853	434 564	(517)	762	371 592	437 004
Total interest income	3 463 709	2 939 664	804 129	693 017	35	-	308 853	434 564	(517)	762	4 576 209	4 068 007
Interest expense	(1 974 694)	(1 807 045)	(294 580)	(272 529)	(985)	-	(217 443)	(362 334)	(57)	-	(2 487 759)	(2 441 908)
Net interest income	1 489 015	1 132 619	509 549	420 488	(950)	-	91 410	72 230	(574)	762	2 088 450	1 626 099
Non-interest income	135 836	238 205	221 173	44 038	74 638	-	105 213	(14 131)	41 844	43 990	578 704	312 102
Net fee income	92 582	154 985	61 744	23 773	44 761	-	105 212	(15 069)	30 331	24 321	334 630	188 010
Dividends	9 083	19 932	21 534	5 703	-	-	-	-	-	-	30 618	25 635
Sundry income	34 170	63 288	137 895	14 562	29 877	-	1	938	11 513	19 669	213 456	98 457
Operating income	1 624 851	1 370 824	730 722	464 526	73 688	-	196 623	58 099	41 270	44 752	2 667 154	1 938 201
Expenses	(624 953)	(1 453 756)	(208 577)	(302 947)	(71 821)	-	(14 130)	(22 554)	(573 211)	(772 648)	(1 492 692)	(2 551 905)
Operating expenses ¹	(65 323)	(128 200)	(35 262)	(25 898)	(71 821)	-	(14 130)	(22 554)	(552 658)	(750 243)	(739 194)	(926 895)
Depreciation and amortisation	-	-	-	-	-	-	-	-	(18 627)	(19 378)	(18 627)	(19 378)
Net impairment loss on financial assets	(559 630)	(1 325 556)	(173 315)	(277 049)	-	-	-	-	(1 926)	(3 027)	(734 871)	(1 605 632)
Development expenditure ²	(1 579)	-	-	-	-	-	-	-	-	-	(1 579)	-
Project preparation	-	-	-	-	-	-	-	-	(20 867)	(13 444)	(20 867)	(13 444)
Revaluation of equity investments	(258 506)	(113 113)	(519 187)	141 914	-	-	-	-	-	-	(777 693)	28 801
Sustainable earnings	739 813	(196 045)	2 958	303 493	1 867	-	182 493	35 545	(552 808)	(741 340)	374 323	(598 347)
Net foreign exchange gain/(loss) ⁴	-	-	-	-	-	-	279 914	346 978	31	-	279 945	346 978
Net (loss)/gain from financial assets and liabilities ³	-	-	-	-	-	-	149 836	(431 493)	(1 639)	(465)	148 197	(431 958)
Profit/(loss) before distribution	739 813	(196 045)	2 958	303 493	1 867	-	612 243	(48 970)	(554 416)	(741 805)	802 465	(683 327)
Grants	-	-	-	-	(5 567)	-	-	-	(9 856)	(22 921)	(15 423)	(22 921)
Transfer to IDD ⁵	-	-	-	-	15 657	-	(985)	-	(14 672)	-	-	-
Grant to DBSA Development Fund	-	-	-	-	-	-	-	-	-	(119 665)	-	(119 665)
Retained (loss)/profit	739 813	(196 045)	2 958	303 493	11 957	-	611 258	(48 970)	(578 944)	(884 390)	787 042	(825 914)
Capital expenditure	-	-	-	-	6 479	-	-	-	85	10 057	6 564	10 057
Total assets	39 718 719	36 282 356	15 742 264	14 266 621	62 330	-	7 615 820	2 682 073	686 408	734 186	63 825 541	53 965 236
Total liabilities	23 664 359	20 967 807	9 047 282	7 574 596	50 373	-	9 778 286	7 863 603	1 384 669	853 506	43 924 968	37 259 511
Key ratio's by segment												
Cost-to-income (%)	4	9	5	6	97		7	39			28	49
Debt to asset ratio (%)	60	58	57	53	81		128	293			69	69
Net interest income (%)	43	39	63	61	0		30	17			46	40
Return on assets (%)	2	(1)	0.02	2	3		8	(2)			1	(1)

* The All Other segment includes Corporate Services, Risk, Office of the CEO, Financing Operations and the Finance divisions.

¹ Included in operating expenses are costs relating to BRICS of R1.7 million that DBSA is administering on behalf of National Treasury. These costs have been reallocated to the grant line for segment reporting purposes. Comparative figures have also been reclassified (R1.4m).

² Development expenditure relates to loan commitments in support of under resourced municipalities.

³ Revaluation gains and losses have been split between equity investments and financial assets for segment reporting purposes.

⁴ Treasury is responsible for foreign exchange management across the Bank and as such all foreign exchange gains and losses have been reallocated to Treasury. Comparative figures have also been reclassified for foreign exchange gains and losses.

⁵ This represents the assistance granted from DBSA to IDD in support of mandate of the division.

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	Loans and receivables	Fair value through profit or loss	Held to maturity	Available -for-sale	Total carrying amount	Fair value
2014							
Cash and cash equivalents	5	4 135 667	-	-	-	4 135 667	3 834 753
Other receivables	6	145 296	-	-	-	145 296	145 296
Investment securities	7	-	1 743 848	166 653	250 840	2 161 341	2 202 780
Derivative assets held for risk management	9.1	-	1 308 325	-	-	1 308 325	1 308 325
Home ownership scheme loans	11	7 544	-	-	-	7 544	7 544
Equity investments	12	-	4 503 876	106 572	-	4 610 448	4 610 448
Development loans	15	50 076 234	-	-	-	50 076 235	45 981 604
Development bonds	14	-	-	772 743	-	772 743	683 353
		54 364 741	7 556 049	1 045 968	250 840	63 217 598	58 774 103

In thousands of rands	Level 1 Category	Level 2 Category	Level 3 Category	Total
Cash and cash equivalents	-	3 834 753	-	3 834 753
Other receivables	-	145 296	-	145 296
Investment securities	2 191 087	11 693	-	2 202 780
Derivative assets held for risk management	-	1 308 325	-	1 308 325
Development bonds	683 353	-	-	683 353
	2 874 440	5 300 067	-	8 174 507

In thousands of rands	Notes	Loans and receivables	Fair value through profit or loss	Held-to- maturity	Available -for-sale	Total carrying amount	Fair value
2013							
Cash and cash equivalents	5	1 252 142	-	-	-	1 252 142	1 252 142
Other receivables	6	148 386	-	-	-	148 386	148 386
Investment securities	7	-	2 030 121	199 981	1 205 820	3 435 922	3 451 569
Derivative assets held for risk management	9.1	-	1 422 719	-	-	1 422 719	1 422 719
Home ownership scheme loans	11	8 932	-	-	-	8 932	8 932
Equity investments	12	-	4 344 130	111 591	-	4 455 721	4 455 721
Development loans	15	42 619 769	-	-	-	42 619 769	44 336 771
		44 029 229	7 796 970	311 572	1 205 820	53 343 591	55 076 240

NOTES TO THE ANNUAL FINANCIAL STATEMENTS CONTINUED

For the year ended 31 March 2014

3. Financial assets by category (continued)

In thousands of rands	Level 1 Category	Level 2 Category	Level 3 Category	Total
Cash and cash equivalents	-	1 252 142	-	1 252 142
Other receivables	-	148 386	-	148 386
Investment securities	3 235 941	215 628	-	3 451 569
Derivative assets held for risk management	-	1 422 719	-	1 422 719
	3 235 941	3 038 875	-	6 274 816

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

4. Financial liabilities by category

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

In thousands of rands	Notes	At amortised cost	Designated at fair value through profit or loss	Total carrying amount	Fair value
2014					
Other payables	18	813 655	-	813 665	813 665
Funding: debt securities	21	22 515 912	6 700 902	29 216 814	30 246 675
Funding: lines of credit	22	13 606 441	-	13 606 441	13 889 393
Derivative liabilities held for risk management	9.2	-	63 899	63 899	63 899
		36 936 018	6 764 801	43 700 819	45 013 632

In thousands of rands	Level 1 Category	Level 2 Category	Level 3 Category	Total
Other payables	-	813 665	-	813 665
Funding: debt securities	30 017 070	229 605	-	30 246 675
Funding: lines of credit	-	13 889 393	-	13 889 393
Derivative liabilities held for risk management	-	63 899	-	63 899
	30 017 070	14 961 562	-	44 013 632

4. Financial liabilities by category (continued)

In thousands of rand	Notes	At amortised cost	Designated at fair value through profit or loss	Total carrying amount	Fair value
2013					
Other payables	18	796 594	-	796 594	796 594
Funding: debt securities	21	17 399 424	8 390 655	25 790 079	28 119 273
Funding: lines of credit	22	10 081 507	-	10 081 507	7 919 762
Funding under repurchase agreements	23	201 752	-	201 752	201 752
Derivative liabilities held for risk management	9.2	-	85 849	85 849	85 849
		28 479 277	8 476 504	36 955 781	37 123 230
In thousands of rand		Level 1 Category	Level 2 Category	Level 3 Category	Total
Other payables		-	796 594	-	796 594
Funding: debt securities		27 871 311	247 962	-	28 119 273
Funding: lines of credit		-	7 919 762	-	7 919 762
Funding under repurchase agreements		201 752	-	-	201 752
Derivative liabilities held for risk management		85 849	-	-	85 849
		28 158 912	8 964 318	-	37 123 230

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

5. Cash and cash equivalents

In thousands of rand	2014	2013
Call deposits	3 566 268	1 053 170
Cash at bank	569 399	198 972
	4 135 667	1 252 142

The average annual interest rate earned on fixed and call deposits detailed above was 5.07% (2013: 5.01%). The Bank's exposure to interest rate risk and sensitivity analysis for financial assets and financial liabilities are disclosed in note 48.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS CONTINUED

For the year ended 31 March 2014

6. Other receivables

in thousands of rand	2014	2013
Trade and other debtors	46 777	60 753
Less: provision for bad debts	(6 691)	(4 764)
	40 086	55 989
VAT	12 148	5 371
Prepayments	2 571	199
Deposits	1 287	1 385
Staff loans (current employees)	34	68
Subsistence and travel	396	104
Payroll	3 874	3 583
Accrued income	1 358	-
Accrued interest income (financial market assets)	51 223	56 745
DBSA Development Fund	32 319	24 943
Balance at the end of the year	105 210	92 398
Total other receivables	145 296	148 386
Current portion	112 977	123 444

Included in the balance for trade debtors are third party managed funds mandates and ex-employees comprising of:

in thousands of rand	2014	2013
Ex-employees debtors	559	30
Department of Basic Education for Accelerated Infrastructure Schools Programme	6 728	10 736
Department of Human Settlement - Western Cape	-	1 036
Department of Local Government	3	536
Department of Rural Development & Land Reform	2 084	-
Department of Water Affairs Pretoria	7	92
Free State Department of Police, Roads and Transport	1 419	1 419
Gauteng Department of Local Government and Housing	291	-
Gauteng Fund Project Office	-	734
Gauteng Health Revitalisation Programme	747	-
Green Fund	83	1 500
Jobs Fund	12	2 502
Kwazulu-Natal Department of Health	31	-
Municipal Financial Improvement Programme (NT MFIP)	2 872	2 591
Municipal Infrastructure Support Agency (MISA)	760	3 431
National Department of Health	7 995	5 900
National Department of Health: Health PPP Project	870	-
National Treasury Cities Support Programme	1 094	1 389
National Treasury Municipal Capacitation Fund	547	1 065
Presidency National Planning Commission	416	416
Total	26 518	33 377

Staff loans are for current employees and are interest free. The interest that should have been payable on this account would have been R4 912 charged at a rate of 9.5% (2013: R6 207 at a rate of 9.0%).

7. Investment securities

Investment securities consist of the following:

Investment securities designated at fair value through profit or loss

in thousands of rand	2014	2013
Government bonds	758 221	962 422
Municipal bonds	813 108	877 249
Corporate bonds	172 519	190 450
	1 743 848	2 030 121
<p>Investment securities are designated at fair value through profit or loss upon initial recognition when they form part of a group of financial assets managed and evaluated on a fair value basis in accordance with a documented investment strategy. These investments are held as part of a strategic liquidity portfolio and can thus be redeemed at any time depending on the Bank's liquidity requirements.</p>		
Held-to-maturity investment securities		
Municipal bonds	166 653	199 981
Available-for-sale investment securities		
Government bonds	238 441	258 058
Corporate bonds	706	164 265
Money market instruments	11 693	783 497
	250 840	1 205 820
Total investment securities	2 161 341	3 435 922

8. Investments under resale agreements

In the ordinary course of business, the Bank places excess funds or raises short-term funding through the repurchase market. This entails the transfer of financial assets in such a way that all or part of the assets do not qualify for recognition as the risk of ownership remains with the counterparty.

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

At 31 March 2014 the fair value of assets received as collateral was Nil (2013: Nil).

NOTES TO THE ANNUAL FINANCIAL STATEMENTS CONTINUED

For the year ended 31 March 2014

9. Derivative assets and liabilities held for risk management

9.1. Derivative assets held for risk management

in thousands of rand	2014	2013
Instrument type:		
Interest rate derivatives	297 690	815 027
Foreign exchange derivatives	1 010 635	607 692
	1 308 325	1 422 719

9.2. Derivative liabilities held for risk management

Instrument type:		
Interest rate derivatives	(23 958)	(43 247)
Foreign exchange derivatives	(39 941)	(42 602)
	(63 899)	(85 849)

9.3. Net derivatives held for risk management

Fair value hedges of interest rate risk	273 732	771 780
Cash flow hedges of foreign exchange risk	355 078	221 186
Economic hedges	615 616	343 904
	1 244 426	1 336 870

Fair value hedges of interest rate risk

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

Cash flow hedges of foreign currency debt securities issued

The Bank uses cross-currency interest rate swaps to hedge both the foreign currency and interest rate risks arising from the Euro and US dollar funding raised to finance disbursements. All cash flow hedges were effective for the year under review.

Economic hedges

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

10. Post-retirement medical benefits investment

in thousands of rand

	2014	2013
Fair value of plan assets	63 209	64 848

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

Post-retirement medical benefits investment

Fair value of plan assets

Opening balance at beginning of year	64 848	65 313
Income	3 385	3 436
Expenses	(780)	(756)
Contributions	(9 556)	(9 741)
Increase in market value	5 312	6 596
Closing balance at end of year	63 209	64 848

11. Home ownership scheme loans

Current employees	3 881	6 001
Ex-employees	3 663	2 931
	7 544	8 932

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

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

At 31 March 2014 the effective interest rate was 7.5 % (2013: 7.0%).

12. Equity investments

Equity investments consist of the following:

Equity investments designated at fair value through profit or loss	4 503 876	4 344 130
Equity investments held-to-maturity	106 572	111 591
	4 610 448	4 455 721

Equity investments represent strategic investments by the Bank and are long-term in nature. As the Bank has more than five investments, a register is maintained.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS CONTINUED

For the year ended 31 March 2014

12.1 Equity investments designated at fair value through profit or loss

in thousands of rand	2014	2013
Cost		
Balance at the beginning of the year	3 978 504	3 578 001
Acquisitions	688 528	587 832
Capital return	(243 822)	(187 329)
Balance at end of the year	4 423 210	3 978 504
Fair value adjustment and impairment		
Balance at the beginning of the year	93 364	172 420
Current year fair value adjustment (refer note 34)	(772 673)	46 980
Realised capital gain	168 481	77 055
Impairment loss (refer to note 37)	(12 173)	(203 091)
Balance at the end of the year	(523 001)	93 364
Foreign exchange adjustments		
Balance at the beginning of the year	272 262	(35 925)
Unrealised gain (refer to note 33)	194 970	303 228
Realised gain (refer to note 33)	136 435	4 959
Balance at the end of the year	603 667	272 262
Fair value at the end of the year	4 503 876	4 344 130

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

Direct equity in ordinary shares

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

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

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

In accordance with the best investment and valuation practice, a marketability discount is applied to direct equity investments. The guidelines provides that marketability discount in the range 10% to 30% should be factored into the valuation. Different factors are considered in setting the marketability discount and it is possible for the marketability discount for a particular instrument to be outside the guideline range.

12. Equity investments (continued)

Third party managed private equity:

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

12.2 Equity investments held-to-maturity

Equity investments held-to-maturity consist of preference shares and debentures. The Bank has not during the current financial year or three preceding financial years, sold or reclassified before maturity more than an insignificant amount of investments in relation to the total amount of held-to-maturity investments.

Held-to-maturity investments at fair value

in thousands of rand	2014	2013
Balance at the beginning of the year	111 591	298 919
Amortised interest on effective interest method	(5 019)	(18 178)
Reclassification	-	(40 000)
Repayments	-	(107 870)
Impairment loss (Refer to note 37)	-	(21 280)
	106 572	111 591

12.3 Age analysis of equity investments

One year	11 931	454 603
Two years	458 000	794 971
Three years	697 505	1 703 473
Four years	1 730 616	-
Five to nine years	1 575 594	1 301 981
Ten years and older	136 802	200 693
	4 610 448	4 455 721

NOTES TO THE ANNUAL FINANCIAL STATEMENTS CONTINUED

For the year ended 31 March 2014

12. Equity investments (continued)

in thousands of rand	2014	2013
12.4 Sectorial analysis of equity investments		
Commercial infrastructure	1 923 553	1 391 534
Communication and transport infrastructure	-	304 181
Energy	-	135 560
Institutional infrastructure	843 468	754 132
Residential facilities	1 743 427	1 766 012
Social infrastructure	100 000	104 302
	4 610 448	4 455 721
12.5 Geographical analysis of equity investments		
South Africa	2 016 896	2 066 616
Rest of Africa	2 593 552	2 389 105
	4 610 448	4 455 721
US dollar and Euro amounts included in the above Africa and international equity investments:		
US dollar amount included	164 112	194 388
Euro amount included	27 057	25 968

13. Fair value hierarchy disclosures

Fair value hierarchy disclosures

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

in thousands of rand	Notes	Valuation with reference to observable prices Level 1	Valuation based on observable input Level 2	Valuation based on unobservable input Level 3*	Total
2014					
Available-for-sale financial assets					
Investment securities	7	239 147	11 693	-	250 840
Financial assets designated at fair value through profit and loss					
Investment securities	7	1 743 848	-	-	1 743 848
Derivative assets held for risk management	9.1	-	1 308 325	-	1 308 325
Equity investments	12	-	4 064 745	439 131	4 503 876
Total financial assets		1 982 995	5 384 763	439 131	7 806 889
Financial liabilities designated at fair value through profit and loss					
Funding: debt securities	21	6 471 296	229 606	-	6 700 902
Derivative liabilities held for risk management	9.2	-	63 899	-	63 899
Total financial liabilities		6 471 296	293 505	-	6 764 801

NOTES TO THE ANNUAL FINANCIAL STATEMENTS CONTINUED

For the year ended 31 March 2014

13. Fair value hierarchy disclosures (continued)

in thousands of rand	Notes	Valuation with reference to observable prices Level 1	Valuation based on observable input Level 2	Valuation based on unobservable input Level 3*	Total
2013					
Available-for-sale financial assets					
Investment securities	7	422 323	783 497	-	1 205 820
Financial assets designated at fair value through profit and loss					
Investment securities	7	2 030 121	-	-	2 030 121
Derivative assets held for risk management	9.1	-	1 422 719	-	1 422 719
Equity investments	12	135 559	3 538 308	670 263	4 344 130
Total financial assets		2 588 003	5 744 524	670 263	9 002 790
Financial liabilities designated at fair value through profit and loss					
Funding: debt securities	21	8 142 693	247 962	-	8 390 655
Derivative liabilities held for risk management	9.2	-	85 849	-	85 849
Total financial liabilities		8 142 693	333 811	-	8 476 504

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

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
- Valuation model using inputs derived from or corroborated by observable market data

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

Level 3

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

13.1 Equity investments

For investments within level 3 of the fair value hierarchy, valued at R439.1 million at 31 March 2014 (2013: R670.2 million), the methods described previously may produce a fair value measurement that may not be indicative of ultimate realisable value. Furthermore, while management believes its valuation methods are appropriate and consistent with those used by other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date. Those estimated values may differ significantly from the values that would have been used had a readily available market for such investments existed, or had such investments been liquidated, and these differences could be material to the financial statements.

in thousands of rand	2014	2013
14. Development bonds		
Development bonds consist of the following:		
Held-to-maturity development bonds		
Municipal bonds	772 743	-
Development bonds are held to maturity investments that are measured at amortised cost using the effective interest rate method.		
15. Development loans		
15.1. Analysis of development loans		
Balance at the beginning of the year	44 956 364	41 379 495
Movements during the year	7 493 482	3 576 869
Gross development loans	52 449 846	44 956 364
Allowance for impairment of development loans (refer to note 15.9)	(2 373 611)	(2 336 595)
Net development loans at the end of the period	50 076 235	42 619 769
Movements during the period		
Loans disbursed - current year	11 281 242	8 385 207
Equity investment converted to loan	-	40 000
Interest accrued - statement of comprehensive income	4 204 617	3 631 003
Interest accrued - impairment	71 959	128 221
Development loans written down	(755 700)	(130 676)
Foreign exchange adjustment	1 325 194	1 469 748
Gross repayments	(8 816 699)	(10 136 490)
Fees raised - current year	182 869	189 856
	7 493 482	3 576 869

NOTES TO THE ANNUAL FINANCIAL STATEMENTS CONTINUED

For the year ended 31 March 2014

in thousands of rand	2014	2013
15.2. Maturity analysis of development loans		
Due within 1 (one) year	6 864 612	6 137 482
Due after 1 (one) year but within 2 (two) years	4 429 334	3 932 686
Due after 2 (two) years but within 3 (three) years	4 569 219	3 881 994
Due after 3 (three) years but within 4 (four) years	3 885 734	4 009 411
Due after 4 (four) years but within 9 (nine) years	16 864 597	14 769 726
Due after 9 (nine) years but within 14 (fourteen) years	11 456 659	5 977 864
Due after 14 (fourteen) years	4 379 691	6 247 201
	52 449 846	44 956 364
15.3. Sectoral analysis		
Commercial - fund	1 620 552	1 874 112
Commercial - manufacturing	719 178	867 051
Commercial - mining	902 047	747 795
Commercial - tourism	609 477	547 592
Commercial - other	432 141	520 888
Communication and transport infrastructure	3 775 842	3 845 136
Energy - electricity	19 188 172	13 439 021
Energy - non-grid standalone	939 871	512 842
Human resources development	1 207 906	1 099 243
Institutional infrastructure	25 327	12 462
Residential facilities	1 911 840	2 193 949
Roads and drainage	12 260 428	9 988 235
Sanitation	1 342 523	1 375 748
Social infrastructure	3 828 497	3 988 656
Water	3 686 045	3 943 634
	52 449 846	44 956 364

in thousands of rand		2014	2013
15.	Development loans (continued)		
15.4.	Geographical analysis		
	Eastern Cape	2 420 948	1 895 894
	Free State	851 935	660 933
	Gauteng	17 037 368	15 053 541
	KwaZulu-Natal	6 809 848	7 437 554
	Limpopo	952 304	1 076 897
	Mpumalanga	1 347 735	1 606 530
	North West	632 642	639 902
	Northern Cape	4 593 042	1 550 590
	Western Cape	3 515 688	3 459 887
	Multi-regional - South Africa	4 226	5 913
	SADC (excluding South Africa)	14 284 110	11 568 723
		52 449 846	44 956 364
	SADC (excluding South Africa)		
	Angola	2 778 342	174 344
	Botswana	40 278	43 412
	Democratic Republic of Congo	92 521	86 342
	Lesotho	804 322	889 767
	Malawi	11 537	125 416
	Mauritius	198 933	194 840
	Mozambique	903 077	1 060 258
	Namibia	445 512	545 821
	Swaziland	223 650	215 174
	Tanzania	286 249	374 544
	Zambia	4 031 215	3 714 006
	Zimbabwe	2 301 113	1 418 338
	Multi-regional	2 167 361	2 726 461
		14 284 110	11 568 723
	US dollar amounts included in the above SADC loans	1 159 629	969 299
15.5.	Client classification		
	Development finance institutions	1 352 606	1 362 157
	Educational institutions	862 871	959 849
	Local government	14 964 419	15 811 012
	National and provincial government	1 891 387	1 112 127
	Private sector intermediaries	15 285 371	10 913 801
	Public utilities	18 093 192	14 797 418
		52 449 846	44 956 364
15.6.	Fixed and variable interest rate loans		
	Fixed interest rate loans	27 627 958	26 300 487
	Variable interest rate loans	24 821 888	18 655 877
		52 449 846	44 956 364

NOTES TO THE ANNUAL FINANCIAL STATEMENTS CONTINUED

For the year ended 31 March 2014

in thousands of rand		2014	2013
15.	Development loans (continued)		
15.7.	Non-performing loans (included in total development loans)		
15.7.1.	Sectoral analysis		
	Commercial - manufacturing	308 032	294 883
	Commercial - mining	282 254	345 977
	Commercial - tourism	603 052	309 973
	Commercial - other	147 973	159 748
	Communication and transport infrastructure	688 354	1 070 560
	Energy	233 171	321 236
	Human resources development	38 888	41 638
	Institution building	1 444	1 328
	Residential facilities	184 876	253 452
	Roads and drainage	49 033	61 667
	Sanitation	100 284	90 677
	Social infrastructure	295 733	214 538
	Water	110 572	104 718
		3 043 666	3 270 395
15.7.2.	Geographical analysis		
	Eastern Cape	330 496	193 184
	Free State	144 087	154 916
	Gauteng	757 041	996 011
	KwaZulu-Natal	86 986	46 447
	Limpopo	221 972	215 910
	Mpumalanga	159 764	355 464
	North West	309 570	322 194
	Northern Cape	8 000	9 250
	Western Cape	220 075	217 958
	SADC (excluding South Africa)	805 675	759 061
		3 043 666	3 270 395
	SADC (excluding South Africa)		
	Botswana	-	43 412
	Democratic Republic Congo	92 522	-
	Malawi	-	84 282
	Mozambique	159 215	158 368
	Swaziland	148 057	136 804
	Zambia	187 809	154 605
	Multi-regional	218 072	181 590
		805 675	759 061

in thousands of rand

	2014	2013
15.7.3. Client classification on non-performing loans		
Educational institutions	20 722	25 641
Local government	420 117	441 027
Private sector intermediaries	2 331 712	2 474 606
Public utilities	271 115	329 121
	3 043 666	3 270 395
15.8. Client concentration of total development loans		
One client as percentage of total loan portfolio (%)	17.1	16.0
Seven clients as percentage of total loan portfolio (%)	44.0	43.7
15.9. Allowance for impairment of development loans reconciliation		
Balance at the beginning of the year	2 336 595	961 240
Impairment of current year interest	71 959	128 221
Loans written down during the year	(755 700)	(130 676)
Impairment charge:	720 757	1 377 810
Non-performing book	583 931	1 333 357
Performing book	136 826	44 453
Balance at the end of the period	2 373 611	2 336 595

NOTES TO THE ANNUAL FINANCIAL STATEMENTS CONTINUED

For the year ended 31 March 2014

16. Property and equipment

in thousands of rand	2014			2013		
	Cost / valuation	Accumulated depreciation	Carrying value	Cost / valuation	Accumulated depreciation	Carrying value
Revalued land	60 200	-	60 200	60 200	-	60 200
Revalued buildings	405 809	(17 363)	388 446	405 809	(13 496)	392 313
Furniture and fittings	18 930	(12 140)	6 790	18 930	(10 614)	8 316
Motor vehicles	1 886	(797)	1 089	1 886	(603)	1 283
Office equipment	15 807	(11 772)	4 035	15 807	(10 723)	5 084
Computer equipment	28 918	(27 605)	1 313	28 833	(25 731)	3 102
Total	531 550	(69 677)	461 873	531 465	(61 167)	470 298

Reconciliation of property and equipment: 2014

in thousands of rand	Opening balance	Additions	Depreciation	Closing balance
Revalued land	60 200	-	-	60 200
Revalued buildings	392 313	-	(3 866)	388 446
Furniture and fittings	8 316	-	(1 526)	6 790
Motor vehicles	1 283	-	(194)	1 089
Office equipment	5 084	-	(1 049)	4 035
Computer equipment	3 102	85	(1 874)	1 313
Carrying amount	470 298	85	(8 509)	461 873

Reconciliation of property and equipment: 2013

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

16. Property and equipment (continued)

Valuations

Land

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

The land was valued at fair value of R60.2 million by management on 31 March 2014 (2013: R60.2 million by an independent valuator). Land is measured at the revalued amount in accordance with the Bank's revaluation policy for land

Buildings

The existing buildings were erected in 1987 at a cost of R35.2 million. No improvements were effected during the 2014 financial year (2013: R2.2 million).

The buildings were valued at a fair value of R392.27 million by management on 31 March 2014 (2013: R392.27 million by an independent valuator).

The historical book value of the existing buildings is R206.0 million (2013: R207.2 million).

17. Intangible assets

In thousands of rand	2014			2013		
	Cost / valuation	Accumulated amortisation	Carrying value	Cost / valuation	Accumulated amortisation	Carrying value
Computer software	133 631	(50 771)	82 860	127 152	(40 653)	86 499

Reconciliation of intangible assets: 2014

In thousands of rand	Opening balance	Additions	Amortisation	Closing balance
Computer software	86 499	6 479	(10 118)	82 860

Reconciliation of intangible assets: 2013

In thousands of rand	Opening balance	Additions	Amortisation	Closing balance
Computer software	89 857	6 635	(9 993)	86 499

NOTES TO THE ANNUAL FINANCIAL STATEMENTS CONTINUED

For the year ended 31 March 2014

in thousands of rand	2014	2013
18. Other payables		
Sundry payables	371 409	406 768
Sundry accruals	2 330	18 167
Accrued interest (financial market liabilities)	439 926	371 659
Total other payables	813 665	796 594
Included in other payables are amounts due to third party managed funds and mandates comprising of:		
Department of Water Affairs	155	-
Gauteng Cleaner Remedial Fund	34 370	32 948
Gauteng Schools Programme	30	1 445
Green Fund Secretariat	-	1
Health Consultants - National Department of Health	-	2 518
Health PPP Programme	1 748	6 522
Hospital Revitalisation Programme	237	237
IUSS Project with National Department of Health	12 587	-
Independent Power Producer Project (IPP)	2 249	11 781
Municipal Infrastructure Support Agency (MISA)	230	-
Balance at the end of the year	51 606	55 452

Included in sundry payables is retention and bonus provision as reconciled below:

in thousands of rand	Opening balance	Utilised during the year	Current year provision	Closing balance
Retention bonuses	71 682	(56 042)	-	15 640
Bonus provision	-	-	135 000	135 000
	71 682	(56 042)	135 000	150 640

19. Provisions

Reconciliation of provisions: 2014

in thousands of rand	Opening balance	Additions	Utilised during the year	Closing balance
Restructuring	151 009	-	(96 590)	54 419
Developmental spend	-	1 579	-	1 579
	151 009	1 579	(96 590)	55 998

Provision for restructuring

The Bank embarked on an organisational review which commenced in 2013. The provision for restructuring was raised to cover costs relating to the organisational review.

The provision for restructuring includes the direct expenditure arising from the restructuring and not costs associated with the Bank's on-going activities

Provision for developmental spend

In response to meeting mandate requirements the Bank approved the granting of assistance to secondary and under-resourced municipalities by way of providing loans at rates lower than the required economic return on equity by the bank. The provision for developmental spend represents the quantum of the financial assistance provided on deals contracted.

20. Employee benefits

20.1 Liability for funeral benefits

This benefit covers all current and retired employees of the Bank. In respect of these employees a gross amount of R33 000 is paid to the family upon the death of an employee or retired employee. The obligation was valued by management on 31 March 2014.

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

in thousands of rand	2014	2013
Balance at the beginning of the year	4 300	5 161
Decrease in the liability	(1 200)	(861)
Balance at the end of the year	3 100	4 300

20.2 Liability for post-retirement medical benefits

The Bank operates an unfunded defined benefit plan for qualifying employees. In terms of the plan the Bank pays 100% of the medical aid contributions of qualifying pensioners. Pensioners include retired employees and their widow(er)s. The liability is in respect of pensioners who continue to belong to the medical aid after retirement.

The investment in Medipref as specified in note 10 has been set aside to fund this obligation.

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

Present value of unfunded obligation

in thousands of rand	2014	2013
Present value of unfunded obligation at the beginning of the year	148 421	354 880
Interest cost	13 638	31 467
Current service cost (includes interest to year-end)	33	11 555
Employer benefit payments	(9 200)	(10 053)
Benefits paid	-	(211 343)
Actuarial gain/(loss) for the year	12 159	(28 085)
Present value of unfunded obligation at the end of the year	165 051	148 421

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

NOTES TO THE ANNUAL FINANCIAL STATEMENTS CONTINUED

For the year ended 31 March 2014

in thousands of rand

	2014	2013
The amount recognised as an expense in the statement of comprehensive income in respect of the defined benefit plan is as follows:		
Interest cost	13 638	31 467
Current service cost	33	11 555
Actuarial gain/(loss) for the year	12 159	(28 085)
Total charge for the period (included in personnel expenses in the statement of comprehensive income - refer note 38)	25 830	14 937
Market value of post-retirement medical benefit investment		
Market value of Medipref at the beginning of the year	64 848	65 313
Income	3 385	3 436
Expenses	(780)	(756)
Contributions	(9 556)	(9 741)
Increase in market value	5 312	6 596
Market value of Medipref at the end of the year	63 209	64 848
The principal assumptions in determining the post-retirement medical benefits obligation are as follows:		
Discount rate (before taxation) (%)	9.30	9.50
Medical aid inflation rate (%)	8.30	8.70

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 (%)	8.30	(1.00)	1.00
Accrued liability 31 March 2014 (R'000)	165 051	148 011	185 618
% change		(10.30)	12.50
Current service cost + interest cost 2014/15 R'000)	14 880	13 296	16 800
% change		(10.60)	12.90
Sensitivity results from previous valuation: Medical aid inflation rate 2013 (%)	8.70	(1.00)	1.00
Current service cost + interest cost 2013/14 (R'000)	13 671	12 254	15 324
% change		(10.40)	12.10

20. Employee benefits (continued)

The obligation for the four years prior to March 2013 is as follows:

	R'000
March 2012	354 880
March 2011	262 788
March 2010	233 913
March 2009	226 648

in thousands of rand	2014	2013
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20.3 Defined contribution plan

Total amount expensed during the year (including group life assurance and income continuity benefits).

38 928	59 483
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The Development Bank of Southern Africa Provident Fund (The Fund) was established on 1 June 1994. As a condition of employment all eligible employees are required to join as members.

The Fund which is governed by the Pension Funds Act 1956 (Act No. 24 of 1956) is a defined contribution plan for permanent employees of the Bank.

The number of employees covered by the plan for 2014 is 431 (2013: 592).

21. Funding: debt securities

Held at fair value through profit or loss

6 700 902	8 390 655
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Held at amortised cost

22 515 912	17 399 424
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29 216 814	25 790 079
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Debt securities designated at fair value through profit or loss consists of DV bonds and private placements listed and unlisted.

Debt securities carried at amortised cost consists of Eurorand bond issues Money Market Issuance (bridging bonds).

22. Funding: lines of credit

Held at amortised cost

Lines of credit

13 606 441	10 081 507
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NOTES TO THE ANNUAL FINANCIAL STATEMENTS CONTINUED

For the year ended 31 March 2014

in thousands of rand	2014	2013
23. Funding under repurchase agreements		
Balance at the end of year	-	201 752
Refer note 8 investments under resale agreements.		
In the ordinary course of business the Bank raises short-term funding through the repurchase market. This entails the sale of financial assets in such a way that all or part of the assets do not qualify for derecognition cost. The essence of such a transaction is to raise short-term funding through the repo market.		
The financial instruments thus transferred include government bonds, corporate bonds and municipal bonds. The Bank retains substantially all of the credit risks and rewards associated with the transferred assets and continues to recognise these investments within investment securities, whilst the corresponding financial liability considerations received are recognised in funding under repurchase agreements.		
At 31 March 2014 there were no financial assets used as collateral while their fair value was R202 million in 2013.		
24. Share capital		
Authorised		
500 000 ordinary shares (2013: 500 000) at a par value of R10 000 each	5 000 000	5 000 000
Callable capital (authorised but not yet issued)		
480 000 ordinary shares (2013: 480 000) at a par value of R10 000 each	4 800 000	4 800 000
In terms of section 18 of the DBSA Act Directors may issue shares from time to time and call upon the shareholders in respect of any monies to be paid to the Bank.		
The Board may with the approval of the shareholder previously given at a shareholder's meeting increase the issued share capital of the Bank by the creation and issue of ordinary and preference shares.		
Issued capital		
20 000 ordinary shares (March 2013: 20 000) at a par value of R10 000 each	200 000	200 000
All issued capital is fully paid for.		

in thousands of rand

2014

2013

25. Permanent government funding

Balance at the beginning of the year	3 792 344	3 792 344
Government recapitalisation	2 400 000	-
	6 192 344	3 792 344

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

During the current financial year a capital injection of R2.4 billion was received from National Treasury.

There are no repayment terms and this funding is interest-free. To date no cash repayments have been made and the full amount initially received is equal to the residual amount and is thus allocated to equity.

26. Revaluation reserve on land and buildings

Balance at the beginning of the year	253 487	255 088
Loss on revaluation of land and buildings	-	(1 601)
Balance at the end of the year	253 487	253 487

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

27. Hedging reserve

Balance at the beginning of the year	40 617	37 721
Net unrealised gain on cash flow hedges	109 108	59 866
Net losses on cash flow hedges reclassified to the statement of comprehensive income	(87 767)	(56 970)
Balance at the end of the year	61 958	40 617

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

28. Reserve for general loan risks

Balance at the beginning of the year	1 371 726	1 262 026
Transfer to general loan reserve	522 257	109 700
Balance at the end of the year	1 893 983	1 371 726

The reserve is maintained based on the risk grading of the borrowers as detailed in accounting policy note 1.6.5 and movements are recognised directly between the reserve for general loan risk and retained earnings.

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For the year ended 31 March 2014

in thousands of rand		2014	2013
29. Fair value reserve			
Balance at the beginning of the year		15 920	13 148
Change in value of available-for-sale financial assets		(13 535)	2 772
Balance at the end of the year		2 385	15 920
The fair value reserve comprises all fair value adjustments for available-for-sale financial market instruments excluding impairment loss.			
30. Interest income			
Interest income received on:			
Cash and cash equivalents		80 036	160 020
Investment securities:			
Held at fair value through profit and loss		172 698	179 772
Held-to-maturity		23 622	23 806
Available-for-sale		19 904	32 309
		216 224	235 887
Investments under repurchase agreements		116	18 418
Derivatives assets		11 405	20 265
Home ownership scheme loans		591	761
Equity investments		4 905	1 653
Development loans		4 204 617	3 631 003
Development bonds		58 315	-
Total interest income		4 576 209	4 068 007
30.1. Interest income on development loans			
Interest income on development loans was received as follows:			
On performing loans		3 939 848	3 464 034
On non-performing loans		264 769	166 969
		4 204 617	3 631 003
30.2 Interest income on development loans was received from:			
Development finance institutions		68 815	63 103
Educational institutions		79 096	86 457
Local government		1 465 260	1 650 661
National and provincial government		86 050	73 091
Private sector intermediaries		1 198 222	757 673
Public utilities		1 307 174	1 000 018
		4 204 617	3 631 003

in thousands of rand

2014

2013

31. Interest expense

Interest expense incurred on:

Other payables	1 861	1 403
Funding: debt securities	2 508 965	2 497 662
Funding: lines of credit	221 824	196 694
Funding under repurchase agreements	1 895	2 223
Derivative liabilities held for risk management	(246 786)	(256 074)
Total interest expense	2 487 759	2 441 908
Net interest income	2 088 450	1 626 099

Included in interest expense for the year ended 31 March 2014 is R687 million (2013: R743 million) relating to debt securities designated at fair value through profit or loss. Included in interest expense for the year ended 31 March 2014 is R1 82 billion (2013: R1.76 billion) relating to debt securities held at amortised cost.

32. Net fee income

Fee income

Guarantee fees	220 451	6 641
Management fees	71 553	69 682
Commitment fees on lending	47 285	36 233
Upfront fees	27 582	92 652
Appraisal fees	29 881	441
Arranging fees	32 005	551
Contract cancellation fees	8 520	-
Prepayment fees	11 029	2 136
Directors fees	220	442
Advisory fee	2 465	412
Consultants fees	3 345	-
Unwinding costs	1 234	35 231
Breakage costs	1 624	910
Restructure fee	48	1 682
Conversion fees	-	477
Waiver fees	62	-
Total fee income	457 304	247 490

Fee expense

Guarantee fees	113 336	51 851
Commitment fees on funding	9 012	7 511
Appraisal fees	326	118
Total fee expense	122 674	59 480
Net fee income	334 630	188 010

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For the year ended 31 March 2014

32. Net fee income (continued)

in thousands of rand	2014	2013
Included in management fees are fees from third party managed funds:		
AfD PPS Fund	261	329
African Capacity Building Foundation (ACBF)	9	26
African Pier Review Mechanism (APRM)	496	1 348
African World Heritage Fund	93	712
Anglo American South Africa	141	-
DBE for Accelerated Infrastructure School programmes	22 143	25 556
Department of Economic Trade and Tourism	-	263
Department of Rural Development & Land Reform	1 393	-
Department of Water Affairs	487	499
Development Fund	-	3 082
DME/Renewable Energy Market Transformation	160	1 626
Dryland Rehabilitation Programme	80	21
Energy and Environmental Programme	320	-
European Investment Bank	-	579
Elliotdale Rural Human Settlement	3 912	257
Finland Ministry for Foreign Affairs	828	2 237
Gain	-	2 690
Gauteng Health	901	-
Greater Kokstad Municipality	-	39
Green Fund	3 076	527
International Development Research Centre	-	21
IIPSA	3 157	-
Jobs Fund	3 818	3 753
KFW	337	92
KZN Health Department	-	558
Municipal Financial Improvement Programme (NT MFIP)	1 500	4 163
Municipal Infrastructure Support Agency (MISA)	2 608	6 165
Muyexe Comprehensive Development	66	11
Narysec	403	247
National Department of Health	14 927	7 723
National Treasury - The PPP Unit	1 379	-
National Treasury Cities Support Programme	667	667
National Treasury Municipal Capacitation	1	66
New Partnership for Africa's Development (Nepad)	46	-
Spatial Development Initiative	1 574	1 794
TTA DFID	6 756	4 782
Ubunye	14	-
	71 553	69 833

in thousands of rand

33. Net foreign exchange gain/(loss)

Unrealised

Foreign exchange (loss)/gain: Cash and cash equivalents*	(45 548)	3 034
Foreign exchange gain: Hedging derivatives - funding	371 984	241 797
Foreign exchange gain: Equity investments (Refer to note 12.1)	194 970	303 228
Foreign exchange gain: Development loans and sundry	805 638	1 183 478
Foreign exchange loss: Hedging derivatives - development loans	(64 706)	(96 209)
Foreign exchange loss: Funding	(1 470 786)	(1 408 786)
	(208 448)	226 542

Realised

Foreign exchange (loss)/ gain: Development loans	516 400	284 815
Foreign exchange gain: Equity investments (Refer to note 12.1)	136 435	4 959
Foreign exchange loss: Funding and hedging**	(164 442)	(169 338)
	488 393	120 436
Net foreign exchange gain	279 945	346 978

* Excluded from Unrealised Foreign exchange gain/ (loss): Cash and cash equivalents for the year ended 31 March 2014 is realised Forex loss of R248 million (2013: R213 million) relating to matured forward exchange contracts.

** Included in Foreign exchange gain/ (loss): Funding and hedging for the year ended 31 March 2014 is realised foreign exchange loss of R248 million (2013: R213 million) relating to matured forward exchange contracts.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS CONTINUED

For the year ended 31 March 2014

in thousands of rand	2014	2013
34. Net loss from financial assets and financial liabilities		
Net gain/(loss) on derivatives held for risk management at fair value through profit or loss		
Interest rate derivatives		
Unrealised	(497 687)	63 204
Realised	7 306	(5 263)
	(490 381)	57 941
Foreign exchange derivatives		
Unrealised	78 668	(42 259)
Realised	(26 459)	(26 056)
	52 209	(68 315)
Investment securities designated at fair value through profit or loss		
Government bonds - unrealised	(43 675)	16 854
Government bonds - realised	5 669	78
Corporate bonds - unrealised	(16 934)	11 681
Municipal bonds - unrealised	(64 140)	49 758
	(119 080)	78 371
Debt securities		
Designated at fair value through profit or loss - unrealised	707 087	(499 490)
Equity investments		
Designated at fair value through profit or loss - unrealised (refer to note 12.1)	(772 673)	46 980
Held to maturity - unrealised	(5 019)	(18 178)
	(777 692)	28 802
Other		
Post-retirement medical benefits investment designated at fair value through profit or loss - unrealised	(1 639)	(466)
Total net loss from financial assets and liabilities	(629 496)	(403 157)

in thousands of rand

2014

2013

35. Other operating income

Non-interest income

Dividend income	30 618	25 635
Sundry income	213 456	98 457
	244 074	124 092

36. Project preparation

Project preparation	20 867	13 444
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37. Net impairment loss on financial assets

Impairment of other receivables	1 939	3 451
Impairment on equity investments (refer to note 12.1)	12 173	224 371
Impairment on development loans (refer note 15.)	720 759	1 377 810
	734 871	1 605 632

38. Personnel expenses

Post-retirement medical benefits liability movement (refer note 20.2)	25 830	14 937
Personnel expenses	535 767	639 370
	561 597	654 307

Included in other personnel expenses are the following:

Directors' emoluments	13 027	10 034
Executive members' remuneration	27 743	18 546
	40 770	28 580

Full details are provided in the schedule of Directors' emoluments (refer note 47).

39. Other expenses

Auditor's remuneration	6 649	8 515
Technical services	34 006	39 690
Communication costs	7 466	6 961
Information technology costs	32 498	30 913
Legal expenses	8 239	7 679
Public relations activities	7 375	5 332
Subsistence and travel	24 015	17 781
Restructuring expenses	-	100 430
Low value assets	68	1 031
Other	57 281	55 679
	177 597	274 011

NOTES TO THE ANNUAL FINANCIAL STATEMENTS CONTINUED

For the year ended 31 March 2014

in thousands of rand	2014	2013
40. Depreciation and amortisation (refer note 16 and 17)		
Revalued buildings	3 866	3 334
Furniture and fittings	1 526	1 555
Motor vehicles	194	256
Office equipment	1 049	1 865
Computer equipment	1 874	2 375
Intangible assets	10 118	9 993
	18 627	19 378
41. Grants		
Developmental assistance grants	1 579	-
Training Assistance - Vulindlela Academy Unfunded Mandate	6 804	-
National Treasury: BRICS	1 675	-
Municipal Infrastructure Support Agency (MISA)	4 578	-
Social Responsibility Fund	-	21 499
Jobs Fund - retention bonus	2 366	-
	17 002	21 499
42. Contingencies		
42.1. Employee loans		
Loan balances secured	17	223
The Bank has entered into agreements with financial institutions whereby it stands surety for housing and micro loans of its employees. Repayment terms vary at fair market rates which are at arm's length.		
42.2. Guarantees		
The Bank has approved and issued guarantees on behalf of borrowers amounting to.	288 036	251 848
After consideration by management it was decided that these borrowers are unlikely to default and therefore these guarantees were not recognised in the statement of financial position as a liability.		
The total book debt to the credit provider is	288 036	251 848
42.3 Contingent liabilities		
There were no claims against the Bank at year-end.		

43. Related parties

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

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

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

The Bank has a related party relationship with BRICS as a participant in the Bank.

43.1. Transactions with related parties

The following is a summary of transactions with related parties during the year and balances due at year-end:

43.1.1. National public entities

The total book debt of loans extended to national public entities amounts to R10.1 billion (2013: R8.5 billion). None of these loans are non-performing.

43.1.2. Development Fund

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

In order for the Fund to carry out its functions it utilises the offices staff services and facilities of the Bank for which it pays a management fee. This fee is charged at a market-related rate of 4% of operating costs of the Fund. At year-end the net balance owed by the DBSA Development Fund was R32.3 million (2013: R24.9 million).

The management fee income for the year was nil (2013: R3.3 million). Rental income for the year was nil (2013: R0.3 million).

The grant paid to the DBSA Development Fund during the year was nil (2013: R119.7 million).

The Development Fund is in the process of liquidation. The liquidation should be completed by the end of December 2014.

43.1.3. National mandates

The net amount advanced to National Treasury at year-end amounted to R4.2 million (2013: R2.2 million).

43.1.4. BRICS

Included in grants note 41 is an amount paid to National Treasury of R1.6 million (2013: RNil) for expenses incurred relating to the BRICS programme. This amount is not recoverable from National Treasury.

43.1.5 Frandevco

The Bank has a 100% shareholding in Frandevco (refer note 51).

NOTES TO THE ANNUAL FINANCIAL STATEMENTS CONTINUED

For the year ended 31 March 2014

43.2 Related party transactions

There were no related party transactions with Directors and key management personnel during the year (2013: Nil) except as disclosed in note 47.

44. Commitments

in thousands of rand	2014	2013
At the reporting date the Bank had the following commitments:		
Development loan commitments	6 931 264	12 996 393
Developmental spend	17 357	-
Grants	36 736	55 492
Equity investment commitments	1 894 655	2 558 237
	8 880 012	15 610 122

44.1. 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.

44.2. Developmental spend

Developmental spend on loan commitments approved but not yet contracted are to be financed from funds generated from operation and available cash resources.

44.3. Grants

Grant commitments approved but not yet disbursed are to be financed from funds generated from operation and funds raised from local financial markets and foreign sources.

44.4. Equity investment commitments

Commitment relates to private equity funds approved but not yet disbursed.

45. Funds administered on behalf of third parties

in thousands of rand	2014	2013
Balance at the beginning of the year	2 092 076	1 592 215
Funds received	2 169 821	2 289 054
Interest exchange and other movements	141 833	-
Funds disbursed	(2 331 280)	(1 789 193)
Balance at the end of the year	2 072 450	2 092 076

46. 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.

47. Schedule of Directors' and prescribed officers' emoluments

47.1 Executive members' remuneration and prescribed officers

	Basic salaries/fees R	Medical aid, group life and provident fund contribution R	Subsistence and travel R	Retention bonus R	Total March 2014 R	Total March 2013 R
Chief Executive Officer and Managing Director						
Mr P Baloyi ¹	-	-	-	-	-	775 605
Mr P Dlamini ²	3 998 834	521 571	101 527	2 600 000	7 221 932	2 473 328
Executive managers						
Mr P A Currie	2 171 476	198 556	16 693	1 400 000	3 786 725	2 035 591
Mr E Dietrich ³	-	-	-	-	-	1 642 562
Ms R Govender ³	-	-	-	-	-	1 669 839
Mr M Hillary ⁴	1 800 144	301 388	11 576	1 400 000	3 513 108	921 670
Mr L Mashaba ³	-	-	-	-	-	2 319 411
Ms D Mashishi	1 915 418	187 755	3 657	1 500 000	3 606 830	1 706 016
Mrs K Naidoo ²	2 197 557	247 001	194	1 700 000	4 144 752	1 335 946
Mr R Naidoo ⁷	-	-	-	-	-	1 559 251
Mr T Nchocho	2 053 700	314 939	38 852	1 600 000	4 007 491	2 120 516
Mr R Shaik ⁵	1 850 228	306 795	25 475	1 500 000	3 682 498	1 456 407
Ms S Sibisi	1 849 140	252 392	8 759	1 400 000	3 510 291	1 780 127
Mr M Vivekanandan ⁶	84 482	13 348	-	1 500 000	1 597 830	-
	17 920 979	2 343 745	206 733	14 600 000	35 071 457	21 796 269

Notes

1. Resigned 30 April 2012
2. Appointed 1 September 2012
3. No longer an executive from 1 January 2013
4. Appointed 1 October 2012
5. Appointed 1 August 2012
6. Appointed 24 March 2014
7. Resigned on 31 January 2013

NOTES TO THE ANNUAL FINANCIAL STATEMENTS CONTINUED

For the year ended 31 March 2014

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

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

	Fees for services as Directors R	Subsistence and travel R	Cellphone cost R	Total March 2014 R	Total March 2013 R
Mr PJ Moleketi (Chairman) ¹	788 352	4 320	69 589	862 261	989 872
Mr FM Baleni ¹	352 952	8 712	-	361 664	366 300
Dr L Bhengu-Baloyi	418 902	-	-	418 902	356 000
Mr A Boraine	514 902	-	-	514 902	453 000
Mrs T Dingaan	617 100	-	-	617 100	769 000
Ms A Kekana ³	37 500	-	-	37 500	499 047
Mrs W Lucas-Bull ²	-	-	-	-	703 092
Mr OA Latiff	491 952	-	-	491 952	285 000
Ms B Mabuza	441 902	3 456	-	445 358	436 659
Dr C Manning	504 602	4 536	-	509 138	514 734
Ms D Marole	528 600	3 240	-	531 840	646 202
Ms M Vilakazi	610 327	864	-	611 191	548 806
Co-opted members					
Prof D Everatt	-	-	-	-	24 432
Prof B Figaji	466 864	-	-	466 864	156 400
Dr R Kfir	-	-	-	-	24 403
Prof V Taylor	-	-	-	-	12 000
Mr M Matsabu	37 752	-	-	37 752	-
	5 811 707	25 128	69 589	5 906 424	6 784 947

Notes

1. Re-appointed 1 January 2013
2. Resigned 31 March 2013
3. Resigned 30 June 2013

48. Financial risk management

48.1 Market risk

Market risk is the risk that the Bank's earnings and capital will be adversely affected by movements in the level or volatility of market rates or prices such as interest rates and foreign exchange rates. The overarching objective of market risk management in the Bank is to protect the Bank's net earnings against adverse market movements through containing the innate interest rate and foreign currency risks within acceptable parameters.

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

48.1.1 Interest rate risk

Interest rate risk refers to the susceptibility of the Bank's financial position to adverse fluctuations in market interest rates. Variations in market interest rates impact on the cash flows and income stream of the Bank through their net effect on interest rate sensitive assets and liabilities. At the same time movements in interest rates impact on the Bank's capital through their net effect on the market value of assets and liabilities. Interest rate risk in the Bank arises naturally as a result of its funding and lending operations, and occurs primarily in the form of repricing risk caused by mismatches in the amount of assets and liabilities 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 Division, under oversight of the Asset and Liability Management Committee, is charged with managing and containing the Bank's interest rate risk exposures within Board approved limits. To this end, the Bank makes use of derivative instruments to achieve its desired interest rate risk profile.

The Bank's primary interest rate risk management objective is to protect its net interest income (NII) from adverse fluctuations in market interest rates. To achieve this objective, it is the policy of the Bank to measure and manage its interest rate risk exposure both over the short- and long-term in order to protect the Bank's earnings stream and ensure its continued financial sustainability. Limits are set both with respect to short-term NII sensitivity using the 12-month cumulative repricing gap to total earning assets ratio, and in the longer term, with respect to the duration range of the Bank's net assets. As at 31 March 2014 the 12-month cumulative repricing gap amounted to 18.53% (March 2013: 10.65%) of total earning assets, within the approved limit of 22.5%.

The management of interest rate risk against these limits is supplemented by scenario analysis, which measures the sensitivity of the Bank's net interest income and market value of equity to extreme interest rate movements. At a minimum, scenarios include hypothetical interest rate shocks both, up and down, of at least 100 basis points.

The re-pricing profile as at financial year-end is encapsulated in the table 48.1.1.2 below. As reflected in the 12-month cumulative repricing gap, the Bank is asset sensitive, with an immediate 100 basis points parallel upward (downward) shift in the yield curve expected to result in an increase (decrease) in net interest income over the projected 12-month period of approximately R64.3 million (March 2013: R36 million).

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For the year ended 31 March 2014

48.1.1.1 Hedging of Interest rate risk exposure

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

As at 31 March 2014, the Bank had a combined ZAR interest rate and USD interest rate swaps portfolio with a total notional contract amount of R 5.05 billion (March 2013: R6.2 billion). The Bank classifies interest rate swaps as fair value hedges and states them at fair value (refer to note 9). The net fair value of these swaps as at 31 March 2014 was R 358.6 million (March 2013: R771 million), comprising assets of R 382.5 million (March 2013: R815million) and liabilities of R 23.9 million (March 2013: R43 million). These amounts are recognised as fair value derivatives.

48.1.1.2 Contractual repricing gap

DBSA Contractual Repricing Gap

in Millions of Rand		<1M	1-3M	3-12M	1-2 Yrs	2-3 Yrs	3-4 Yrs	4-5 Yrs	> 5 Yrs	Grand Total
Cash and Cash Equivalent	ZAR	4 136	-	-	-	-	-	-	-	4 136
	EUR	-	-	-	-	-	-	-	-	-
	USD	-	-	-	-	-	-	-	-	-
Money Market Instruments	ZAR	-	-	-	-	-	-	-	-	-
Investment : Govt bonds	ZAR	-	-	-	817	-	-	106	-	923
Investment : Municipal bonds	ZAR	-	-	67	167	33	-	-	1 415	1 682
Investment : Corporate bonds	ZAR	-	-	12	-	-	-	75	75	162
Development Loans	EUR	-	-	1	2	2	1	2	2	10
	USD	854	3 891	7 019	51	52	22	21	-	11 910
	ZAR	2 153	6 821	5 367	1 568	1 511	1 284	1 518	18 610	38 832
Derivatives: Development Loans	USD	(12)	(484)	(64)	(24)	(24)	(12)	-	-	(620)
	ZAR	10	510	10	21	22	11	-	-	584
Total Financial Market Assets		7 141	10 738	12 412	2 602	1 596	1 306	1 722	20 102	57 619
CCS : Lines of Credit	EUR	8	77	200	235	209	247	192	1 082	2 250
CCS : Lines of Credit	USD	-	-	-	-	-	-	-	-	-
CCS : Lines of Credit	ZAR	-	(429)	(93)	(115)	(80)	(103)	(80)	(509)	(1 409)
Funding Bonds	ZAR	-	(1 169)	-	(215)	(1 000)	-	-	(22 932)	(25 316)
Funding : Lines of Credit	EUR	(8)	(77)	(200)	(235)	(209)	(247)	(192)	(1 082)	(2 250)
Funding : Lines of Credit	USD	(379)	(4 888)	(3 947)	(240)	(240)	(229)	(219)	(391)	(10 533)
Funding : Lines of Credit	ZAR	-	(643)	(170)	-	-	-	-	-	(813)
IRS : Funding Bonds	ZAR	(215)	(4 170)	-	215	1 000	-	-	3 170	-
IRS : Lines of Credit	ZAR	-	-	-	-	-	-	-	-	-
Funding : MM Debt	USD	-	-	-	-	-	-	-	-	-
Funding : MM Debt	ZAR	-	(2 500)	(1 005)	-	-	-	-	-	(3 505)
Total Financial Market Liabilities		(594)	(13 799)	(5 215)	(355)	(320)	(332)	(299)	(20 662)	(41 576)
Repricing Gap		6 547	(3 061)	7 197	2 247	1 276	974	1 423	(560)	
Cumulative Repricing Gap		6 547	3 486	10 683	12 930	14 206	15 180	16 603	16 043	

48.1.2 Foreign currency risk

Foreign currency risk is the risk of financial loss resulting from adverse movements in foreign currency exchange rates. Currency risk in the DBSA arises primarily as a result of foreign currency denominated borrowings, foreign currency lending, and foreign currency denominated equity investments within the SADC region.

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

As at 31 March, the Bank's net open foreign currency positions amounted to asset positions of EUR26.6 million (March 2013: EUR25.9 million) and USD263.4 million (March 2013: USD(30.9) million), respectively. Foreign currency denominated equity positions of EUR26.6 million (March 2013: EUR25.2 million) and USD163.4 million (March 2013: USD183 million) constituted the bulk of the Bank's net open foreign currency exposure as at end March 2014.

48.1.2.1 Hedging of foreign currency risk exposure

The Bank uses cross currency swaps and forward exchange contracts (FECs) to hedge its foreign currency risk. As at 31 March 2014, the Bank had FECs with a notional amount of R 83.1 million (March 2013: R3.1 billion) and cross-currency swaps with a notional amount of R2.8 billion (March 2013:R2.3 billion).

The notional principal amounts indicate the volume of currency hedged liabilities outstanding at the balance sheet date and do not represent the amount at risk. The fair value of derivative financial instruments represents the positive or negative cash flows which would have occurred had the rights and obligations arising from that instrument been closed out in an orderly market at statement of financial position date.

48.1.2.2 Foreign currency sensitivity analysis

Potential impact of rand sensitivity on profit/loss based on current net open position/currency exposures.

Currency (in thousands)	EUR	USD
Cash at bank	3	25 638
Loan assets	-	1 134 254
Equity Investments	26 605	163 371
Cross-currency swaps	155 350	(51 000)
Derivative FECs	-	(7 901)
Liabilities	(155 354)	(1 000 920)
Net open position	26 604	263 442

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For the year ended 31 March 2014

48.1.2.2 Foreign currency sensitivity analysis (continued)

Foreign currency exchange rate (FX) sensitivity analysis

Sensitivity (%)	EUR		USD potential		FX
	EUR/ZAR	potential impact	USD/ZAR	impact	Sensitivity combined
(15%)	12.3161	(58)	8.9441	(416)	(474)
(10%)	13.0405	(39)	9.4703	(277)	(316)
(5%)	13.7650	(19)	9.9964	(139)	(158)
0%	14.4895	0	10.5225	0	0
5%	15.2140	19	11.0486	139	158
10%	15.9384	39	11.5748	277	316
15%	16.6629	58	12.1009	416	474
<hr/>					
Spot Exchange Rate used:	EUR/ZAR	14.4895			
	USD/ZAR	10.5225			

48.1.3 Liquidity risk

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

Although not a deposit-taking institution and therefore not subject to the volatile and uncertain nature of such liabilities, the high levels of uncertainty around the level and timing of loan disbursements, coupled with the dependency on market funding nevertheless expose the Bank to the very real threat of a liquidity squeeze, primarily as it relates to funding asset growth. Therefore, the major form of liquidity risk for the DBSA relates to ensuring access to funding to ensure asset growth, with contractual cash flows typically net positive over the long term (reinvestment risk) - unlike the case with commercial banks where liquidity risk concerns are centered primarily around the risk of liabilities being called (refinance risk).

In order to shield the Bank against the risk of a liquidity shortfall, the Bank's liquidity risk management policy requires the maintenance of prudential liquidity levels conservatively based on the level of liabilities from time to time. Giving cognisance both to the importance of ensuring sufficient liquidity to reduce the dependence on distress borrowing and the potential opportunity cost incurred by excessive liquidity, the liquidity portfolio consists of two pools, viz, the Operational Liquidity Pool, which is aimed at ensuring sufficient cash to meet the Bank's near term requirements, and the Strategic Liquidity Pool, which, in a normal yield curve environment, is aimed at reducing the cost of liquidity through investment in longer duration, liquid assets.

Liquidity is held primarily in the form of money market instruments such as call deposits, negotiable certificate of deposits, banker's acceptance as well as liquid debt issues from government, municipalities and other approved issuers. It also includes bonds designated as "held-to-maturity" if the remaining maturity is less than 3 months. Investments are guided by instrument, tenor and duration limits aimed at ensuring sufficient liquidity, consistent with the Bank's liquidity requirements from time to time.

Total liquidity at 31 March 2014 was R6.02 billion (March 2013: R4.5 billion). This includes cash and cash equivalents of R4.1 billion (March 2013: R1.25 billion), money market instruments of Rnil (March 2013: R0.79 billion), corporate and municipal bonds of R1.02 billion (March 2013: R1.23 billion), and government bonds amounting to R.9 billion (March 2013: R1.22 billion).

In addition to holding a minimum level of liquidity in the form of cash and near cash equivalents (tradable market securities) as described above, the Bank has at its disposal a variety of funding sources should the need arise. These include uncommitted credit lines with reputable financial institutions, committed loan facilities with multilateral, bilateral and other development finance insti-

tutions, money and capital securities issuance under the Bank's domestic medium-term programme and capital market repurchase transactions.

The Bank uses cash flow forecasts and cumulative maturity gap analysis to assess and monitor its liquidity requirements and risk levels. A maturity gap profile report forms part of the asset and liability report which is reviewed and analysed by the ALCO on a periodic basis. Calculated on a nominal maturity basis, the 12-month cumulative liquidity gap as at 31 March 2014 was approximately R622 million (31 March 2013: R1.73 billion).

DBSA Contractual Liquidity Gap										
In millions of rand		<1M	1-3M	3-12M	1-2 Yrs	2-3 Yrs	3-4 Yrs	4-5 Yrs	> 5 Yrs	Grand Total
Cash and Cash Equivalent	ZAR	4 136	-	-	-	-	-	-	-	4 136
	EUR		-	-	-	-	-	-	-	
	USD	-	-	-	-	-	-	-	-	-
Money Market Instruments	ZAR	-	-	-	-	-	-	-	-	-
Investment : Govt bonds	ZAR	-	-	-	817	-	-	106	-	923
Investment : Municipal bonds	ZAR	-	-	67	167	33	-	-	1 415	1 682
Investment : Corporate bonds	ZAR	-	-	12	-	-	-	75	75	162
Development Loans	EUR	-		1	2	2	1	2	2	10
	USD	42	220	1 252	1 536	1 636	1 305	1 024	4 896	11 910
	ZAR	19	626	2 165	3 027	3 115	2 748	2 376	24 758	38 832
Derivatives: Development Loans	USD	(12)	-	(27)	(515)	(39)	(27)	-	-	(620)
	ZAR	10	-	20	502	31	21	-	-	584
Total Financial Market Assets		4 195	846	3 490	5 536	4 778	4 048	3 583	31 143	57 619
CCS : Lines of Credit	EUR	8	77	200	235	209	247	192	1 082	2 250
CCS : Lines of Credit	USD	-	-	-	-	-	-	-	-	-
CCS : Lines of Credit	ZAR	-	(50)	(128)	(144)	(123)	(160)	(123)	(681)	(1 409)
Funding Bonds	ZAR	-	-	-	(215)	(2 169)	-	-	(22 932)	(25 316)
Funding : Lines of Credit	EUR	(8)	(77)	(200)	(235)	(209)	(247)	(192)	(1 082)	(2 251)
Funding : Lines of Credit	USD	(42)	(1 993)	(2 096)	(1 737)	(1 543)	(1 078)	(666)	(1 377)	(10 532)
Funding : Lines of Credit	ZAR	-	(7)	(88)	(94)	(94)	(94)	(94)	(341)	(813)
IRS : Funding Bonds	ZAR	-	-	-	-	-	-	-	-	-
IRS : Lines of Credit	ZAR	-	-	-	-	-	-	-	-	-
Funding : MM Debt	USD	-	-	-	-	-	-	-	-	-
Funding : MM Debt	ZAR	-	(1 855)	(1 650)	-	-	-	-	-	(3 505)
Total Financial Market Liabilities		(42)	(3 905)	(3 962)	(2 190)	(3 929)	(1 332)	(883)	(25 333)	(41 576)
Liquidity Gap		4 153	(3 059)	(472)	3 346	849	2 716	2 700	5 810	
Cumulative Liquidity Gap		4 153	1 094	622	3 968	4 817	7 533	10 233	16 043	

Note that the contractual liquidity gap has been adjusted to include the Bank's 2027 zero coupon liability at current book value. This bond contractually matures in 2027 and accrues interest semi-annually toward a maturity value of R7.5 billion. The table above excludes the anticipated capital injection from the National Treasury of R5.5 billion over the next two years.

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For the year ended 31 March 2014

As per the table above DBSA has a positive liquidity gap where the contractual inflows exceed outflows across all time buckets. This profile is anticipated due the nature of the business where the Bank has raised long dated stable funding and generated short term amortising assets.

There are no behavioural assumptions made on the liquidity gap and all assets and liabilities are disclosed with the underlying contractual maturity as determined by the cash flow profile for each record.

48.2 Credit risk

Definition of credit risk

Credit risk is the risk of economic loss should any of the Bank's clients or market counterparties fail to fulfil their contractual obligations. Credit risk is inherent mainly in the Bank's development financing and lending operations as a result of potential counterparty defaults on debt repayments. Credit risk may also arise where the downgrading of a client's rating causes the fair value of the investment in that entity to deteriorate. Credit risk is also manifested as country risk in the event where circumstances arise in a country in which an exposure or counterparty is domiciled, resulting in a reduction of the value of assets. Settlement risk is another form of credit risk, which is the risk of a counterparty failing to deliver cash (securities) due to be delivered at a particular moment in time, following release of the corresponding cash (securities) by the Bank in settlement of a transaction.

Management of credit risk

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

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

Credit risk oversight, governance and assurance

Credit risk oversight: The Board of Directors, as part of their oversight duties, sets the tone for the management of risk and defines the level of risk that Bank is willing to assume, as well as considers the granting of large credits and reviews the overall performance in the management of risk through its sub-committees.

Credit risk governance: The on-going governance of the Bank's risk taking activities is devolved to management. For credit risk management, the Bank has in place a number of committees, both at corporate and divisional levels, mandated to maintain credit policies and standards, review and approve credits under delegated authority, as well as monitor and report the overall level of exposures to credit risk and performance in the management of these exposures.

Credit risk assurance: The quality of credit risk management is assured through the centralised Group Risk Assurance Division, responsible for the development of policy, models and standards in support of the efficient and effective management of credit risk. As a further line of assurance, Credit Risk Analysts are deployed at operational levels to provide an objective view of the quality of individual credits under consideration and monitor the performance of assets post-approval.

Credit risk ratings, pricing and mitigation

Obligor credit risk ratings: The Bank is not regulated under the Banks Act and as such is not formally obligated to comply with Basel II Pillar 1 requirements. However, as a leveraged financial institution, prudence requires it to maintain the adequate levels of capital to cover for expected losses. The bank does comply with Basel standards in the development of risk models as best practice rather than regulation purposes. The key variables in the Bank's quantitative assessment of expected loss and by implication in setting risk-adjusted pricing are:

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

The Bank has developed a number of internal credit risk rating models for all of its major asset classes to calculate credit risk ratings as a basis for assigning a Probability of Default. The credit risk rating models are all subjected to validation and review before implementation. The application of credit risk models has been system enabled and deployed to all business divisions.

The models are also subjected to performance monitoring and validation on an annual basis. The principal objective for this is to ensure that assumptions used in model development are still appropriate and ensure that any deficiencies are identified early and that the models produce the most accurate possible quantitative assessment of the credit risk to which the Bank is exposed, from the level of individual facilities up to the total portfolio.

Country risk ratings: The Bank has implemented a reputable methodology of country risk classification, sovereign risk rating and country risk pricing. In terms of the DBSA country risk policy, country risk is distinctively different from sovereign risk. Whereas country risk is more generic and takes cognisance of political, economic, legal, tax, security and operational factors to determine the risk profile of individual countries, sovereign risk has a clear credit, financial risk focus. The sovereign risk rating methodology considers solvency, liquidity, economic and political issues to risk rate countries and generate and probability of default. The model inputs are continuously updated to reflect economic and political changes in individual countries. The Bank's country risk limits are calculated using sovereign risk ratings in conjunction with debt absorption capacity of countries as measured by the Gross Domestic Product. The limits therefore consider the economic strength of countries ensuring that country exposures are related to the degrees of perceived risk as well as the country's debt absorption capacity. 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.

A key element of DBSA's internal risk rating and pricing model is the PD master rating scale as shown below. This scale has been developed to distinguish meaningful differences in the probability of default risk throughout the risk range. The banding estimates are derived from internal data which is based on the performance of the Bank's loan book. This masterscale is comparable and has been benchmarked to ratings agencies as well as similar financial institutions.

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For the year ended 31 March 2014

48.2 Credit risk (continued)

DBSA PD Master rating scale

Rating grade	Midpoint PD (%)	Lower bound PD (%)	Upper bound PD (%)	Mapping to S&P	Mapping to Moody's
MS 1	0.01%	0.00%	0.02%	AAA	Aaa
MS 2	0.02%	0.02%	0.03%	AA+	Aa1
MS 3	0.03%	0.03%	0.04%	AA	Aa2
MS 4	0.04%	0.04%	0.05%	AA-	Aa3
MS 5	0.05%	0.05%	0.06%	A+	A1
MS 6	0.06%	0.06%	0.08%	A	A2
MS 7	0.10%	0.08%	0.14%	A-	A3
MS 8	0.17%	0.14%	0.24%	BBB+	Baa1
MS 9	0.30%	0.24%	0.40%	BBB	Baa2
MS 10	0.50%	0.40%	0.68%	BBB-	Baa3
MS 11	0.85%	0.68%	1.13%	BB+	Ba1
MS 12	1.40%	1.13%	1.90%	BB	Ba2
MS 13	2.40%	1.90%	3.20%	BB-	Ba3
MS 14	4.00%	3.20%	5.50%	B+	B1
MS 15	7.00%	5.50%	9.50%	B	B2
MS 16	12.00%	9.50%	16.00%	B-	B3
MS 17	58.00%	16.00%	99.99%	CCC	Caa etc
Default	100%	99.99%	100.0%	Default	D

Pricing of loans

The pricing of loans was enhanced through the development of a standard pricing model. The model was developed to take into account risk capital and deliver an accurate ROE, NPV and sustainability profit on an economic basis. The model is applied on a bank-wide basis since January 2013 and further improvements will be made on an on-going basis.

The Bank has moved to the second version of this model in 2014 with updates to cost structure included. The risk ratings are used both for the calculation of expected loss in the cashflow 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 mitigation: In addition to pricing for risk, the Bank uses a wide range of instruments to enhance the quality of credit and/or reduce the expected losses on its lending. The amount and type of credit risk mitigation depends on the asset quality of each transaction. Collateral and guarantees are used by the Bank for credit risk mitigations. The main types of collateral taken comprise mortgage bond over commercial and industrial properties, bonds over plant and equipment, and the underlying moveable assets financed. The Bank also uses various forms of specialized legal agreements like guarantees and similar legal contracts in support of credit extension to private sector clients with weaker credits. Financial covenants are also an important tool for credit mitigation within the DBSA.

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 credit level

- Performance of credit is monitored and reported in terms of adherence to terms and conditions;
- Credit risk ratings are updated on an annual basis;
- Potential problem loans are identified based on early indications of distress and placed on a credit watch list;
- Non-performing accounts are transferred for independent workout and recovery.

At portfolio level

- Limits are established within the Bank's risk appetite to monitor and control the aggregate amount of risk that the Bank is taking on;
- Overall performance of portfolios is measured and reported on a quarterly basis in terms of standard KPIs.

48.2.1 Credit risk exposure

48.2.1.1 Maximum exposure

{a} Development loans

in thousands of Rand			2014			2013		
			Gross Amount	Allowance for impairment	Carrying amount	Gross Amount	Allowance for impairment	Carrying amount
Non Performing book								
	Municipalities		420 117	134 645	285 471	441 027	137 655	303 372
	Other		2 623 550	1 047 038	1 576 511	2 829 368	1 981 042	848 326
			3 043 667	1 181 683	1 861 982	3 270 395	2 118 697	1 151 698
Performing book								
Low Risk	Municipal		9 962 743	7 983	9 954 760	12 472 818	10 899	12 461 919
	Other		3 294 334	15 207	3 279 127	13 953 876	66 561	13 887 315
Medium Risk	Municipal		4 444 722	21 938	4 422 784	2 896 237	22 954	2 873 283
	Other		28 960 823	143 322	28 817 501	11 931 681	62 026	11 869 655
High Risk	Municipal		136 838	-	136 837	-	-	-
	Other		2 606 720	166 274	2 440 446	431 357	55 457	375 900
			49 406 180	354 724	49 051 455	41 685 969	217 897	41 468 072
Total book debt			52 449 847	1 536 407	50 913 437	44 956 364	2 336 594	42 619 770
Rescheduled loans included in Performing Book			82 032	4 653	77 378	946 536	14 787	931 749

The following collaterals are held in respect of the above loans: guarantees, cession of debtors, cession of income streams, mortgages, investments, notarial bonds, sinking fund investments, promissory notes, insurance policies and treaty obligations.

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For the year ended 31 March 2014

48.2.1 Credit risk exposure (continued)

(b) Other receivables:

in Millions of Rand	2014			2013		
	Gross Amount	Allowance for impairment	Carrying amount	Gross Amount	Allowance for impairment	Carrying amount
Debtors 90 days and over	9 096	6 524	2 572	11 490	3 627	7 863
	167	167	0	1 138	1 138	0
	9 263	6 691	2 572	12 628	4 765	7 863
Performing book						
Low Risk	27 960	0	27 960	22 002	0	22 002
Current - 30 days	3 512	0	3 512	10 890	0	10 890
Medium Risk	8 252	0	8 252	15 022	0	15 022
30 days - 60 days	5 129	0	5 129	0	0	0
High Risk	67	0	67	5 135	0	5 135
60 days - 90 days	9 974	0	9 974	4 030	0	4 030
	54 894	0	54 894	57 079	0	57 079
Staff and study loans	430	0	430	172	0	172
Municipal deposits	1 287	0	1 287	1 385	0	1 385
Prepaid expenses	2 571	0	2 571	199	0	199
	4 288	0	4 288	1 756	0	1 756
TOTAL book debt	68 445	6 691	61 754	71 463	4 765	66 698

48.2.1 Credit risk exposure (continued)

{c} Commitments

(Loans signed, but not yet fully disbursed)

in thousands of rand		2014	2013
Low Risk	Municipal	730 371	865 110
	Other	539 901	6 091 724
Medium Risk	Municipal	493 716	229 651
	Other	4 816 895	5 550 907
High Risk	Municipal	153 528	132 744
	Other	196 853	126 257
Total fixed commitments		6 931 264	12 996 393
(d) Guarantees		288 036	251 848

48.2.1.2 Loans that are past due or individually impaired

(a) Loans past due but not individually impaired:

in thousands of Rand	2014					2013				
	Total	3 months	3 - 6 months	6 - 12 months	>12 months	Total	3 months	3-6 months	6-12 months	>12 months
Overdue amounts	282 964	269 644	(1 262)	13 738	844	173 402	163 758	183	2 441	7020
Not yet due	13 817 285					15 955 648				
Total	14 100 249					16 129 050				

The fair value of collateral held in respect of the above amounted to R 206 million (2012 R 1 276 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.

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For the year ended 31 March 2014

48.2.1.3 Financial counterparty exposure

in Millions of Rand	2014	2013
Bonds	1 704 085	1 269 789
Derivatives	1 244 426	1 336 870
Cash and Money Markets	4 147 360	2 041 547
Repurchase agreements	-	72

48.3 Capital management

During the period under review, the Bank complied with its regulatory leverage ratio requirement, as set out in the regulation made under section 17 of the Development Bank of Southern Africa Act (No, 13 of 1997).

- The Bank's objectives when managing capital are:
- To safeguard the Bank's ability to continue as a going concern, through ensuring a sufficient cushion against unexpected losses, and to provide for an acceptable growth rate in the Bank's development finance activities.
- To maintain an adequate credit rating to ensure the Bank continued access to fund at optimal rates, in support of its mission to provide affordable development finance solutions.

The Bank monitors and manages its capital adequacy within the regulatory leverage constraint and in line with the capital adequacy framework approved by the Board. Whereas the Bank has adopted a self-imposed capital adequacy framework that differentiates between the risks assumed on different asset classes and provides for market and operational risk, the overarching regulatory capital requirement applicable to the institution is derived from the debt-equity maximum of 250%. Implicit in this is a minimum unweighted capital requirement of 28.6%.

The leverage ratio is calculated as total debt divided by shareholders' capital, where total debt comprises total liabilities excluding other creditors (as shown on the statement of financial position). Capital comprises share capital, permanent government funding, retained earnings, and reserves. As at 31 March 2014, the debt to equity stood at 216.0% (2013: 217.3%). 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 March 2013, the capital ratio stood at 31.2% (2013: 31.0%).

49. Third party managed funds cost recovered

Third Party managed funds and mandates	Remuneration costs	Office rental	Courier costs	Printing	Newspapers	Cellphone costs	Telephone costs	Computer rental	IT expenses	Cleaning and conference costs	Total
Agence Francaise Development Project Preparation and Feasibility Studies Fund (AFD PPS Fund)	-	-	-	-	-	-	-	-	-	-	-
African Capacity Building Foundation (ACBF)	-	-	-	-	-	2	-	2	-	-	3
African Pier Review Mechanism (APRM)	-	2 283	87	36	10	-	134	132	-	-	2 681
African World Heritage Fund (AWHF)	4 547	480	36	5	-	1	54	29	-	-	5 152
Anglo American	-	-	-	-	-	-	-	-	-	-	-
Aurecon	-	-	-	8	-	-	-	-	-	-	8
Department of Basic Education for Accelerated Infrastructure Schools Programme	-	-	-	-	-	-	-	-	-	-	-
Department of Human Settlement - Western Cape	3 288	-	-	-	-	-	-	-	-	-	3 288
Department of Rural Development & Land Reform	-	-	-	-	-	-	-	-	-	-	-
Department of Water Affairs	-	-	-	-	-	-	-	-	-	-	-
Renewable Energy Market Transformation Programme (DME/REMT)	1 025	207	-	2	-	-	12	6	-	-	1 252
Dryland Rehabilitation Programme	-	-	-	-	-	-	-	-	-	-	-
Energy Environmental Partnership Programme (EEP)	777	-	-	-	-	-	-	-	-	-	777
Elliotdale Human Rural Settlement (EHRS)	-	-	-	-	-	-	-	-	-	-	-
Finland Ministry for Foreign Affairs	-	-	-	-	-	-	-	-	-	-	-
Gauteng Department of Health	-	-	-	-	-	-	-	-	-	-	-
Green Fund	10 334	382	-	26	5	73	34	-	208	-	11 061
Infrastructure Investment Programme for South Africa (IIPSA)	-	-	-	-	-	-	-	-	-	-	-
Jobs Fund	24 711	864	1	118	6	197	137	-	537	-	26 571
HIV Prevention by Voluntary Counselling and Testing Programme Phase 11 (VCT 11)	-	-	-	-	-	-	-	-	-	-	-
National Treasury Municipal Financial Improvement Programme (NT MFIP)	2 910	204	-	3	-	5	13	11	-	-	3 146
Municipal Infrastructure Support Agency (MISA)	3 628	-	-	1	-	139	-	9	-	-	3 776
Muyexe Comprehensive Development Programme	-	-	-	-	-	-	-	-	-	-	-
National Rural Youth Services Corps (NARYSEC)	2 605	-	-	-	-	-	-	-	-	-	2 605
National Department of Health	-	-	-	-	-	-	-	-	-	-	-
National Treasury - The Power Producer Projects Unit (PPP)	-	-	-	-	-	-	-	-	-	-	-
National Treasury Cities Support Programme (NTCSP)	2 879	-	-	-	-	-	-	-	-	-	2 879
National Treasury Municipal Capacitation Fund (NT-MCF)	-	-	-	-	-	-	-	-	-	-	-
New Partnership for Africa Development (NEPAD)	168	4 601	12	17	-	-	347	5	-	59	5 208
Pan African Capacity Building Platform (PACBP)	1 622	-	-	2	-	18	-	-	-	-	1 642
Spacial Development Initiatives (SDI)	869	-	-	-	-	-	-	-	-	-	869
Tripartite-Aid-for trade Pilot Programme (TTA DFID)	-	-	-	-	-	-	-	-	-	-	-
Ubunye	-	-	-	-	-	12	-	-	-	-	12
Total	59 363	9 022	135	217	20	447	730	193	745	59	70 931

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For the year ended 31 March 2014

49. Third party managed funds cost recovered (continued)

Third Party managed funds managed per division	Remuneration costs	Courier costs	Printing costs	Newspapers costs	Cellphone costs	Telephone costs	Computer rental	Information technology expenses	Cleaning and conference costs	Total for the year
Financing Operations Division	35 822	1	143	11	270	559	-	745	-	38 797
Finance Division	20 067	134	65	10	177	171	193	-	59	28 652
Infrastructure Delivery Division	3 474	-	8	-	-	-	-	-	-	3 482
Total	59 363	135	217	20	447	730	193	745	59	70 931

Cost recovery for each unit	Remuneration costs	Courier costs	Printing costs	Newspapers costs	Cellphone costs	Telephone costs	Computer rental	Information technology expenses	Cleaning and conference costs	Total for the year
Human Capital	59 363	-	-	-	-	-	-	-	-	59 363
Corporate Services	-	135	217	20	447	730	193	745	59	11 568
Total	59 363	135	217	20	447	730	193	745	59	70 931

50. Events after the reporting period

The financial statements were authorised for issue by the Board on 26 June 2014. There were no adjusting events that occurred after the reporting date.

51. Non-current asset held-for-sale

During a previous financial year as a result of calling on its security against the loan in default the Bank obtained a 100% shareholding in a property investment company with a view to sell. This investment was classified as a non-current asset held-for-sale as it had been the Bank's intention to dispose of the investment within the next 12 months. The value of the asset at the reporting date is R2 (2013: R2).

in thousands of rand		2014	2013
52. Operating leases			
Minimum lease payments due			
• within one year		4 407	8 469
• in second to fifth year inclusive		630	2 870
Total		5 037	11 339

The Bank has entered into commercial leases on certain computer equipment office equipment and property. These leases have an average life of between three and five years with no renewal option or option to acquire the assets at termination date included in the contracts. There are no restrictions placed upon the Bank by entering into these leases.

53. Fruitless and wasteful expenditure

In thousands of rand		2014	2013
Incident	Disciplinary steps taken		
Interest on late payments	None	113	-
		113	-

54. Comparative figures

Certain comparative figures have been reclassified for fairer presentation.

ABBREVIATIONS AND ACRONYMS

AADFI	Association of African Development Finance Institutions
AFD	Agence Française de Développement
AfDB	African Development Bank
ASIDI	Accelerated Schools Infrastructure Delivery Initiative
BBBEE	Broad-based black economic empowerment
BRIC	Brazil, Russia, India and China
BRICS	Brazil, Russia, India, China and South Africa
BSC	Balanced Scorecard
COMESA	Common Market for Eastern and Southern Africa
CSIR	Council for Scientific and Industrial Research
DBSA	Development Bank of Southern Africa Ltd
DBE	Department of Basic Education
DFID	The United Kingdom's Department for International Development
DFRC	Development Finance Resource Centre
DIRCO	Department of International Relations and Cooperation
DTI	Department of Trade and Industry
EIB	European Investment Bank
EPC	Engineering, procurement and construction
GDP	Gross domestic product
ICAS	Independent Counselling and Advisory Services
ICT	Information and communications technology
IDIP	Infrastructure Delivery Improvement Programme
IFRS	International Financial Reporting Standards
IIPSA	Infrastructure Investment Programme for South Africa
KfW	The German agency Kreditanstalt für Wiederaufbau
JICA	Japan International Cooperation Agency
MIG	Municipal Infrastructure Grant
MTEF	Medium-term economic framework
NDP	National Development Plan
NEPAD	New Partnership for Africa's Development
NSC	North-South Corridor
PFMA	Public Finance Management Act
PICC	Presidential Infrastructure Coordinating Commission
PPP	Public/private partnership
PRASA	Passenger Rail Agency of South Africa
REIPPP	Renewable Energy Independent Power Producers Procurement
SADC	Southern African Development Community
SA Inc.	South Africa Incorporated
SANRAL	South African National Roads Agency Limited
SIP	Strategic integrated project
SMME	Small, medium and microenterprise
SOC	State-owned Company
UNOPS	United Nations Office for Project Services

FINANCIAL DEFINITIONS

Callable capital	The authorised but as yet unissued share capital of the Bank
Cost-to-income ratio	Operating expenses, including personnel, other, depreciation and amortisation expenses, as a percentage of income from operations
Income from operations	Net interest income, net fee income and other operating income
Interest cover	Interest income divided by interest expense
Long-term debt/equity ratio	Total liabilities, excluding other payables, provisions and liabilities for funeral benefits, as a percentage of total equity
Long-term debt/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 as a percentage of interest income
Return on average assets	Net profit or loss for the year expressed as a percentage of average total assets
Return on average equity	Net profit or loss for the year expressed as a percentage of average total equity
Sustainable earnings	Profit or loss from operations before grants, net foreign exchange gain/(loss) and net gain/(loss) from financial assets and financial liabilities

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