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Make change happen

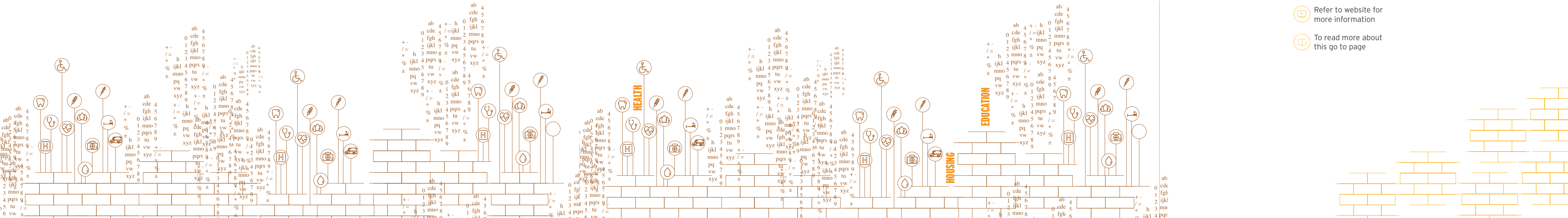
WE CHALLENGE LIMITING CONVENTION TODAY, TO CREATE LIBERATING CHANGE TOMORROW

2015 INTEGRATED ANNUAL REPORT



The DBSA is one of the leading development finance institutions on the continent. We provide project consulting, preparation, deal syndication, finance, implementation and maintenance solutions for socio-economic infrastructure development in (South) Africa. Our areas of focus include energy, transport, water, ICT, education, health and housing.

www.dbsa.org



- Refer to website for more information
- To read more about this go to page

THE DBSA'S INTEGRATED REPORTING JOURNEY

We, the Development Bank of Southern Africa (DBSA), are pleased to present our third integrated Annual Report. This is our principal communication to stakeholders and is published once per year. It is aimed primarily at providers of financial capital, being both our shareholder – the government of the Republic of South Africa – and the debt capital markets. In addition, we aim to inform all stakeholders interested in the Bank's ability to create sustainable value over time.

This report contains comprehensive information on the operational and financial performance of the DBSA, its stakeholders, governance, material issues, risks and opportunities and how these influence our strategic objectives. In so doing, we show how we create value and impact as an integral part of the Southern African Development Community and how we will ensure that our value creation is sustainable.

THIS YEAR'S ENHANCEMENTS

As part of our integrated reporting journey, we are constantly improving the quality of the information we provide, giving stakeholders a balanced and transparent account of our business. This year's report presents a further refinement of the structure and flow of the information with a clearer picture of the business model and value creation "story". In doing so, we also provide more information on our strategy for the next three years. See the section THE DBSA AND ITS STRATEGY, which starts on page 4.

We have again examined our disclosure on governance and given attention to detailing the efforts of each of the Board committees. See the section GOVERNANCE AND SUSTAINABILITY, which starts on page 29.

You are reminded that the work of the DBSA is entirely developmental in nature and our objective is to optimise the development impact of the Bank. We have further improved reporting on this in our performance reports. The structure of these reports reflects the clearer strategy and the embedding of a high-performance culture post the comprehensive organisational review. Specifically, we have added reporting on the activities of the mission critical Financing Operations division and included a more detailed outlook of future plans and expectations. The PERFORMANCE AND OUTLOOK section starts on page 58.

We are committed to improving on this report further and would appreciate your constructive feedback. Comments can be sent to Johan Conradie, our 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. The report covers our core operational areas including Financing Operations, South Africa Financing, International Financing and Infrastructure Delivery divisions. It covers the period 1 April 2014 to 31 March 2015. 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 «R» Framework. We have implemented these codes as far as practicable and endeavour to improve thereon as the journey continues.

We have also incorporated 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 applied the GRI G4 guidelines to inform our sustainable development reporting and to facilitate comparability with the reports of other organisations. A detailed GRI table, providing responses to each of the GRI criteria, can be found on our website at www.dbsa.org/EN/InvestorsRelations. The disclosures provided in GRI tables have been reviewed on a sample basis by the DBSA Internal Audit team.

Our ANNUAL FINANCIAL STATEMENTS, presented on pages 111 to 176, were prepared in accordance with International Financial Reporting Standards (IFRS) and the requirements of the Public Finance Management Act, No 1 of 1999 (PFMA) and the Companies Act of South Africa, No 71 of 2008 (Companies Act), where appropriate.

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 Audit and Risk Committee Report on page 50.

The DBSA receives external assurance from its auditor, Nkonki Inc., on the fair presentation of the Bank's annual financial statements. Our external auditor has 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 Auditor's Report to Parliament as reflected on pages 113 to 114.

DETERMINING MATERIALITY

This 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.

The DBSA defines material issues as those which have the potential to substantially impact our ability to create and sustain value for our stakeholders. In identifying matters which are material, we consulted a wide range of resources, including:

- 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 both through formal channels and informally.
- Media commentary.
- Various Acts, policies and regulations applicable to the Bank and the sectors in which it operates, including, but not limited to, the Development Bank of Southern Africa Act, No 13 of 1997 (DBSA Act) and the PFMA, specifically sections 54 and 55(2)(b).

While the DBSA gives consideration to all items raised by stakeholders, it does not report on all of these in its Integrated Annual Report. The Integrated Reporting team applied its judgement in determining the appropriate level of disclosure of material matters in the Integrated Annual Report, tabling the report to both the Executive and the Board for opinion. The process we adopted to determine the issues material to the Bank and our stakeholders is aligned with our organisational decision-making processes and our strategies. By applying the principle of materiality we determined which issues could influence the decisions, actions and performance of the Bank.

We describe our most material issues as our key priorities and refer you to pages 22 to 27 of this report in which we describe the circumstances in which we operate, the key resources and relationships on which we depend, the key risks and opportunities we face and how our key priorities can affect our ability to create and sustain value over time.

FORWARD-LOOKING INFORMATION

This Integrated Annual Report contains certain forward-looking statements on the financial performance and position of the DBSA. In line with the requirements of the PFMA, forward-looking information is provided for a three-year period as part of the Corporate Plan submitted annually to the National Treasury and is 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 auditor.

APPROVAL BY THE BOARD

This report was prepared under the supervision of the Group Executive: Strategy, Mohan Vivekanandan and the Chief Financial Officer, Kameshni Naidoo CA(SA).

The Board is ultimately responsible for ensuring the integrity of the Integrated Annual Report, assisted by the Audit and Risk Committee and 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 Board, after applying its collective mind to the preparation and presentation of the report, concluded that it was presented in accordance with the «R» Framework and approved it for publication on 1 July 2015.

ENERGY

MANIFESTO

We exist to bend the arc of history; to make a meaningful difference to the lives of all our African brothers and sisters; to rally against poverty and dependency; to change lives for good!

To liberate our vision of tomorrow, is to be the architect of new ways today. That's why whilst others maintain convention, we subscribe to change. Change liberates dreams, overcomes fear, as it ushers in a progress and prosperity; with it, we walk to freedom; with it, we honour those who went before; with it, we secure the welfare of future generations; with it, we do business for good that is also good for business.

No mediocrity for us.

No paltry financial results for us.

No government bailouts for us.

Integrity, service orientation, innovation,

a shared vision and a culture of high

performance is our uncompromising

obligation.

We have fire in our bellies.

We have the courage of our convictions.

We are the challengers of limiting convention.

We are the creators of liberating change.

We make change happen.

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 31 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.

During 2015, the Bank continued to accelerate 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 R63.1 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 dependency.

MISSION

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

- Improve the quality of life of people through the development of social infrastructure.

- Support economic growth through investment in economic infrastructure.

- Support regional integration.

VALUES

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

Development assets of

R63.1 billion

spread across

13 SADC countries,

mainly in the energy, roads, water, transport and social infrastructure sectors

“BY CHALLENGING THE LIMITATIONS OF TODAY IT IS POSSIBLE TO 'BEND THE ARC OF HISTORY' AND CREATE LIBERATING CHANGE.”

MAKE CHANGE HAPPEN.

					ab
					cde
					fg
		ab	4 +- h	0	ijkl
	0	cde	5 / =ijkl	1	mno
	1	fg	6 * mno	2	pqrs
	2	ijkl	7 % pq	3	tu
	3	mno	8 ± vw	4	xy
	4	pqrs	9 . xyz	5	
	5	tu	/ =	6	
	6	vw	*	7	
	7	xyz	%	8	
	8			9	

FOREWORD BY THE MINISTER OF FINANCE



Nhlanhla Nene, MP
Minister of Finance

“The DBSA, in particular, is well-placed to play a pivotal role in government's plan to increase investment in South Africa as well as in the regional integration agenda.”

Following the achievements of the past 21 years, the success of the next phase of our development will depend on our ability to optimally mobilise our resources and deal decisively with the structural and competitiveness challenges that hold back production and investment in our economy. Key to achieving that will be the work done by development finance institutions (DFIs), including the Development Bank of Southern Africa (DBSA).

We have outlined clearly in the National Development Plan (NDP) what our goals are, up to 2030. One of the strengths on which the implementation of the NDP rests is the financial health and capacity of DFIs. The DBSA, in particular, is well-placed to play a pivotal role in government's plan to increase investment in South Africa as well as in the regional integration agenda. The promotion of regional integration through infrastructure development is a key pillar in Africa's growth and development agenda. Extensive investments in infrastructure are required to unlock the full potential of the SADC region as well as the broader African economy. Organisations such as the DBSA must continue to be a catalyst to

facilitate increased trade and support key infrastructure programmes such as the North South Corridor and the Programme for Infrastructure Development in Africa's Priority Action Plan.

This Integrated Annual Report details the excellent performance of the DBSA in delivering on its mandate, in spite of challenging macro-economic factors. I am pleased that the organisational review, successfully concluded in the previous financial year has helped the Bank deliver on the development agenda, including in critical areas such as energy generation, social infrastructure and regional integration projects. The DBSA provided a total of R13.0 billion in infrastructure financing, bringing to R51.3 billion the total disbursements over the past five years. In addition, the Bank built 15 schools, 1 128 rural houses, 60 doctors' rooms and refurbished 26 clinics. Within the municipal market, the Bank's total funding reached R5.4 billion for this financial year. An amount of R6.4 billion was also committed to this segment and it is estimated that over 289 000 households will benefit once these projects are completed.



Government intends to invest R813 billion over the next three years in infrastructure across a number of important sectors, including energy, transport, water and social services. The DBSA has been recognised as a single yet central component of the national infrastructure system with a mandate to contribute meaningfully towards our national infrastructure objectives.

The DBSA will continue to manage the Infrastructure and Investment Programme for South Africa, a partnership with the European Commission, to strengthen project preparation and co-funding arrangements. It also provides support to the Independent Power Producer Programme, which will be extended to include new generation capacity from hydro, coal and gas sources to complement Eskom's base-load energy capacity. In addition, the Bank will take the lead in developing South Africa's municipal debt market to accelerate both public and private sector investments in urban renewal.

I congratulate the DBSA Board, management and staff on the Bank's results for 2015. This collective effort has translated into a meaningful contribution to sustainable infrastructure development. I have no doubt that the DBSA will continue to grow in strength and undertake to work closely with this critical institution as it seeks to build a more inclusive society for all.

Nhlanhla Nene
Minister of Finance and Governor of the DBSA



Government intends to invest **R813 billion** over the next three years **in infrastructure** across a number of important sectors, including energy, transport, water and social services.

THE DBSA AND ITS STRATEGY

DBSA MANDATE

The DBSA is a South African state-owned enterprise (SOE) and one of the leading development finance institutions (DFIs) in Southern Africa. At our 31 March 2015 year-end, we had development assets of R63.1 billion spread across 13 African countries, mainly in the energy, roads, water, transport and social infrastructure sectors, as well as 547 permanent and contract employees working to deliver our strategy, ultimately aimed at assisting the South African government in supplying sustainable infrastructure for its communities.

CONSTITUTION OF THE DBSA

The DBSA was established in 1983 to perform a broad economic development function within the homeland constitutional dispensation that prevailed at the time. In 1994, the new constitutional and economic dispensation of South Africa resulted in the transformation of the role and function of the DBSA. As a result, the DBSA was reconstituted, as a DFI in 1997 in terms of the DBSA Act.

The constitution and conduct of the DBSA Board of Directors are primarily governed by the DBSA Act and further regulated by the PFMA, the principles of King III and the Protocol on Corporate Governance in the Public Sector.

The Bank's mandate is defined by section 3 of the DBSA Act.

Its primary purpose is to promote economic development and growth, human resource development and institutional capacity building in South Africa and the wider African continent. It does so by:

- Mobilising financial and other resources from the private and public sectors, national or international, on a wholesale basis.
- Appraising, planning and monitoring the implementation of development projects and programmes.
- Facilitating the participation of the private sector and community organisations in development projects and programmes.
- Providing technical assistance, particularly in respect of human resource development and training with regard to the identification, preparation, evaluation, financing, implementation and management of development projects and programmes.
- Funding or mobilising wholesale funding for initiatives to minimise or mitigate the environmental impact of development projects or programmes.
- Assisting other international, national, regional and provincial initiatives in order to achieve an integrated finance system for development.
- Assisting other institutions in the national or international, public and private sectors with the management of specific funds.

The DBSA Act's regulations provide for a sharp focus on infrastructure development, especially in South Africa, where it is located, in a development finance system in which various DFIs have been given specific areas of focus in order to limit duplication and unnecessary overlaps.

THE ENVIRONMENT IN WHICH WE OPERATE

OVERVIEW OF THE OPERATING ENVIRONMENT

The International Monetary Fund (IMF) projects that global economic growth will increase from 3.7% in 2014 to 3.9% in 2015. Economic activity in advanced economies has strengthened. The continent's recovery from the 2008 global economic crisis has been encouraging with the IMF predicting growth rates of 4.5% for 2015. This is above the curve set by the European Union and the American markets. Infrastructure investments and resource markets have contributed to Africa's growth while emerging regulatory frameworks, good governance and clear macro-economic policy has also boosted the continent's attractiveness to investors. Growth will

continue in 2015 even though it might be slower than in other years as international partners deal with their domestic pressures. The falling oil prices in 2014 led to more cautious budgets in oil-rich countries like Angola and Nigeria, while falling commodity prices resulted in slower economic growth.

In South Africa, the manufacturing industry declined to 13.9% of gross domestic product (GDP) in 2014, showing evidence of a slowdown in demand from external markets such as China. In the last 18 months, Africa saw elections in Zimbabwe, Nigeria, Botswana, Egypt, and Mozambique, among others. Elections were largely peaceful but Boko Haram's insurgency

in Nigeria and West Africa caused serious instability and continues to do so. Al-Shabaab in East Africa has the potential to destabilise the East African region too and derail the economic gains made in Kenya and the neighbouring states. The concept of third-termism among African leaders has led to widespread unrest in Burundi and could potentially upset the fragile peace in the Great Lakes region.

There are important lessons to be learned from the Ebola pandemic. Poor social and economic infrastructure could significantly impact the provision of health and education services, which will have disastrous outcomes on communities and countries in times of crisis.



ENERGY	TRANSPORT	WATER	ICT	HEALTH	EDUCATION	HOUSING

THE ENVIRONMENT IN WHICH WE OPERATE (CONTINUED)

Improvements to the continent's infrastructure in recent years have been responsible for more than half of Africa's recently improved economic performance and have the potential to contribute even more in the future.

The global outlook presents both opportunities and risks for South Africa. The recovery in advanced economies will translate into moderately higher demand for South African exports. Prices for South Africa's main commodities have declined and the terms of trade - the country's export prices compared with its import prices - have deteriorated, widening the current account deficit.

Emerging markets are expected to continue growing, but at a reduced pace that reflects significant adjustments to currency levels, capital inflows, current account and fiscal deficits, debt levels, and varying levels of business and consumer confidence.

Many South African institutions are adjusting to changing economics and patterns of demand, integrating into global and regional value chains and expanding their African footprint. Furthermore, implementation of well-targeted sector initiatives will promote greater competitiveness and balanced economic growth.

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

enhanced competitiveness, greater spatial efficiency in growing cities and 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.

South Africa's economy grew by only 1.5% in 2014, down from 2.2% in 2013, according to preliminary estimates of real GDP released by Stats SA. This represents a further slowdown from the recorded average growth of just above 2% for the period 2008 to 2012. South Africa experienced an average growth rate of approximately 5% in real terms between 2004 and 2007, before the global economic crisis.

GDP growth is forecast to improve over the medium term as infrastructure constraints ease, private investment recovers and exports grow. However, recent trends have led to understandable concerns about the country's growth prospects.

THE DBSA'S ROLE IN SUPPORTING THE NDP OBJECTIVES

The strategy of the DBSA is linked to the objectives of the NDP. The diagram alongside illustrates the role of the DBSA as well as various examples of activities linked to each NDP objective.

OUTCOME >>>	DBSA'S ROLE >>>	EXAMPLE >>>
Create an economy that will create more jobs		Infrastructure Delivery division: ASIDI and Eastern Cape Rural Housing Programmes
Investing in economic infrastructure		Funding of various energy, transport and ICT projects
Environmentally sustainable and resilient: Transition to a low carbon-economy		Preparation and funding of IPPs
An inclusive and integrated rural economy		<ul style="list-style-type: none"> Funding of bulk water supply Eastern Cape Rural Housing Programme
Funding of various energy, transport and ICT projects		<ul style="list-style-type: none"> Funding of projects in SADC North-South corridor
Transforming human settlements		<ul style="list-style-type: none"> Eastern Cape Rural Housing Programme Housing Impact Fund
Improving the quality of education, training and innovation		<ul style="list-style-type: none"> IDD: ASIDI Programme
Quality health care for all		<ul style="list-style-type: none"> IDD: refurbishment of health clinics and construction of doctors' rooms Funding of student accommodation
Social protection		
Building safer communities		
Building a capable and developmental state		Provision of technical support in the planning and implementation of projects
Fighting corruption		IDD: management of procurement processes in appointing service providers
Transforming society and uniting the country		Supporting development impact through investment in social and economic infrastructure


Direct Indirect Not applicable

THE ENVIRONMENT IN WHICH WE OPERATE (CONTINUED)

Recognising the infrastructure deficit on the wider African continent and that participation in such projects would support broader regional integration, the DBSA obtained mandate approval to expand operations beyond SADC to all countries on the African continent.



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

SHAREHOLDER NEEDS		
		<p>The DBSA is recognised as a critical component of the national infrastructure system with a mandate to contribute meaningfully towards national infrastructure objectives. The government has provided further guidance.</p> 
Supporting cities to promote economic growth and spatial transformation to create an environment conducive for inclusive growth, job creation and poverty eradication by providing well-maintained and well-functioning infrastructure.		<p>Rapid urbanisation and the need for spatial transformation as outlined in the NDP are putting pressure on cities and other large urban municipalities to increase the level of spending for strategic infrastructure. Municipalities should not rely only on fiscal transfers and their immediate own revenue sources to finance infrastructure investment. Hence the National Treasury, in collaboration with relevant stakeholders, has embarked on the reforming of municipal borrowing strategies. Factors that hamper the development of municipal debt market in South Africa include short maturity of loans offered by commercial banks, an underdeveloped secondary bond market, low municipal creditworthiness and high borrowing rates.</p> <p>The DBSA is well-positioned to play a critical role in the development and deepening of the municipal debt market, through support and expansion in debt maturities, enhancing secondary market liquidity through expanding available issuances and encouraging innovation in lending instruments. Furthermore, the DBSA can use municipal infrastructure bonds, municipal bond underwriting, project finance, and various contracting models as some of the ways to encourage greater private investment in the municipal infrastructure investment.</p>
Capacity constraints are hindering delivery in secondary cities and under-resourced municipalities.		<p>In South Africa, overcoming the funding and implementation challenges of infrastructure projects in the municipal segment, particularly secondary and under-resourced municipalities, is a key priority. These municipalities generally continue to underspend on their allocated infrastructure budget funds and financial governance and institutional limitations continue to plague many, resulting in inadequate service delivery. The DBSA can also provide planning and implementation capacity support interventions to selected municipalities.</p> <p>Whilst supporting the provision of hard infrastructure is important for long-term, sustainable growth, the provision of social infrastructure in the education, health, sanitation and other spheres can bring short-term relief and strengthen the social fabric, promoting resilient, productive communities.</p>
The promotion of regional integration through infrastructure development is a key pillar in Africa's growth and development agenda.		<p>In Africa, overcoming poverty and inequality and achieving economic prosperity will be achieved through a strategy of regional integration aimed at fostering industrialisation and intra-regional trade. Infrastructure development, including transportation, energy, telecommunications and the supply of water, are examples of what is needed. The DBSA must position itself to make a contribution in these important areas.</p>
The DBSA must service both domestic and regional requirements.		<p>Although it has significant domestic challenges to respond to, the DBSA must deepen its response to the development needs of Southern Africa and the wider continent, in line with the SADC Integrated Infrastructure Development Plan, and the Programme for Infrastructure Development in Africa (PIDA), which is led by the African Union Commission, the NEPAD Secretariat and the African Development Bank Group (AfDB). In particular, the DBSA must ensure that South Africa fulfils its obligations in relation to support for infrastructure development in the region's development corridors.</p> <p>Recognising the infrastructure deficit on the wider African continent and that participation in such projects would support broader regional integration, the DBSA obtained mandate approval to expand operations beyond SADC to all countries on the African continent. The DBSA acknowledges that investment support to the SADC region remains critical and will remain the primary focus area of the organisation, whilst investments beyond SADC will play an important role in supporting the Bank's overall financial sustainability.</p>
The DBSA must continue to identify niche markets and improve its performance.		<p>There is an increasing number of development finance institutions (DFIs) active on the continent and in the region. The development finance landscape is changing rapidly. Apart from the traditional role-players, a growing number of emerging countries are engaging with Africa as development finance partners. Even commercial banks are extending their presence to development financing. The DBSA is challenged to become a development financier of choice and must continuously seek to improve its processes and capacity to remain relevant in the market it serves.</p>
Financial sustainability is key if the DBSA is to remain viable.		<p>The DBSA's role in supporting infrastructure development through non-revenue generating development activities and services has had a corrosive effect on the institution's capital base over the past couple of years. The Bank's strategy must continue to correct this anomaly as it moves forward, especially given the fragile state of the global and domestic economy. In this context, the DBSA must remain financially sustainable and seek to generate annual return on average equity of at least inflation by 2017.</p> <p>In response to the above challenges as well as the need to be more client-centric, the DBSA continues to review its strategy and operating model to ensure that its infrastructure development activities are geared towards maximising developmental impact and making a meaningful contribution to the development of infrastructure to support the improvement of the quality of life of people, economic growth and regional integration.</p>

Pages 72 to 75

Pages 72 to 75

Pages 83 to 88

Pages 83 to 88

Pages 10 to 13 and 62 to 94

Pages 102 to 109

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.

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

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

- Improve the quality of life of people through the development of social infrastructure.
- Support economic growth through investment in economic infrastructure.
- Support regional integration.

Our work targets investments mainly in:



ENERGY



TRANSPORT



WATER



ICT

We also provide support to sectors such as:



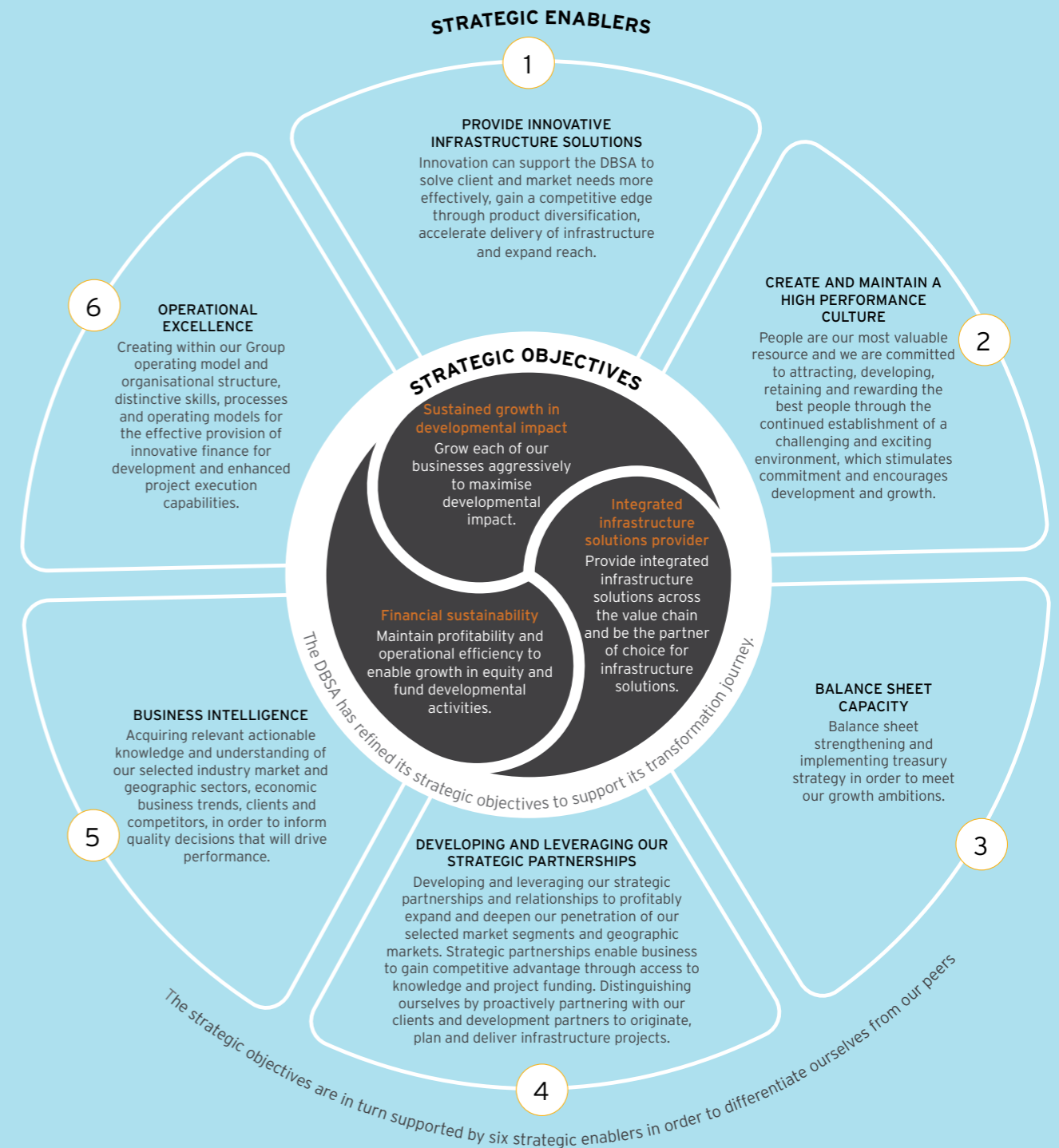
HEALTH



EDUCATION



HOUSING



In implementing our strategy we recognise that there are various risks associated with our business. Key amongst these are:

- Incorrect investment strategy to deliver on our infrastructure funding targets.
- Inability to secure deals competitively on a portfolio basis.
- Failure to deliver on our non-financing mandates.
- Failure to remain financially sustainable.

- Inadequate capital levels to support development growth and targets.
- Failure to adapt the business model due to changes in the business environment.
- Ineffective and inefficient business processes.
- Failure to recruit, develop and retain key staff.
- Fraud and corruption.
- Failure to comply with legislation.

Refer to pages 24 to 26 for further detail regarding our key risks identified and how we have mitigated these.

THE DBSA AND ITS STRATEGY

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 environments 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.

OUR BUSINESS MODEL

OUR RESOURCES >>>



INTELLECTUAL CAPITAL

Our strong brand, reputation and relationships.

- Experience in infrastructure development: **31 years.**
- **Owned by the South African government.**
- Infrastructure development services: **Project preparation, financing and implementation.**



SOCIAL CAPITAL

The communities in which we operate are at the core of what we do. Clients, partners and government relationships are central to our business to support infrastructure development.

- Countries in which we operate: **13** (2014: 13).
- Key regulators: **the National Treasury, Parliament and the Department of Labour, Johannesburg Securities Exchange.**



FINANCIAL CAPITAL

Funds available for us to use in our business, including financing resources, such as debt and equity, as well as funds generated through our operation and investments.

- Capital and reserve: **R23.7 billion** (2014: R19.9 billion).
- Additional capital received from government to support growth: **R2.5 billion** (2014: R2.4 billion).
- Interest bearing liabilities: **R46.2 billion** (2014: R42.9 billion).
- Cash generated from operations: **R2.7 billion** (2014: R2.0 billion).



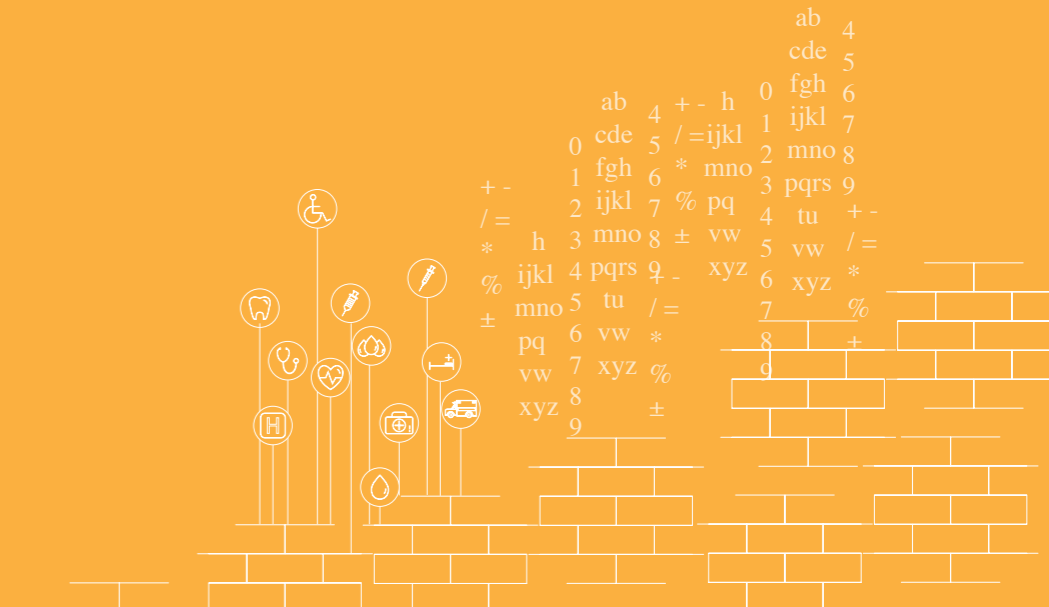
HUMAN CAPITAL

The people we employ as well as others we work with, their health, knowledge and skills.

- Number of employees: **459** (2014: 425).
- Number of contract employees to support infrastructure delivery: **88** (2014: 141).

OUR VALUE CHAIN >>>

		DBSA'S PRIMARY FOCUS				
		1. PLAN >>>	2. PREPARE >>>	3. FINANCE >>>	4. BUILD >>>	5. MAINTAIN/IMPROVE >>>
SERVICES		Under-resourced municipalities	<ul style="list-style-type: none"> • Project identification • Feasibility assessments • Technical assistance • Financial structuring • Project preparation funds • Lead arranger 	Provide vanilla and boutique financing opportunities <ul style="list-style-type: none"> • Debt • Mezzanine finance • Limited non-recourse lending • Mandate lead arranger 	<ul style="list-style-type: none"> • Managing the design and construction of key projects in the education, health and housing sectors • Project management support, including to the Green Fund 	Supporting the maintenance and/or improvement of social infrastructure projects
	CLIENTS/MARKETS		<ul style="list-style-type: none"> • Municipalities • Public-Private Partnerships • Public-public partnerships • Regional integration 	South Africa <ul style="list-style-type: none"> • Municipalities • State-Owned Enterprises • Public-Private Partnerships • Public-Public Partnerships • Private sector The rest of Africa <ul style="list-style-type: none"> • State-Owned Enterprises • Public-Private Partnerships • Private sector 	<ul style="list-style-type: none"> • National and provincial government departments • Municipalities 	<ul style="list-style-type: none"> • National and provincial government departments • Municipalities



THE DBSA'S BUSINESS MODEL IS BASED ON THE REQUIREMENT THAT THE BANK SHOULD REMAIN FINANCIALLY SUSTAINABLE WHILST DELIVERING ITS DEVELOPMENT MANDATE.

The Bank's business model is premised on the following four main components:

1>

Secure funding from reserves, capital markets, other DFIs 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. Additional non-infrastructure financing related development activities to assist government in socio-economic developments will be provided on a full cost recovery basis.

4>

Plough back profits into reserves and learn from experiences.

OUR OUTPUTS >>>



PROJECT PREPARATION

- Appointed as managing agent for **€100 million Infrastructure Investment Programme** for South Africa (IIPSA).
- Total projects approved for funding: **R6.4 billion**.
- Projects being prepared for funding: **R260 billion**.
- Majority of projects being prepared are in **energy and transport sectors**.
- Total project preparation financing spend to date (including co-financing): **R401 million**.



INFRASTRUCTURE FINANCING

- Total infrastructure disbursements: **R13 billion**.
 - Energy: **R7.0 billion**.
 - Water: **R2.1 billion**.
 - Transport: **R1.3 billion**.
 - Communications: **R350 million**.
- **113 projects** supported.
- Disbursement to municipalities in South Africa: **R5.4 billion** of which R1.3 billion to secondary municipalities and R489 million to under-resourced municipalities.
 - Number of municipal clients: **153**.
 - Book debt to secondary and under-resourced municipalities: **R6.7 billion**.
- Disbursements to the rest of SADC: **R619 million**.
- Implementation support to municipalities.



FINANCIAL RESULTS

- Net profit: **R1.2 billion**.
- Paid to providers of capital (interest expense): **R3.0 billion**.
- Staff costs: **R607.3 million**.



INFRASTRUCTURE IMPLEMENTATION

- Municipal
 - Planning
 - > **Three infrastructure master plans completed** (milestones basis).
 - Implementation
 - > **11 municipalities** supported.
 - > Number of projects in planning stage: **27**.
 - > **84** projects in construction.
 - > **60** projects completed.
- Non-municipal
 - Schools completed: **15**
 - Schools in construction: **48**
 - Houses built: **1 128**
 - Doctors' rooms completed: **60**
 - Health clinics completed: **26**
 - National Youth Service Corps (NARYSEC) programme: **850** apprentices placed.

DEVELOPMENT OUTCOMES >>>



MUNICIPAL (SOUTH AFRICA)

- Energy (includes upgrading of substations and electrification of households): **90 096 households** (total project impact).
- Rehabilitation of roads: **1 986 households** (total project impact).
- Water (includes reticulation and provision of bulk water): **56 695 households** (total project impact).
- Sanitation includes reticulation, upgrading and construction of waste water treatment works: **138 234 households** (total project impact).



NON-MUNICIPAL (SOUTH AFRICA AND SADC)

- Energy generation
 - Renewable: **146 MW** (total project impact: 975 MW).
 - Coal: **99 MW** (total project impact: 9 000 MW).
 - Gas: **24 MW** (total project impact: 340 MW).
- Education
 - Student accommodation: **2 550 beds** (total project impact 5 204 beds).
- Housing
 - Affordable housing units: **36 000** (total project impact: 120 000 units).
- Transport
 - Bus Rapid Transit: **171 buses** (total project impact: 171 buses).



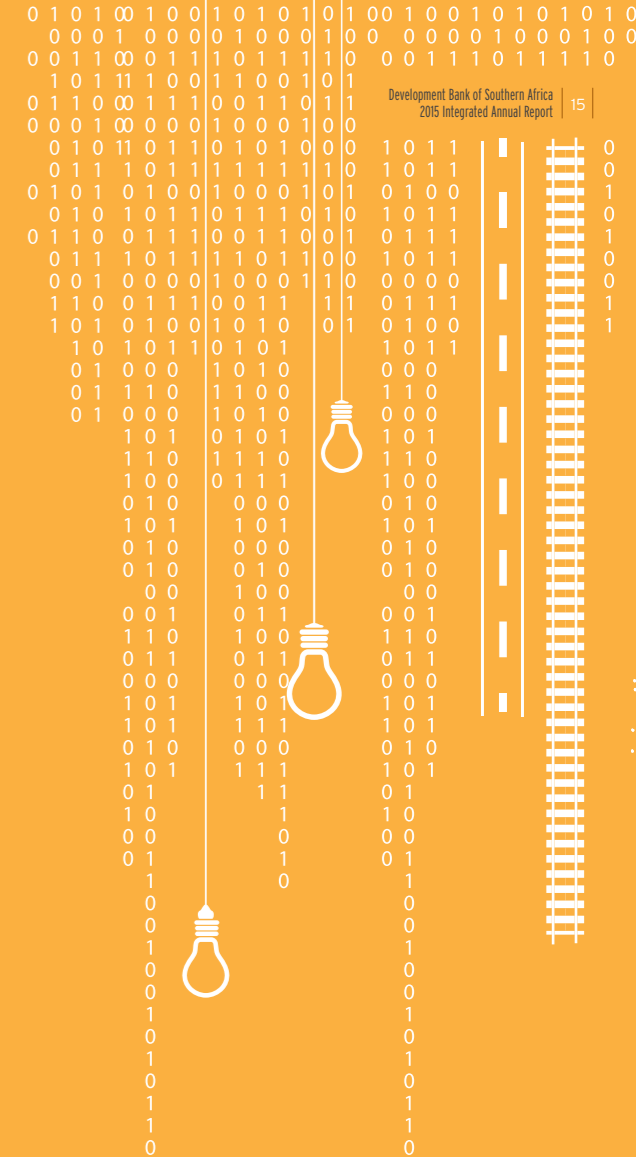
IMPLEMENTATION SUPPORT TO MUNICIPALITIES (NON-LENDING)

- **8 482 households** received access to new and improved service in water, sanitation and electricity.
- **1 773 temporary job opportunities** created.



INFRASTRUCTURE IMPLEMENTATION

- Schools
 - More than **9 000 scholars** enrolled during 2015.
 - Jobs created: **6 462**.
 - SMMEs benefiting: **734**.
- Houses
 - Jobs created: **682**
 - SMMEs benefiting: **20**.
- Health
 - Construction of **60 doctors' consulting rooms**
 - Maintenance of **26 clinics**.



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.

DBSA SUPPORT AREAS OVER THE NEXT THREE YEARS

The DBSA's strategy maintains the Bank's focus on social and economic infrastructure development but with an emphasis on driving financial and non-financial investments in the primary sectors of energy, transport, water and communications, whilst providing support to various social sectors such as health, education and housing to a lesser extent.

DBSA primarily plays a key role in the preparation, funding and building phases of the infrastructure development value chain. The diagram below summarises the targeted sector coverage, the DBSA's role, client segments, the division responsible for delivering the outcomes, and the targeted deliverables for 2016 as well as the three years to March 2018.

2016 BALANCED SCORECARD

CUSTOMER PERSPECTIVE 50%	FINANCIAL PERSPECTIVE 30%	INTERNAL PERSPECTIVE 10%	LEARNING AND GROWTH 10%
---	--	---	--

Objective	Key performance indicator	Actual March 2015	Target 2016
CUSTOMER PERSPECTIVE (50%)			
Sustained growth in development impact	Infrastructure financing		
	Value of infrastructure disbursements	R13.0 billion	R17.8 billion
Integrated infrastructure solutions provider	<i>South Africa</i>		
	• Municipalities	R5.4 billion	R6.0 billion
	- Metropolitan cities	R3.7 billion	R4.0 billion
	- Secondary municipalities	R1.3 billion	R1.5 billion
	- Under-resourced municipalities	R0.5 billion	R0.5 billion
	• Value of social infrastructure disbursements (education, health, housing and water)	R0.2 billion	R1.2 billion
	• Value of economic infrastructure disbursements in South Africa (transport, energy, ICT)	R6.7 billion	R5.6 billion
	<i>SADC (excluding RSA)</i>	R0.6 billion	R3.5 billion
	<i>Rest of Africa (including SADC)</i>	R0.6 billion	R5.0 billion
	Project preparation		
Gross value of bankable projects prepared	Value of projects prepared: R6.4 billion	Value of projects approved: R4 billion	
Planning and implementation support to municipalities			
Project planning support Completion of critical milestones in preparation of funding and infrastructure plans	Three plans completed in line with agreement with respective municipalities	80% of milestones completed	
Project implementation Completion of critical milestones for mandated programmes	80%	80% of milestones completed	
Implementation and delivery support programmes			
Total funds under management	R2.0 billion	R3.2 billion	
Implementation support to SIP 6: National Integrated Municipal Infrastructure	Integrated Infrastructure Plan (IIP) completed	Three catalytic projects packaged	
Client and partner satisfaction			
Client and partner satisfaction	Rating of 4.2	Conduct survey (use actual rating)	



Objective	Key performance indicator	Actual March 2015	Target 2016
FINANCIAL PERSPECTIVE (30%)			
Maintain financial sustainability	Sustainable earnings	R808 million	R911 million
	Net interest margin	43.6%	40.9%
	Return on average equity	5.7%	3.6%
	Non-performing loan book after specific impairments	1.9%	3.3%
	Cost-to-income ratio of IDD	89%	95%
INTERNAL PERSPECTIVE (10%)			
Provide innovative infrastructure solutions	New product development (product diversification)	Pilot syndication product approved by Board	R100 million fees generated based on new products launched
	Effectiveness of business intelligence and knowledge management processes	Rating of 3 out of 5	Effectiveness of implementation measured through internal survey
Continuous improvement of internal systems and processes	Cost-to-income ratio (excluding IDD)	31%	Max 35%
LEARNING AND GROWTH (10%)			
Create and maintain a high performance culture	Development and retention of key skills	90% of key skills retained	85% of key skills retained
	Leadership development as part of succession planning programme	Selected managers completed leadership development programme	• Implement development programme for top talent • 80% compliance to succession plan
	Implementation of culture change initiative	80% of milestones completed in line with project plan	Conduct staff culture survey

OUR STRATEGY (CONTINUED)

THREE-YEAR TARGETS



FOCUS AREAS

KEY SECTOR COVERAGE	DBSA'S ROLE	COUNTERPARTY ENTITIES	KEY DELIVERABLES OVER THE NEXT THREE YEARS TO 2018
MUNICIPAL (including water and sanitation, electricity, roads and refuse)	Lending	Municipalities (all)	Total disbursements: R19.9 billion
	Project planning support (pre-financing support)	Secondary and under-resourced municipalities	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	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 	Provide implementation support to selected projects
OTHER SOCIAL Water, education, health and housing (non-municipal)	Lending	<ul style="list-style-type: none"> • Public-Private Partnerships • Higher education • SOCs (such as Water Boards) • Private companies • Investment funds 	Total disbursements: R5.4 billion
	Implementation support to: <ul style="list-style-type: none"> • SIP 13: National Schools Programme • Accelerated Schools Infrastructure Delivery Initiative • Eastern Cape Rural Housing Programme • Various health programmes 	<ul style="list-style-type: none"> • National and provincial government 	Support the development of integrated schools infrastructure plan, construction of 72 schools, 4 000 housing units, 102 doctors' consulting rooms, support repairs and maintenance at 251 health clinics
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 • Public-Private Partnerships • SOCs • Private companies 	Value of projects approved: R19 billion
	Lending and/or direct investment	<ul style="list-style-type: none"> • Public-Private Partnerships and IPPs • SOCs • Joint ventures • Private companies • Concessions • Joint ventures 	Total disbursements South Africa: R20.1 billion Total disbursements rest of Africa: R20.8 billion
	Fund management services	<ul style="list-style-type: none"> • National government 	Support various funds with management services

Sustained growth in developmental impact

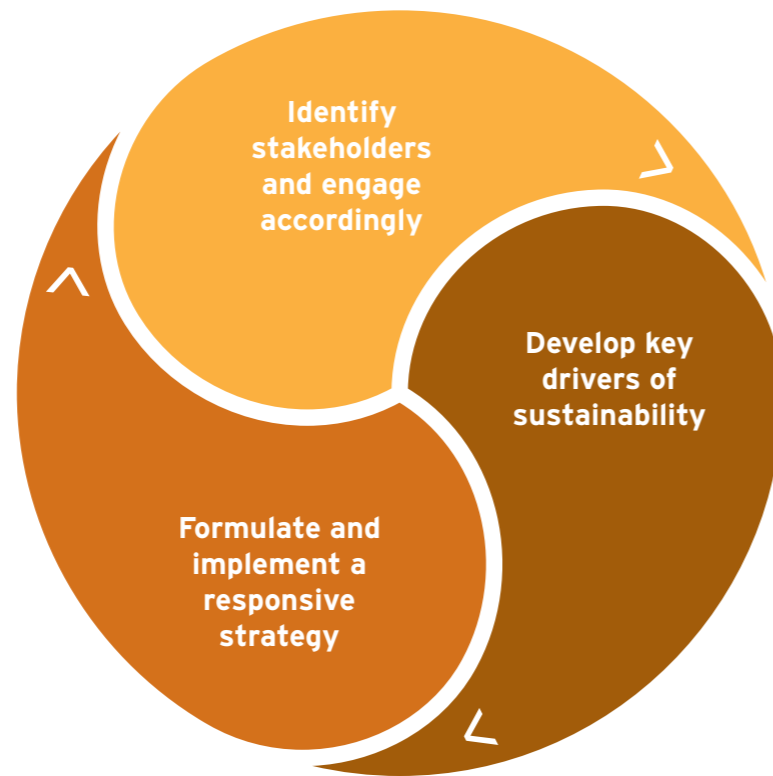
Integrated infrastructure solutions provider

ENGAGING 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.

A STAKEHOLDER ENGAGEMENT-DRIVEN STRATEGY

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.

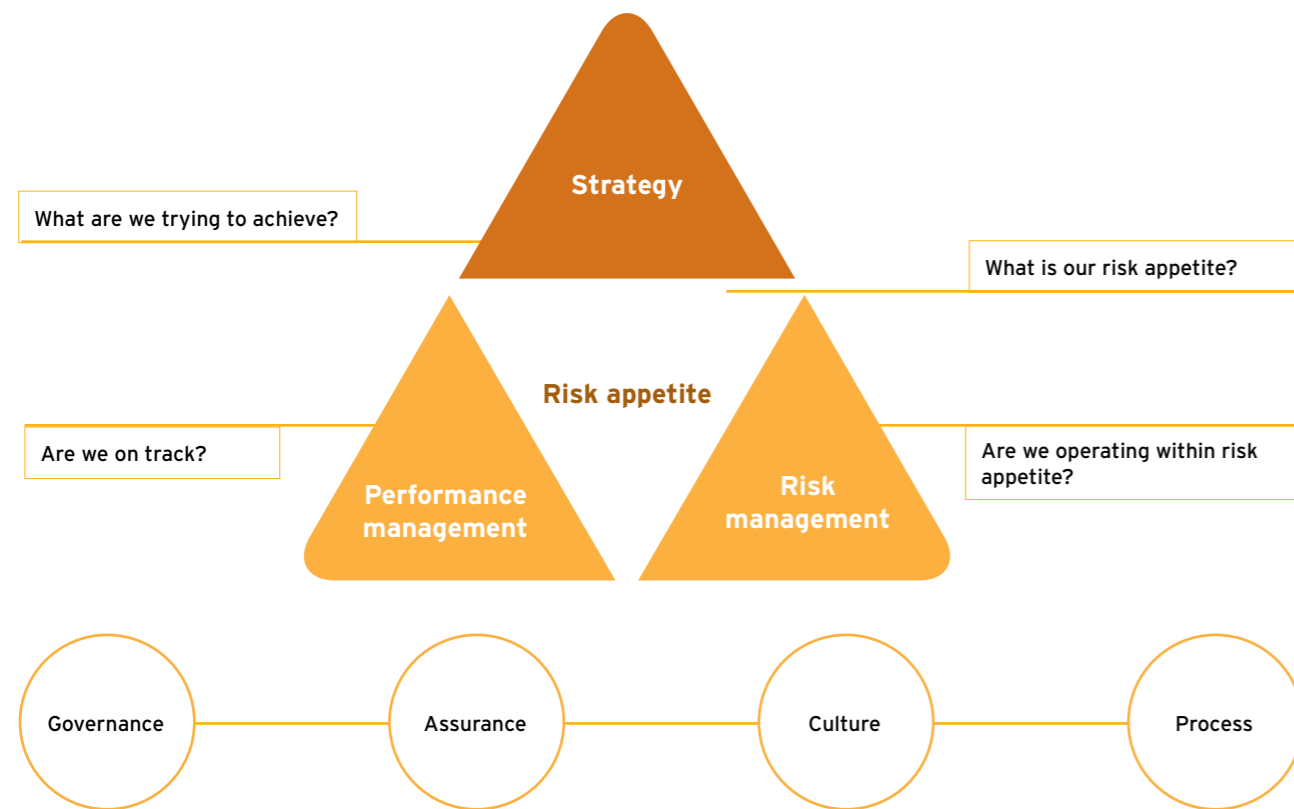


DBSA STAKEHOLDER MAP

Stakeholders	How we engage	What we engage on	Stakeholder's contribution to value creation	Pages
Government (shareholder representative)	Regular meetings with the Governor and the National Treasury	DBSA's developmental role; long-term sustainability; financial performance; Shareholder Compact	Provides the link to ensure alignment of the DBSA with National Priorities	4 - 9 38 - 44
Employees	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	To enhance employees' engagement and commitment as their efforts contribute to the Bank's success	48 - 49 95 - 98
Clients and partners	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	<ul style="list-style-type: none"> Their business provides the basis for our continued growth To understand our clients and partners' needs and enhance our development impact 	10 - 19 64 68 - 94
Regulators	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 	Compliance requirements; needs and expectations; feedback on performance; human capital matters	Provides the enabling regulatory framework in which we operate	38 - 47
Providers of finance	Meetings with analysts and rating agencies; investor road shows; announcement of results; website	Financial performance; market trends and issues; future prospects; organisational sustainability	Provide financial capital required to sustain and grow the business	102 - 109 Annual Financial Statements
Suppliers	One-on-one meetings; presentations	Contract and service agreements; performance	<ul style="list-style-type: none"> The ability to achieve our objectives can only be achieved if we enjoy the loyal support of our suppliers Suppliers provide the valued expertise, products and services required to maintain our business and facilitate growth 	101
Community	Project implementation; community surveys; marketing campaigns; website	Investment in socio-economic development; access to basic services; local labour opportunities	Communities are ultimately key beneficiaries of our services and they provide a deeper understanding our social responsibility expectations, including job creation and environmental impact	15 99 - 101
Media	Media briefings; press conferences and releases; print media	Key strategic initiatives; project information; operational and financial performance	Raise public awareness of our strategy, products and services as well as our operational results	-

MANAGING OUR RISKS AND OPPORTUNITIES

At the DBSA managing risk and opportunities is a fundamental part of delivering on our mandate ensuring that the Bank delivers, on a sustainable basis. This linkage is depicted graphically below:



Adopted: COSO ERM Thought Paper: Improving Organisational Performance and Governance

The DBSA Board is ultimately accountable for the effective management of risks within the Bank and has adopted an enterprise risk management (ERM) framework and approach to managing risk exposures. This approach ensures that the DBSA takes a holistic view of the risks inherent in its strategy, operations and business, and that the management of risks is embedded into the mainstream planning, business and decision-making processes.

Risk exposures are measured against an approved risk appetite statement that is aligned to the organisational strategy, prepared by management and approved by the Board on an annual basis.

The ERM framework and approach is adopted from the following best practice risk management guidelines ISO/DIS 31000: 2009: Risk Management – Principles and Guidelines implementation, Public Sector Risk Management Framework, King III Report and Committee of Sponsoring Organisations (COSO) 2013 Framework.

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

Strategic risk

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 and deliver on its mandate successfully.

Operational risk

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

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.

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

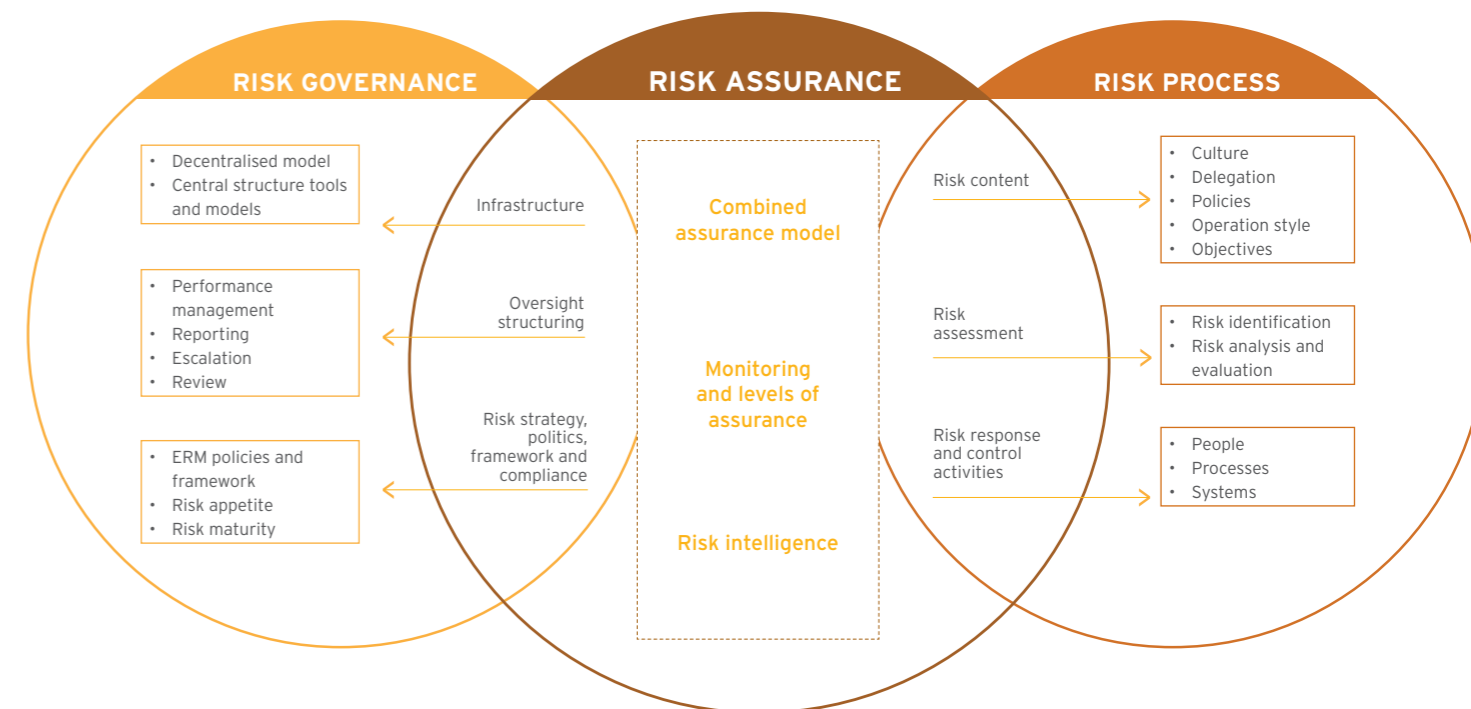
- The **five lines of defence** risk management strategy that allocates roles and accountabilities at various tactical levels in the Bank.

- **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



FIVE LINES OF DEFENCE

During the year embedding the five lines of defence model continued in line with the Bank's risk maturity journey. The benefits of the model are that it clearly defines the roles and responsibilities for the management of 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 below:

Line of defence	Role	Responsibility
First	Business units, support functions, line management and all staff	Implementation and management of risk
Second	Group Risk Assurance	Perform a policy-setting and monitoring role to ensure implementation of risk management principles and adherence to regulation and legislation
Third	Internal and External Audit	Independent assurance on the effectiveness of risk management
Fourth	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	Board	Overseeing the activities of the DBSA and accountable to the shareholder for the Bank's strategy and performance

MANAGING OUR RISKS AND OPPORTUNITIES (CONTINUED)



The Group Risk Assurance division provides risk policies, strategies and best practice standards for the DBSA as a whole in order to mitigate the main risk exposures inherent in 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

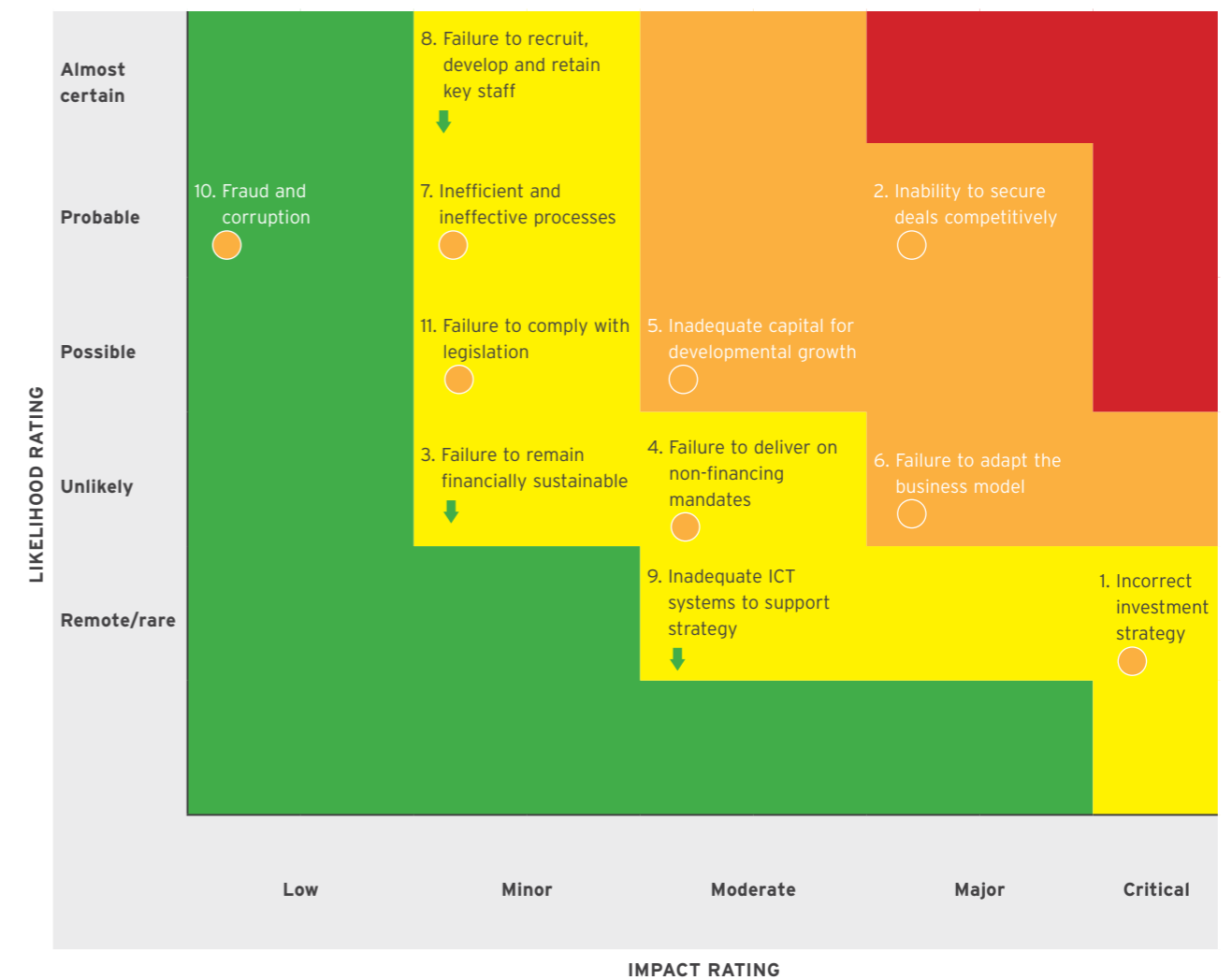
supervisory requirements and industry guidelines. The DBSA's compliance risk management programme is aligned with the Generally Accepted Compliance Practice Framework of the Compliance Institute of South Africa. The compliance framework supports the active management of compliance risk, which entails 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. On an annual basis the adequacy and effectiveness of the DBSA's compliance function is evaluated.

KEY ENTERPRISE-WIDE 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 diagram alongside and table overleaf sets out the main risks identified as well as key mitigation plans implemented. The diagram also reflects the movement in the risk trend from the previous financial year.

STRATEGIC RISKS BY RESIDUAL RATING



	Critical risk	Board and Exco focus
	High risk	
	Moderate risk	Management focus
	Low risk	
●	Risk trend has remained stable from 2014	
↓	Risk trend has improved from 2014	
↑	Risk trending upwards from 2014	

The risks identified in this diagram are analysed overleaf, where we indicate the possible impact and steps taken in mitigation. Division specific risks are also highlighted in the respective divisional reports.

MANAGING OUR RISKS AND OPPORTUNITIES (CONTINUED)

Risk	Possible impact	Steps taken in mitigation	Link to strategy
Strategy and execution			
1 Incorrect investment strategy to deliver on infrastructure funding targets	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 	A B
2 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 	A
3 Failure to remain financially sustainable	<ul style="list-style-type: none"> Inability to continue delivering 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 Close management of credit and investment risks Continuous assessment of alternative sources of funding Cost management programme implemented 	C
4 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 Lower surpluses available to the Bank 	<ul style="list-style-type: none"> Dedicated implementation division established with the necessary skills and resources Review of operations by the Board Cost recovery principles incorporated in memorandum of agreements Improved pricing and cost model implemented 	A C
5 Inadequate capital levels to support developmental growth and targets	<ul style="list-style-type: none"> Need for capital support from government Failure to deliver on infrastructure disbursement targets Breach of the prescribed gearing limits 	<ul style="list-style-type: none"> Capital management strategy has been approved and is being rolled out 	A C
6 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 	A B C
Processes and staff			
7 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 	A
8 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 	A C
9 Ineffective and inefficient information communications technology systems to effectively support strategy	<ul style="list-style-type: none"> Slow turnaround times Impairment of the Bank's ability to implement its strategic objectives 	<ul style="list-style-type: none"> Implementation of the approved ICT strategy Improved ICT efficiencies through the adoption and rollout of best practice in line with COBIT 	A
10 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 	C
Compliance risk			
11 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 	A C

Note: The numbers assigned to the risks above coincide with those used in the diagram on page 25.

Strategic objectives

- A Sustained growth in development impact
- B Integrated infrastructure solutions provider
- C Remain financially sustainable

BUSINESS CONTINUITY MANAGEMENT

The business continuity management (BCM) function aims to ensure that the Bank can adequately respond, recover and restore business operations resulting from business interruption.

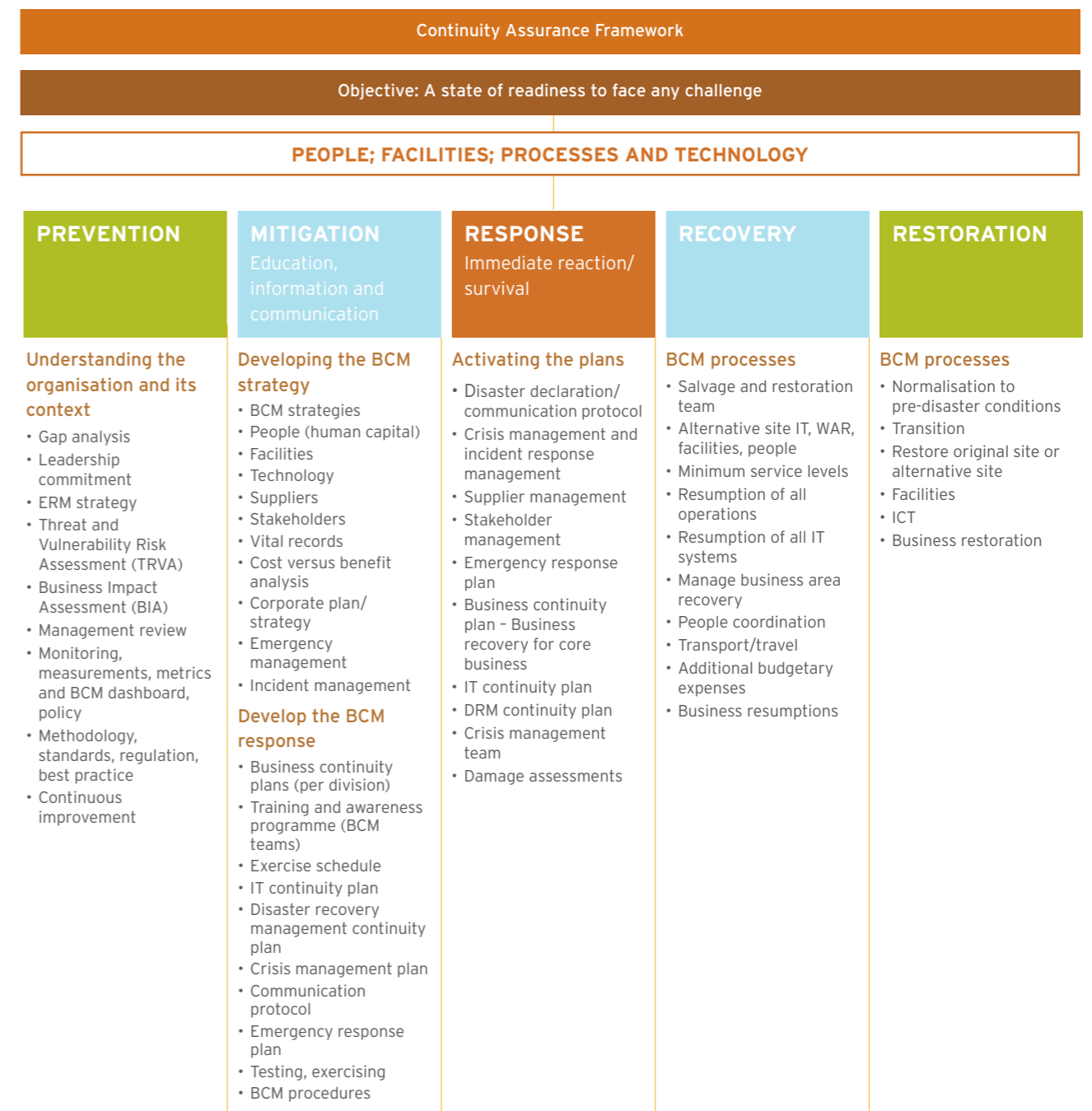
BCM is deemed to be a key process within the DBSA and is being fully integrated into the business. In order to ensure a certified business continuity capability, the DBSA has aligned to the ISO Standard 22301 and the Business Continuity Institute's (BCI) Good Practice Guidelines (GPG).

CONTINUITY ASSURANCE FRAMEWORK

The Continuity Assurance Framework (CAF), which is depicted graphically below, provides management with an evaluation of the enterprise's preparedness in the event of a major business disruption and assists with the identification of any issues that may limit interim business processing and restoration.

There are five elements that form the basis for the CAF. These elements ensure that we have the ability to adequately respond to any incident by

preparation and anticipation, we are able to prevent and mitigate a disruptive incident, and if the incident does occur we are able to adequately respond, recover and restore business as soon as possible, ultimately building a resilient organisation. This framework enables us to effectively measure and report on the BCM capability for the Bank.



ORGANISATIONAL STRUCTURE

Lending operations are split on a geographical basis with the South Africa Financing division focusing on all lending activities within South Africa whilst the International Financing division focuses on those activities beyond South Africa.

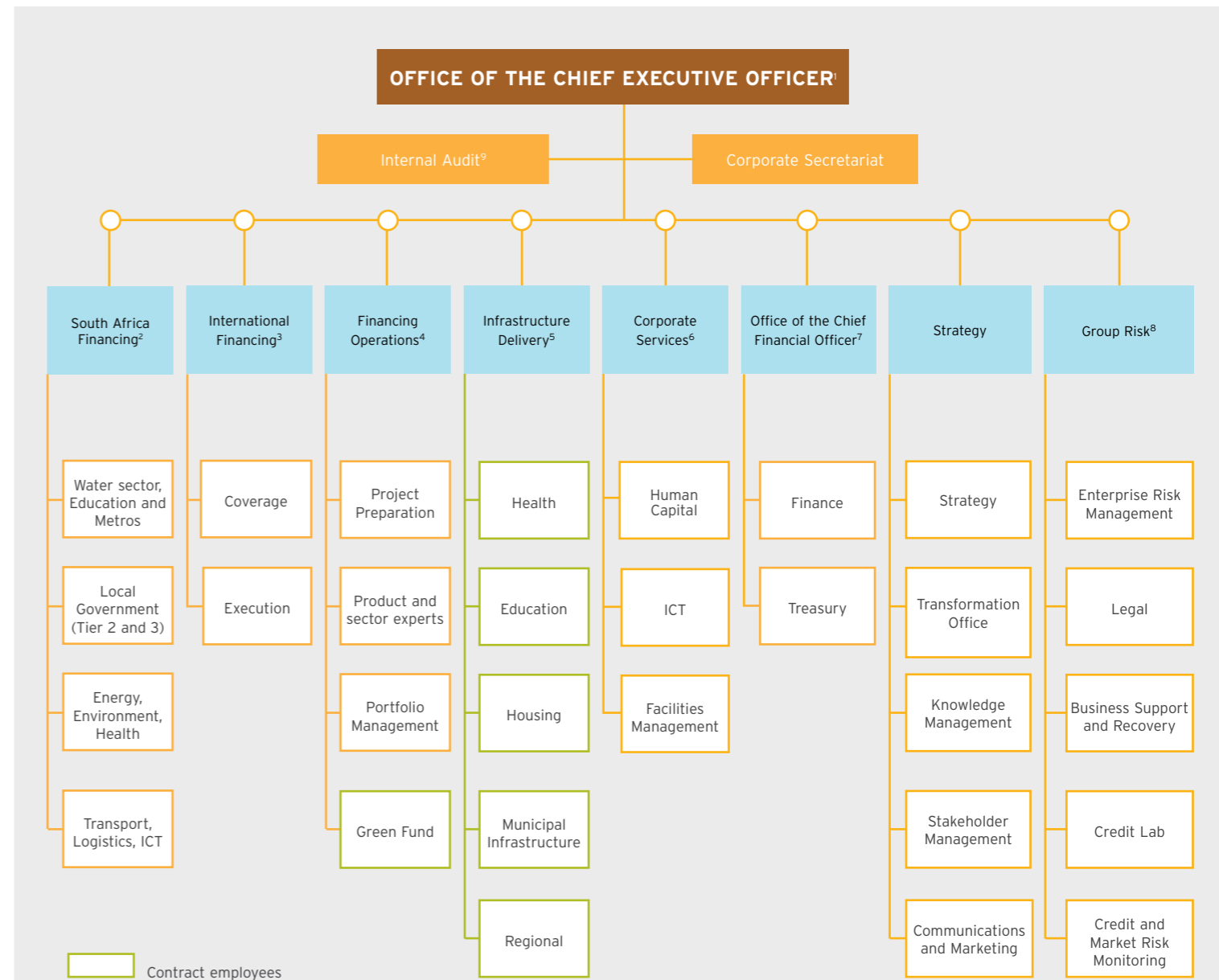
To support the implementation of the strategy and ensure operational efficiencies, the Bank's operating structure is designed around eight divisions.

Lending operations are split on a geographical basis with the *South Africa Financing* division focusing on all lending activities within South Africa whilst the *International Financing* division focuses 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.

The *Infrastructure Delivery* division is responsible for the delivery of important infrastructure development programmes in the education, housing and health sectors.

Finally, support functions are configured into four divisions: *Corporate Services*, *Finance*, *Strategy* and *Group Risk*.



1. The *Chief Executive Officer's Report* refer to pages 62 to 65.
2. The strategy, performance and outlook of *South Africa Financing* refer to pages 72 to 82.
3. The strategy, performance and outlook of *International Financing* refer to pages 83 to 88.
4. The strategy, performance and outlook of *Financing Operations* refer to pages 68 to 71.
5. The strategy, performance and outlook of *Infrastructure Delivery* refer to pages 89 to 94.
6. The strategy, performance and outlook of *Corporate Services* refer to pages 95 to 98.
7. The *Chief Financial Officer's Report* appears on pages 102 to 109.
8. The DBSA's *Risk Management* refer to pages 22 to 27.
9. The *Internal Audit function's* activities refer to pages 45 to 47.



TRANSPORT

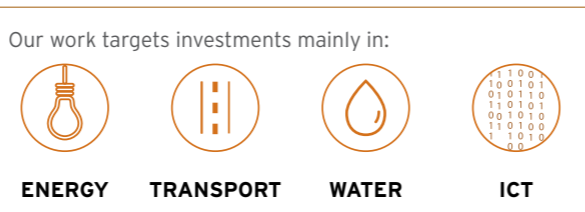
> GOVERNANCE AND
SUSTAINABILITY

CHAIRMAN'S STATEMENT



The DBSA's total disbursements are at a new record high of R13 billion (2014: R12.7 billion), mostly in South Africa. As a result, the total development assets increased to R63.1 billion (2014: R55.5 billion) and total assets to R71 billion (2014: R63.8 billion).

Jabu Moleketi
Chairman of the DBSA Board



OPERATING ENVIRONMENT

The infrastructure challenge in Africa remains immense and the DBSA has an important role to fulfil in meeting this challenge. The expansion of the Bank's mandate to encompass the entire continent has been welcomed. 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.

A CLEAR STRATEGY

The Board has approved the strategy of the Bank. You will be able to retrace the development thereof in this Integrated Annual Report.

The Bank's mandate (see pages 4 to 9) has been clarified and enhanced. The Bank's primary purpose is to promote economic development and growth through our involvement in preparing, facilitating, funding or delivering impactful development projects and programmes.

The executives of the Bank have engaged with stakeholders, in particular government (see pages 20 to 21) to clarify their needs and have developed a clear strategy in response thereto and the mandate. The three key strategic objectives of the Bank are to achieve sustained growth in developmental impact, to be an integrated infrastructure solutions provider and to maintain financial sustainability. The strategic enablers which will assist the Bank in delivering on these objectives were also identified (see page 11).

GOVERNANCE

The Board of Directors has been charged with the governance of the Bank and we are well suited to oversee the delivery of the strategy. I refer you to the governance structure of the Bank on page 38, which depicts the aspects of the strategy delivered by the executive functions and governed by the committees of the Board and, ultimately, the Board as a whole.

We have appointed a number of new members to the Board, following the rotation of Directors. I wish to thank Andrew Borraine, Claudia Manning and Anthony Julies for the valuable

contributions they have made during their tenure, particularly during the period of organisational review and the significant changes that were effected. By the same token, we welcome the new energy brought by Gugu Mtetwa, Arthur Moloto, Anuradha Sing and Mark Swilling, all respected and experienced professionals in their fields. Their brief profiles, together with those of the remaining Directors, can be found on pages 34 to 37.

We have this year included extensive reports from each of the committees to indicate their roles and responsibilities, as follows:

- Audit and Risk Committee (see pages 50 to 52).
- Board Credit and Investment Committee (see page 53).
- Human Resources, Nomination, Social and Ethics Committee (see pages 54 to 55).
- Infrastructure Delivery and Knowledge Committee (see page 56).



PERFORMANCE

I wish to congratulate the Chief Executive Officer, Patrick Dlamini, and his executive team on a pleasing set of results and meaningful impact achieved in 2015.

The DBSA's total disbursements are at a new record high of R13 billion (2014: R12.7 billion), mostly in South Africa. As a result, the total development assets increased to R63.1 billion (2014: R55.5 billion) and total assets to R71 billion (2014: R63.8 billion).

The Bank produced a net profit of R1.2 billion (2014: R787 million), a valuable contribution to ensuring the Bank's ability to continue delivering on its mandate of infrastructure development support.

The results are discussed in more detail in the section PERFORMANCE AND OUTLOOK, which starts on page 58, and includes the detailed performance and future outlook of each of the Bank's divisions.

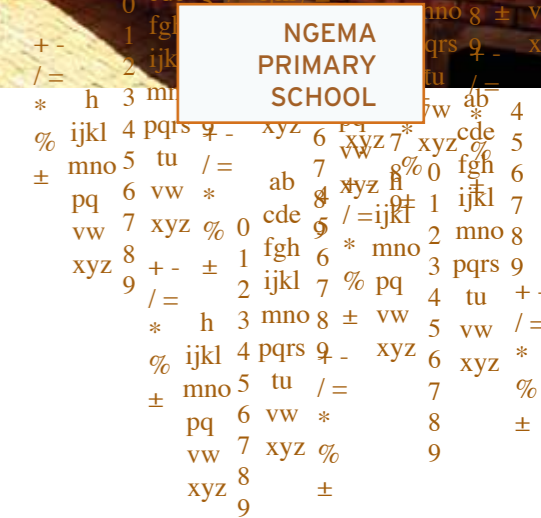
OUTLOOK

The pleasing and profitable results have given the DBSA a proper springboard from which to achieve its strategy.

In South Africa, the Bank will continue to centre its efforts on municipal markets – metros, secondary cities and under-resourced areas – to facilitate infrastructure development. The focus on the key sectors of energy, roads, water and sanitation and technology remains. The detailed approach for the rest of Africa will be improved.

Lastly, I would like to thank Minister Nhlanhla Nene, in his capacity as Governor of the Bank, for our positive engagements which augur well for the future.

Jabu Moleketi
Chairman



BOARD OF DIRECTORS

as at 31 March 2015¹



Jabu Moleketi (57)
Director of Companies
Chairman as from 1 September 2011
Independent Non-executive Director as from 1 January 2010

Expertise
Financial economist, strategic leadership

Academic qualifications

- Advanced Management Programme (AMP), Harvard Business School, USA.
- Masters of Science in Financial Economics, University of Johannesburg.
- Post-graduate diploma in Economic Principles, University of London, UK.

Other directorships

- Harith Fund Managers: Non-executive Director.
- Brait South Africa: Non-executive Chairman.
- Vodacom: Non-executive Director.
- Remgro (Pty) Limited: Non-executive Director.
- MMI Holdings: Non-executive Director.
- TCX Investment Management Company BV: Non-executive Director.
- Newshelf 1078 (Pty) Limited: Non-executive Director.
- Centre for Education in Economics and Finance Africa (NPO): Non-executive Director.
- Vodacom Group Limited: Non-executive Director.



Frans Baleni (55)
General Secretary: National Union of Mineworkers
Independent Non-executive Director as from 1 January 2010
Deputy Chairman 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, Ireland.

Other directorships

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



Patrick Dlamini (45)
Chief Executive Officer
Executive Director as from 1 September 2012

Expertise
Strategic leadership, human capital development and finance

Academic qualifications

- Advanced Executive Programme, Kellogg School of Management, USA. 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.
- Lanseria Holding: Non-executive Director.
- Lanseria International Airport: Non-executive Director.
- Executive Director: Skweyiya Investment Holdings (Pty) Limited.
- Non-executive Director: ABSA Bank Ltd, Afripack (Pty) Limited, Borzov Investments (Pty) Limited, Cardiac Mobile (Pty) Limited, Imperial Holdings Ltd, Rivalo Investments (Pty) Limited, Sumitomo Rubber South Africa (Pty) Limited, Telkom SA SOC Limited, Termico (Pty) Limited, Theshka (Pty) Limited, Zeigler Investments (Pty) Limited.
- University of KwaZulu-Natal: Member of Council (Covering Body).
- ABSA Bank Ltd: Pension Fund Trustee.



Thembisa Dinga (42)
Consultant and Director of Companies

Independent Non-executive Director as from 1 August 2007

Expertise
Project finance, tax and legal

Academic qualifications

- HDip Tax, University of the Witwatersrand.
- LL.M, Harvard University, Cambridge USA.
- LLB, University of KwaZulu-Natal.
- BProc, University of KwaZulu-Natal.

Other directorships

- Executive Director: Skweyiya Investment Holdings (Pty) Limited.
- Non-executive Director: ABSA Bank Ltd, Afripack (Pty) Limited, Borzov Investments (Pty) Limited, Cardiac Mobile (Pty) Limited, Imperial Holdings Ltd, Rivalo Investments (Pty) Limited, Sumitomo Rubber South Africa (Pty) Limited, Telkom SA SOC Limited, Termico (Pty) Limited, Theshka (Pty) Limited, Zeigler Investments (Pty) Limited.
- University of KwaZulu-Natal: Member of Council (Covering Body).
- ABSA Bank Ltd: Pension Fund Trustee.



Dr Lungile Bhenqu-Baloyi (58)
Founder and Director: Development and Leadership Consulting

Independent Non-executive Director as from 1 August 2011

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

Academic qualifications

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

Other directorships

- Chairperson: AIDS Foundation of Southern Africa.
- Commissioner: KZN Planning Commission, Director and founder of MaBhengu Midwife-Umbelethi Transformation Multiversity, Inaugural governor for SACANI (South African Comprehensive Agroecology National Initiative).



Omar Latiff (61)
Director of Companies

Independent Non-executive 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, USA.
- HDip Tax, University of KwaZulu-Natal.
- Chartered Accountant (SA).
- BCompt (Hons), University of South Africa.
- BCom (Accounting), University of KwaZulu-Natal.

Other directorships

- Styleprops 104 (Pty) Limited: Non-executive Director.
- Jodya Close Corporation: Member.
- HASMA Investments (Pty) Limited: Non-executive Director.
- 373 Loop Street PMB Close Corporation: Member.
- SANSA - DST: Non-executive Director.
- OAL - Africa Administration Trust: Trustee.



Busisiwe Mabuza (51)
Director of Companies

Independent Non-executive Director as from 1 August 2011

Expertise
Finance, business and investment analysis

Academic qualifications

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

Other directorships

- Afagri Limited: Non-executive Director.
- Izitsalo (Pty) Limited: Non-executive Director.
- Afagri Charitable Trust: Trustee.
- Afri Employee Employment Trust: Trustee.
- Argon Asset Management: Non-executive Director.
- Africa Business News (Pty) Limited: Non-executive Director.
- Pan African Business Media Holdings (Pty) Limited: Non-executive Director.
- Industrial Development Cooperation: Non-executive Director.
- Kleoss Capital (Pty) Limited: Non-executive Director.
- Cell C Foundation: Non-executive Director.
- Tsogo Sun Holdings: Non-executive Director.
- Lehumo Women's Investment Holdings: Non-executive Director.
- Nehawu Investment Holdings: Non-executive Director.



Dawn Marole (54)
Chairman: Executive Magic (Pty) Limited Consulting

Independent Non-executive Director as from 1 August 2011

Expertise
Strategic management, finance, human capital and business development

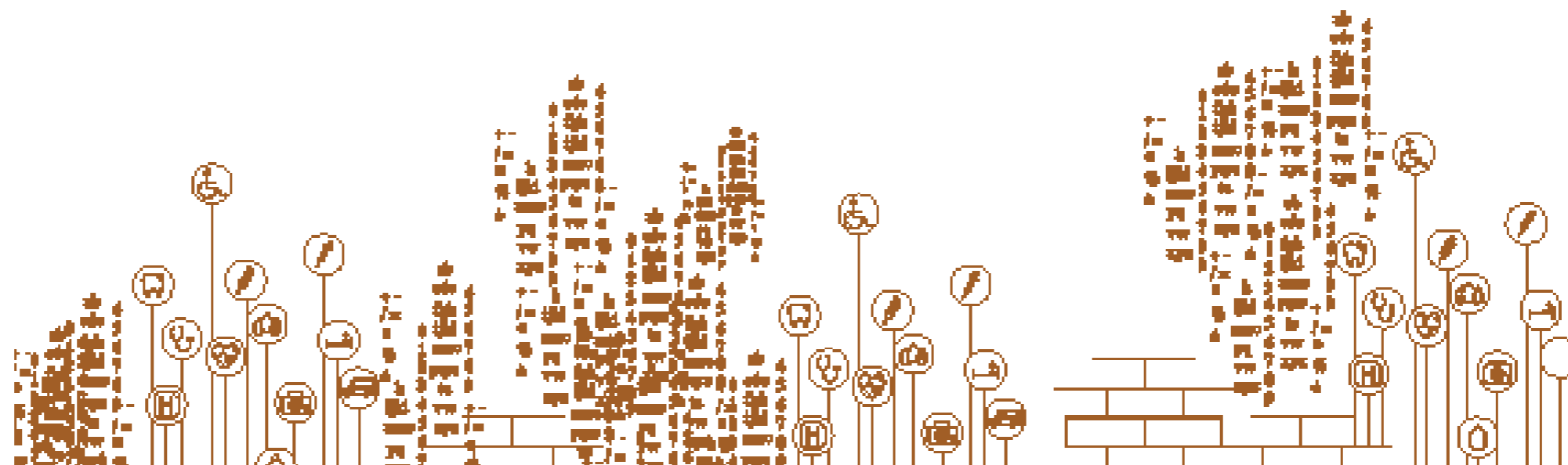
Academic qualifications

- Executive Leadership Development Programme GIBS, USA.
- MBA NEU Boston, Massachusetts, USA.
- Diploma Tertiary Education, University of South Africa.
- BCom (Acc), University of Zululand.

Other directorships

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

1. Ages as at 31 March 2015.



BOARD OF DIRECTORS (CONTINUED)



Gugu Mtetwa (35)
Managing Executive Finance:
Vodacom South Africa
*Independent Non-executive Director
as from 1 August 2014*

Expertise
Business management, auditing and financial management, accounting and financial planning, risk management, financial reporting, transformation and diversity

Academic qualifications

- Partner development programme, GIBS.
- Executive Leadership Development Programme, University of Stellenbosch Business School.
- Chartered Accountant (SA).
- Post-graduate diploma in Accounting, University of Cape Town.
- Bachelor of Commerce (Accounting), University of Cape Town.

Other directorships

- Brand South Africa: Non-executive Director.
- Siyakhula Women Investments: Non-executive Director.
- Rakgwadi Energy Consortium: Non-executive Director.



Arthur Moloto (46)
Political and Economic Advisor to the Speaker of National Assembly at Parliament of South Africa
Independent Non-executive Director as from 1 August 2014

Expertise
Law, economics and political strategy

Academic qualifications

- MSc in Finance and Financial Law, University of London, UK.
- Post-graduate diploma in Economic Principles, University of London, UK.
- Bachelor of Arts Honours Development Studies, University of Limpopo.
- Bachelor of Arts in Education, University of Limpopo.

Other directorships

- Kansai Plascon Africa Ltd: Non-executive Director.
- SA Corporate Real Estate Fund Managers Limited: Independent Non-executive Director.
- Centre for Education in Economics and Finance. Africa: Non-executive Director.
- Seboka Resources (Pty) Limited: Non-executive Director.
- Omricon Capital: Director.
- Harith General Partners: Non-executive Director.
- Land Bank: Non-executive Chairman.



Kameshni Naidoo (40)
Chief Financial Officer
Executive Director as from 1 January 2013

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

- Avatar Group (Pty) Limited: Director.



Anuradha Sing (44)
Chief Investment Officer at Kagiso Capital (Pty) Limited
Independent Non-executive Director as from 1 August 2014

Expertise
Finance and business investment

Academic qualifications

- MBA, Wits Business School.
- BSc Eng (Mechanical), University of Natal (Durban).

Other directorships

- Trentyre (Pty) Limited: Non-executive Director.
- Goodyear Tire and Rubber Company (Pty) Limited: Non-executive Director.
- Goodyear SA (Pty) Limited: Non-executive Director.
- Onelogix Group Limited: Non-executive Director.
- Kagiso Capital (Pty) Limited: Executive Director.



Prof Mark Swilling (55)
Divisional Head: Sustainable Development, University of Stellenbosch
Independent Non-executive Director as from 1 August 2014

Expertise
Research, policy analysis, sustainable development

Academic qualifications

- PhD, Department of Sociology, University of Warwick, UK.
- Bachelor of Arts Honours, Department of Political Studies, Wits University.
- Bachelor of Arts, Wits University.

Other directorships

- Lynedoch Development (NPO): Non-executive Director.
- Centre for Complex Systems in Transition, Stellenbosch University: Co-Director.
- Management Board of the Centre for Renewable and Sustainable Energy Systems, Stellenbosch University: Member.
- International Resource Panel, convened by the United Nations Environment Programme: Member.
- World Academy of Arts and Science: Fellow.



Mary Vilakazi (37)
Group Financial Director: MMI Holdings Limited
Independent Non-executive 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

- Zenzele Development Trust; Trustee Momentum Investments: Non-executive Director.
- MMI Strategic Investments (Pty) Limited: Non-executive Director.
- Eris Property Group: Non-executive Director.
- Thuthuka Bursary Fund: Non-executive Director.



Andrew Boraine (56)
Chief Executive: Western Cape Economic Development Partnership; Adjunct Professor: African Centre for Cities, University of Cape Town
*Independent Non-executive Director as from 1 August 2005
Term ended: 31 July 2014*

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) Limited (Convenco): Director.



Anthony Julies (50)
Chief Director: Strategy and Risk Management, National Treasury
*Non-executive Director as from 1 January 2013
Resigned: 1 December 2014*

Expertise
Risk, compliance, development finance and financial markets

Academic qualifications

- MBA Banking, University of London, UK.
- Master of Arts (Economics), Wesleyan University.
- Bachelor of Education (BED), University of Western Cape.
- Higher Diploma in Education (HDE), University of Western Cape.

Other directorships

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



Dr Claudia Manning (48)
Director of Companies
*Independent Non-executive Director as from 1 August 2005
Term ended: 31 July 2014*

Expertise
Economic development, infrastructure development and project management

Academic qualifications

- DPhil, University of Sussex, UK.
- 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.
- Mondli Zimele: Chairperson (Non-executive Director).



Bathobile Sowazi (43)
DBSA Company Secretary as from 1 May 2010

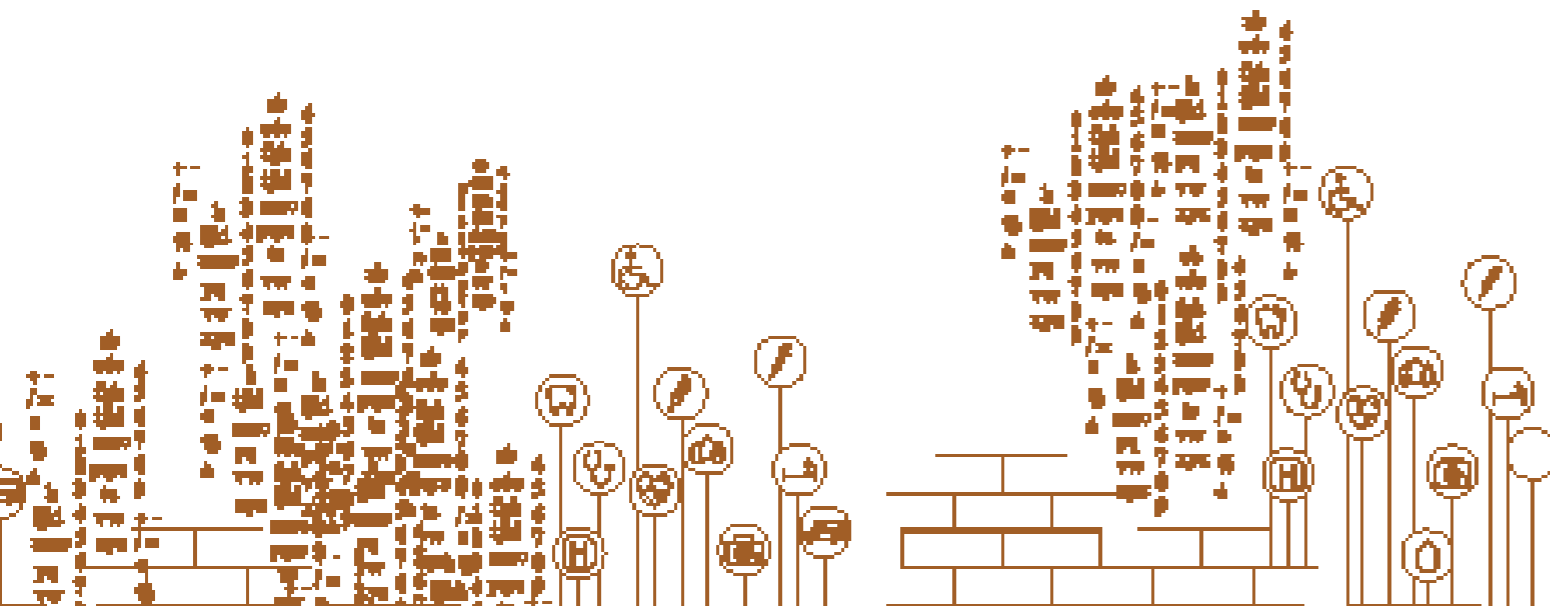
Expertise
Governance and legal

Academic qualifications

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





Other directorships

- None.



CORPORATE GOVERNANCE

The Directors of the DBSA are committed to full compliance with the principles embodied in appropriate international corporate governance codes and strive to align the Bank's corporate governance with national and international best practices. The DBSA governance framework is set out below.

MINISTRY OF FINANCE (SOLE SHAREHOLDER) Minister Nhlanhla Nene				
DBSA Board Chairman: Jabu Moleketi				
Board committee	AUDIT AND RISK COMMITTEE	BOARD CREDIT AND INVESTMENT COMMITTEE	HUMAN RESOURCE, NOMINATION, SOCIAL AND ETHICS COMMITTEE	INFRASTRUCTURE DELIVERY AND KNOWLEDGE COMMITTEE
Non-executive members	Omar Latiff (Chairperson) Thembisa Dinga Dawn Marole Arthur Moloto Gugu Mtetwa Mary Vilakazi	Thembisa Dinga (Chairperson) Brian Figaji (co-opted) Omar Latiff Busisiwe Mabuza Jabu Moleketi Anuradha Sing Mary Vilakazi	Dawn Marole (Chairperson) Frans Baleni Lungile Bhengu-Baloyi Brian Figaji (co-opted) Busisiwe Mabuza Jabu Moleketi Gugu Mtetwa Mark Swilling	Frans Baleni (Chairperson) Lungile Bhengu-Baloyi Omar Latiff Jabu Moleketi Anuradha Sing Mark Swilling
Executive members		Patrick Dlamini Kameshni Naidoo		Patrick Dlamini
Responsibilities	Oversees the Bank's internal control framework, reviews and evaluates the integrity of financial and other statutory reporting, financial strategy, budget, capital expenditure, treasury strategies, loan impairments, risk management processes 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.  <i>See pages 50 to 52 for the Audit and Risk Committee Report for further detail</i>	Reviews the Bank's credit strategy, credit risk management policy and programme, trends in portfolio quality, adequacy of provision for credit losses.  <i>See page 53 for the Board Credit and Investment Committee Report for further detail</i>	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.  <i>See pages 54 to 55 for the Human Resources, Nomination, Social and Ethics Committee Report for further detail</i>	Oversees the implementation of the strategic mandate and infrastructure delivery programmes, as well as the Bank's policy, advisory and knowledge management function.  <i>See page 56 for the Infrastructure Delivery and Knowledge Committee Report for further detail</i>
DBSA Executive Management Committee Chairman: Patrick Dlamini				
Steering committee	Finance and Treasury Committee	Investment Committee	Corporate Services Committee	Infrastructure Delivery and Knowledge Management Committee
	Chairperson: Kameshni Naidoo	Chairperson: Paul Currie	Chairperson: Dolores Mashishi	Chairperson: Sinazo Sibisi

APPLICATION OF GOVERNANCE PRINCIPLES

The DBSA Board of Directors 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 Board 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.

During the previous year the DBSA was 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 Industrial Development Corporation (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	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.

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. It 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.

STRATEGIC OBJECTIVES AND PERFORMANCE MANAGEMENT

In line with section 52 of the PFMA, the Bank submits 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 page 115 to 116. The Audit and Risk Committee of the Board evaluated the organisational performance, while the Human Resources, Nomination, Social and Ethics (HRNSE) 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 seek to ensure that the Bank conducts its business with the utmost integrity towards all its stakeholders.

THE CODE OF ETHICS (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.

CORPORATE GOVERNANCE (CONTINUED)

VALUES

Following the finalisation of the organisational review of the DBSA, the Bank adopted a new set of values to drive the desired 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 and 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. New recruits as well the existing employees receive training 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 45.

The HRNSE 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



VALUES Integrity, service orientation, innovation, a shared vision and culture of high performance is our uncompromising obligation

The DBSA has a zero tolerance approach to dishonest, corrupt and illegal conduct. This approach is central to the Bank's Code of Ethics.

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 Board embraces the principles set out by King III and acknowledges that:

- The Board should act in the best interests 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, doing business ethically, considering and managing 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 CHARTER

The DBSA Board is governed by a Board Charter, which outlines the principal provisions of the DBSA Act, the fiduciary responsibilities of Directors, the relationship with executive management and matters of policy that the Shareholder and the Board ought to follow in order to ensure good corporate governance. The Board regards the Charter as a living document, updated periodically to align with changes required by relevant legislation and regulation. The role of the Board, as defined by the

CORPORATE GOVERNANCE (CONTINUED)

Board Charter, can be summarised as follows:

- The Board shall ensure that the Bank achieves the mandate of the organisation as defined by the Shareholder through the Bank’s founding statute (the DBSA Act).
- It has a responsibility to the broader stakeholders, which include the present and potential beneficiaries of DBSA products and services, clients, lenders and employees, to achieve continuing prosperity for the Bank.
- It must exercise leadership, enterprise, integrity and judgement in directing the Board to achieve continuing prosperity and to act in the best interests of the Bank while respecting the principles of transparency and accountability.
- It must provide strategic guidance to management in the formulation and review of corporate strategy and shall approve major plans of action, governance policies, appropriate procurement and provisioning systems, annual budgets and business plans.
- It should ensure that the technology and systems used in the Bank are adequate to run the business properly for it to be competitive through the efficient use of its assets, processes and human resources.

- It must ensure that the Shareholder’s performance objectives are achieved and that the same can be measured in terms of performance of the DBSA Board. In this regard, the Board shall annually conclude a Shareholder Compact as required in terms of the PFMA to document key performance areas.
- The Board members shall develop and put in place a Code of Ethics outlining the values, ethics, and beliefs that guide the behaviour of DBSA Board and define the ethical standards applicable to it and to all who deal with it.
- Board members shall monitor the social responsibilities of the DBSA Board and promulgate policies consistent with the Bank’s legitimate interests and good business practices.

BOARD EFFECTIVENESS ASSESSMENT

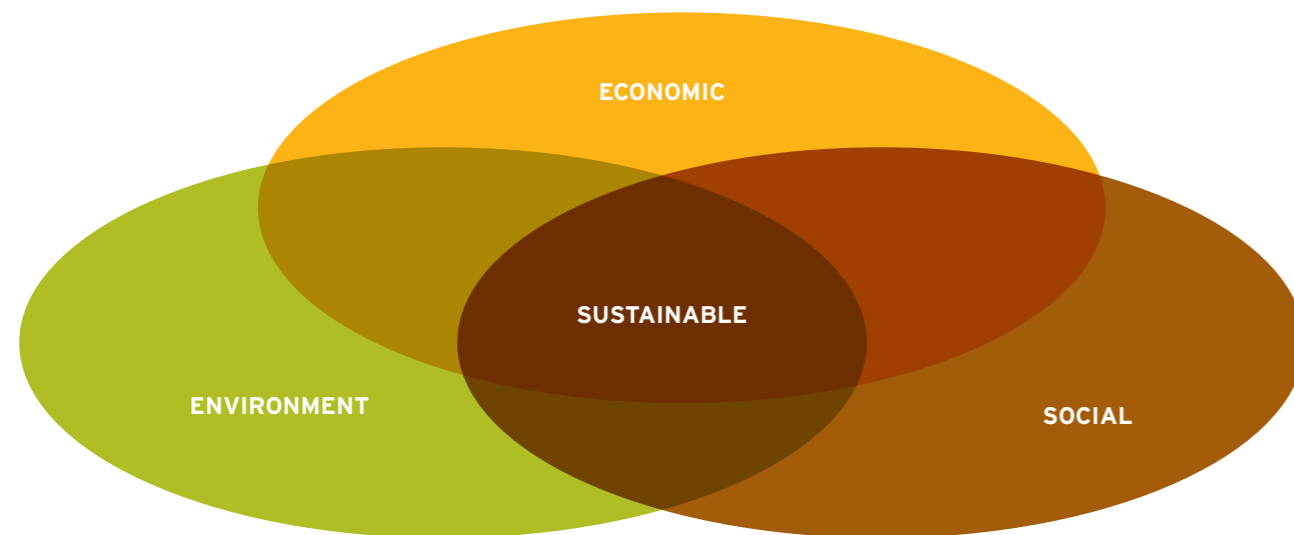
A formal independently conducted Board evaluation is performed on a bi-annual basis and self-assessment is done during the interim periods.

During the financial year, the DBSA conducted a web-based self-assessment using the Governance Assessment Instrument (GAI) made available by the Institute of Directors in Southern Africa (IoDSA). The GAI

assists organisations to review and consider King III and other relevant governance legislation and provides detailed assessment, gap analysis and reporting functionality. The GAI also provides for one national benchmark governance platform.

The Bank subscribes to good governance practices and ensures that these practices are implemented and monitored. Consequently, the Bank is a participant to this assessment instrument and the indications are 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 (2014: AAA), representing a “highest application” level across the various assessed categories.

A formal, independent evaluation of the Board and individual Directors was also conducted during the financial year.



COMPOSITION OF THE BOARD

At year-end, the Board consisted of 14 Directors, 12 of whom were 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 Director’s independence.

The Chief Executive Officer (CEO) and Chief Financial Officer (CFO) are the only Executive Directors in line with the recommendations of King III. A member from the National Treasury serves on the Board as a shareholder representative.

Anthony Julies, as shareholder representative, resigned from the Board with effect from 1 December 2014 as his new position as the Deputy Director-General: Asset and Liability Management Division at the National Treasury would result in a direct conflict of interest in the execution of various responsibilities associated with his new role. The Bank is awaiting confirmation for his replacement from the National Treasury.

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 34 to 37.

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 CFO are strictly separated from those of the

Non-executive Directors to ensure that no single 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.

OTHER CHANGES TO THE BOARD

Andrew Boraine and Claudia Manning completed their third term as Non-executive Directors on 31 July 2014.

With effect from 1 August 2014 Arthur Moloto, Anuradha Sing, Gugu Mtetwa and Prof Mark Swelling were appointed for a three-year period as Independent Non-executive Directors. Their detailed CVs are reflected on pages 36 to 37.

DIRECTORS’ APPOINTMENT, ROTATION AND INDUCTION

Appointment and nomination of Directors to the DBSA Board is regulated by the DBSA Act, in terms of which the Shareholder is charged with appointing the Directors based on their abilities in relation to socio-economic development, finance, business, banking or administration. The HRNSE Committee of the Board invites nominations for appointments, produces shortlists for the Board of Directors and the Board makes recommendations to the Minister for approval. Directors are appointed on a performance contract of three years and are eligible for reappointment, depending on satisfactory performance. The Act further allows the Board to co-opt persons with special knowledge to its committees.

The contract terms for each of the Directors are on page 118 of the Directors’ Report. The service contracts for Thembisa Dinga and Omar Latiff were extended for a further three years to 31 July 2017.

The DBSA Board is committed to the advancement of new and 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 King III, 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 committee is chaired by an Independent Non-executive Director and comprises both Non-executive and Executive Directors, with the exception of the Audit and Risk Committee and the HRNSE Committee, which comprise only Non-executive Directors. In line with the recommendations of King III, all members of the HRNSE Committee are Independent Non-executive Directors.

The membership and responsibilities of each of the Board committees are reflected in the diagram on page 38.

Detailed reports on the activities of each of the Board committees commence on pages 50 to 56.

CORPORATE GOVERNANCE (CONTINUED)

BOARD AND COMMITTEE RECORD OF ATTENDANCE

The Board met six times during 2015. Details of Directors' attendance at Board and committee meetings for the financial year are set out in the table below.

	DBSA Board ¹	Audit and Risk Committee ²	Board Credit and Investment Committee ³	Human Resources, Nomination, Social and Ethics Committee	Infrastructure Delivery and Knowledge Committee
Number of meetings	6	8	13	5	4
Independent Non-executive Directors					
Jabu Moleketi (Chairman)	6		11	3	3
Frans Baleni (Deputy Chairman)	6			4	4 (Chair)
Lungile Bhengu-Baloyi	6	1 ⁴		5	4
Andrew Borraine ⁵	0/1	1/2			1/1
Thembisa Dingaan	6	8	12 (Chair)		
Omar Latiff	6	8 (Chair)	13		4
Busisiwe Mabuza	6	1 ⁴	11	3	
Claudia Manning ⁵	1/1		4	1	1/1
Dawn Marole	4	7		5 (Chair)	
Arthur Moloto ⁶	5/5	4/5	6/9		
Gugu Mtetwa ⁶	5/5	3/5		2/4	
Anuradha Sing ⁶	5/5		8/9		2/3
Mark Swilling ⁶	4/5			2/4	
Mary Vilakazi	1	3	9		
Non-executive Directors					
Anthony Julies ⁷	5/5	3/6			
Executive Directors					
Patrick Dlamini (Chief Executive Officer)	6	2 ⁸	10	4 ⁸	3
Kameshni Naidoo (Chief Financial Officer)	6	6 ⁸	6		
Members co-opted to Board Committees					
Prof Brian Figaji - by invitation	2		11	3	

1. Board meetings includes four scheduled meetings, annual general meeting as well as one Strategy Board meeting.

2. Audit and Risk Committee includes four scheduled meetings and four special meetings.

3. Board Credit and Investment Committee includes 11 scheduled meetings.

4. Board member co-opted to oversee the evaluation process of the appointment of the external auditors.

5. Resigned from the Board with effect from 31 July 2014.

6. Appointed with effect from 1 August 2014.

7. Resigned with effect from 1 December 2014.

8. By invitation.

**DIRECTORS' REMUNERATION**

Details of the Directors' remuneration are discussed in the Remuneration Report on pages 48 to 49.

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 arm's-length relationship with the Board at all times and is sufficiently qualified to act in accordance with and update Directors on 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.

CORPORATE GOVERNANCE (CONTINUED)

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 Chairman 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 Programme 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 improvement.

With regard 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 which is co-ordinated and managed by the internal audit function. 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 optimise 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 23 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 Map which is based on the corporate strategic objectives and risks. The Map drives the Internal Audit Annual Plan and the three-year Rolling Plan. The assurance providers 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.

A Combined Assurance Policy has been developed which includes the formation of a formal Combined Assurance Working Committee where the various assurance provider representatives are members. The policy defines the process, model and terms of Combined Assurance within the Bank as well as the responsibilities of the Audit and Risk Committee and those of the assurance providers. Key to this is the implementation of Control Self Assessments (CSAs) by management as management assurance, done periodically, over time.

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

	2015	2014
Hotline reports	3	1
Direct reports	7	7
Complaints and compliments line	1	-
Total allegations	11	8
• Founded	1	4
• Unfounded on initial allegation, however founded on other issues	3	-
• Unfounded	3	4
• In progress	7	-
Total allegations	11	8
Disciplinary action on founded matters		
• Criminal/civil action	1	3
• Management action to be taken	3	-
• Other corrective action	-	1



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).
- Ensures long-term financial sustainability of the Bank.

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.

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 as well as 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.

The HRNSE Committee reviews the Non-executive Directors' fees and makes recommendations to the Board and the Minister for consideration and approval.

Details of fees earned by the Non-executive Directors are reflected in note 45 to 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 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. Contributions to retirement and insured benefits are included in the GP. Employees can choose to participate in a Bank-nominated medical aid scheme.



People are our most valuable resource and we are committed to attracting, developing, retaining and rewarding the best people through the continued establishment of a challenging and exciting environment, which stimulates commitment and encourages development and growth.



The HRNSE Committee reviews the Chief Executive 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 are required 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% of the medical aid contributions of qualifying

pensioners. Pensioners include retired employees and their widow(er)s. Refer to note 19.2 to the Annual Financial Statements for further details of post-retirement medical benefits liability.

Funeral benefits 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 is measured against predetermined goals as approved by the 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%

Details of the remuneration of Executive Directors and Group Executives are reflected in note 45 to the Annual Financial Statements.

AUDIT AND RISK COMMITTEE REPORT

for the year ended 31 March 2015

We are pleased to present our report for the financial year ended 31 March 2015.

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 44 in the Corporate Governance Report. In compliance with Treasury Regulations 27.1.3 and 27.1.4, the Chairperson is an Independent Non-executive 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 Integrated Annual Report on pages 34 to 37.

AUDIT AND RISK COMMITTEE RESPONSIBILITY

The functions of the Audit and Risk Committee are regulated by the PFMA and King III Report. The Committee oversees the Bank's internal control framework, and reviews and evaluates the integrity of financial and other statutory reporting, risk management

processes, compliance with laws and regulations and ethics management. It oversees the internal and external audit functions and reviews the Internal Audit Plan and the annual assessments of significant risk exposures.

The committee oversees and also advises the Board on income, expenditure and capital budget requirements; tax management; treasury arrangements and funds mobilisation strategies; transfer pricing policies; development loan impairments; management of assets and liabilities; and the Bank's overall financial health and sustainability.

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

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

- (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 nominating to the Board for approval.
- Approving the terms of engagement of the external auditors, including their audit fee and determining the nature and extent of any non-audit services.
- Monitoring and reporting 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, judgements and estimates adopted in the preparation of the Annual Financial Statements and found those to be appropriate.
- Reviewed reports from management regarding the going concern and financial sustainability of the organisation, noted the challenges and declining financial performance over the last four years not including year ended 31 March 2015. Appropriate measures are urgently being reviewed to improve the long-term financial sustainability.
- The continued preparation of the Annual Financial Statements on a going concern basis was adopted.

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 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 end, 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 the Investment Committee. Based on reports received from management, the monitoring of the loan and equities portfolio is considered adequate.
- 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- and three-year 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.



AUDIT AND RISK COMMITTEE REPORT (CONTINUED)

ASSURANCE BY THE INDEPENDENT EXTERNAL AUDITORS

- Reviewed and approved the External Audit Plan, including the proposed scope and audit fee and determined the nature and scope of non-audit services.
- Received and reviewed external audit reports for the year pertaining to the Annual Financial Statements for the year ended 31 March 2015 and the interim results for the six months ended 30 September 2014.
- Make recommendations, when appropriate, 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 end:

- Risk incidents are logged in an operational risk register and monitored.
- There is sufficient forensic capability in Internal Audit, with an appointed forensic specialist.
- The Bank has a toll-free whistle-blowing hotline operated by Deloitte and employees are encouraged to report any suspected corrupt, fraudulent, criminal or unethical practices. A summary of the hotline statistics and resulting disciplinary actions where this was required is included in the Corporate Governance Report on page 47.

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 end:

- 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 Integrated Annual Report and Annual Financial Statements for the year ended 31 March 2015 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 2015 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.



Omar Latiff
Chairman of the Audit and Risk Committee

BOARD CREDIT AND INVESTMENT COMMITTEE REPORT

for the year ended 31 March 2015

We are pleased to present our report for the financial year ended 31 March 2015.

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

MEMBERSHIP

The Board Credit and Investment Committee members and attendance are reflected on page 44 in the Corporate Governance Report. The Chairperson is an Independent Non-executive 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 Board Credit and Investment

Committee are detailed in the Board of Directors section of the Integrated Annual Report on pages 34 to 37.

BOARD CREDIT AND INVESTMENT COMMITTEE RESPONSIBILITY

The Board has delegated the responsibility for the management of credit and investment risk to its Board Credit and Investment Committee, supported by the executive 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 that is above the approval limits of the Investment Committee. 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 the approval limits. The committee is also responsible for

recommending aggregate exposures of more than the approval limits 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. 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 ongoing outcomes in tandem.

Refer to pages 105 to 106 of the Chief Financial Officer's Report for an overview of the quality of the credit portfolio.

The committee has reviewed the Bank's credit strategy, credit risk management programme, trends in portfolio quality, the adequacy of provision for credit losses and the credit risk management policies approved by the Board. The committee approves all credit and investment proposals where counterparty exposures exceed amounts set out in the table below.

	MS1 - MS10	Above MS10
South Africa		
Municipal clients	R1 000 million	R500 million
Other public sector clients	R500 million	R250 million
State Supported Programmes	R500 million	R250 million
Private sector clients	All	All
Rest of SADC		
Low risk countries	US\$50 million	All
Medium risk countries	US\$20 million	All
High risk and post conflict countries	US\$10 million	All
Rest of Africa		
Low risk countries	All	All
Medium risk countries	All	All
High risk and post conflict countries	All	All

Note: DBSA uses the following rating scale to measure risk: MS1 to 7: low risk, MS 8 to 13: medium risk and MS14 and above: high risk.



Thembisa Dingaan
Chairperson of the Board Credit and Investment Committee

HUMAN RESOURCES, NOMINATION, SOCIAL AND ETHICS COMMITTEE REPORT

for the year ended 31 March 2015

We are pleased to present our report for the financial year ended 31 March 2015.

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

MEMBERSHIP

The HRNSE Committee members and attendance are reflected on page 44 in the Corporate Governance Report. The Chairperson is an Independent Non-executive Director. All committee members are Non-executive Directors and all members have the requisite business, financial and leadership skills for the position. The names and qualifications of Directors serving on the committee are detailed in the Board of Directors section of the Integrated Annual Report on pages 34 to 37. The CEO is not a member of the committee but attends meetings by invitation.

HUMAN RESOURCES, NOMINATIONS, SOCIAL AND ETHICS COMMITTEE RESPONSIBILITY

The Board of Directors has established the HRNSE Committee to support it in the execution of its duties with respect to implementation of the human capital strategy, nomination of Directors and executive remuneration for the DBSA, Board/Directors' affairs and governance as well as social and ethics issues. The Board of Directors is the focal point of corporate governance in the DBSA. It is ultimately accountable and responsible for the performance, affairs and behaviour of the Bank. The HRNSE Committee has the responsibility to ensure that there are adequate processes, policies systems and procedures to ensure sound corporate governance. The committee meets at least four times a year. The committee can utilise the services of independent advisors on matters relating to remuneration.

The primary function of the committee is to consider, monitor and report to the Board on key issues such as remuneration, nomination and related matters, social and ethics related matters, compliance with King III, the DBSA Act and Regulations and any additional corporate governance requirements of DBSA. Specific responsibilities of the committee include:

GOVERNANCE, NOMINATIONS AND DIRECTORS' AFFAIRS

- Assist the Board in its determination and evaluation of the adequacy, efficiency and appropriateness of the governance structure and practices of the Bank.
- Advise, evaluate and assist the Board on any issues of fundamental strategic importance to the Bank that are beyond the scope of the specific authorities mandated to other Board committees.
- Establish and review a Board continuity plan for approval by the Board entailing:
 - A review of the performance of and planning for successors to the Executive and Non-executive Directors.
 - Measures to ensure continuity of Non-executive Directors.
 - A regular review of the composition of skills, experience and other qualities required for the effectiveness of the Board.
 - An annual assessment of the Board as a whole which assessment shall be coordinated by the Chairperson of the Board assisted by the Company Secretary.
- Assess regularly the conduct and competence of directors and Board committees, the overall effectiveness of the Board and report thereon to the Board.
- Regularly review the required mix of skills and experience on the DBSA Board with a view to identifying any skills gap on the Board.

- Recommend to the Board potential candidates for membership onto the DBSA Board.
- Develop a plan for identifying, assessing and enhancing Director competencies.
- Ensure that Executive Directors and management succession plans are in place.
- Review the performance of the CEO.

REMUNERATION

- Consider for approval by the Board remuneration policy and Bank employment practices in addition to any other strategic human resource issues referred to it by management and the Board of Directors in line with market trends and prevailing legislation.
- Review and recommend performance incentive policies applicable to the Executive Directors and Group Executives to the Board of Directors to ensure that they are fairly rewarded for their individual and joint contribution to the DBSA performance.
- Determine remuneration, retention incentive and termination policies and procedures for Executive Management.
- Make recommendations to the Shareholder for considerations regarding fees of the Chairman and the Non-executive Directors.
- Make recommendations to the Board for approval of the annual staff salary increase.
- Recommend for approval percentage limits to which executive management may authorise remuneration for staff such as: the maximum bonus as a percentage of total cost to company, and how much may be discretionary.
- Consider and recommend to the Board for approval the quantum of incentive pool for Executives of the DBSA.
- Determine and review superannuation arrangements.

- Obtain for the Group whatever remuneration related information the committee may need from time to time.

Refer to note 45 of the Annual Financial Statements for fees paid to Non-executive Directors, Executive Directors and Group Executives.

HUMAN RESOURCES

- Review and recommend the DBSA human capital strategy and risk management strategy to be implemented. Further detail regarding the Bank's remuneration philosophy and policies is provided in the Remuneration Report on pages 48 to 49.
- Monitor implementation and execution of the Bank's human capital strategy and transformation as well as issues policy requirement for implementation by management.
- Review performance scorecards. Refer to the Directors' Report on page 115 to 116 for the Bank's performance against the 2015 Balanced Scorecard.

- Oversee employment equity and other human capital statutory reports.
- Oversee the implementation of the Bank's training and development plan.

Refer also to the Corporate Services section on pages 95 to 98 for further detail regarding the Bank's employment and diversity numbers, as well as investment in training programmes.

SOCIAL AND ETHICS

The committee ensures that management cultivates a culture of ethical conduct and sets the values to which the Company adheres. In this respect the committee:

- Monitors the Bank's activities, having regard to relevant legislation and codes of best practice, in respect of social and economic development, good corporate citizenship, the environment, health and public safety, consumer relationships and sound labour and employment practices.

- Reviews the Bank's values and consider for recommendation to the Board the ethics related policies like the Conflict of Interest Policy, Code of Ethics, and the Whistle-blowing policy.
- Considers and recommends for approval to Board the Ethics Management Programme.

Refer to the Governance Report as reflected on pages 38 to 47 for further detail.



Dawn Marole

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



INFRASTRUCTURE DELIVERY AND KNOWLEDGE COMMITTEE REPORT

for the year ended 31 March 2015

We are pleased to present our report for the financial year ended 31 March 2015.

The Infrastructure Delivery and Knowledge Committee (IDKC) has adopted an appropriate formal terms of reference as its Infrastructure Delivery and Knowledge Committee Charter, has regulated its affairs in compliance with this Charter and has discharged all its responsibilities as contained therein.

MEMBERSHIP

The IDKC members and attendance are reflected on page 44 in the Corporate Governance Report. The Chairperson is an Independent Non-executive Director. The majority of committee members are non-executive members and all committee members have the requisite business, financial and leadership skills for the position. The names and qualifications of Directors serving on the IDKC are detailed in the Board of Directors section of the Integrated Annual Report on pages 34 to 37.

INFRASTRUCTURE DELIVERY AND KNOWLEDGE COMMITTEE RESPONSIBILITY

The IDKC is a subcommittee of the Board of Directors and supports the Board in the execution of its duties. The committee is accountable to the Board to properly consider and evaluate any matter that it has been mandated to deal with. The Board has ultimate responsibility in controlling the business and directing the operations of the Bank. This includes accepting strategic mandate programmes that will help with infrastructure delivery and programme implementation support in South Africa and the region, monitoring existing mandates, approval and monitoring of key infrastructure projects and overseeing the knowledge and research programmes of the Bank in line with the philosophy that the Bank is a centre of excellence in infrastructure development.

NON-FINANCING INFRASTRUCTURE DELIVERY SUPPORT AND PROGRAMME IMPLEMENTATION (STRATEGIC MANDATES)

The DBSA is committed to supporting government in accelerating the implementation of agreed infrastructure and implementation programmes on a fully funded and/or cost recovery basis. These strategic mandates may include the provision of project management and other support in key priority sectors critical to the achievement of national objectives of economic growth, job creation and infrastructure delivery. The mandate of the committee does not extend to the financing needs of programmes supported. The IDKC is responsible for:

- Providing strategic guidance on the support to be provided to public entities and spheres of government in priority sectors.
- Recommending to the Board a framework to guide the selection of new government infrastructure delivery and strategic mandates and programmes for implementation by the DBSA.
- Considering and approving all new strategic mandates and programmes for implementation by the DBSA.
- Delegating to the CEO the responsibility for consideration and approval of all new projects within an approved mandate. The CEO will recommend for approval by the IDKC appropriate frameworks, portfolio risk management strategies, risk tolerances, appetite limits, policies and procedures to be adopted by the DBSA to monitor and mitigate exposure to the Bank. The CEO shall monitor the performance of the portfolio, monitor and review emerging issues, and provide a report to the IDKC on all approvals in the quarter as well as projects declined in the period.
- Monitoring compliance to the framework and progress on the implementation of mandates and programmes that fall under the committee's purview.
- Identifying issues related to implementation of the programmes

for tabling at the Board of Directors for consideration or decision.

Refer to pages 89 to 94 for an overview of performance results for the Bank's Infrastructure Delivery division.

INFRASTRUCTURE DELIVERY

As a DFI focused on infrastructure, the DBSA is required to constantly monitor developments in infrastructure planning and implementation and the enabling environment that impacts on the delivery of infrastructure and its financing. The committee:

- Considers and recommends best practice related to DFIs and infrastructure planning, financing and implementation.
- Reviews the overall performance of infrastructure delivery in the Bank.
- Provides strategic guidance to the gathering and analysis of project and spatial information to improve infrastructure planning, financing, delivery tracking and performance.

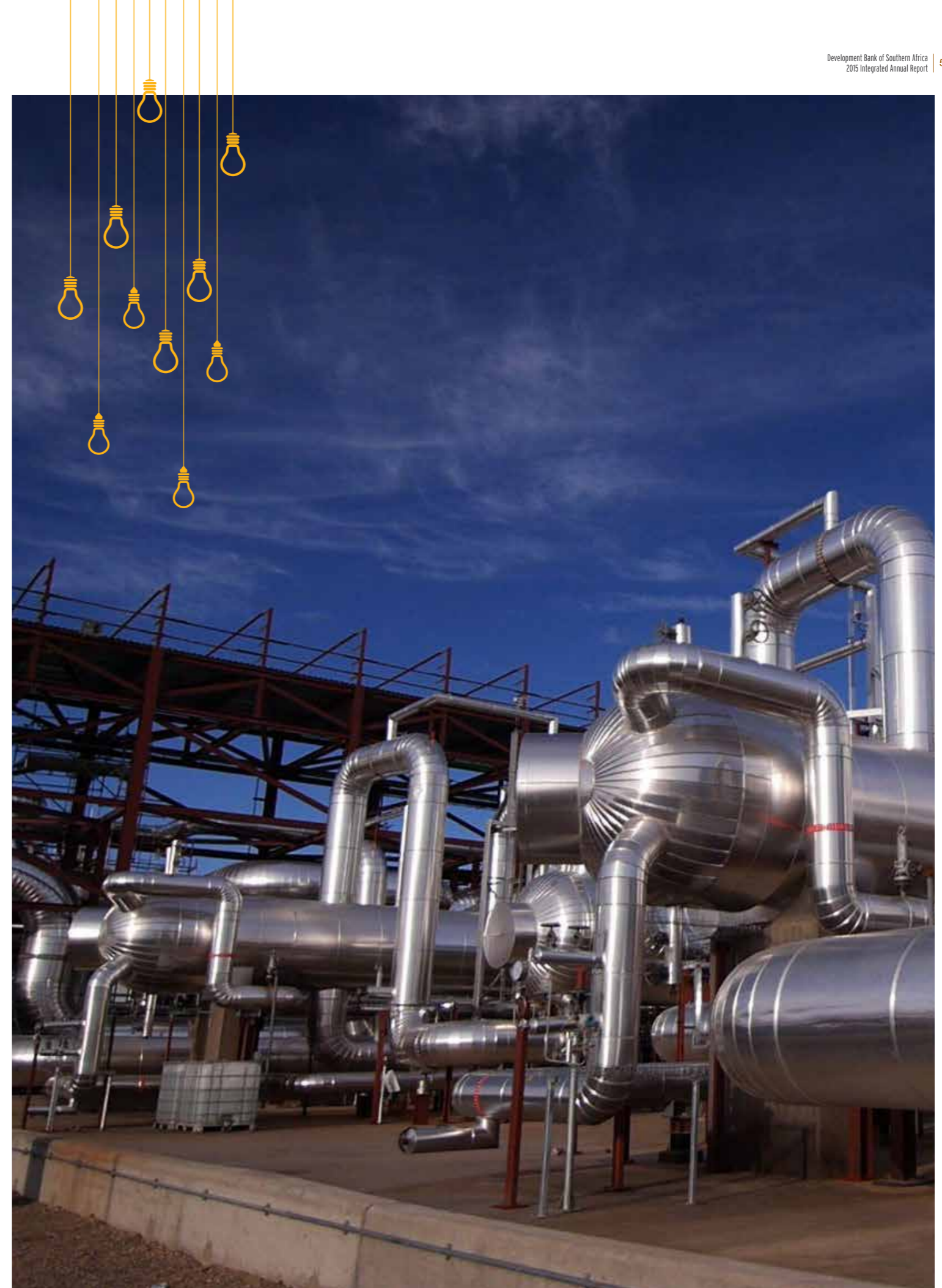
KNOWLEDGE MANAGEMENT

As a knowledge bank, the DBSA is committed to facilitate processes of internal and external knowledge development and sharing to facilitate appropriate learning to enhance its status as an Infrastructure DFI. The committee:

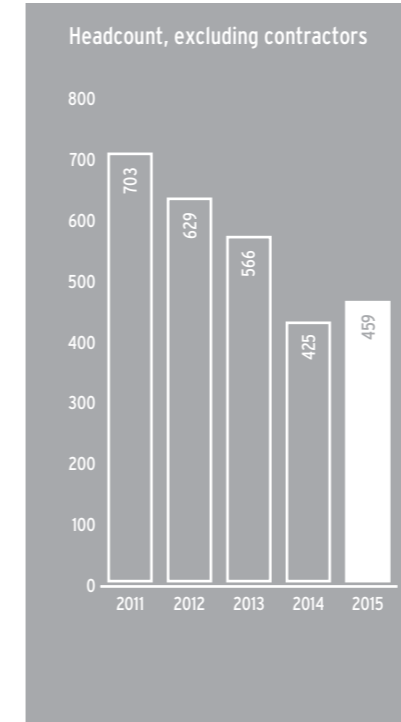
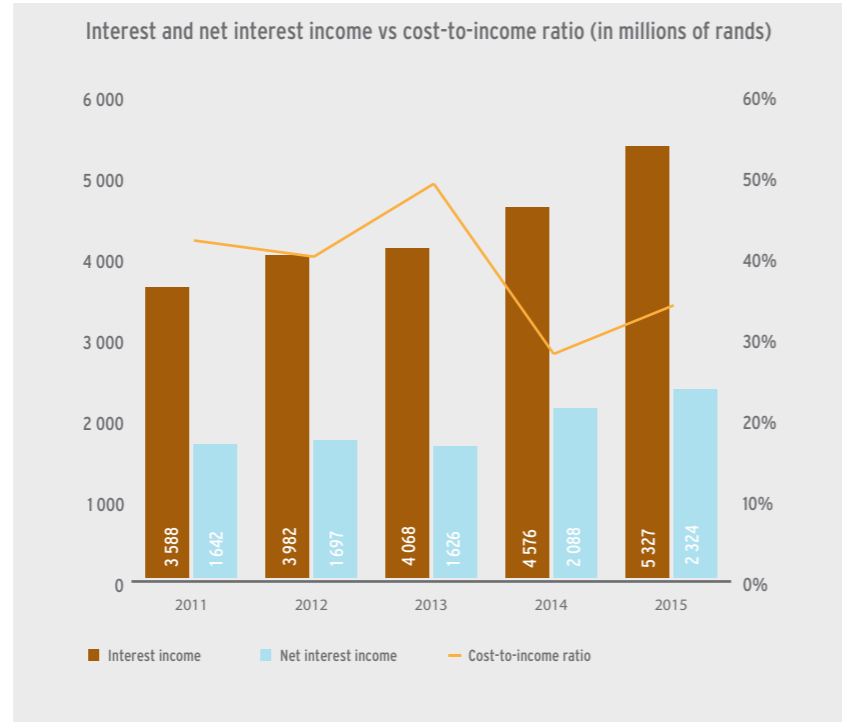
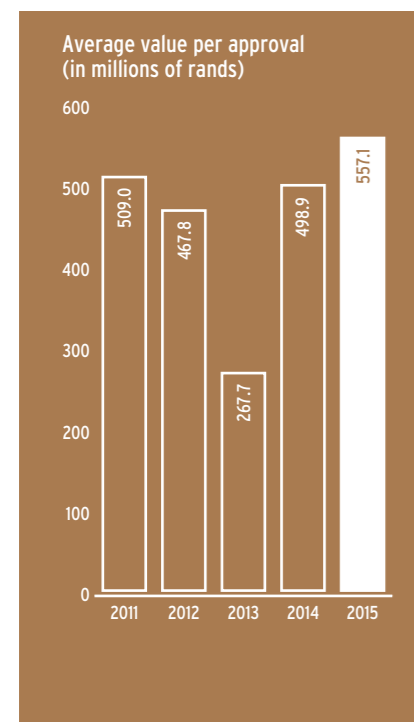
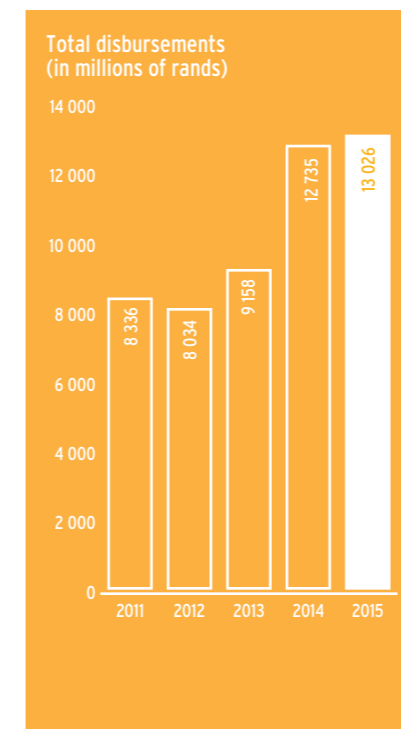
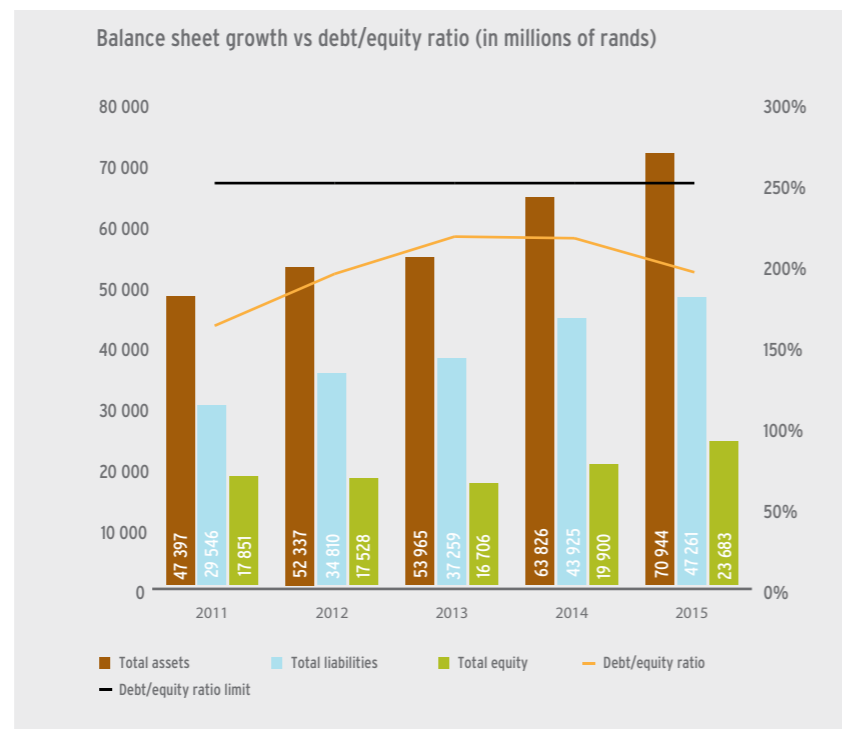
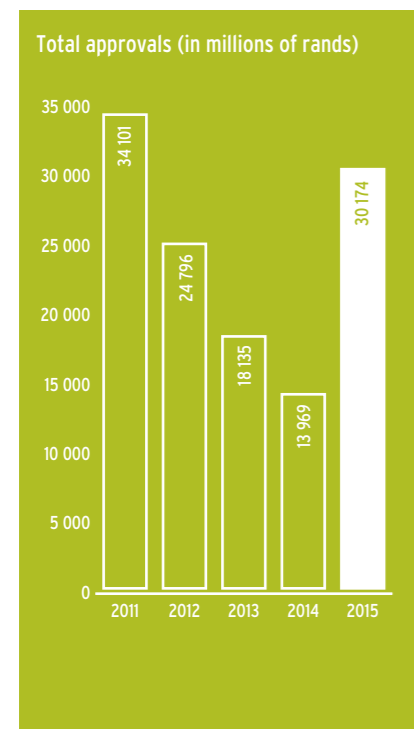
- Recommends for approval by the Board a knowledge management strategy for the DBSA that has both an internal and external focus and incorporates a transversal knowledge management system for the DBSA and a research strategy.
- Monitors the implementation and impact of DBSA's knowledge management strategy.
- Identifies knowledge management outputs or issues considered relevant by the committee for tabling for consideration or decision by the Board of Directors.



Frans Baleni
Chairman of the Infrastructure Delivery and Knowledge Management Committee



KEY PERFORMANCE INDICATORS



		2011	2012	2013	2014	2015
Financial position						
Cash and cash equivalents	R million	1 180	2 113	1 252	4 136	3 902
Financial market assets	R million	4 159	4 842	4 859	3 470	3 047
Investment in development activities ¹	R million	41 323	44 432	47 075	55 459	63 123
Other assets	R million	736	950	779	761	872
Total assets	R million	47 397	52 337	53 965	63 826	70 944
Financial market liabilities ²	R million	28 588	33 612	36 159	42 887	46 163
Other liabilities	R million	957	1 198	1 100	1 038	1 098
Total liabilities	R million	29 546	34 810	37 259	43 925	47 261
Total equity	R million	17 851	17 528	16 706	19 901	23 683
Financial performance						
Interest on development loans	R million	3 119	3 514	3 631	4 205	4 806
Interest on investments	R million	469	468	437	372	521
Total interest received	R million	3 588	3 982	4 068	4 576	5 327
Interest expense	R million	1 945	2 286	2 442	2 488	3 003
Net interest income	R million	1 642	1 697	1 626	2 088	2 324
Operating income ³	R million	1 794	1 950	1 938	2 667	2 697
Operating expense ⁴	R million	758	779	948	758	886
Sustainable earnings/(loss) ⁵	R million	588	(259)	(600)	374	808
Profit/(loss) for the year	R million	29	(371)	(826)	787	1 214
Financial ratios						
Total capital and reserves to development loans	%	47.2	43.4	39.2	39.7	41.8
Long-term debt/equity	%	161.6	193.8	217.3	216.3	195.7
Debt/equity (including callable capital) ⁶	%	127.4	152.2	168.8	174.3	162.6
Cash and cash equivalents to total assets	%	2.5	4.0	2.3	6.5	5.5
Total capital and reserves to assets	%	37.7	33.5	31.0	31.2	33.4
Financial market liabilities to investment in development activities	%	69.2	75.6	76.8	77.3	73.1
Non-performing book debt as a % of gross book debt	%	4.2	4.9	7.3	5.8	5.1
Return/(loss) on average total equity	%	0.2	(2.1)	(4.8)	4.3	5.7
Return/(loss) on average total assets	%	0.1	(0.7)	(1.6)	1.3	1.8
Interest cover	times	1.8	1.7	1.6	1.8	1.8
Net interest income margin ⁷	%	45.8	42.6	40.0	45.6	43.6
Cost-to-income ratio	%	42.2	39.9	48.9	28.4	34.4

1. Development activities include 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, but includes revaluations on equity investments. Prior year numbers were restated.
6. Measure includes R4.8 billion (2014: R4.8 billion) callable capital.
7. This ratio is calculated as net interest income (interest income less interest expense) over interest income.

CHIEF EXECUTIVE OFFICER'S REPORT



Patrick Dlamini
Chief Executive Officer

The DBSA has delivered very strong developmental and financial results in a challenging operational environment.

Innovation

can support the DBSA to solve client and market needs more effectively, gain a competitive edge through product diversification, accelerate delivery of infrastructure and expand reach.

OVERVIEW OF OPERATING ENVIRONMENT

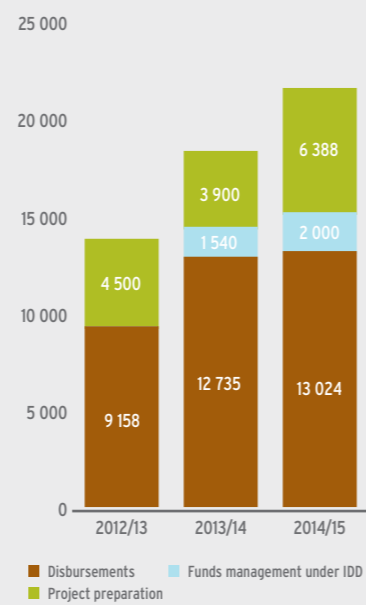
The economy in SA remains subdued, with the rest of Africa showing stronger growth of more than 5% gross domestic product. Weaker-than-expected economic growth would reduce government revenue collection, widen the budget deficit and raise debt-service costs. Despite this, the need for infrastructure development remains critical and government remains committed to invest in the infrastructure development of South Africa and the rest of Africa. Hence resources have been reallocated from underperforming programmes to critical frontline services.

Many municipalities, a core focus area for the DBSA, remained institutionally and financially constrained, whilst there was growing competition in the markets of larger municipalities, energy IPPs (primarily from commercial banks) and African infrastructure (from multi-lateral agencies).

PERFORMANCE REVIEW RECORD DISBURSEMENTS

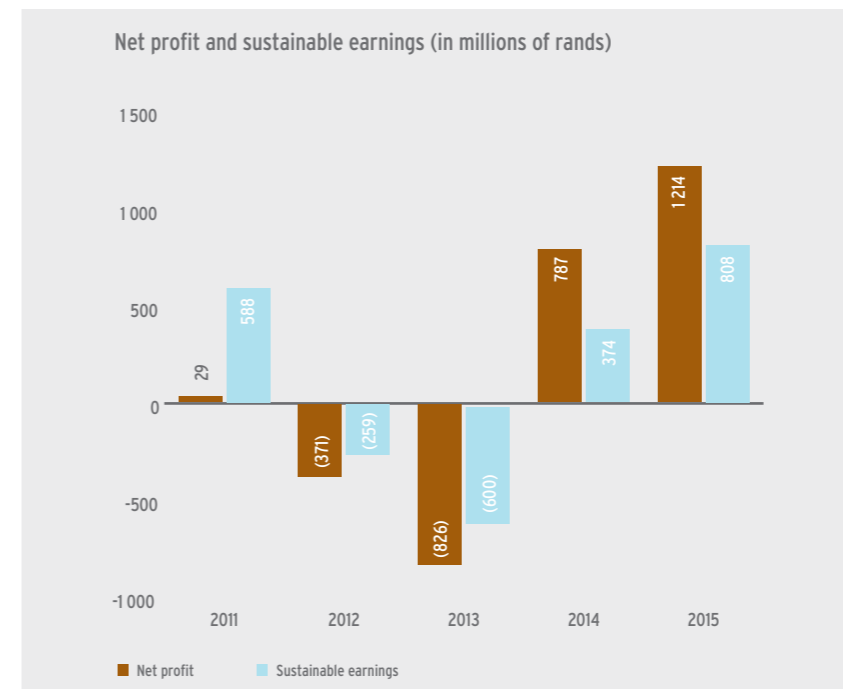
Total approvals amounted to R30.2 billion (2014: R14 billion) and commitments R17.4 billion (2014: R12.2 billion). Disbursements were at a new high of R13.0 billion (2014: R12.7 billion). Disbursements were largely driven by R6.7 billion disbursed to economic infrastructure transactions, R3.7 billion to metros, R1.3 billion to secondary municipalities and R0.5 billion to under-resourced municipalities. In addition to the disbursements, the Infrastructure Delivery division had R2.0 billion (2014: R1.5 billion) under management and Project Preparation unlocked projects to the value of R6.3 billion for funding. These contributed to a 17.0% increase in the total infrastructure development support in 2015 of R21.4 billion (2014: R18.2 billion).

Three-year infrastructure development support (in millions of rands)



Regional integration is critical in growing both the South African and broader continent's economies. Following the successes of the previous financial year, the International Financing division faced a challenging trading environment. Total approvals amounted to R8.7 billion, compared to the R4.0 billion achieved during 2014. Despite the high level of approvals, the division recognises that the development of bulk infrastructure is extremely complex and time-consuming, and can take a number of years to reach financial close. Consequently, both commitments and disbursements were lower than 2014. Total commitments amounted to R2.2 billion (2014: R4.6 billion) and disbursements totalled R619 million (2014: R3.6 billion).

Through our project preparation efforts R6.4 billion was approved for funding (2014: R3.9 billion), mainly in support of Round III of the government's Renewable Independent Power Producers Energy Programme. Going forward we see significant opportunities for the Project Preparation unit to continue to feed the DBSA infrastructure financing pipeline.



DBSA REMAINS SUSTAINABLE AND PROVIDES FOUNDATION FOR FUTURE GROWTH

The Bank produced a strong financial performance with net profit of R1.2 billion (2014: R787 million), sustainable earnings of R808 million (2014: R374 million) and cost-to-income ratio of 34% (2014: 28%). Our Infrastructure Delivery division is managed on a full cost recovery basis and achieved a net profit of R16.2 million for the year (2014: R12 million), representing a cost recovery ratio of 112%.

BALANCE SHEET STRENGTHENED TO ACHIEVE FINANCIAL GROWTH

Overall our financial position remains sound, with the Bank's credit rating maintained in line with the sovereign rating and we continue to see the financial benefits of our restructuring concluded during 2013. Total assets grew by 11% to R71 billion (2014: R63.8 billion). The total development assets increased by 14% to R63.1 billion (2014: R55.5 billion), with the non-performing loan book after specific impairments at only 1.9% (2014: 2.2%).

The debt/equity ratio of 195.7% remained well below the 250% statutory threshold.

For more details on the Bank's financial performance see the CFO's Report on pages 102 to 109.

DEVELOPMENT IMPACT CONTINUES TO GROW

The DBSA has a strong record of supporting the Southern African Development Community (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 a project level.

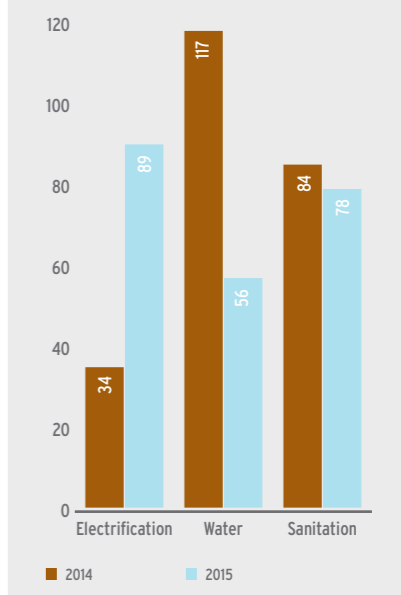
Key development outcomes achieved during the year include:

- Our planning and implementation support to under-resourced municipalities yielded the following: 27 projects were in planning, and 60 projects completed - 17 in transport, six in water and sanitation as well as 37 in the energy sector. A total of 1 773 job opportunities were created from the projects in

implementation. Three infrastructure plans were completed in line with milestones agreed with respective municipalities.

- An estimated 289 000 households (2014: 264 000) will benefit from commitments in favour of various municipalities across the country. In all, R100 million was disbursed in terms of the INEP Programme, bringing electricity to 9 794 households.
- Non-municipal funding for 2015 in both South Africa and SADC contributed substantially to energy generation, including 975 MW renewable energy, coal project preparation financing for 9 000 MW and 340 MW in gas. The Bank also contributed to funding 120 000 houses, 1 880 km of roads, 5 204 beds for student accommodation and support to procure 171 buses for the Bus Rapid Transit System.
- Through our Infrastructure Delivery division we completed the construction of 15 schools, 1 128 affordable houses, 26 health clinics and 60 doctors' consulting rooms. In addition 48 schools and 2 420 affordable houses were in various stages of construction at year-end.

Estimated number of households benefited¹



Note 1: Estimated development impact based on funds committed. Actual impact would be dependent on time of actual disbursements.

CHIEF EXECUTIVE OFFICER'S REPORT (CONTINUED)

OVERALL, CLIENT SATISFACTION LEVELS HAVE INCREASED SINCE THE ORGANISATIONAL REVIEW

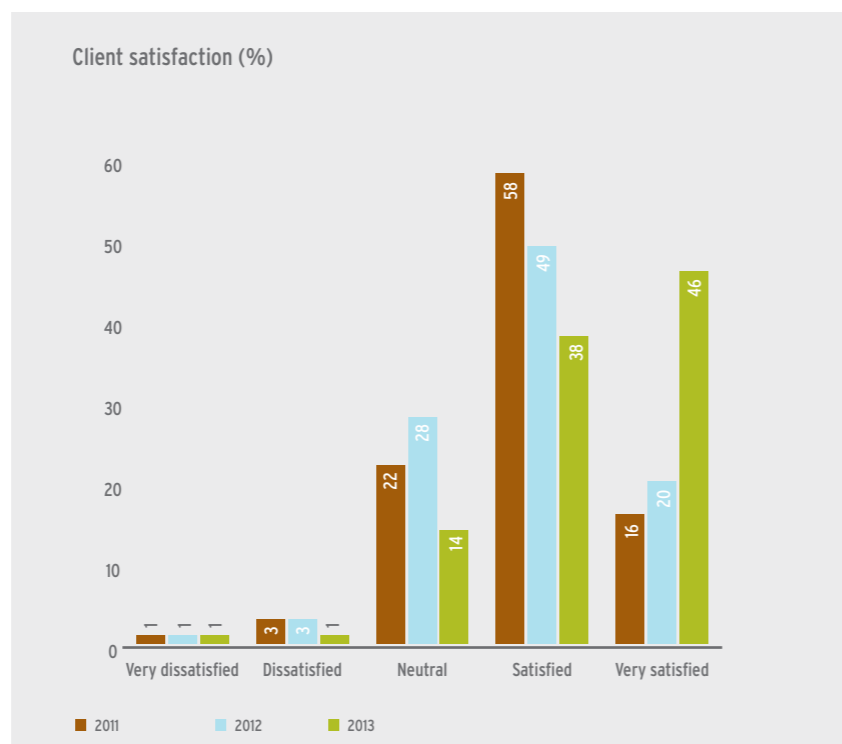
The client and partner survey was finalised in August 2014. Overall, 85% of respondents indicated that they are satisfied with the DBSA, vs. 69% in 2011. On average, DBSA was scored 4.2 in terms of overall satisfaction in 2014, compared to 3.8 in 2012 (on a scale of 1 to 5). There was a significant increase in respondents very satisfied with the DBSA, from 16% in 2011 to 46% in 2014.

DEVELOPING AND LEVERAGING OUR STRATEGIC PARTNERSHIPS

Developing and leveraging our strategic partnerships and relationships remains an important focus area for us to profitably expand and deepen our penetration of our selected market segments and geographic markets. Strategic partnerships enable business to gain competitive advantage through access to knowledge and project funding.

Our membership to various global and continental groupings has begun to bear fruit as we see strategic partnerships develop into co-financing opportunities. There are three notable engagements to which we wish to draw attention. The International Development Finance Club (IDFC) is a grouping of 23 emerging and established partners who have a common objective to improve the socio-economic conditions in their countries through sharing information and deepening collaboration in co-financing opportunities. In 2015, the DBSA was given the responsibility of leading the Working Group tasked with developing a concept paper on Triangular Cooperation as a model for collaboration within the IDFC.

The DBSA is also a member of the BRICS Interbank Cooperation Mechanism (ICM), which provides us with the opportunity to develop areas of cooperation with the other BRICS DFIs. In 2015, under the Chairmanship of Russia, the ICM members finalised a Memorandum of Understanding (MoU)



to indicate their intention to collaborate with the New Development Bank in areas of mutual interest. On 9 July, the Heads of State signed the MoU in Ufa, Russia. The BRICS bloc is one of the more powerful interest blocs aimed at driving sustainable development in the developing world. The DBSA's active membership in this grouping will augur well for future co-financing opportunities in Africa broadly and in South Africa specifically.

The Bank also continues to participate in various World Economic Forum (WEF) engagements most notably the African Strategic Infrastructure Initiative, an initiative to accelerate the implementation of the Programme for Infrastructure Development in Africa's Priority Action Plan. More detail of our involvement is provided under the International Division's operational report.

International partners will continue to play a role in deepening our objectives to reduce poverty, increase regional integration and ensure sustainable development through our investments and engagements with clients.

OUTLOOK

Our outlook remains favourable.

We have, after the extensive organisational review, crystallised our strategy (see pages 10 to 19) and we have commenced the hard work to achieve our ultimate goal of eradicating poverty through sustainable efforts in providing much needed infrastructure to this continent.

In order to contribute to the reduction in Africa's infrastructure financing gap, we have committed to expand our annual disbursements to R17.8 billion in the new financial year and then further to R22.0 billion and R26.4 billion respectively for 2017 and 2018. 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 continuing to develop 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 and 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.

Patrick Dlamini
Chief Executive Officer

EXECUTIVE MANAGEMENT AS AT 31 MARCH 2015¹



Patrick Dlamini (45)

Chief Executive Officer

Appointed
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

- *Director:* BOPHYLD, Bridges Worldwide SA and Xcargo
- *Non-executive Director:* Lanseria Holdings and Lanseria International Airport

For portfolio performance and outlook see Chief Executive Officer's Report on pages 62 to 65.



Paul Currie (53)
Chief Risk Officer

Appointed: 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).
- Post-graduate diploma in Accountancy, University of Port Elizabeth.
- BCom (Accounting), University of Port Elizabeth.
- BSc (Physiology), University of Cape Town.

Other directorships

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

For portfolio performance and outlook see Managing Our Risks and Opportunities on pages 22 to 27.



Ernest Dietrich (51)
Acting Group Executive: South Africa Financing

Appointed: 1 February 2015

DBSA staff member from 2 January 2001

Academic qualifications

- CFA Charter (2002).
- MBA, University of Cape Town (1996).
- MSc (Mathematics), University of Western Cape (1992).
- HDE, University of Western Cape (1985).

Other directorships

- None

For portfolio performance and outlook see South Africa Financing on pages 72 to 82.



Michael Hillary (44)
Group Executive: Financing Operations

Appointed: 1 October 2012

Academic qualifications

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

Other directorships

- None

For portfolio performance and outlook see Financing Operations on pages 68 to 71.



Dolores Mashishi (46)
Group Executive: Corporate Services

Appointed: 1 September 2011

Academic qualifications

- General Management Programme, Harvard Business School, USA.
- 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.

Other directorships

- None

For portfolio performance and outlook see Corporate Services on pages 95 to 98.



Kameshni Naidoo (40)
Chief Financial Officer

Appointed: 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

- Avatar Group (Pty) Ltd: Director.

For portfolio performance and outlook see Chief Financial Officer's Report on pages 102 to 109.



Rieaz (Moe) Shaik (55)
Group Executive: International Financing

Appointed: 13 August 2012

Academic qualifications

- AMP, Harvard Business School, USA.
- Masters degree in Optometry (cum laude) University of KwaZulu-Natal.
- B Optometry, University of KwaZulu-Natal.
- BSc (Computer Science), University of KwaZulu-Natal.

Other directorships

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

For portfolio performance and outlook see International Financing on pages 83 to 88.



Sinazo Sibisi (47)
Group Executive: Infrastructure Delivery

Appointed: 1 April 2012.

DBSA staff member from 1 November 2007

Academic qualifications

- Executive MBA, University of Cape Town Graduate School of Business.
- Partner Development Programme, GIBS.
- Executive Development Programme, IMD, Switzerland.
- Post-graduate diploma in HRM, University of Cape Town.
- BA Honours in History with Economic and Social History, Birmingham University, UK.

Other directorships

- None

For portfolio performance and outlook see Infrastructure Delivery on pages 89 to 94.



Mohan Vivekanandan (41)
Group Executive: Strategy

Appointed: 24 March 2014

Academic qualifications

- MBA, Kellogg School of Management, USA.
- Bachelor of Arts (Honours) in Economics and Mathematical Methods in the Social Sciences (MMSS), Northwestern University, USA.

Other directorships

- None

Refer to pages 10 to 19 for an overview of our strategy.

1. Ages as at 31 March 2015.

FINANCING OPERATIONS

The Financing Operations division was established after the organisational review of the Bank in 2013 and provides project preparation and fund management services to selected external clients. The division also provides middle- and back-office support to our lending divisions. This report provides an update on the progress made in the delivery of project preparation as well as the fund management services.

PROJECT PREPARATION

The demand for infrastructure development in Africa is extensive and one of the key bottlenecks is the development and preparation of bankable projects. In addition, the planning and delivery of large infrastructure projects is complex and fraught with risk. Hence, many projects fail or are implemented with budget and timeline overruns. Over time, many DFIs have tried to fill the space where government capacity is low and risk is high. Although this landscape is evolving and expanding, current DFIs in Africa have not proven a large scale successful model. This need and these challenges translate into an opportunity for the DBSA to create a high-skill, scaled-up, end-to-end project development and preparation business that de-risks projects and delivers project concepts to bankability.

Through the DBSA's project preparation function, the Bank is seeking to:

- Build a portfolio of pipeline projects to be presented for funding consideration.
- Mobilise project preparation funds from own balance sheet and funding partners.
- Build capacity and systems to mobilise and appraise projects in pipeline.

The key project preparation principles are as follows:

- The potential project must align with the Bank's development mandate and be within the identified priority sectors of the Bank.
- The sponsors must be able to demonstrate a high probability of being able to bring the project to bankability within a reasonable time frame.

- The principle of co-financing must apply with the sponsors showing commitment to the project by contributing a significant portion of the development costs from their own sources.
- Each facility must be priced to reflect its risk. Pricing must reflect equity type returns for projects funded from DBSA's funding.
- The facility must be refinanced from the capital funding of the project once financial close is reached.
- The Bank shall seek to obtain a right to finance a portion of the total debt package of the project. The minimum portion of the debt to be financed by the Bank shall be agreed upfront with the sponsors and included in the facility agreement.
- The facilities shall not be used for any expenses incurred for the sponsor's own staff.

PERFORMANCE FOR 2015

By year-end, 20 projects to the value of R260 billion (2014: R313 billion) were in various stages of preparation, mainly in the energy and transport sectors. Of these, 11 were in South Africa and nine on the rest of the continent. A total of R6.4 billion (2014: R3.9 billion) was approved for funding by the DBSA. A key driver of the performance is the Bank's support of the Department of Energy's implementation of the Renewable Energy Independent Power Producers Procurement (REIPPP) programme. During the year the Bank invested R6.1 million (2014: R 20.9 million) from its own sources in the preparation of projects, whilst leveraging R396 million (2014: R197 million) from third party funders.

Key highlights for the year:

- Assisted the IPP Office in the analysis of the information received under request for information registration (RFIR) for Co-Gen. The team is finalising the appointment of a transaction advisor panel, which will be assisting with all the planned IPP procurement programmes for REIPPP to base load.
- The DBSA was appointed as implementing agent for Small-scale IPP.

- The DBSA and the Gautrain Management Agency have signed a Memorandum of Understanding aimed at assisting the agency with finalisation of the feasibility study on the expansion of the Gautrain system (Phase 2).

INFRASTRUCTURE AND INVESTMENT PROGRAMME FOR SOUTH AFRICA (IIPSA)

As part of the Bank's project preparation activities, the DBSA continued to support the management of IIPSA on behalf of the National Treasury and the European Commission (EU). The IIPSA facility sponsored by the EU was concluded during the 2014 financial year, unlocking €100 million for project preparation for three years, and to be implemented over the next seven years. The IIPSA financing agreement includes the following terms:

- IIPSA will operate by providing innovative financing involving the co-funding of EU grants together with loans from participating South African and European development finance institutions.
- It is estimated that a leverage effect of at least five to 10 times the amount of financial non-refundable contributions could be achieved.
- In order to be eligible, projects should preferably be supported by more than one of the participating finance institutions in the consortium.

During the first round of request-for-proposals, the Bank received 250 applications, with an estimated value of R90 billion. Of the 250 applications, 80 early review reports were completed and 27 projects were accepted into the IIPSA pipeline. Eight projects have been shortlisted for due diligence and appraisals have been completed on six of the projects of which five have been recommended for funding. Due diligence is continuing for the remaining 19 projects.

SADC PROJECT PREPARATION AND DEVELOPMENT FUND

The Bank's partnership with the SADC Project Preparation and Development Fund (PPDF) to support project development across SADC continued

well during the year. The SADC Secretariat has concluded two financing agreements with the German development finance institution, KfW (for €4.8 million) and the European Union Regional Office in Gaborone (for €11.7 million) to support project preparation for the projects as identified in the SADC Regional Infrastructure Development Master Plan (RIDMP) and especially those projects that have been shortlisted in the SADC short-term priority list.

Fifteen applications were referred from IIPSA, of which Ministers of Infrastructure in the SADC recommended that four be considered for funding from the PPDF, of these, one project has been approved and the feasibility studies are underway.

A request for proposals was launched and 54 project applications were received on 30 October 2014. SADC Secretariat has disqualified 20 project applications as a result of these not meeting the SADC RIDMP requirements, which left a balance of 34 project applications. The PPF unit has evaluated the 34 project applications and the outcome was as follows:

- After further scrutiny another 10 applications failed to meet the requirements of SADC RIDMP.
- Fifteen project applications were parked and will be recommended for appraisal at a later stage.
- Eight project applications were accepted for the appraisal stage.
- One project application has been approved for funding of the eight projects, with the remaining projects still undergoing appraisal.

There are currently 12 projects in the pipeline, including the four from IIPSA.

OUTLOOK

Going forward, the Bank will seek to play a significant part in early stage project development and target to prepare projects to the value of R19 billion over the next three years. Where appropriate, the Bank will also seek to crowd-in private sector funders through syndication arrangements in financing the underlying programmes. This will also enable the Bank to expand its non-interest income revenue through syndication fees generated.



FINANCING OPERATIONS (CONTINUED)

FUND MANAGEMENT SERVICES

GREEN FUND

The Green Fund is an R800 million 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) on a full cost recovery basis.

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.

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.

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:

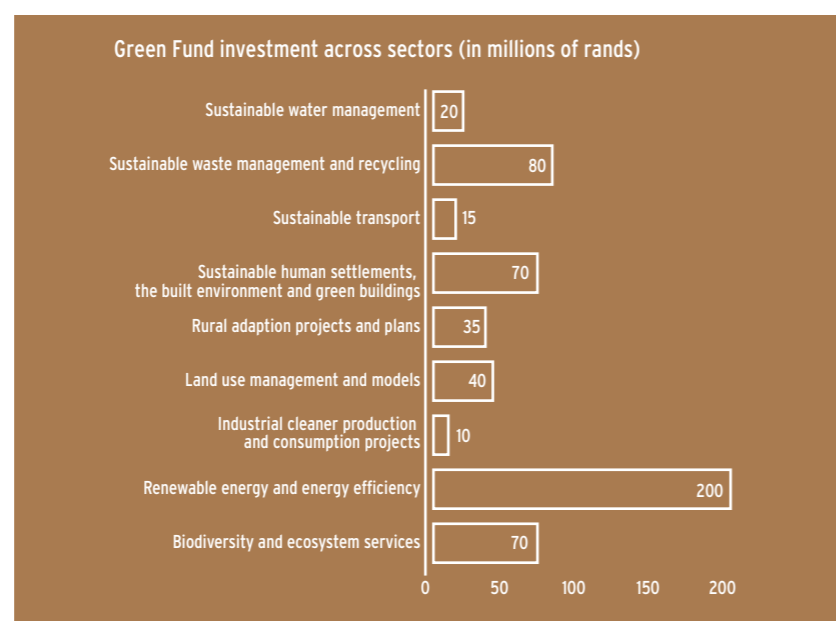
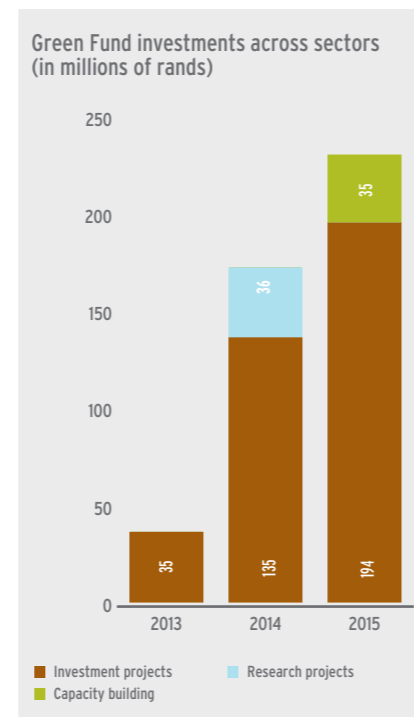
- Green cities and towns. Strive for well-run, compact and efficient cities and towns that deliver essential services to their residents, utilising available natural resources efficiently and sustainably.
- Low carbon economy. Strive towards a low carbon growth trajectory in line with national climate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

The Green Fund was established during April 2013. Since then, the Fund's funding activities have significantly progressed. During the 2015 year, the Fund approved 15 (2014: 27) projects to the value of R455.1 million (2014: R339.8 million), bringing total approvals to date to R1.1 billion. Commitments for the year amounted to R103.1 million (2014: R319.2 million), while disbursements increased significantly to R229.5 million from the R188.3 million recorded in the previous financial year. Over the life of the programme, R454.0 million has been disbursed in areas such as waste management, biodiversity and renewable energy.

On the back of the successes achieved to date, the Fund is starting to attract additional resources through engagements with strategic partners

from European and local DFIs as well as various local financial institutions. Going forward, the Fund will continue to build partnerships to accelerate and increase the development outcomes sought.

The Green Fund is also playing a key coordinating role in the DBSA's accreditation to the Global Environment Fund (GEF) and the Green Climate Fund (GCF), which are global funding mechanisms to support sustainable economic growth and development, a key DBSA mandate.



South Africa. Siyasebenza

JOBS FUND

The objective of the R9 billion Jobs Fund, which was launched in 2012, 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.

The DBSA was tasked with the establishment and operationalisation of a Jobs Fund Programme Management Unit (JF-PMU) to undertake the implementation of the Jobs Fund programme. The Fund supports initiatives that pilot new and scale up existing innovative approaches to employment creation, with a special focus on opportunities for young people and women. The emphasis is on partnerships with established private and public institutions to create self-sustaining employment opportunities that lead to long-term systemic change in the industry and economy as a whole, through the provision of an external stimulus in the

form of finite, once-off and matched public grant funding. Following the successful incubation of the Fund, the Fund was transferred back to the National Treasury with effect from 30 September 2014.

At the time of hand-over to the National Treasury, the portfolio of approved and committed projects, representing 85 projects, increased from R3.4 billion on 31 March 2014 to R5.0 billion on 30 September 2014 across the four funding windows. Jobs Fund grants were matched by R6.1 billion's worth of contributions from project partners. It is estimated that in excess of 143 000 new permanent jobs will be created and the placement of 56 000 beneficiaries in existing jobs will be facilitated over the implementation period.

Disbursements for the financial year totalled R513.8 million, bringing the total value of disbursements from inception to R1.5 billion. To date, 401 217 permanent jobs and 9 468 temporary jobs have been created, whilst 6 551 beneficiaries have completed time bound internships and 66 483 beneficiaries have been trained.

SOUTH AFRICA FINANCING

Approvals and commitments:

R22.1 billion approved
(2014: R10 billion)

R15.2 billion committed
(2014: R7.6 billion)

Disbursements:

R12.4 billion
(2014: R9.2 billion), with a focus on under-resourced municipalities and renewable energy projects

Employee numbers:

77
(2014: 73)

Net profit:

R1.2 billion
(2014: R739.8 million)

Total assets:

R47.6 billion
(2014: R39.7 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 the country's citizens as well as ensuring that economic growth is inclusive.

The division's support to enhance 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 South Africa has the capacity required to foster sustainable economic growth and development.

While the bulk of our funding is to public sector customers, 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 demonstrated very strong growth for the year. We approved lending facilities totalling R22.1 billion (compared to R10.0 billion in the previous year), signed commitments worth R15.2 billion (R7.6 billion in 2014) and made disbursements of R12.4 billion (from R9.2 billion in 2014).

Of the approvals, R3.8 billion was allocated to energy projects, R4.0 billion to transport projects, R7.3 billion to metros, R3.8 billion to secondary and under-resourced municipalities and R2.1 billion to social infrastructure.

Disbursements in the year were the highest on record, supporting growth in the gross loan book from R38.2 billion in 2014 to R45.5 billion for 2015, an increase of 19%.

SUPPORTING SOCIAL DEVELOPMENT AND SERVICE DELIVERY ASSISTING THE WEAKEST MUNICIPALITIES AS WELL AS THE METROS

Municipalities play an important role in the provision of basic services to South Africans and business as a whole. The need to improve and increase infrastructure in municipalities is therefore of critical importance as the demand on existing and new infrastructure is expected to rise with more people migrating to larger cities and towns in search of employment opportunities and the expansion of businesses that utilise the current existing infrastructure in their daily operations.

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.

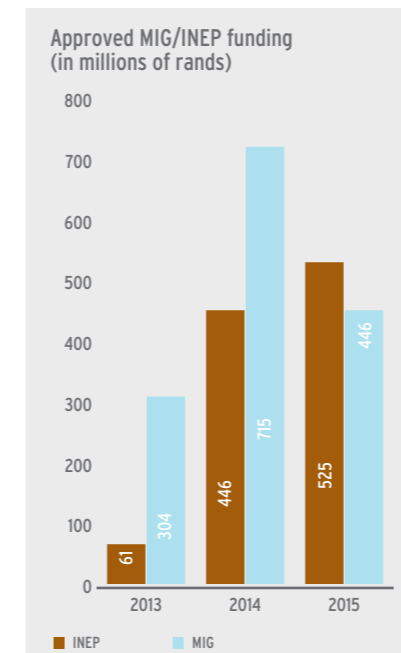
Our financing of the eight metros increased significantly from 2014, but competition from commercial banks in the metropolitan market remained strong. In the year, apart from approvals of R8.5 billion, we committed R4.7 billion and disbursed R3.7 billion (2014: R835 million) to this market.

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 R1.8 billion (2014: R815.0 million), the level of disbursements to both secondary (R1.3 billion) and under-resourced (R489 million) municipalities was the highest in our history and represented an increase of 117% from the previous financial year. About a third of the disbursements were part of our bridging finance programmes (see details below). The rest were long-term loans (R1.3 billion). The growth in the disbursements to these municipalities enabled the division to maintain its financial exposure of R6.7 billion to secondary and under-resourced municipalities, supporting 149 municipalities. Approvals of R3.6 billion and commitments of R2.1 billion concluded during the year will provide a sound foundation for disbursements in the new financial year.

Under-resourced municipalities have very weak economic bases and institutional capacity, combined with an almost complete reliance on national government transfers for both capital and operating expenditure. These municipalities require intensive support in all aspects of infrastructure delivery and management. This includes support to strengthen their ability to plan, prepare and implement projects and to utilise support through fiscal transfers. Their ability to strengthen their economic base and own revenue streams is also limited and requires external interventions to improve the situation. The extent of these challenges requires the development of integrated solutions involving a number

of stakeholders to provide support to the full business cycle of project development, implementation and operations in order to achieve greater impact.

Thus, the South Africa Financing division's support in these areas focuses on facilitation of funding flows and unblocking the pipeline for project implementation, with funding focused on acceleration of investment through bridging arrangements and finding alternative funding mechanisms to support and partially bridge the unfunded gap in respect of the huge infrastructure requirements in these areas. This approach requires a significant increase in technical assistance and support as well as innovative funding solutions in a market with a low absorption capacity. The Bank works with various national and provincial departments (including National Treasury and the Departments of Energy and Cooperative Governance and Traditional Affairs) to accelerate service delivery by providing bridging finance to municipalities for projects that will be funded through Municipal Infrastructure Grants (MIG) and the Integrated National Electrification Programme (INEP) grants, ahead of infrastructure grants payment by National Treasury. In 2015, R2.1 billion was approved for MIG and INEP front-loading projects. The graph below illustrates the growth in investment of funds to accelerate infrastructure delivery.



In the year we disbursed R415.4 million (2014: R413.5 million) for MIG front-loaded projects. It is anticipated that approximately 66 700 households will benefit from access to water and sanitation when these MIG projects are completed.

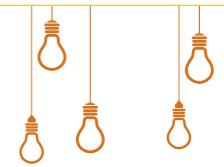
In terms of INEP, projects worth R445.9 million to electrify houses in poor communities were approved and disbursements totalling R108.6 million (2014: R50.0 million) were made. The funding will assist these municipalities to connect 9 797 households.

During the year the division focused on increasing efficient infrastructure delivery through technical capacity support to under-resourced municipalities to strengthen their ability to plan and prepare projects for implementation with increased capital spending. In this regard, the emphasis was not only on DBSA-funded municipalities, but included other under-resourced municipalities with substantial service delivery backlogs and potential for the unblocking of new project pipelines for accelerated infrastructure investment. The footprint in providing planning support was extended to eleven under-resourced municipalities, reaching eight provinces.

The Bank also secured mandate agreements from five municipalities (Uthukela district municipality as well as Emnambithi, Elundini, Emfuleni and Theewaterskloof local municipalities), that will see the DBSA providing infrastructure planning support to them based on infrastructure assessment outcomes. Planning support in terms of these mandate agreements will be prioritised in the 2016 financial year to ensure project readiness for accelerated funding and implementation. The Emfuleni Municipality was supported through the successful approval and packaging of nine water and sanitation projects amounting to R224 million as part of the Bank's for MIG pledging programme.

In addition, two municipalities received macro planning support through the development of infrastructure master plans. The Letsemeng Water Services Development Plan (WSDP) was completed by year-end, while the Energy and Roads and Storm Water

Make change happen



Master Plans for Victor Khanye Municipality are scheduled for completion by 30 June 2015. These master plans will identify developmental precedence to feed the project pipeline for funding going forward. Three DBSA funded municipalities (Matatiele, Mbizana and Makhado) were given technical support to ensure readiness of INEP projects for fast-tracked project implementation and loan disbursement.

The Planning and Implementation units provided support to the 'Back-to-Basics' initiative in North West Province. DBSA has joined forces with other stakeholders in the North-West Task Team to support distressed municipalities in the province. All 'Back-to-Basics' Action Plans for the individual municipalities have been finalised, followed by the introduction of an 'operational model' for the implementation of the proposed support and interventions. The Planning Support unit identified all possible DBSA support and intervention efforts to the individual municipalities. At this stage, five municipalities have been identified for potential lending and non-lending support namely, Ngaka Modiri Molema District Municipality, Kgetleng Rivier, Moretele, Madibeng and Maquassi Hills. The 'Back-to-Back' initiatives open up opportunities for the identification of new project pipelines for the delivery of the Bank's integrated value proposition. Going forward, more strategic partnerships will be sought to advance the delivery of municipal infrastructure and impact in under-resourced municipalities.

Eleven DBSA-funded projects received implementation support, mainly in the water, sanitation, roads, storm water, electricity and fleet sectors. Four of the supported municipalities are classified as SONA municipalities, which were identified for support in the President's

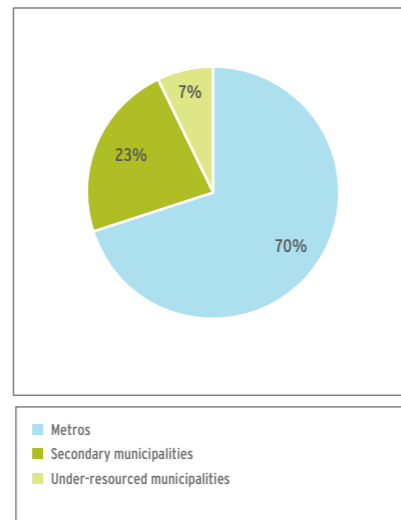
SOUTH AFRICA FINANCING (CONTINUED)

State of the Nation Address (SONA) in June 2014. Of the remaining SONA municipalities, the DBSA has completed the appraisals for lending support to four municipalities, namely Ngaka Modiri Molema District Municipality for MIG front-loading and Msinga, Mvoti and Ntabankulu municipalities for INEP front-loading.

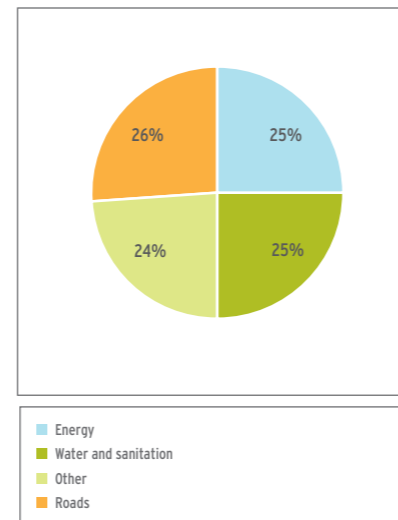
To date, the Implementation unit has facilitated a total disbursement of R648.6 million to these client municipalities. Furthermore, 60 projects have been completed by 31 March 2015. As a result of the implementation of the DBSA-funded projects, 3 627 households are benefiting from new or improved access to water and sanitation services and 4 855 households have received new access to electricity services. In addition, 1 773 temporary job opportunities have been created.

The Cities Project Preparation Facility (Cities PPF) is an initiative by the National Treasury, managed through DBSA, set up to capacitate 18 targeted municipalities and create a pipeline of catalytic spatially integrated infrastructure projects to enable the government's Urban Network Strategy. The Cities PPF identified 13 beneficiary municipalities. A total of 12 professional service providers were appointed to assist with project preparation, including concept studies, pre-feasibility studies and feasibility studies. Altogether, 195 projects were approved for concept studies and 48% of the allocated R30 million was utilised during 2015.

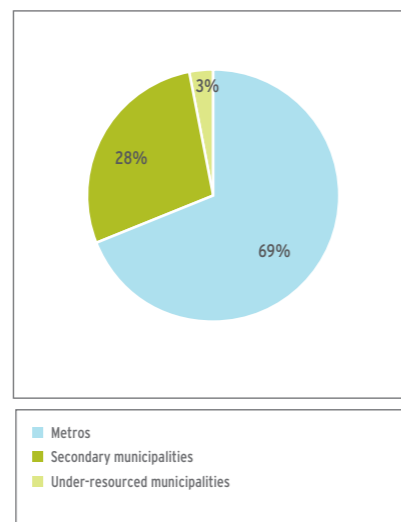
Municipal approvals per category, 2015



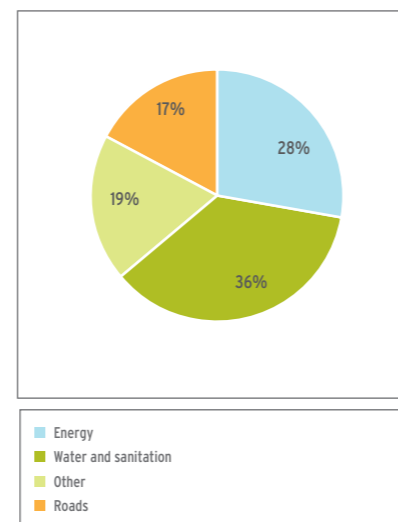
Municipal approvals per sector, 2015



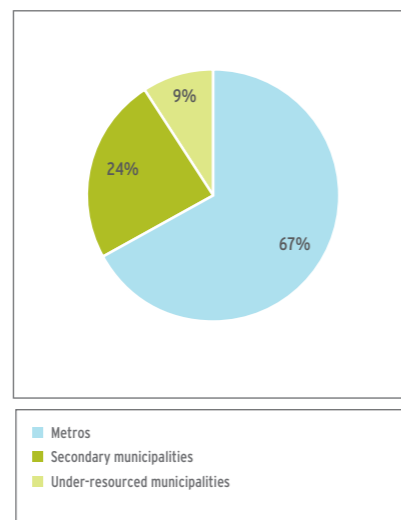
Municipal commitments per category, 2015



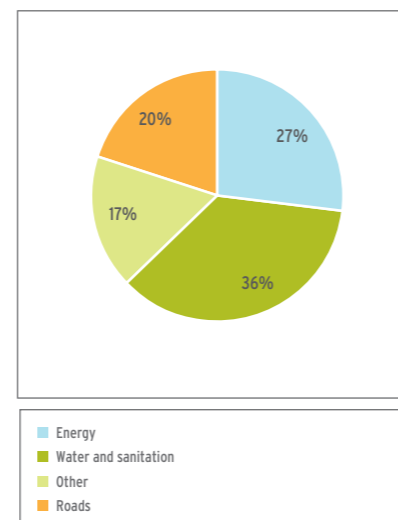
Municipal commitments per sector, 2015



Municipal disbursements per category, 2015



Municipal disbursements per sector, 2015



DEVELOPMENT CASE STUDY
ELECTRIFICATION OF VILLAGES IN THULAMELA



Conditional capital grants for electrification give a municipality an assured budget for a certain number of connections per year over the term of the three-year Medium Term Expenditure Framework (MTEF) budget cycle. If the outer years' budgets were available in year one, economies of scale could be obtained that could increase the total number of connections funded by the grant. This is precisely what the Thulamela Local Municipality (TLM) has been able to do with the help of the DBSA, Eskom, the Department of Energy and the National Treasury.

What does a dedicated municipal manager, provided with a conditional capital grant, do in order to speed up the rate of electrifying households in his municipality? Turn to the DBSA for help to finance scaling up village electrification. TLM is home to over 600 000 people and lies in the north eastern corner of Limpopo province. The Soutpansberg Mountains look down from its northern boundary and to the east the land flattens and becomes drier, where it is bounded by the Kruger National Park. The picturesque university town of Thohoyandou is the administrative centre of the municipality, but the majority of residents live in small villages scattered throughout this rural area.

Extending access to electricity to people has been a core government objective since 1994, in which change from the past, where the majority of people were without electricity pre-1994, to the majority of people being provided with electricity, has been one of the key achievements of the democratic era. Funding access to electricity through national government grants shifted to the Integrated National Electrification Programme (INEP) grant in 2002, to reverse the slowing pace of new connections being made under the previous national electrification programme. The key change was the emphasis on maximising holistic development by linking electrical infrastructure to the

municipal Integrated Development Plan. INEP provides conditional grant funding to local municipalities for the electrification of domestic households, schools, clinics, businesses and to Eskom for bulk, connector and individual household infrastructure.

Thulamela typified the challenge of electrifying households in rural municipalities. Some 44% of households were not yet electrified. When Thulamela first started to pay for connections using the INEP grant in 2009, it set itself a target of 49 751 new connections over a period of nine years to eradicate the backlog. Around the country backlogs of similar magnitude were experienced. Despite the steady increase in the size of the INEP grant, actual progress with electrification was mixed, with many cases of deviation from grant conditions, poor reporting and funds not being spent to schedule.

OBJECTIVE BEING ADDRESSED
In searching for solutions, the Department of Energy and the Bank agreed that one aspect that could be done differently was the way in which the programme was financed. Municipalities have clarity on the funding available for electrification in the three-year rolling budgets set out in the MTEF and certainty on the funds they will actually receive in each budget when the Division of Revenue Act is passed by parliament. The DBSA's contribution has been to speed up the pace of electrification by developing a lending product for municipalities to enable them to accelerate the rollout of new connections that is paid back from grants the municipality will receive in the outer MTEF years. Treasury regulations permit the pledging of grant funding, provided that the arrangements provide demonstrable benefits to the municipality. In preparation to support the INEP programme, the DBSA approved a R2 billion revolving credit facility and bridge loan product.

Benefits of front-loading capital expenditure to a municipality arise

in economies of scale that contractors can obtain through savings on their preliminary and general costs, spread over a larger number of identical projects. Cost escalations for projects running over years can be avoided by compressing the time to completion from 36 months to 12 months. Benefits to households arise from earlier access to the health, leisure and study improvements that electricity for cooking, lighting and communications allows over time spent collecting firewood or reading by candlelight.

APPROACH
TLM is a well-run municipality that has a seasoned municipal management leadership in place for many years. In contrast to many other municipalities that cover rural areas, Thulamela had the internal capacity to plan projects and manage contractors as well as a sound financial management history. The Thulamela municipality approached the DBSA for financing assistance and so became the first recipient of an INEP bridge loan. The DBSA approved a bridge loan to the municipality for R90 million in the 2011 financial year against the pledge of the 2011 to 2013 annual INEP grants as security for the loan.

OUTCOMES AND MEASURABLE IMPACTS
Thulamela's appointed contractors working to Eskom standards were able to connect 8 545 households in the municipality over a period of 12 months. The first bridging loan was not entirely trouble free. National Treasury approval was only granted in the 2013 financial year, six months after submitting the front-loading business case. As a result, the municipality received R35 million of the INEP grant prior to the National Treasury approval of front-loading, so the DBSA was only able to disburse R55 million of the approved loan facility of R90 million. TLM repaid the loan and interest accrued, in full, by July 2013. The DBSA estimated that the financial savings obtained

by compressing the time to completion was a direct benefit of approximately R3.8 million, after deducting costs for the loan. Households whose grid connection was brought forward by the loan obtained indirect benefits with a monetised value of approximately R4.7 million.

Building on lessons learnt from the first bridging loan, it was seen that more emphasis on coordination between the multiple stakeholders responsible for aspects of the INEP programme was necessary. The DBSA approved a bridging facility of R124 million for Thulamela to finance phase 3 of its INEP works involving the connection of 11 751 households in 91 villages against the three grants for the period of 2015 through to 2017. Two sub-loans were arranged, the first of R70 million for the completion of 24 projects has been fully disbursed. The impact of this bridging loan has accelerated the rate of village electrification. Three hundred fixed term contract jobs have been created for local people to build the distribution network and wire housing connections. So far, 1 409 new household connections have been made and commissioned. A further 3 258 connections are finished and await energy from Eskom.

SUSTAINABILITY
The success of the bridging loan to Thulamela underscores two key principles about this development financing product. Most important of all is the ability of the client to scale up activities and compress a three-year programme into a shorter period, with which the benefits of scale and shortened time to electrify homes will be obtained. Technical assistance may be required to prepare other municipalities that are not as capable as Thulamela. Secondly, the business case for a bridging loan has to pass National Treasury scrutiny that it provides demonstrable benefits to the municipality and therefore it has to be keenly priced.

SOUTH AFRICA FINANCING (CONTINUED)

BOLSTERING THE SUPPLY OF AFFORDABLE HOUSING AND STUDENT ACCOMMODATION

In an effort to assist with the eradication of backlogs in housing in South Africa, the Bank 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 committed R930 million and disbursed R7 million to support the development of student accommodation at various higher education institutions. We further invested R222 million (2014: 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.

DEVELOPMENT
CASE STUDY**FINANCING THE DURBAN UNIVERSITY OF TECHNOLOGY STUDENT VILLAGE**

The new student village will start housing students for the first time in June 2015.



The Durban University of Technology (DUT) has embarked on a 10-year strategic plan to maintain its relevance and teaching success. One aspect of the plan is to increase student housing to a target of 30% of enrolment in facilities on or adjacent to its campuses. Research has found that students housed close to university campuses are able to use teaching and learning facilities maximally and perform better than similar students in university accommodation that commute to campus. This case study records the efforts and development impact of the DUT's plan to build a student village on its main Durban campus.

The DUT is a multi-campus institution with facilities spread over five campuses in Durban and two in Pietermaritzburg. The main campus is the Steve Biko campus in Durban. It was formed as the Durban Institute of Technology in 2002 through the merger of ML Sultan Technikon and Technikon Natal. Four years later, when tertiary education institutions were restructured, the institution was renamed the Durban University of Technology.

The university has an enrolment of approximately 24 700 students, 6 000 of whom are accommodated in residences. Some 3 000 students live in residences leased by DUT around the CBD of Durban, with some within walking distance of its various campuses while several are up to 10 kilometres away. Residences that are situated far from the campuses are expensive for the university to run in terms of rental costs as well as the transport service it provides for students. Students at the far residences are disadvantaged by the necessary commute to campus and cannot use the libraries or facilities after hours when the buses have departed. Some of the accommodation the university leases is not conducive for studying and does not provide the standards of safety or security the university wishes to provide to students.

OBJECTIVE BEING ADDRESSED

The DUT has an unusually fragmented campus for a South African university but it is not alone in having an unsatisfactory student accommodation situation. In 2011 the Department of Higher Education and Training (DHET) published the findings of its investigation into student housing.

One of the findings linked the performance of students on state financial assistance to the availability of student housing and showed that students housed in facilities close to their campuses were able to make better use of learning facilities than those who had to commute to campus. Moreover, students who qualified academically for university places and for state financial assistance, but for whom there were no housing places available, had a much higher failure rate. The investigation concluded this was a financially wasteful outcome of public money on subsidising university teaching and financial aid to unsuccessful students. The study estimated that the current accommodation backlog was 200 000 beds in residences and recommended that the ideal level of student accommodation on campuses in rural communities should be 80%, with a 50% level in urban areas. The implication of these findings resonated with the DUT faculty's experience. By accommodating more students in on-campus residences, the DUT would be able to significantly improve the level of academic support it could provide to its students.

APPROACH

The DUT has developed a strategic plan for teaching, research and infrastructure to fulfil its aspiration to be, according to its vision, a "preferred university for developing leadership in technology and productive citizenship". One part of the strategic plan is to raise the level of student accommodation from the present 12% to 30% of total enrolment over a 10-year period. The university intends to reduce the number of students staying in off-campus leased residences and increase the numbers accommodated in residences on-campus. The first step in that plan envisaged building a student village with 804 beds on the main Steve Biko campus and relocating students from distance accommodation to the new facility. The student village project was budgeted at R155 million, R65 million in funding coming from a capital grant from the DHET, but the university needed to raise the balance of R90 million from the market.

OUTCOMES AND MEASURABLE IMPACTS

DBSA has a long standing relationship with the DUT. The Bank financed previous university

infrastructure projects. For the student village project the DBSA assisted the DUT to specify a request-for-proposals (RFP) for its financing requirements. DUT is regulated by the PFMA and hence it must procure goods and services (including loans) in a manner that is competitive, fair and transparent. As soon as the RFP was issued in February 2014, the DBSA moved quickly to carry out a due diligence on the DUT, assisted by the extensive understanding of the client on the part of the investment project team. In the competitive tendering situation for the DUT project, the DBSA possessed good market intelligence on recent student accommodation loans that it had bid for and therefore knew how to price the loan. The proactive approach used by the project team enabled them to submit an investment proposal to the Bank's Credit and Investment Committee that was approved without referral in April. The DUT was informed that the Board Credit and Investment Committee approved the transaction. Negotiations with the DUT on the Bank's offer were swiftly concluded and a loan agreement was signed in June 2014. Disbursement started the same month. Construction of the student village started on schedule but completion of the project slipped by four months due to unforeseen water problems on the site. The new student village will start housing students for the first time in June 2015. Future monitoring of the cohort of students housed on-campus will need to take place to measure the impact on academic performance attributable to their proximity to learning facilities.

SUSTAINABILITY

The DUT's student village project is one part of a strategic plan the university has embarked on which is sustainably financed from redirecting operational expenditure from housing costs towards servicing debt on its capital programme. Financial savings that the DUT has been able to make by giving up leases on accommodation facilities located in the Durban CBD come from two sources. First, the university no longer has to lease buildings that are unoccupied during the vacation breaks. Second, the university is no longer paying transport contractors to bus students to and from their residences. These operational savings increase the DUT's debt servicing ability.

SOUTH AFRICA FINANCING (CONTINUED)

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 (B-BBEE) 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 3 625 MW 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 B-BBEE entities, as well as providing administrative support to community trusts involved in the projects. In the year, Round 3 of the REIPPP programme reached financial close.

For the year, the division committed R4.2 billion for Round 3 of the REIPPP and Peakers programmes and disbursed R2.4 billion (2014: R3.7 billion) for Rounds 1 and 2 of the REIPPP and Peakers programmes. Of these amounts, R1.1 billion (2014: R826 million) was committed and R166 million (2014: R867 million) was disbursed in favour of B-BBEE enterprises.

The division further sustained its support of coal power-generating programmes, disbursing R3 billion (2014: R2 billion) in the year.

AUGMENTING BULK WATER INFRASTRUCTURE

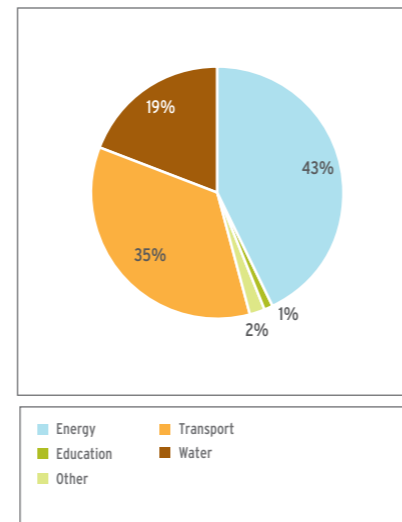
Investments in bulk water infrastructure are required to address both growing household demand and the needs of the mining, manufacturing and agricultural sectors, which are heavily reliant on water for production. As part of our bulk water funding strategy, we disbursed a further R200 million (2014: 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

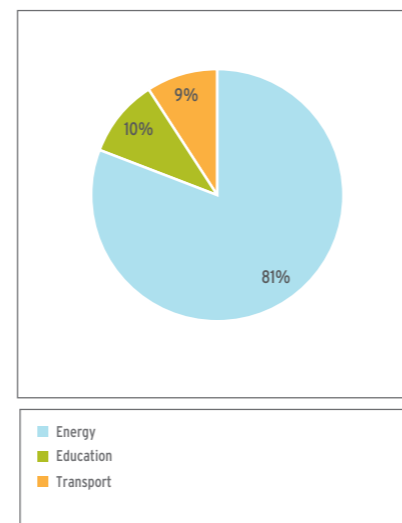
Investment to enhance industrial transport facilities is another important government focus. This is to support national efforts, which include moving more freight from road to rail, reducing the country's carbon footprint, growing the mining sector, creating jobs and positioning South Africa as a regional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

As part of the Bank's role, alongside HSBC plc and Pamoja Capital Proprietary Limited as transaction advisors and debt arrangers to the Tshwane Rapid Transit system, the DBSA committed R786 million to the project in 2015.

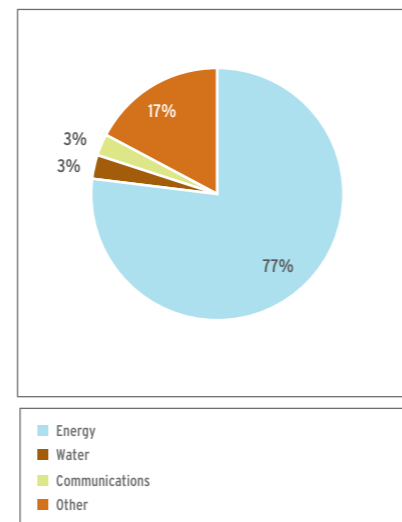
Non-municipal approvals, 2015



Non-municipal commitments, 2015



Non-municipal disbursements, 2015



DEVELOPMENTAL CASE STUDY

TRT signed a R4 8879 million agreement with the DBSA in November 2014 to fund the purchase of 40 Mercedes Benz Compressed Natural Gas (CNG) buses as well as the local content of 131 Volvo diesel buses.



BACKGROUND

Tshwane Rapid Transit (TRT) required a total of R786 million to procure 171 buses and the driver training required for the first phase of the A Re Yeng Bus Rapid Transit (BRT) project in Tshwane. TRT signed a R488 million agreement with the DBSA in November 2014 to fund the purchase of 40 Mercedes Benz Compressed Natural Gas (CNG) buses as well as the local content of 131 Volvo diesel buses. In December 2014, an additional R298 million loan was extended to the project.

At the inception of the project, buses will run from Paul Kruger and Nana Sita streets in the Pretoria Central Business District (CBD) to the Hatfield Gautrain Station in Arcadia Street. The A Re Yeng BRT is forecast to transport about 127 000 passengers per day once phase one is operational.

The DBSA is committed to investing in public transport networks to ensure safe, efficient and green transport systems. Tshwane BRT project is one of 12 BRT projects in the country that will receive the DBSA's support.

South Africa's Public Transport Strategy (PTS) is moving transport towards an improved quality integrated Mass Rapid Public Transport Network, which includes rail, taxi and bus services. Rapid transit systems have been identified by national government as one of the viable transportation options that can ensure sustainable, equitable and uncongested mobility in the country. The 2020 vision is for 85% of the metropolitan cities' population to be within one kilometre of a public transport service network line.

The shareholders of the TRT are taxi and bus operators that operate on routes serviced by private buses

and taxis, otherwise known as Affected Operators. TRT is managed as an independent corporate entity whose shareholders' benefit is equivalent to their market share.

OBJECTIVE BEING ADDRESSED

The National Land Transportation Act (NLTA) provides the legal framework for the development and implementation of the Integrated Rapid Public Transport Networks (IRPTN) by metropolitan cities in South Africa. The NLTA provides the framework for the negotiated 12-year contracts that municipalities can enter into during the implementation of BRT projects. Tshwane's IRPTN strategy sets out the network plan for BRT corridors and integration with rail services such as the Gautrain and PRASA commuter rail links in the short, medium and long term.

Other key strategic objectives are to facilitate the corporatisation of the affected operators and provide them with value-adding opportunities through training, so as to assist them to access sustainable income prospects.

APPROACH

The City of Tshwane will roll out the buses in phases, with phase one seeing the delivery of the buses in four batches over two years. Ownership of the buses will vest in TRT, which will procure the buses and charge a user fee on a take-or-pay basis using a fee per kilometre payment system that guarantees a minimum number of kilometres to cover debt services, all operating costs and a profit element.

OUTCOMES AND MEASURABLE IMPACTS

The project will have a significant impact on the socio-economic and economic development of the city

and its inhabitants as well as Gauteng as a whole, with the following development impact:

- An estimated increase of the provincial GDP by R437 million.
- An estimated provincial capital formation of R1 324 million.
- An estimated 1 614 additional employment opportunities, of which 275 will be for unskilled workers.
- An estimated additional R259 million in household income, of which R48 million might accrue to low income households.
- A potential additional fiscal impact for government of R125 million.
- Improved quality of life through an efficient, safe and affordable transport system.
- Empowerment, skills development and local economic development (TRT is 100% owned by a Trust whose beneficiaries are the affected taxi and bus operators on the planned BRT routes).

In 2010, at the launch of the project, City of Tshwane Mayor Ramokgopa expected over 10 000 jobs to be created during the construction phase and about 1 000 sustainable jobs once the system was live. This includes 529 bus operators and related personnel, 94 employees for the call centre and about 300 workers managing and maintaining the ticketing system.

SUSTAINABILITY

The loan period of 11 years, including availability and grace periods, is in line with typical development finance practice. As a leading metro and TRT project off-taker, the City of Tshwane has a good credit rating with a stable outlook, both of which mitigate the risks associated with this project. With 127 000 passengers on a daily basis, the BRT will have dedicated

income throughout the project's lifespan. The take-or-pay model will also provide sustainable earnings to the company and ensure debt servicing.

IMPORTANT LESSONS LEARNED AND CRITICAL SUCCESS FACTORS

Transport is a critical success factor in South Africa's economy. Therefore this project is important to the country and received the Bank's full support. The City of Tshwane's A Re Yeng BRT project drew lessons from the Rea Vaya and MiCiti projects to avoid repeating earlier mistakes made by the City of Johannesburg and Cape Town teams respectively. Government support was key to the success of this project as it allowed the City of Tshwane to use a portion of its grant income to cover the deficit in initial operating costs and to fund the infrastructure components of the A Re Yeng system. The project has the support of the affected operators and has already trained a number of taxi drivers to operate the buses. This provides a more sustainable income for the drivers and a buy-in for the taxi industry. The Trust will provide capacity building for the Affected Operators, who will become drivers as the project progresses. A critical success factor is a successful, complex negotiated settlement that is to be achieved through a long process involving all key stakeholders.

For further information contact: www.tshwanetransit.net.

DEVELOPMENT
CASE STUDY

!KA XU CSP PROJECT

!Ka XU Solar One was one of the 28 renewable energy projects announced by the Department of Energy (DoE) in 2011. The total cost of the project was budgeted at R8.8 billion of which the DBSA provided funding of R2.0 billion. The project will be financed by debt and equity of which approximately 70% is anticipated to be raised as non-recourse project finance debt financing with the balance to be funded in the form of equity and shareholder's loans.

The project entails the development, financing, procurement, construction, testing, commissioning, operation and maintenance by !Ka XU CSP South Africa (Pty) Limited of a green field solar power station installation with a 100 MW net power generating capacity, together with associated infrastructure and facilities. The project is located 40 kilometres from the town of Pofadder on the farm Scuit Klip 92 and will provide power into the Eskom Paulputs transmission substation distribution located approximately one kilometre from the project site.

A black economic empowerment workers trust will form a company to undertake operations and maintenance (O&M) services to the project company.

OBJECTIVE BEING ADDRESSED

The current energy demand in South Africa outstrips supply and therefore other methods of electricity generation have to be explored. South Africa has set a goal to achieve up to 17 800 MW of renewable energy by 2030 in an effort to reduce its dependence on oil and natural gas resources. The sponsors are co-developing this commercial solar generation facility in the Northern Cape province. The facility being developed will use parabolic trough technology with a molten salt thermal energy storage facility that allows extending electricity generation up to 2.5 hours after sunset.

The project is at an advanced stage of development on all fronts. Project preparation activities such as contour mapping and geotechnical analyses have been completed. The environmental authorisations have been received. The site for the project has been purchased and registration into the name of !Ka XU CSP South Africa (Pty) Limited will occur on ministerial approval of the subdivision.

OUTCOMES AND MEASURABLE IMPACTS

Once developed, the key components of the project will be:

- A solar field with parabolic trough collectors and the heat transfer system (HTS).
- A molten salt storage system or thermal energy storage (TES).
- A steam cycle with steam turbine generator.
- A cooling system.
- Other auxiliary equipment.

The solar thermal plant collects solar energy with the parabolic trough collectors and converts this energy into electricity in the steam cycle. The TES storage has a capacity to store energy for 2.5 hours during off peak hours and dispatch it during peak hours.

SUSTAINABILITY

One of the main contractors, Abengoa Solar S.A, global leader in the development, ownership and construction of the solar power generation, has an excellent track record spanning approximately 17 years in the solar generation sector. Their key projects to date include:

- The only multi technology development in the 300 MW Solucar Platform in Seville which includes trough, tower and PV plants.
- PS 10 (11 MW) and PS 20 (22 MW) - the world's first commercial tower plants located at the Solucar Platform.
- 150 MW (3 x 50 MW) trough plants in Spain.
- Solana 280 MW - the world's largest trough plant located in the USA.
- The world's first solar and gas combined plants through the 150 MW Hassi-R'mel.
- An integrated solar and gas combined cycle plant in Algeria and a similar one in Morocco.
- The first CSP plant in the United Arab Emirates through the Shams 1, a 100 MW plant in Abu Dhabi.

The loan period of 16 years including availability of grace periods is in line with typical development finance practice.

IMPORTANT LESSONS LEARNT AND CRITICAL SUCCESS FACTORS

Abengoa Solar S.A as the main partner and subsidiary in this project with its track record will definitely contribute positively to the success of the project. Solar energy can contribute significantly to addressing the current challenges in energy that Eskom faces. There is a notable growing need for countries to reduce their emissions and achieve greater energy independence while facing these factors:

- Increasing volatility in fossil fuel prices.
- Significant increase in energy demand and CO₂ emissions in emerging countries.
- Decreased nuclear generation in the energy mix of developed and developing countries.

The most important factor that sets concentrating solar power apart from other forms of renewable energy generation is its dispatchability, or the ability to adapt production to the demand. Dispatchability is considered essential, and perhaps most valuable, for electricity systems. Having the ability to adjust energy generation to the demand curve has the benefit of being able to sell electricity to the grid at peak generation hours, with a resulting increase in price, and the ability to compensate for the effects of intermittent sources.

DEVELOPMENTAL IMPACT

The Community Trust which has been formed comprises separate women, youth and general communities in Pofadder and Upington. Dividends flowing to the Community Trust over the life of the project will be applied towards local economic development beneficiary projects. The IDC is coordinating the establishment of the Community Trust and arranging the required equity funding.

SOLAR

The project entails the development, financing, procurement, construction, testing, commissioning, operation and maintenance by !Ka XU CSP South Africa (Pty) Limited of a green field solar power station installation with a 100 MW net power generating capacity, together with associated infrastructure and facilities.



REPORTING STRONGER FINANCIAL RESULTS

South Africa Financing division recorded a net profit of R1.2 billion (2014: R739.8 million) in the year despite increased pricing competition, especially in the metros and secondary municipality markets.

Interest income earned from investment activities increased to R4.1 billion compared to the prior year's R3.5 billion. Interest expense also increased to R2.5 billion (from R2.0 billion), in line with the increase in the debt/equity ratio. This contributed to a net interest income ratio of 39%, down from the 43% recorded in 2014.

Operating expenses increased from R65.3 million to R79.9 million in 2015, whilst the cost-to-income ratio increased marginally to 4.6% from 4.0% recorded in 2014.

The impairment loss of R329.9 million was significantly lower than the R559.6 million recorded in 2014. 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.

OUTLOOK

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 next 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 2016. 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.

Going forward and recognising that the demand for infrastructure is the greatest in large urban centres, the DBSA and the National Treasury are currently discussing various approaches to support the development of economic infrastructure to expand the income generation base of municipalities. Crowding-in the private sector investment is essential to increasing the funds available to large urban centres.

During January 2015, a working group, comprising representatives from the National Treasury and the DBSA, was

established to begin to design solutions on how to create and maintain a strong project pipeline, increase the market for municipal infrastructure development as well as consider how to further leverage the private sector. During the new financial year the working committee will seek to also collaborate with selected municipalities and private sector institutions to pilot a number of solutions prior to full implementation. Key solutions under consideration include:

- **Structuring of new loan products to support the funding of long-term assets with long-term funding**
Many municipalities fund long-term infrastructure assets with short- to medium-term funding, exposing them to a refinancing risk as well as increasing the borrowing rates or costs of the underlying assets. With the implementation of Basel III, an opportunity has been identified for institutions such as the DBSA to fund the longer end of the loan, which is the typical role of development finance institution, for periods from 10 to 20 years, whilst the period shorter than ten years would be funded by the private or commercial bank market. The success of such a product would be dependent on municipalities changing their current behaviour of funding long-term assets with short- to medium-term funding.
- **Securitisation options of the existing loan book**
Loans to urban cities could be amalgamated, packaged and sold off to attract and crowd-in private sector capital. There is proven appetite from both the commercial bank market and the debt capital markets for exposures to cities and large urban centres. Crowding-in the private sector will also enable the DBSA to free up capital for reinvestment into infrastructure projects.
- **Extending the grants bridging programme to large cities**
Since 2010, following the promulgation of enabling legislation by National Treasury, the DBSA has participated in the provision of bridging finance to various secondary and under-resourced

SOUTH AFRICA FINANCING (CONTINUED)

municipalities by pledging conditional grant transfers. Two programmes are currently running under the conditional grant pledging framework by DBSA, namely Municipal Infrastructure Grant (MIG) and Integrated National Electrification Programme (INEP). The benefits arising from these programmes include the acceleration of service provision for electricity, water and sanitation and saving on cost escalations on infrastructure due to the rapid implementation of infrastructure.

On the back of the successful implementation of the MIG and INEP bridging programmes, an opportunity has been identified to leverage the DBSA's existing balance sheet and replicate the existing bridging programmes to large cities. Such a facility will provide the opportunity to raise funds/liquidity equal to the amounts previously allocated, with the obligation to repay the funds, with interest, over a predetermined period.

- **Supporting the development of a secondary bond market**
Interest in infrastructure development from large institutions such as pension funds and other financial institutions is well documented. However, investment continues to be impeded by a lack of an active secondary bond market. DBSA will evaluate options to support the development of a secondary market, including the potential to act as a mark-maker in this regard. Due consideration would have to be given to the risks and impact of such an initiative on the overall financial sustainability of the Bank.

The success of funding solutions is, however, largely dependent on the availability of a strong project pipeline of bankable projects. Project preparation plays an important role in unlocking viability. During 2015, the DBSA was appointed by National Treasury to manage and host the Cities Project Preparation Facility (PPF). The main objective of the programme is to support metropolitan and large cities



to support infrastructure planning to develop a pipeline of catalytic, spatially integrated infrastructure projects, leverage partnerships and establish new partnerships and support them with procurement of service providers, as well as necessary preconstruction preparation and planning.

Other public entities, excluding municipalities and SOCs, provide various opportunities for infrastructure financing, especially within the water boards, student accommodation and university infrastructure markets. Recognising that this market is generally smaller than the municipal and SOC markets, total disbursements of R5.4 billion are targeted over the next three years.

Investment in economic infrastructure is important to stimulate economic growth and job creation. Over the next three years the DBSA will seek to disburse R5.6 billion in 2016, R6.6 billion in 2017 and R7.9 billion in 2018. Investment into economic infrastructure is generally conducted through SOCs, Public-Private Partnership and through private sector intermediaries.

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.

We challenge
limiting conventions today,
to create liberating
change tomorrow.

INTERNATIONAL FINANCING

Approvals and commitments

R8.1 billion approved
(2014: R4.0 billion)

R2.2 billion committed
(2014: R4.6 billion)

Disbursements

R619 million
(2014: R3.6 billion), with a focus on road and energy projects

Employee numbers

31
(2014: 28)

Net loss

R39.3 million
(2014: profit of R3.0 million)

Total assets

R15.5 billion
(2014: R15.7 billion)

LEVERAGING INFRASTRUCTURE DEVELOPMENT OPPORTUNITIES OUTSIDE SOUTH AFRICA

Regional integration is critical in growing both the South African and broader continent's economies. The DBSA's International Financing division supports the country and the Bank's regional development and integration strategy, aimed at facilitating trade in Africa by investing in infrastructure projects outside of South Africa, through:

- Providing financing, related products and services for commercially viable and sustainable projects, primarily in the energy, transport, water and telecommunications sectors, which contribute to economic development and regional integration.
- Supporting project planning and development, advocacy and partnership building for resource mobilisation.
- Promoting inter-regional integration and cooperation between SADC and the adjoining regional economic communities in Africa.

Infrastructure demands on the continent are extensive. It is clear that, as a financier alone, the DBSA is unable to address the significant infrastructure gaps on the continent. While the DBSA has achieved much over the last few years, it has and can only contribute to a small portion of the infrastructure development needs. Part of the challenge is not so much the availability of finance, but the readiness of bankable projects in the region.

The scale of preparation support required necessitates a multi-faceted, partnership-based approach. Over the years, the Bank has developed a comparative advantage in the deep understanding of the needs of the African infrastructure market and will seek to harness these relationships and expertise, whilst partnering with other DFIs and role players to support project preparation on the continent.

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 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.

Recognising the infrastructure deficit on the wider African continent and that participation in such projects would support broader regional integration, the DBSA received mandate approval in 2013 to expand operations beyond SADC to all countries on the African continent. The DBSA acknowledges that investment support to the SADC region remains critical and will remain the primary focus area of the organisation, whilst investments beyond SADC will play an important role in supporting the Bank's overall financial sustainability as high-yielding financial returns can be generated from these deals. Therefore, over the following years, the DBSA will cautiously assess investment opportunities beyond SADC by initially pursuing opportunities in the following countries in Africa:

- Kenya, Rwanda and Uganda. The East African Community (EAC) is inextricably linked to SADC and COMESA, connecting the east coast to central and southern Africa.
- Ghana and Nigeria. West Africa's ECOWAS is the fastest growing region in Africa, with Nigeria and Ghana as pivotal drivers for this region.
- Republic of Congo. The development of ECCAS links infrastructure development across sub-Saharan Africa countries and RECs south of the 10th parallel.

For continental and national strategic consideration, the DBSA may consider investments outside the pivot countries identified, only with the authorisation of the Board.

INTERNATIONAL FINANCING (CONTINUED)

OPERATIONAL RESULTS

Africa's macro-economics remain favourable. The commercial vibrancy and its growth acceleration has resulted from more than its natural resource endowments. The key reasons behind Africa's growth surge were improved political and macro-economic stability arising from the economic reforms of the late 1990s and early 2000s. Initially, several African countries saw a cessation of deadly hostilities, creating the political stability necessary to foster economic growth. Governments then took actions to lower inflation, trim foreign debt and shrink budget deficits. Finally, policies to stimulate economic activity and deepen markets were adopted. These included privatising state-owned enterprises, reducing trade barriers, cutting corporate taxes, strengthening the regulatory and legal systems as well as investment in infrastructure.

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

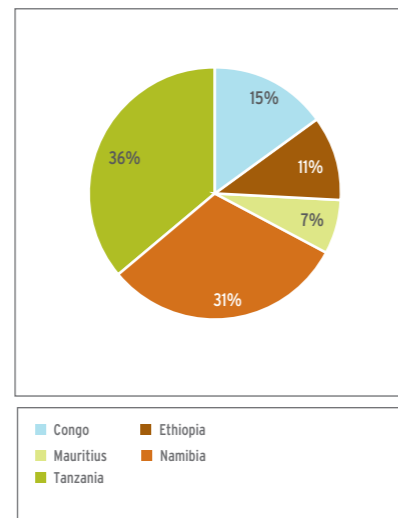
Following the successes of the previous financial year, the International Financing division faced a challenging trading environment. Total approvals amounted to R8.1 billion, compared to the R4.0 billion in 2014. Approvals in the year were predominately in the energy, oil and gas, transport and telecommunication sectors and concentrated in Tanzania, Mauritius, Namibia, Ethiopia and the Democratic Republic of Congo. It is anticipated that most of these projects will be concluded during 2016 and will support the pipeline for future disbursements.

Despite the high level of approvals, the division recognises that the development of bulk infrastructure is extremely complex and time-consuming and can take a number of

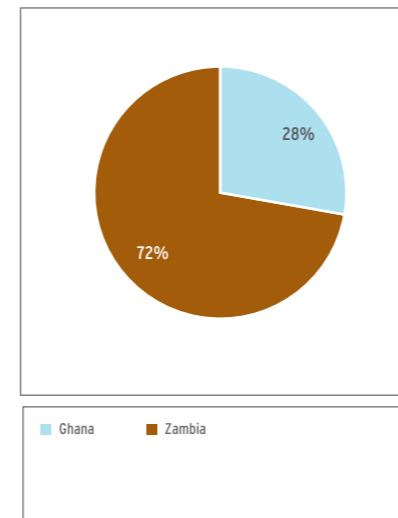
years to reach financial close. Consequently, both commitments and disbursements were lower than in 2014. Total commitments amounted to R2.2 billion (2014: R4.6 billion) and disbursements totalled R619 million (2014: R3.6 billion).

Commitments were led by projects in the energy sector in two countries, namely Ghana and Zambia. Disbursements were largely targeted towards energy, telecommunications and infrastructure development funds across multiple countries.

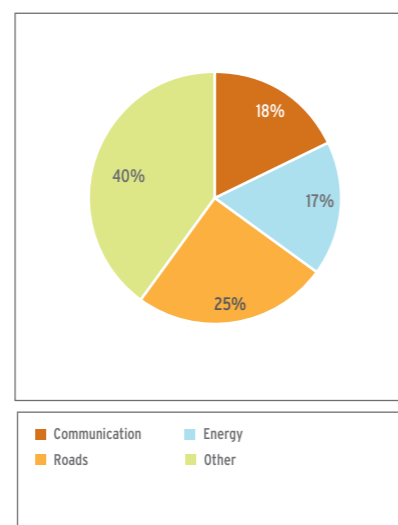
Approvals per country, 2015



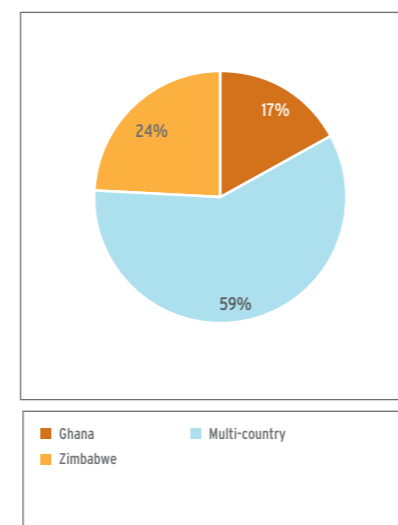
Commitments per country, 2015



Disbursements per sector, 2015

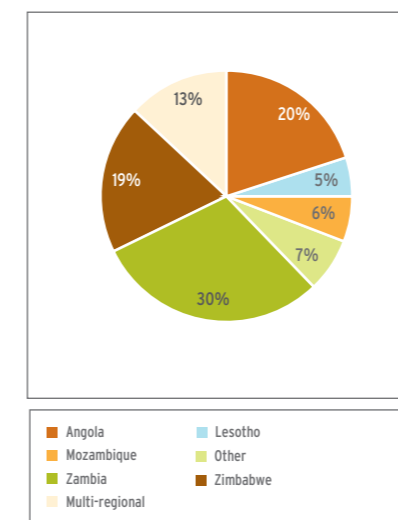


Disbursements per country, 2015

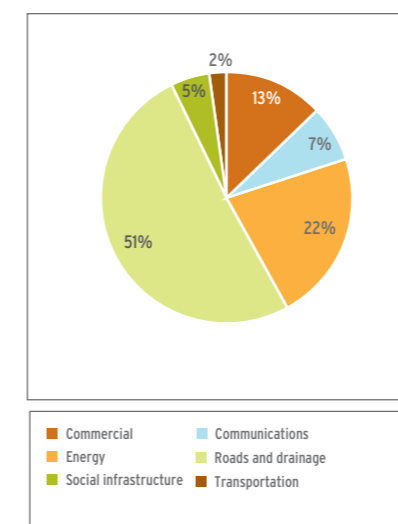


The division's gross development loan book of R14.1 billion decreased marginally from the R14.3 billion recorded in 2014. The decrease was mainly attributable to the impact of the lower disbursements and repayments received in the normal course of business. Investments in Zambia constituted 30.5% (2014: 28%) of the loan exposure, followed by Angola and Zimbabwe. These three countries together made up almost 69% (2014: 64%) of the division's loan portfolio. Our commitment to the development of the North-South Corridor (NSC) is evident, with the roads sector constituting 50% (2014: 45%) of the loan portfolio, followed by the energy sector with 22% (2014: 25%).

Loan exposure per country as at 31 March 2015



Loan exposure per sector as at 31 March 2015



DEVELOPMENT CASE STUDY
FINANCING CENPOWER KPONE 340 MW IPP, GHANA

In 2014, the Cenpower deal won the London-based Thomson Reuters' Project Finance International (PFI) Magazine Awards as the African Power Deal of the Year. The partnership included parties from South Africa, the Netherlands and Japan as well as public and private entities. The Cenpower deal presents an innovative blueprint for future power deals in Africa and shows the potential for collaboration and implementation of deals in the energy sector, which is most vital for the continent's economic development and growth. Cenpower will provide 340 MW of power at the Tema Heavy Industrial Area, which will drive industrialisation in Ghana and ultimately contribute to regional integration in West Africa.

Ghana has an installed electricity capacity of just over 2 500 MW, generated 12 billion kWh of power in 2012, of which 67% was from hydroelectricity and the remainder from fossil fuels. The Kpone Independent Power Plant (KIPP) project will be the largest independent power producer in Ghana, contributing approximately 10% of Ghana's total installed capacity and approximately 20% of its available thermal general capacity. As a Combined Cycle Gas Turbine (CCGT) plant, it will be amongst Ghana's most fuel-efficient thermal power stations. Once in production, KIPP will be a critical base-load component in meeting Ghana's growing electricity demand.

Ghana plans to add 2 500 MW to its grid by 2030 thereby increasing its citizens' access to electricity even further. In fact, most rural district capitals and villages have access to the national electricity grid. The additional power in Ghana could offset some of the energy backlog in West Africa where only 43% of the population has access to a decent energy supply. Projects such as Cenpower will go a long way towards reducing that backlog.

Financial close of the required US\$900 million of project finance to develop the KIPP in the Tema industrial zone, close to Ghana's capital, Accra, came in the month of October 2014. The DBSA committed US\$53 million of the total project cost to the deal. By being a co-financier of Cenpower, the DBSA cements its commitment to financing infrastructure that matters to ordinary people on the continent.

The project finance comprises two components: a US\$650 million debt tranche and a US\$250 million equity tranche. The debt is being funded under export credit cover by a consortium of South African commercial banks and international DFIs. Rand Merchant Bank (RMB) acted as the global lead bank and mandated lead arranger for the commercial banking tranche. Other South African banks involved in the transaction as mandated lead arrangers were Nedbank and Standard Bank. Nederlandse Financierings-Maatschappij voor Ontwikkelings Landen N.V. (FMO), the Dutch Development Bank, acted as the mandated arranger for the DFI tranche.

Via the equity raising, three leading investment groups will be joining the equity consortium, whilst InfraCo, the principal project co-developer since inception, will be exiting. The new investors are Sumitomo Corporation of Japan, African Infrastructure Investment Fund II and its co-investors (via an investment vehicle called Mercury Power) and FMO. Post-financial close, the equity holders in Cenpower now are AFC Equity Investments Limited (a wholly owned subsidiary of the Africa Finance Corporation (AFC) (31.85%), Cenpower Holdings Limited (21%), Sumitomo Corporation (28%), Mercury Power (15%) and FMO (4.15%).



INTERNATIONAL FINANCING (CONTINUED)

DEVELOPMENT OF KEY CORRIDORS, SUPPORTING PARTNERSHIP AND PROJECT ORIENTATION DEVELOPMENT

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 COMESA and the EAC and is endorsed by the African Union. The programme is directed toward 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 Champion Initiative, which President Jacob Zuma chairs.

The DBSA is working with the Department of International Relations and Cooperation (DIRCO) secretariat in coordinating reports to the President on the NSC with other stakeholders; providing the Presidency, the NSC Steering Committee and the Working Groups with regular feedback on the status 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).

During the year, the DBSA continued to provide support to various projects on the priority list, including the support to the development of one-stop border posts (OSBP). The DBSA is part of the process of consultations between the South African Revenue Service (SARS), which facilitated meetings between the Border Control Operational Coordinating Committee, and the government of Zimbabwe's Ministry of Transport. The parties are well progressed in concluding a Memorandum of Understanding (MoU) and the Bilateral Agreement on the Beitbridge OSBP. Work on the development of the Beitbridge Master Plan is underway, driven from the



South African side, with the intention to develop a special economic zone along the Musina-Beitbridge gateway. This work will be expanded to cover the Zimbabwean side once the OSBP MoU and Bilateral Agreement are finalised.

The division has been involved in the process of establishing the Border Management Agency (BMA), led by the Department of Home Affairs, and the process of developing a draft OSBP policy for South Africa, led by the Department of National Treasury.

The International Financing division regards partnership and project orientation 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 with DFIs across the SADC region as well as with various European DFIs around the development of renewable energy across the continent.

During the 2012 World Economic Forum in Africa discussions in Addis-Ababa, African business leaders and their international counterparts endorsed the launch of an African-focused business-driven initiative to accelerate the implementation of the Programme for Infrastructure Development in Africa's (PIDA) Priority Action Plan (PAP). The African Strategic Infrastructure Initiative (ASII) was formally kicked off in Johannesburg on 9 July 2012 as a joint initiative of the World Economic Forum (WEF) with the African Development Bank (AfDB), the Africa Union Commission and the NEPAD Planning and Coordinating Agency (NPCA) as the overall coordinating agencies of PIDA. The ASII platform is co-chaired by the CEO of the DBSA, Patrick Dlamini, and the General Electric CEO for Africa, Jay Ireland. The key objectives of ASII include the following:

- To establish a best practice framework for Public-Private Partnerships (PPPs), financing and capacity building for improved infrastructure delivery in Africa.
- To enable the public sector to benefit from transparent, objective and informed input from the private sector.

- To ultimately provide a model to be replicated across Africa and other continents, to create an enabling environment for private sector involvement in infrastructure.

The DBSA is a key role player in the Business Working Group (BWG), which provides a platform for business leaders to provide private sector input into Africa's priority infrastructure projects. At the January 2014 WEF Summit in Davos, the Central Corridor, covering the East African countries Tanzania, Rwanda, Burundi, Kenya and Uganda, was selected as the pilot programme for the acceleration of the implementation of key infrastructure projects. The Central Corridor is a multi-modal trade and transport corridor within the East African Region, with a combination of road and railway network linking the four landlocked countries to the port of Dar es Salaam. It has been the most cost-effective corridor in the region due to its geographical location and ample investment opportunities, with various studies justifying the economic viability of this corridor.

As such, the focus of the corridor member states has been to prepare the corridor opportunities to meet the requirement of the global investors' appetite for infrastructure projects through PPPs. The WEF and the ASII BWG have supported the processes throughout. The DBSA, as a BWG member, provided the necessary technical support and appointed independent technical expertise for the packaging of the shortlisted 23 projects in phase 1. The DBSA, WEF, Boston Consulting Group (BCG), NEPAD Agency and AfDB, in collaboration with Central Corridor-Transit-Transport Facilitation Agency (CC-TTFA), worked tirelessly alongside a dedicated Regional Task Force Group to identify the projects, prioritise, prepare and package them for showcasing at the Presidential Roundtable and Central Corridor High Level Industry and Investor Forum held respectively on 25 and 26 March 2015 in Dar es Salaam. The 23 priority projects were packaged in terms of the type of finance each could potentially attract

and the current stage of the project. The outcome resulted in four projects being identified for immediate investment and private sector involvement with an estimated value of US\$6.7 billion and an additional four projects that will generate a revenue stream for private sector investment requiring bankable feasibility studies.

DBSA's value add to this initiative with the WEF and the other key stakeholders, resulted in the following successful outcomes:

- The Heads of State noted the critical importance of the projects under the Central Corridor Acceleration Process on transnational infrastructure projects and commended the CC-TTFA, the WEF and the DBSA for the work done in the preparation of the projects for private sector finance.
- Key to the replicability of the process is ensuring skills transfer and enablement, a core part of the terms of reference and team efforts of the DBSA corridor specialists working closely with the Forum Project Manager and the CC-TTFA. As such, the DBSA team on day two handed over the independently created financial models applied in this process to the CC-TTFA and guided them through the basic principles of the financial model for them to get a better grip on how projects are financially structured; capacitating CC-TTFA to be more critical when reviewing the financial structures of projects being prepared by consultants.
- The DBSA, through the ASII programme, was able to establish key relationships with various government departments within the Central Corridor (Tanzania, Burundi, Rwanda, Uganda and DRC); has been invited to attend more PIDA project progress meetings on the continent, and is now in consultation with the NEPAD Planning and Coordinating Agency (NPCA) to further support the programme as the NPCA is taking ownership of this initiative.
- The DBSA was also invited to the Integrated Corridor Development Partners Convention, an initiative in

collaboration between World Bank Group and the EAC to rehabilitate and invest into the Inland Waterways Programme (including all the lake ports in the EAC). Further interaction is underway to explore opportunities for the DBSA in this programme.

- The BCG, the project manager of this initiative, and the DBSA have many synergies given the institutional knowledge created through the successful and close collaboration during the ASII. Since WEF Africa 2015, managing partner for BCG, Adam Ikdal, has insisted on his willingness and commitment to once again partner with DBSA on the NSC and the Inga programme.

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).

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. The DBSA's presence in the region continues with two representatives hosted in institutions in Tanzania and the Democratic Republic of the Congo.

INTERNATIONAL FINANCING (CONTINUED)

We are optimistic that many of the projects approved and committed in 2015 will be disbursed in 2016.

FINANCIAL OVERVIEW

The division recorded disappointing financial results for the year. The lower than expected disbursements and the impact of impairments and revaluations on equity investments contributed to the net loss of the year of R39.3 million (2014: profit of R3 million).

Interest income of R823 million was 2.4% higher than the R804 million recorded in 2014. However, the net interest margin decreased from 63% in 2014 to 57% in 2015, mainly as a result of increased competition in the market.

Following a successful 2014, during which we generated significant non-interest income of R221.1 million, the division recorded non-interest income of R76.3 million during 2015. The decline was mainly attributable to the impact of the lower commitments and disbursements on which we generate upfront and commitment fees, as well as a decline in income earned on non-financing related activities. The division has traditionally been primarily a provider of senior debt and over the last number of years has sought opportunities to expand the product offering to services such as transaction advisory and mandate lead arranging. During the year under review, the division continued to seek new opportunities to diversify these income sources. However, a lack of opportunities in the market contributed to the decline in non-interest revenue.

Overall operating costs remained well managed and increased by 3.9% to R36.6 million, well below the prevailing inflation rate.

Due to the decline in commodity prices and institutional weaknesses in some institutions, the division experienced deterioration in the value of some of its loan and equity investments. Impairments increased from R173.3 million in 2014 to R415.5 million in 2015, whilst the net unrealised revaluation loss on equity investments amounted to R134.8 million (2014: R519.2 million). These losses contributed significantly to the net loss for the year.

OUTLOOK

Infrastructure development on the continent is multi-faceted, complex and takes a long time to implement. Furthermore, market dynamics continue to change, including the needs of our clients as well as the entry of many new players into the African infrastructure market.

We are optimistic that many of the projects approved and committed in 2015 will be disbursed in 2016. We will continue to leverage relationships with the leading infrastructure agencies from Europe, Asia and the BRIC nations to secure co-financing on regional projects.

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

INFRASTRUCTURE DELIVERY

Funds under management

R2.0 billion
(2014: R1.5 billion)

Employee numbers

6 permanent, 88 contractors
(mostly engineers, construction project managers, programme managers and quantity surveyors)
(2014: 8 permanent, 26 contractors)

Completed

15 schools, 1 128 rural houses, 60 doctors' consulting rooms and refurbished 26 clinics

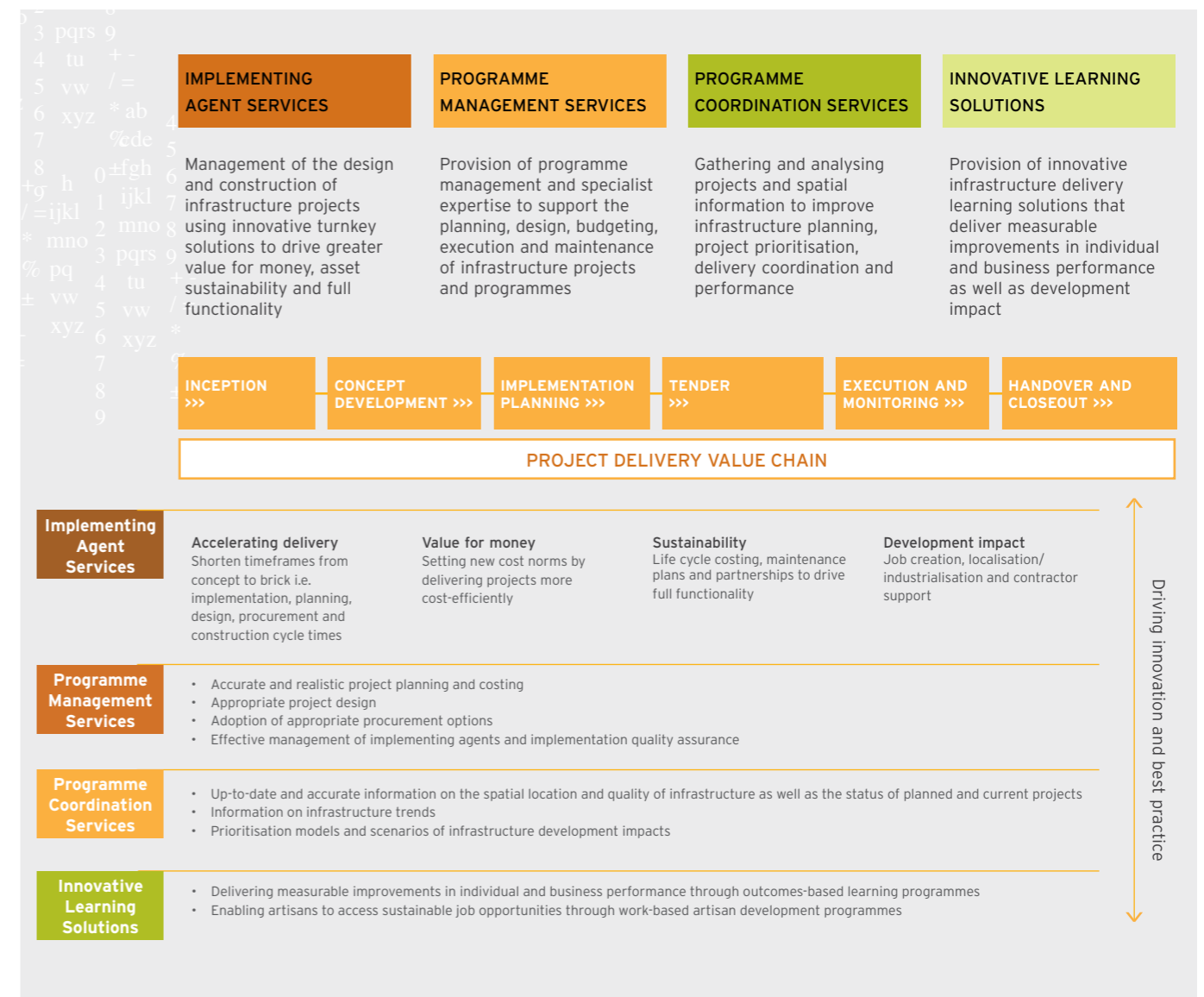
112%
of programme expenditure recovered

ASSISTING THE GOVERNMENT IN PROVIDING ESSENTIAL INFRASTRUCTURE

The DBSA, through the Infrastructure Delivery division, supports government in leveraging skills and capabilities to accelerate the implementation of a number of infrastructure programmes in the key priority sectors of education, health and housing, as well as various municipal infrastructure programmes. In providing this support, the Bank seeks to become a centre of excellence in infrastructure delivery by:

- Managing the design and construction of government infrastructure projects using innovative, turnkey solutions to drive greater value for money, asset sustainability and full functionality.

- Providing programme management and specialist expertise to support state entities and the private sector in managing the planning, design, budgeting, execution and maintenance of infrastructure projects and programmes.
- Gathering and analysing project and spatial information to improve government infrastructure planning, project prioritisation and design, delivery co-ordination, tracking and performance.



INFRASTRUCTURE DELIVERY (CONTINUED)

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 managed. We aim to help by providing a professional, cost-effective service, while recovering all our costs.

A key enabler for the division is the Innovation and Design Lab and the Nerve Centre, 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.

IMPLEMENTING PROJECTS

For the year under review, the funds under management increased from R1.5 million in 2014 to R2.0 billion for 2015. The Bank seeks to deliver 80% of the annual funds allocated per annum. For the year, the Bank delivered infrastructure project investment to the value of R2.0 billion of the annual allocation, representing 100% of the allocation available.

Key programme highlights include:

SCHOOLS

During the year we achieved practical completion in 15 schools as part of a project for the Department of Basic Education to build new schools across six provinces in South Africa. This brings the total number of schools completed since the DBSA was appointed as an implementing agent to 64. 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 with 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. At year-end a further 48 schools were at various stages of completion, whilst nine were at procurement or foundation stages due to the non-performance of contractors which are being replaced.

The construction of the schools has led to the creation, during 2015, of 6 462 employment opportunities during the financial year. Out of a total of R1.2 billion, R170 million expenditure was allocated in favour of 734 SMMEs. Since 2013, a total of 9 915 employment opportunities have been created under this programme. In the 2015 school year, 9 162 learners enrolled at these new schools.

HOUSING

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

During the year the DBSA completed the final 240 of 800 units as part of phase 2 of the programme, bringing the total number of houses completed during phase 1 and 2 to 1 000.

The department allocated to the Bank a further 4 000 units during the year which were already at various stages of implementation for completion over the next two years. At year-end, 888 units had been completed and the remaining units were at various stages of completion.

DOCTORS' CONSULTING ROOMS

In the year, we completed the construction and fitting of 60 doctors' consulting rooms at clinics across the country in areas identified as National

Health Insurance (NHI) pilot districts. The R218 million project was a turnkey one to deliver 102 consulting rooms in which we also sourced and supplied the medical equipment and furniture required.

The programme provided opportunities to use 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.

CLINIC FACILITIES MAINTENANCE

In June 2014, 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 the remaining 26 clinics not finalised during the previous financial year. The programme also enabled us to link artisans (students and graduates of further education and training colleges) to contractors to gain experience on the job. We intend to extend this model, helping provide essential maintenance of public facilities and at the same time securing employment for young people.

MANAGING PROGRAMMES

The Infrastructure Delivery division's Programme Management unit helps support the planning, design, budgeting, execution and maintenance of infrastructure projects to both government and private clients.

THE NATIONAL RURAL YOUTH SERVICE CORPS

The National Rural Youth Service Corps programme, established in 2011, 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, 850 (2014: 2 057) learners were placed in infrastructure employment opportunities through the programme. We also helped facilitate the registration of eight youth enterprises by learners who are leaving the programme.

ANGLO AMERICAN SOUTH AFRICA MUNICIPAL SUPPORT PROGRAMME

In 2014 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, reducing water and electricity losses, 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.

Key achievements in the year were the submission to the department of a draft infrastructure maintenance framework as well as the development of detailed draft frameworks for maintaining healthcare technology and facilities with the department.

We completed feasibility studies for 119 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. The consolidated feasibility report has been submitted to the department.

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 in preparing 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.



EDUCATION During the year we achieved practical completion in 15 schools as part of a project for the Department of Basic Education to build new schools across six provinces in South Africa.

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cde 5
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INFRASTRUCTURE DELIVERY (CONTINUED)

DEVELOPMENT CASE STUDY
EMERGENCY REPAIRS AND MAINTENANCE IN HEALTH FACILITIES IN LIMPOPO

The Limpopo Department of Health (LDoH) appointed the DBSA as an implementing agent for emergency work in 42 health facilities in Limpopo. The MOA was signed in November 2014 and it was expected that IDD send contractors for emergency repairs by the beginning of December 2014. With limited time to deliver and also taking into consideration the life threatening environment of the hospitals, IDD couldn't afford delays in executing the programme.

What worked for the IDD was the availability of an approved panel of contractors that the division had put in place during the year. The IDD utilised an existing partnership to immediately dispatch a team of engineers to assess, verify and quantify the scope in the identified hospitals. Within a week we were able to appoint management contractors. The IDD team was able to create the bill of quantities to allow us to manage the cost and programme activities efficiently. There were some negotiations that were finalised in areas where the costs were higher than planned.

The team grouped the management contractors per district to allow for better response and management of project sites within close proximity. Contractors successfully resourced their teams to ensure that all project sites are fully resourced at any point in time.

Having had experience in the schools building programme, IDD was able to facilitate the supply of equipment giving assurance that once goods are delivered, IDD would pay within 14 days. Suppliers had to fast-track the delivery of long lead items.

IDD had to facilitate regular meetings with the management contractors, the client and the receiving hospital management. This assisted in issues being addressed without delay and clear communication lines defined among all parties involved (especially health facilities representatives). All completed tasks had to be signed off by the CEO of the hospital or health facility which gave us assurance that the project has been delivered within expected quality.



Laundry units replaced in Mankweng Hospital.



The Langeni Senior Primary School (SPS) in the Libode Education District of the Eastern Cape is an example of a school that the DBSA has successfully completed within an 11-month construction period. The school, comprising seven classrooms, a Grade R classroom, media centre, science lab, nutrition centre, administration block, ablution facilities and external structures, was handed over at the end of April 2014 and was practically completed by the beginning of March 2015. Various contractors have been able to meet to the challenge of accelerating construction activities.

The project sites are deep in the rural areas of the Eastern Cape with poor access roads. The contractor familiarised himself with the area before construction commenced. In order to make the project a success, the contractor planned around the poor site location and devised solutions for the challenges at hand. Once appointed, the contractor completed a resource plan and used capable technical personnel within his team to do proper scheduling and planning. It is critical that contractors have skilled personnel able to do scheduling and resource planning. The contractor could quickly assemble core staff and mobilise workers without delay. This also enabled the contractor to order material on time.

The contractor had also built strong relationships with reliable buyers and material suppliers which enabled him to secure scarce material. A positive factor for the contractor was that he was able to split units of special deliveries using 4x4 trucks, cranes, etc. to assist with quick and easy access for delivering and offloading material, even if terrain was difficult as a result of rains in the Eastern Cape. Proper scheduling also assisted with proper cash flow planning and forecasting. It was important that the contractor had sufficient financial resources to do this in line with his Construction Industry Development Board (CIDB) grading.

To maintain a high quality of construction, the contractor also had capable site agents which made the task of construction much easier. There was mutual respect between the site agent and the workers. Senior directors of the contracting company were in contact with the site on a daily basis. They physically visited the site and coordinated work and planning items in the sites.

The value contribution by the IDD's development facilitators also played a critical role. The contractor found it easy to work as the development facilitators had set up project steering committees including the chief, chairperson of the school governing body and local councillor as members. It was also easy to gain respect of the steering

committee and the community at large when the contractor was honouring commitments made to local labour.

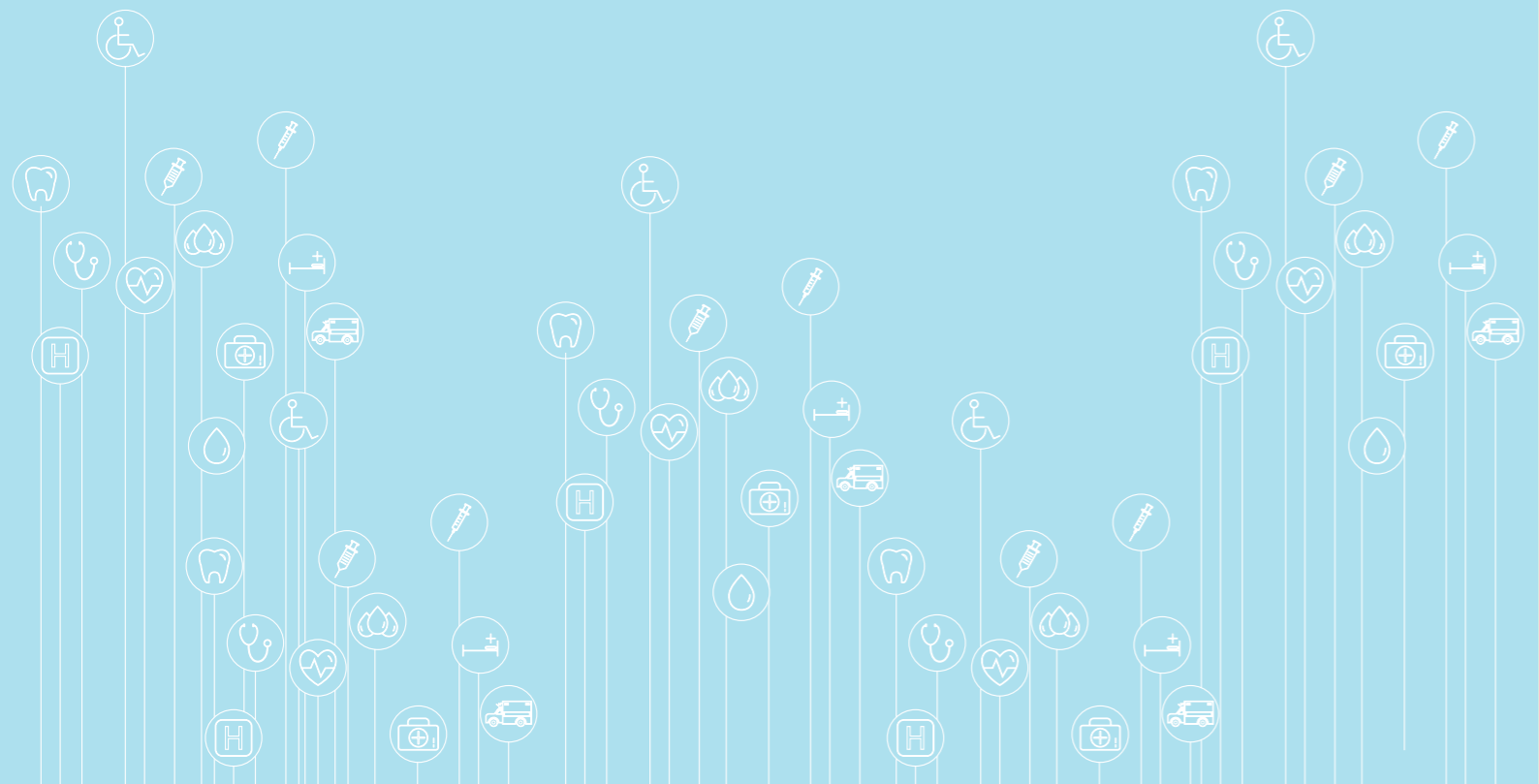
These lessons will be shared with other contractors who are in our projects so that they replicate the model. These lessons have also assisted the IDD team in improving the management of other sites that are currently in implementation.

Langeni SPS will soon be officially opened to 174 learners from the area.



DEVELOPMENT CASE STUDY
EDUCATION - ACCELERATED DELIVERY FROM A CONTRACTOR POINT OF VIEW

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6 xyz %
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INFRASTRUCTURE DELIVERY (CONTINUED)

COORDINATING PROGRAMMES

The Infrastructure Delivery 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 approved 18 strategic integrated projects (otherwise known as SIPs), each one made up of a large number of infrastructure components, to support economic development. The DBSA was 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 and sanitation and 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 (PICC). Among the key stakeholders with whom we engage are Eskom, the Council for Scientific and Industrial Research, the South African National Roads Agency Limited, 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.

During the year, the DBSA presented the consolidated business plan to the PICC Technical Task team and obtained approval from the task team. The division will be presenting the 23 district plans to the various districts during the first quarter of the new financial 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. For the year, programme income amounted to R156.3 million,



**HEALTH
EDUCATION
HOUSING**

representing 112% of programme expenditure of R139.9 million. Net income amounted to R16.2 million (2014: R12.0 million).

OUTLOOK

The demand for quality infrastructure to South Africa's communities remains extensive. We see numerous opportunities to assist in the delivery of infrastructure and build on the lessons learnt to date. We are, however, realistic about the challenges we face. These include delays in decision-making by our clients, the poor performance of some of our contractors, a lack of a culture of innovation and the 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.

Over the next few years we will seek to significantly increase our portfolio under management, but not at the expense of providing quality infrastructure to our communities. In the year ahead, we will focus on bringing these projects into full implementation and some to completion. We will further continue work to improve our systems and processes to respond effectively to the various market needs.

CORPORATE SERVICES

459 permanent and fixed-term contract employees (2014: 425)

88 fixed-term contractors for selected programmes and agencies (2014: 141)

65.5% black representation (2014: 68%)

Staff retention ratio of **90.0%** (2014: 90.1%)

R28.4 million disbursements per employee (2014: R30.0 million)

INVESTING IN OUR MAJOR ASSET - OUR EMPLOYEES

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.

EMPLOYMENT

The DBSA has 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 to 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.

Staff retention remained a crucial focus area and the Board approved various retention incentives for critical skills in the year. The retention rate of critical skills was 90.0% (2014: 90.1%) at the end of March 2015 against target of 90%.

DBSA permanent headcount at 31 March 2015

Division	Budgeted headcount	Actual headcount including offers accepted	Number of vacancies	Vacancy level (%)
South Africa Financing	82	77	5	6
International Financing	34	31	3	9
Financing Operations	107	101	6	6
Finance and Treasury	61	46	15	25
Office of the Chief Executive	27	26	1	4
Strategy	34	32	2	6
Risk	43	40	3	7
Corporate Services	104	100	4	4
DBSA (excluding IDD)	492	453	39	8
Infrastructure Delivery	136	94	42	31
Total, including IDD	628	547	81	13

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.

In establishing the numerical employment equity goals for the DBSA, the methodology, key challenges, lessons learnt, potential growth rate of the DBSA, benchmarks and the B-BBEE scorecard have been taken into consideration in setting the target to 2017. The key focus is to improve or set realistic targets to ensure the DBSA has a representative workforce.

CORPORATE SERVICES (CONTINUED)

Summary of the DBSA's EE goals to 2017

Occupational categories	Black			Black female		
	FY2015 %	FY2016 %	FY2017 %	FY2015 %	FY2016 %	FY2017 %
Top management	80.0	80.0	80.0	48.0	49.0	50.0
Senior management	59.0	60.0	60.0	30.0	35.0	40.0
Mid management and professionally qualified	73.0	74.0	75.0	40.0	40.0	40.0
Junior management and skilled technical	75.0	78.0	80.0	40.0	43.0	45.0
Semi-skilled	94.0	94.0	94.0	47.0	50.0	55.0
Unskilled	100.0	100.0	100.0	92.0	92.0	92.0
Total	79.0	80.0	80.0	45.0	47.0	50.0

It must be noted that the target for black top management and mid management professionally qualified employees has been adjusted downwards from 85.7% to 80% and 88.1% to 75% respectively. These targets have been adjusted taking into consideration the lack of available skills in the labour market and the time constraints in developing these skills.

These targets will be revised in 2017, when the next plan is developed.

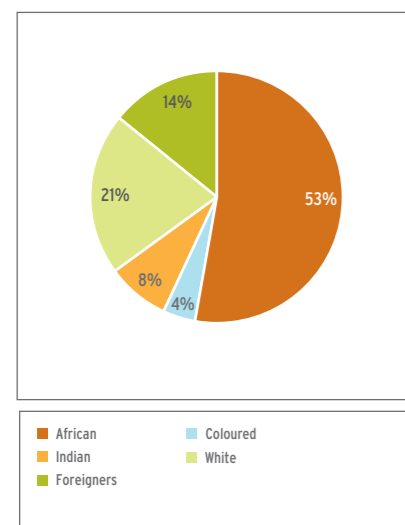
The target for black employees living with disabilities has been increased to 3%.

Total actual workforce by employment type and designated group, split by gender, as at 31 March 2015 was as follows:

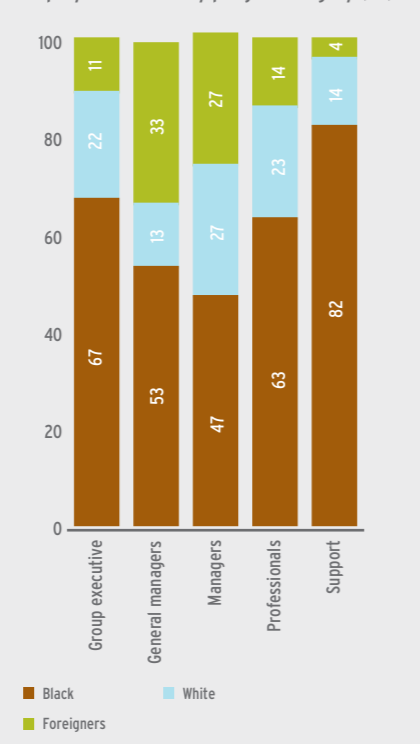
Job category	African	Coloured	Indian	White	Foreign national	Total	Female	Male
Group executives	4	0	2	2	1	9	3	6
General managers	6	0	2	2	5	15	5	10
Managers	14	1	6	12	12	45	15	30
Senior professionals	107	7	22	55	33	224	84	140
Professionals	78	6	10	28	19	141	74	67
Support	84	7	1	16	5	113	85	28
Total	293	21	43	115	75	547	266	281
Percentage (%)	53	4	8	21	14	100	49	51
Employment equity target(%)	67			23	10	100		

Note: includes agencies that are contracted by the DBSA.

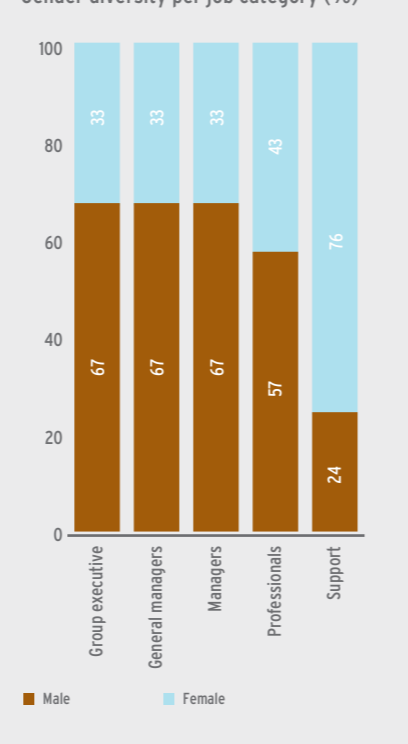
Employment diversity (total)



Employment diversity per job category (%)



Gender diversity per job category (%)



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 48 to 49 of this report.

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 3% 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 field 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 skill.

During the year, R13.8 million (2014: R5.4 million) was invested in staff training, supporting 556 employees (275 women and 281 men) in 2 304 interventions. Of the total, 65% (2014: 64%) of the employees trained were from the black designated group. 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 11 managers enrolled in and completed the Leadership 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. A targeted wellness programme may therefore help to improve not only the DBSA's financial performance, but also the health and sustainability of our communities in the long term. The Bank will continue to increase the level of participation in these offerings and is currently reviewing its Wellness Programme, in which it invested R381 000 (2014: R726 000) in the year.

In addition, R49 400 worth of wellness interventions were sponsored by external agencies.

The DBSA Employee Wellness Programme provides independent support and services to all staff and management. These include amongst others the following:

- Psychological and trauma counselling support.
- Telephone counselling and support.
- Face-to-face counselling.
- Access to online support services.
- Legal counselling and support.
- Financial counselling and support.
- Referral services.
- Management support services.
- Absenteeism and incapacity consultancy.
- Employee wellness training interventions.
- Ad-hoc on-site interventions.

The Independent Wellness Services Provider for the DBSA is the Careways Group (since October 2014) and was previously the ICAS Group. The DBSA has an onsite clinic that is managed by a full-time nurse.

A summary analysis of the utilisation of the Employee Wellness Programme and the clinic facilities utilisation is as follows.

Wellness Engagement Programme

A total of 226 employees participated in the employee wellness programme for the 2014/15 financial year. The most commonly presenting problem cases were as follows:

- Relationship issues.
- Personal development.
- Stress.
- Health and lifestyle.
- Mental illness and psychiatric.
- Organisational issues.

DBSA clinic facilities

The DBSA clinic is well utilised by the employees. The clinic provides basic medical services enabling employees to utilise these services without staying away from work. The clinic provides employees with the opportunity to test vital healthcare signs such as high blood pressure and diabetes. In addition the clinic takes care of the legislative

ENVIRONMENTAL AND SOCIAL COMMITMENT (CONTINUED)

ENVIRONMENTALLY SUSTAINABLE OPERATIONS

The DBSA's Environmental Policy and Environmental Framework requires 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 line with the Constitution of the Republic of South Africa, particularly Section 24 - the environmental rights, the Bank is committed to providing an environmentally safe work place for its employees and to minimising environmental impact. Consequently, the Bank actively seeks to reduce its direct environmental impact on the biophysical environment, namely: air, land and water from all its operations and activities.

In addition, the Bank has developed (and continues to refine) its environmental appraisal procedures (EAPs), 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, to direct them in how to approach and implement environmental appraisals and due diligence at the Bank. 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.

With regard to its operations, the major environmental aspects that the Bank is working towards reducing its impact on include, in order of magnitude of impact:

- Energy demand management and generation of energy from renewable energy sources.
- Business travel management.
- Office paper use and recycling.
- Solid waste generation and recycling.
- Water consumption reduction.
- 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 24 ha (246 125 m²) 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.

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.

PAPER RECYCLING AND OUR SMART-PRINTING PROGRAMME

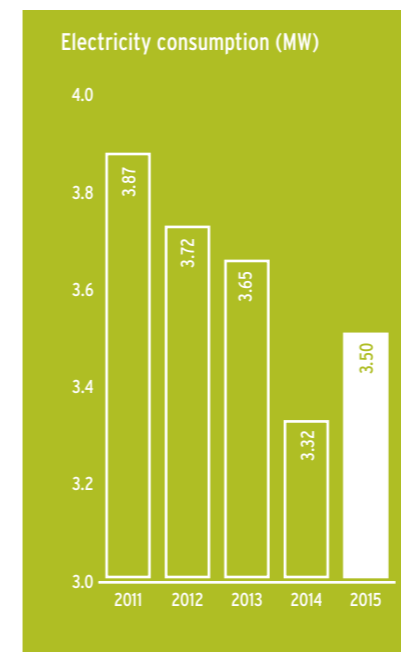
We are making good progress with our programme to recycle paper, which was introduced in July 2011. For 2015, the target was to recycle 15% of the paper we used. However, we exceeded this target, mainly as a result of recycling old documentation and files.

Paper usage and recycling

	2015	2014
Paper used during the year	25 tons	22.3 tons
Paper recycled during the year	36.4 tons	27.8 tons
Percentage recycled	146%	125%

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 2015, the Bank's energy consumption increased marginally from 3.32 MW to 3.50 MW. Since 2007, the DBSA has reduced its direct electricity consumption by 56%. As a responsible corporate citizen, aligned with global imperatives, we have set an aspirational target to improve our non-renewable energy efficiency by 10% in the short to medium term.



WATER

The DBSA is committed to being a responsible custodian of water by measuring, monitoring, managing and reporting 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.

Water-wise initiatives include the following:

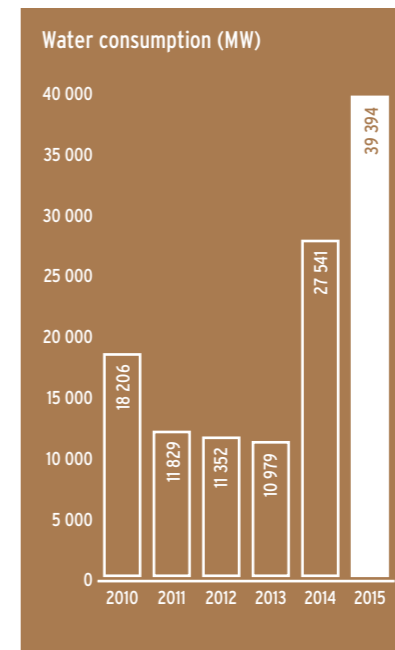
- Uprooting alien vegetation.
- Planting only indigenous trees.
- Installing dry urinals in the men's bathrooms.

Total water used on the DBSA campus from municipal water sources is reflected in the graph to the right. During the year, we noticed a marked increase in the average monthly water consumption. The increase in water usage was mainly as a result of the following reasons:

- The Bank was previously charged tariffs as an "under-developed" site and during the year the City of

Johannesburg amended the tariff structure to a "developed" site.

- The Bank was previously only billed on one meter, whilst two meters had been installed on the DBSA campus. During the year the council corrected the anomaly and back-dated the charges for three years.



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. Additional information regarding the Bank's estimated development impact is reflected on pages 15 as well as the respective operational reports.

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 2 contributor (2014: Level 3) and achieved a total score of 88.16 out of 100 on its latest B-BBEE assessment.

B-BBEE score per element

	2015		2014	
	Weighting (%)	DBSA score	Weighting (%)	DBSA score
Management and control	15	16.00	15	16.00
Employment equity	15	10.67	15	11.63
Skills development	20	11.96	20	9.97
Preferential procurement	20	19.53	20	15.56
Enterprise development	15	15.00	15	15.00
Socio-economic development	15	15.00	15	15.00
Total	100	88.16	100	83.16

CHIEF FINANCIAL OFFICER'S REPORT



Kameshni Naidoo
Chief Financial Officer

The Bank achieved operating profit of R1.2 billion (2014: R787 million), an increase of 54.3% from the prior year. Sustainable earnings increased by 116% to R808 million (2014: R374 million).

MEETING THE DBSA'S STRATEGIC OBJECTIVES

The Bank delivered a solid set of financial results for the year ended 31 March 2015, given that the macro-economic environment was a mixed bag of positive and negative factors. The year was characterised by a high volatility in the foreign exchange rate, rising interest rates, improvement in the US economy, decrease in the oil price and inflation, as well as wildcat strikes in the mining sector.

We made significant strides towards our strategic objective of maintaining financial sustainability in order to continue to achieve our desired development impact. This progress is reflected in the key indicators of return on equity, quality of earnings, a more diversified product base, growth in income and cost containment.

Project preparation and product diversification remains a priority to support our disbursement growth aspirations. The business is supported by a pricing approach that drives the achievement of financial sustainability. As the Bank is not a deposit-taking institution, we continue our efforts 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 and foreign exchange risk through a portfolio of derivative instruments.

STRONG FINANCIAL PERFORMANCE

Refer to the Statement of Comprehensive Income on page 121 of this report.

NET INTEREST INCOME

Interest income increased by 16.4% to R5.3 billion (2014: R4.6 billion), while the Bank's interest expense increased by 20.7% to R3.0 billion (2014: R2.5 billion), resulting in an increase in net interest income by 11.3% to R2.3 billion (2014: R2.1 billion). This continues the growth achieved in the previous year. Interest income received in cash during the year represents 93.1% of total interest income.

The Bank continued to manage its average cost of borrowing despite an increase in credit spreads on new funding, credit downgrade of the Bank (in line with the downgrade of the sovereign ratings) and a 25 basis points increase in the repo rate.

Overall the net interest margin eased slightly to 43.6% (2014: 45.6%), mainly as a result of a decline in margins earned due to tight pricing of some deals and the impact of the delayed International Financing disbursements.

NON-INTEREST REVENUE

Following a successful 2014 during which the Bank generated significant non-interest revenue of R579 million, the Bank recorded R373 million during 2015. The prior year non-interest revenue was boosted by fees earned on disbursements in the International Financing space and REIPPs.

NET EXCHANGE GAIN

The Bank benefited from the depreciation of the rand from R10.52:US\$1 at the beginning of the year to R12.13:US\$1 at year-end, recording R490 million in foreign exchange revaluation profits (2014: R280 million). This was largely driven by the Bank's dollar asset net open position.

IMPAIRMENTS

The strength and the quality of the development loan book continues to be within acceptable levels and recoverability from the loan book is regularly reviewed. The impairment charge marginally increased to R743 million (2014: R735 million) from the prior year in tandem with growth in loan book portfolio. Refer to the development loans section for further detail.

EXPENSES

The Bank's cost management strategies continue to bear fruit with the overall cost-to-income ratio of 34.4% (2014: 28.5%). The ratio increased from the prior year due to an active strategy to capacitate key skills required to support our business growth.

The Bank provided R35 million in development expenditure significantly up from the R1.6 million provided in 2014. We celebrate the achievement in

our disbursement to secondary and under-resourced municipalities with an increase in our development expenditure. We see our strategy unfold to support municipalities that are at the heart of service delivery to communities that need it the most. This pipeline is healthy with over R33 million of expenditure to be unlocked in 2015/16. The success in these municipalities is dependent on the continued support from the National Treasury.

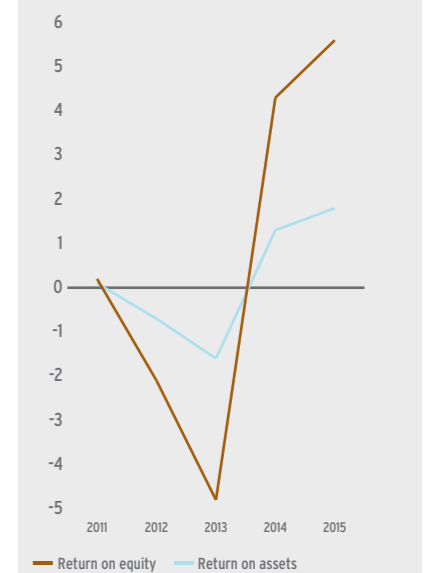
Investment from own sources into project preparation activities totalled R6.1 million (2014: R20.9 million) for the year, whilst R396 million was unlocked from partners. It is anticipated that the Bank will significantly increase its own investment in preparation activities in the year ahead. Up to R200 million has been allocated from our own resources to support this business strategy. We are ramping up to play our catalytic DFI role of increasing bankable infrastructure projects.

NET PROFIT AND SUSTAINABLE EARNINGS

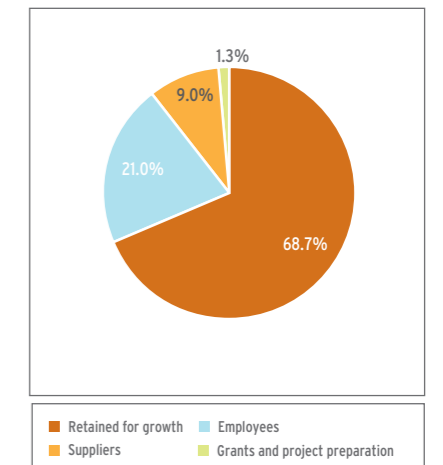
The Bank achieved operating profit of R1.2 billion (2014: R787 million) an increase of 54.3% from the prior year. Sustainable earnings increased by 116% to R808 million (2014: R374 million). Sustainable earnings (including revaluations on equity investments but excluding fair value adjustments on other financial instruments and foreign exchange gains and losses) are the normalised earnings of the Bank and more accurately reflect the operational performance. This represents a key milestone in the achievement of financial sustainability.

A return-on-equity of 5.7% was achieved, on target in terms of our financial model and provides a sound platform to exceed growth in our disbursements for 2015/16. This is a substantial improvement on the 4.3% achieved in the prior year whilst the return on assets increased to 1.8% (2014: 1.3%).

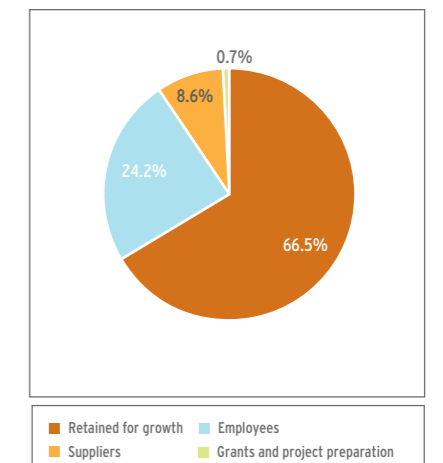
Return on equity and return on assets (%)



2015 distribution



2014 distribution



Value added statement

	2015		2014	
	R'000	%	R'000	%
Interest income	5 327 312		4 576 209	
Interest expense	(3 002 929)		(2 487 759)	
Wealth created by trading operations	2 324 383		2 088 450	
Fee income	232 928		334 630	
Foreign exchange gain	489 673		279 945	
Loss from financial assets and financial liabilities	(299 832)		(629 496)	
Other operating income	139 971		244 074	
Total wealth created	2 887 123	100.0	2 317 603	100.0
<i>Distributed as follows</i>				
Retained growth	1 982 610	68.7	1 540 540	66.5
Impairment loss on financial assets	743 361	25.7	734 871	31.7
Depreciation and amortisation	25 108	0.9	18 627	0.8
Profit for the year attributable to the shareholders	1 214 141	42.1	787 042	34.0
Employees	607 271	21.0	561 597	24.2
Benefits and remuneration	607 271	21.0	561 597	24.2
Suppliers	259 313	9.0	198 464	8.6
Expenses	259 313	9.0	198 464	8.6
Social responsibility projects	37 929	1.3	17 002	0.7
Grants	37 929	1.3	17 002	0.7
Total	2 887 123	100.0	2 317 603	100.0

CHIEF FINANCIAL OFFICER'S REPORT (CONTINUED)

HEALTHY BALANCE SHEET

Refer to the Statement of Financial Position on page 120 of this report.

BALANCE SHEET STRENGTHENING

A key factor in ensuring financial sustainability is to have a strong balance sheet to fund the long-term growth of the asset portfolio. The capital injection by the government therefore aims at increasing the equity capital base to fund growth while ensuring we remain below the prudential debt/equity ratio limit of 250%. It is imperative, however, that in strengthening the balance sheet the Bank achieves resilience, particularly considering the uncertainty of the economic environment globally.

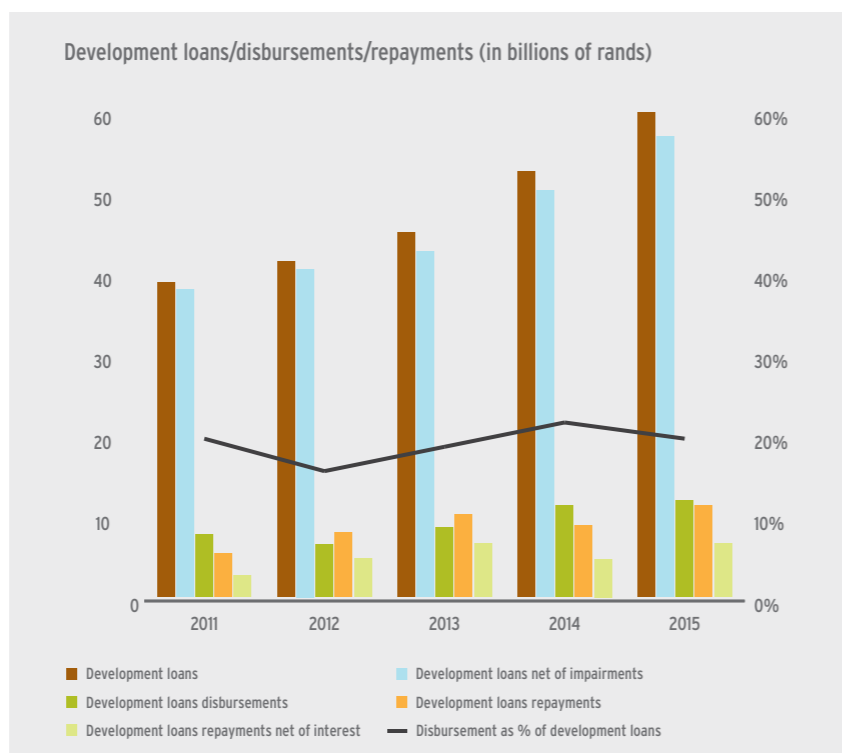
In the year, the strengthening of the balance sheet was aided by the capital injection by the shareholder of R2.5 billion and support from our investor base continues. Investors continue to support our borrowing plan which is a key pillar and building block in sustaining our business objectives. There has been a narrowing of the asset and liability matching gap. The Bank's balance sheet remains asset sensitive and the debt/equity ratio is managed within the 250% limit.

Total disbursements reached R13 billion (2014: R12.7 billion), a new record high. Municipalities, state-owned entities and participants in the IPP 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 and crowding in the private sector for greater development impact. This achievement can be seen in the private sector participation in the IPPs and the competition/competitive bidding in the latest REIPP round.

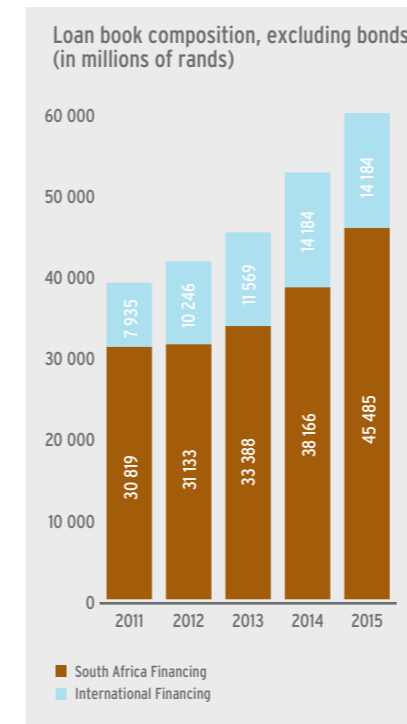
DEVELOPMENT LOANS AND BONDS

Development loans increased by R7 billion during the financial year on the back of R11.9 billion in disbursement, R4.8 billion in interest capitalised, R1.8 billion in foreign exchange adjustments and R11 billion in repayments. The top 10 loan disbursements for the year accounted for 70% of the total disbursements.

The graph below reflects gross and net development loans, disbursements and repayments over the past five years.



The total loan book increased by 13.8% to R59.7 billion (2014: R52.4 billion). The South Africa Financing division experienced growth of 19.2% and the International Financing division decreased by 1% to R14.2 billion.



As part of our product diversification approach, some development loans were structured as development bonds, commencing with R750 million in the prior year and R502 million in the current year. The development bond portfolio is designated as 'held to maturity' and 'held at amortised cost' in support of balance sheet strengthening in maintaining appropriate levels of volatility introduced by fair value designation.

IMPAIRMENTS AND THE QUALITY OF THE LOAN BOOK

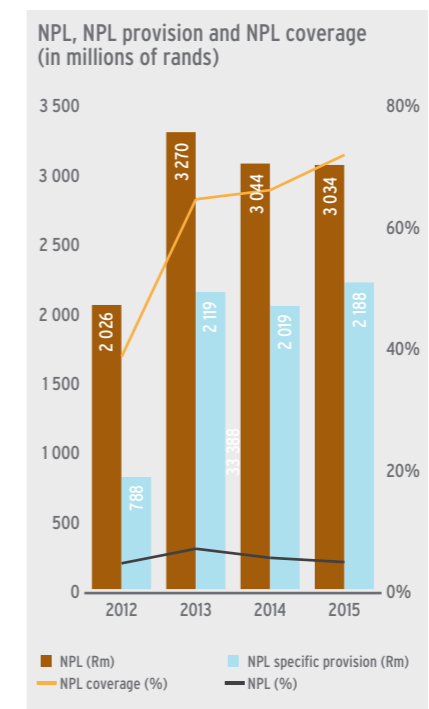
The impairment charge marginally increased from prior year consistent with our strong growth in the loan book. This reflects a better and active management of impairments. The non-performing loan percentage shows a decreasing trend since 2013.

The strength and quality of the development book continues to improve and a significant part is rated as medium risk. In line with the Bank's credit review process, the recoverability from the loan book is assessed regularly. Based on the detailed assessment conducted, the non-

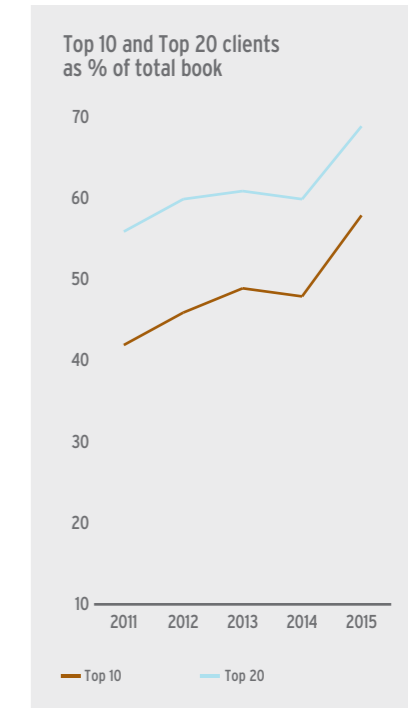
performing development loan book at R3.0 billion remains consistent with 2014 and the impairment provision increased to R2.9 billion from R2.4 billion. At 5.1% (2014: 5.8%), the value of non-performing loans (NPLs) as a percentage of the gross development loan book is within an acceptable level of 6%. The increase in the impairment level in 2015 continues to be in line with the new recovery rates, changes in risk ratings and specific impairment considerations. There has been an increase in portfolio impairment and specific impairments have stabilised. This swing in trend is pleasing, showing that there is no compromise in improving the bottom line.

Provisions against NPLs (specific impairments) increased from R2 billion to R2.2 billion in the year and the NPL coverage ratio increased from 66.3% to 72.1%. 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 R355 million to R743 million (0.7% of the performing loan book) to R743 million (1.3% of the performing book), mainly attributable to the growth in the loan book.

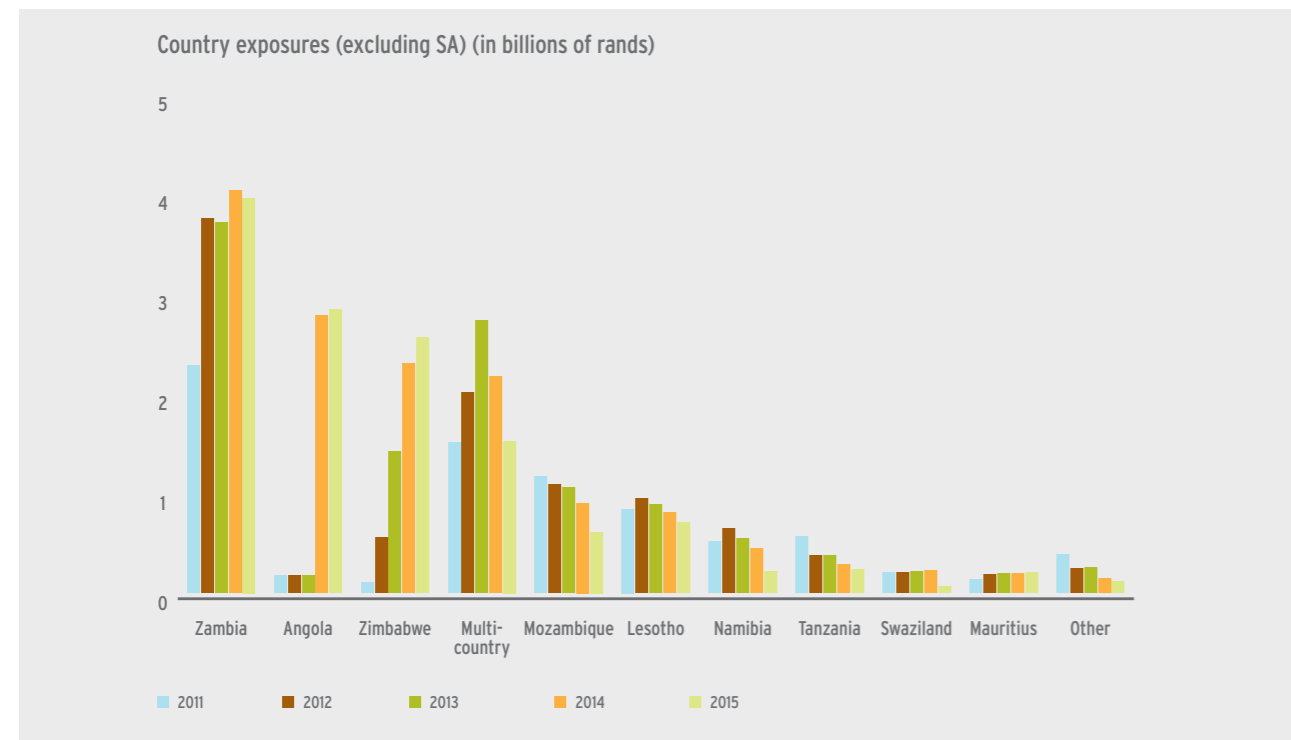


As detailed in the following graph, the Bank's top 10 and top 20 exposures comprised 58% (2014: 48%) and 69% (2014: 60%) of the total book respectively. The level of concentration in these obligors has increased over the past year.



Zambia, with R4.3 billion (2014: R4.0 billion), remains the country outside of South Africa to which the DBSA's exposure is the highest. Angola with R2.8 billion (2014: second with R2.8 billion) and Zimbabwe with R2.6 billion (2014: third with R2.3 billion) are the countries to which the DBSA had the second and third highest rest-of-Africa exposure. Outside of these top three countries, the Bank's exposure to other countries has declined or remained fairly consistent. Refer to the graph overleaf.

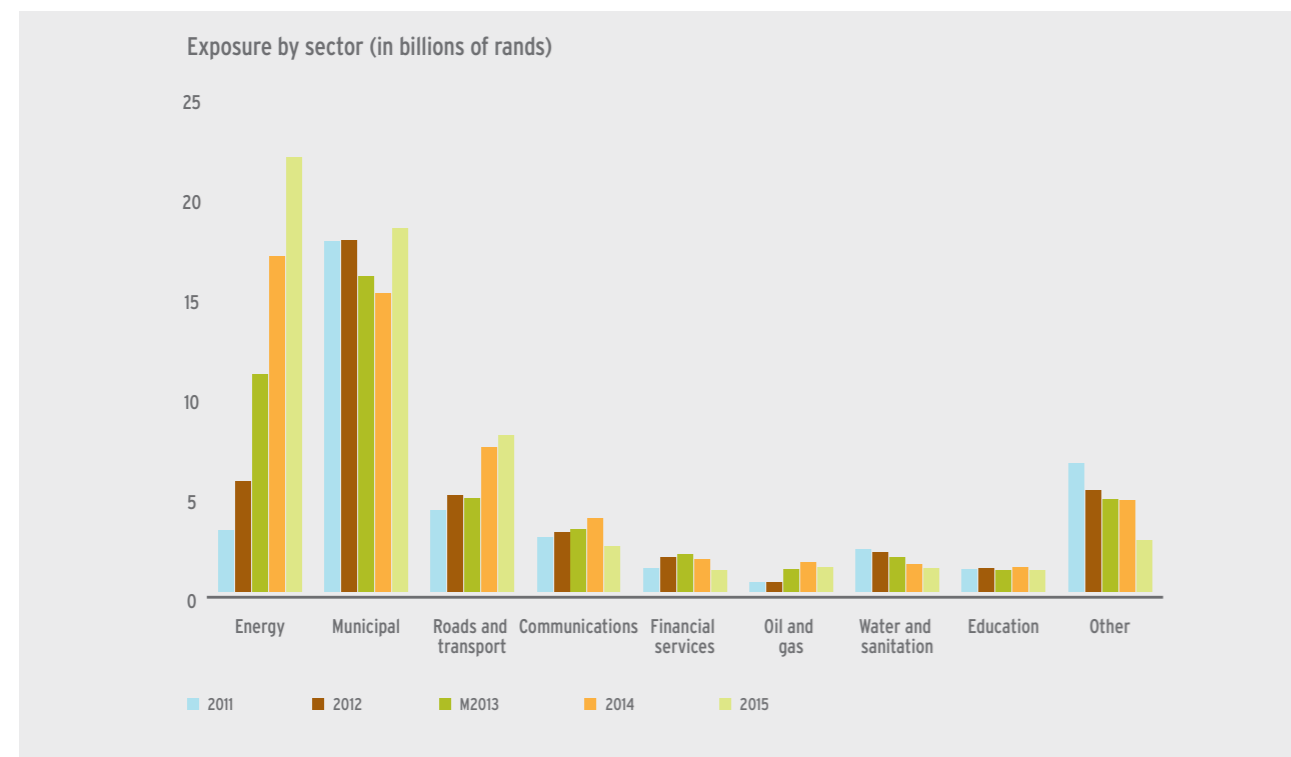
CHIEF FINANCIAL OFFICER'S REPORT (CONTINUED)



The Bank's exposure to the energy sector at year-end was R21.8 billion (2014: R16.8 billion), representing 36.9% (2014: 31.6%) of the total portfolio. Exposure to the roads and transport sector increased to R7.8 billion (2014: R7.2 billion). Our investment in the energy sector is in line with the economic challenges facing South Africa. It is anticipated

that our role will evolve over the next 20 years towards the transport and water security segments.

Direct loan exposure to municipalities, excluding bonds, increased in the year from R15.0 billion to R18.2 billion, and water based projects of R1.2 billion.



EQUITY INVESTMENTS

The Bank's equity investments increased by 10% during the current year to R5.1 billion (2014: R4.6 billion) on the back of disbursements on commitments made in prior periods.

The revaluation losses on the equities portfolio decreased by 72% from R778 million in the prior year to R219 million. Given that the Bank remains concerned about the performance of its investments in private equity, going forward the Bank will monitor the volatility in investment valuation, consolidate and exit investments where there are performance issues or where there is no strategic fit with the Bank's strategy. The Bank continues to have a commitment of R1.9 billion (2014: R1.9 billion) in existing equity projects.

DERIVATIVE ASSETS AND LIABILITIES HELD FOR RISK 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 and our risk management strategies. While much of the resulting interest rate and exchange 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.

As part of the Bank's risk management approach, the DBSA uses swaps and foreign exchange contracts as hedging instruments. The use of swaps was effective in managing the risk and achieving the strategic intent relating to financial sustainability. Derivative assets decreased from R1.3 billion to R1.0 billion during the year, mainly due to the upward shift in the yield curve and exchange rate movements.

LIQUID PORTFOLIO

The Bank has sufficient liquidity to meet all financial obligations on a timely basis. Access to capital markets is aligned to the state owned entity auction calendar.

The Bank's liquidity portfolio is made up of cash and liquid assets that meet the criteria for high quality liquid assets. At 31 March 2015, the portfolio stood at R5.9 billion (2014: R6.3 billion).

Liquidity management is a key focus area for the Bank's treasury department. In January 2015, the Board approved a new policy for liquidity risk management. The new policy aims to make the Bank more resilient to any liquidity event.

The Bank is not governed by the Bank's Act and the Basel III regulations, but the Bank seeks to adopt best practice in the management of liquidity risk. At a minimum, the Bank holds liquidity equal to or higher than the highest monthly average disbursements over the previous four quarters. In addition, the Bank keeps enough liquidity to survive a 30 day liquidity event along the liquidity coverage ratio (LCR) guidelines (minimum 30 day LCR ratio of 100%).

Long term funding mismatches are managed according to the net stable funding (NSF) ratio guidelines (Basel III measure to promote use of stable funding). As at 31 March 2015, the Bank meets the 100% minimum requirement for the NSF ratio.

WORKING CAPITAL

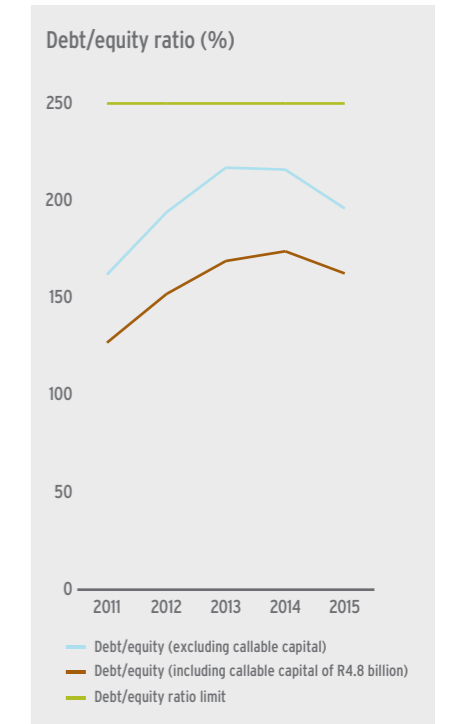
The Bank continues to manage its working capital closely for operational cash flow purposes. In addition, the Bank manages working capital for the operations, agencies and mandates that remain after the winding down of the Development Fund. Trade creditors and sundry debtors are made up mainly of transactions between the Bank and agencies. Comprehensive disclosure is provided in notes 6 and 17 to the Annual Financial Statements. At the end of the financial year, 95% of total debtors related to debtors in the Infrastructure Delivery division. We expect this trend to continue as stakeholders see value in our ability to assist in delivering and implementing infrastructure solutions at scale.

EQUITY

The Bank received a R2.5 billion capital injection from National Treasury during the year. This significantly assisted in enhancing the Bank's capital adequacy and supporting growth in our disbursements.

Millions	2013	2014	2015
Equity and reserves (excluding capital injection)	16 706	17 501	18 783
Capital injection	-	2 400	4 900
Total	16 706	19 901	23 683

The debt/equity ratio has decreased to 195.7% from the prior year of 216.3% due to capital injection received from National Treasury as well as the impact of the profit generated for the year.



* Callable capital was increased to R20 billion during 2015 from R4.8 billion

FUNDING LIABILITIES

The Bank's Treasury unit has transitioned from a passive to an active environment which has resulted in improved risk management, increasing yield enhancements and minimising the cost of debt in an increasing interest rate environment. In addition the balance sheet strengthening strategies adopted have prevented R600 million in cash flows leaving the Bank and leakage of EUR6 million in cancellation costs. Funding includes drawing on

CHIEF FINANCIAL OFFICER'S REPORT (CONTINUED)

lines of credit from local and international banks and development financial institutions, capital market issuances (bonds), money market issuances (commercial paper and bridging bonds) and private placements. Actual funding and compensation of the funding sources to which the Bank has access are driven by expected disbursement outcomes, market demand for DBSA paper, asset and liability portfolio management and pricing considerations. As part of the strategy to diversify funding sources the Bank's treasury management function continually monitors markets both domestically and offshore in order to identify opportunities to lower the Bank's borrowing cost whilst at the same time expanding the universe of investors and lenders in order to secure access to the quantum of funding required on a timely and cost effective basis.

Funding liabilities increased by R3.1 billion during the financial year, compared to a R7.7 billion increase in development assets. The difference was covered mainly by the capital injection of R2.5 billion received from National Treasury and operational cash flows. Debt securities amounting to R6.8 billion are measured at fair value, whilst the remainder are measured at amortised cost.

The projected funding sources comprise funding from the domestic capital market, local and international commercial banks, development finance institutions and money market (as part of the asset-lead-liability-lag strategy). Specific tenors and interest rate bases (fixed vs. floating) for new long-term debt issuance are driven by investor demand, market conditions, building the Bank's funding curve, demand/supply imbalances, asset and liability portfolio management and their associated cost impact at the time of issuance. Any new funding will be sourced and structured to achieve better matching of assets and liabilities and to reduce the cost of funding.

The Bank was more active in the capital markets and conducted 11 auctions during the year and widened the investor base that includes small and



mid-size asset managers, through more frequent investor engagement.

Commercial paper issuances, money market funding and revolving credit facilities have been used primarily as part of the asset-lead-liability-lag strategy, which resulted in diversification of funding and minimising the cost of debt. The Bank's domestic medium term note (DMTN) programme registered with the Johannesburg Securities Exchange stands at R35 billion, of which R7.3 billion remains available.

Committed borrowing facilities from foreign DFIs and with commercial banks remain pivotal in the Bank's efforts to diversify the Bank's medium- to long-term funding strategy and in achieving the desired asset and liability matching. These facilities form the main source of foreign borrowings for the DBSA. The level is driven by the anticipated need for foreign currency funding towards on-lending in SADC region and to the extent to which commitments are made to South African projects eligible for specific foreign currency denominated lines of credit.

New facilities with DFIs and commercial banks are currently being negotiated and are subject to agreement on key

terms and pricing. A total of R4.65 billion equivalent is currently available from committed facilities as at 31 March 2015.

Foreign borrowings are utilised to match fund loan book assets to minimise the foreign currency risk and to obtain cost efficient funding. The source of the foreign borrowings will be from foreign DFIs and local and international commercial banks. Opportunities for offshore public debt issuances are continuously evaluated to identify opportunities to reduce the cost of funding and to diversify the investor base in support of the revised DBSA strategy.

The Bank has obtained a foreign currency borrowing limit with the Minister of Finance in terms of section 66.7(b) of the PFMA as follows:

- R17 billion** for the 2015 financial year
- R22 billion** for the 2016 financial year
- R26 billion** for the 2017 financial year

POST-RETIREMENT MEDICAL PROVISION

A gap of R101 million exists between medical provision assets and liabilities and efforts to close the gap are continuing. The Bank is focusing on increasing the return on the investments and identifying additional cash resources to boost the investment portfolio.

OUR CREDIT RATINGS

Credit rating reviews were conducted by Standard and Poor's (S&P's), Fitch and Moody's. Moody's downgraded the DBSA during the year in line with the downgrade in the sovereign rating. The table below summarises the ratings as at 31 March 2015.

Current DBSA ratings

Ratings	Fitch	S&P	Moody's
Long-term rating - National	AA+(zaf)	-	-
Short-term rating - National	F1+(zaf)	-	-
Long-term rating - Local rating	-	BBB+	-
Short-term rating - Local rating	-	A-2	-
Long-term foreign - Currency	-	BBB-	Baa 2
Short-term foreign - Currency	-	A-3	n/a

Outlooks	Stable	Stable	Negative
Last rating action	Affirmed	Affirmed	Downgrade
Last rating action date	17 Dec 2014	2 Dec 2014	10 Nov 2014

POST-BALANCE SHEET EVENTS

Subsequent to year-end, a Board resolution was passed to increase the DMTN programme limit from R35 billion to R80 billion. No other significant matters post year-end were identified.

OUTLOOK - MAINTAINING FINANCIAL SUSTAINABILITY

The Bank's aim is to achieve maximum development impact by facilitating accelerated infrastructure funding. Our role as a development finance institution is to assume some of the early-stage project risk by helping prepare and finance certain projects and then onselling 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 in the economy.

Financial sustainability remains a key strategic imperative and we will continue to focus on net interest margin, 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, the project preparation investment initiatives and the product diversification of our business proposition which requires us to innovatively fund and crowd in funding for large-scale infrastructure projects.

The R3 billion capital injection in 2016 will support the DBSA to deliver successfully, in terms of both volume and cost effectiveness of infrastructure finance to the respective target markets, especially the municipal market, and ensure that the Bank remains below the prudential debt/equity limit of 250% (including callable capital).

Driven by the Bank's clear financial strategy, the focus of our financial performance for 2016 is as follows:

- Constant net interest margin.
- Cost-containment below target.
- Strong income flows from disbursements targets.

- Ongoing improvement in the quality of assets and management of impairment levels in a challenging economic environment, while maintaining non-performing loans below 6% target.
- Further improvements in the matching of assets and liabilities in terms of both timing and currency.
- Managing the balance between operational, strategic and financial risks.
- Optimising the available forecasting and analytics tools to support decision-making.
- Balanced optimal funding mix across the short, medium and long term.
- Capital management programme to be implemented.

APPRECIATION

We appreciate the significant contributions made by all our stakeholders in the last year, and to name a few key stakeholders underpinning the financial sustainability: from government, through the National Treasury, the investor community and ratings agencies, the banks and DFIs that understand the need to provide concessional funding to maximise our development impact, to the Board for its ongoing wisdom and guidance and our staff for their focused tireless commitment in delivering on our strategy.

Kameshni Naidoo
Chief Financial Officer

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL REPORTING

for the year ended 31 March 2015

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

To enable the Directors to meet their financial reporting responsibilities:

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

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

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

The financial statements that appear on pages 115 to 176 were approved by the Board of Directors on 1 July 2015 and signed on its behalf by:



Phillip Jabulani Moleketi
Chairman of the Board



Patrick Khulekani Dlamini
Chief Executive Officer



Omar Latiff
Chairperson of the Audit and Risk Committee

INDEPENDENT AUDITOR'S REPORT TO PARLIAMENT ON DEVELOPMENT BANK OF SOUTHERN AFRICA

for the year ended 31 March 2015

REPORT ON THE FINANCIAL STATEMENTS

INTRODUCTION

We have audited the financial statements of the Development Bank of Southern Africa as set out on pages 120 to 176, which comprise the statement of financial position as at 31 March 2015, 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 International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

OPINION

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Development Bank of Southern Africa as at 31 March 2015 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 MATTER

We draw attention to the matter below. Our opinion is not modified in respect of this matter.

OTHER REPORTS REQUIRED BY THE COMPANIES ACT

As part of our audit of the financial statements for the year ended 31 March 2015, we have read the Directors' Report and the Audit and Risk Committee's Report for the purpose of identifying whether there are material inconsistencies between these reports and the audited financial statements. These reports are the responsibility of the respective preparers. Based on reading these reports we have not identified material inconsistencies between these reports and the audited financial statements. However, we have not audited these reports and accordingly do not express an opinion on these reports.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

In accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) and the general notice issued in terms thereof, we have a responsibility to report findings on the reported performance information against predetermined objectives for the selected objectives presented in the annual report, non-compliance with legislation and 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 on 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 2015:

- Objective 1: Improve the quality of life of people through the development of social infrastructure on pages 115 to 116.
- Objective 2: Support economic growth through investment in economic infrastructure on pages 115 to 116.
- Objective 3: Support regional integration on pages 115 to 116.
- Objective 4: Maintain financial sustainability on pages 115 to 116.

INDEPENDENT AUDITOR'S REPORT TO PARLIAMENT (CONTINUED)

for the year ended 31 March 2015

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 we raised no material findings on the usefulness and reliability of the reported performance information for the selected objectives, we draw attention to the following matter below.

ACHIEVEMENT OF PLANNED TARGETS

Refer to the annual performance report on pages 115 to 116 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 Public Audit Act.

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.
Sangeeta Kallen CA(SA)
Partner
Registered Auditor
31 July 2015

1 Simba Road
Sunninghill
Johannesburg
2157

DIRECTORS' REPORT

for the year ended 31 March 2015

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 2015.

NATURE OF BUSINESS

The DBSA was reconstituted in terms of the Development Bank of Southern Africa Act, 1997 (Act No 13 of 1997) as a development finance institution wholly owned by the South African government. The geographic mandate of the Bank has been extended beyond the Southern African Development Community (SADC) to any country on the African continent and its oceanic islands. The Bank aims to deepen its development impact in South Africa and the rest of the African continent by expanding access to development finance while effectively integrating and implementing sustainable development solutions.

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 key financial indicators for the year under review are:

- Operating income increased by 24.6% to R2.9 billion (2014: R2.3 billion). Operating income rose on the back of an increase in net interest income (2015: R2.3 billion; 2014: R2.1 billion), a decrease in losses on financial assets and liabilities (2015: R300 million; 2014: R629 million) as well as an increase in net foreign exchange gain of R490 million (2014: R280 million).
- Cost-to-income ratio increased to 34.4% (2014: 28.4%). The DBSA has seen an increase in its cost-to-income ratio due to an active effort to capacitate key skills required to support business growth.
- DBSA returned net profit of R1.214 billion compared to R787 million in 2014.
- Development loans, bonds and equity investments disbursed totalled R13.0 billion, an increase of 3% compared to the R12.7 billion disbursed during 2014.
- Provision for loan impairment increased by 23.4% to R2.9 billion (2014: R2.4 billion). Although the provision for loan impairment increased, the quality of the loan book remains within acceptable parameters with non-performing loans at 5.1% of the total loan book (2014: 5.8%).
- Debt/equity ratio improved to 195.7% (2014: 216.3%).

Summarised information on the financial performance of the Bank is included in the unaudited financial overview section on pages 102 to 109.

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 2015.

The Bank achieved satisfactory results during 2015, meeting most of its strategic objectives whilst the targets for the following key performance indicators were not met:

- Disbursements to social infrastructure in South Africa (actual: R224 million, target: R1.1 billion). The underperformance was largely attributed to the non-materialisation of various planned infrastructure projects.
- Disbursements to countries outside South Africa (actual: R619 million, target: R4.5 billion). Infrastructure development and financing in the region is complex and time-consuming and can take a number of years to reach financial close. Although the Bank approved significant amounts during the year, the conversion to disbursements took longer than anticipated. It is anticipated that many of the projects will convert to disbursements during the new financial year.
- ASIDI schools (actual: 71% of milestones completed, target: 80% of milestones completed). Underperformance due to delays caused by inadequate funds allocated by the Department of Basic Education as well as delays in procurement and appointment of contractors and non-delivery by contractors. At year-end 15 schools had been completed and 48 were under construction.

DIRECTORS' REPORT (CONTINUED)

for the year ended 31 March 2015

PERFORMANCE INFORMATION

Strategic objective	Key performance indicator	Target	Results
Sustained growth in development impact Integrated infrastructure solutions provider (Refer to note 1 below for explanation of refinement in strategic objectives)	Total infrastructure financing	R15 400 million	R13 025 million
	South Africa	R10 900 million	R12 406 million
	Municipalities	R4 500 million	R5 439 million
	• Metropolitan cities	R3 000 million	R3 671 million
	• Secondary municipalities	R1 200 million	R1 279 million
	• Under-resourced municipalities	R300 million	R489 million
	Social infrastructure	R1 100 million	R224 million
	Economic infrastructure	R5 300 million	R6 743 million
	Outside South Africa	R4 500 million	R619 million
	Project preparation		
	Value of projects prepared	R3 000 million	R6 388 million
	Planning and implementation support to municipalities		
	• Planning: Number of infrastructure plans completed and accepted by the respective municipalities	3	3 plans completed in line with agreement with respective municipalities
	• Project implementation: Completion of critical milestones for mandated programmes	80% of milestones completed	82% of milestones completed
	Implementation and delivery support programmes		
	• Education	80% of milestones completed	71% of milestones completed
	• Health	80% of milestones completed	97% of milestones completed
	• Housing	80% of milestones completed	100% of milestones completed
	• Implementation support to SIP 6, National Integrated Municipal Infrastructure Programme	Consolidated business plans	Consolidated business plans completed and accepted
	Client and partnership satisfaction	Conduct survey	Rating of 4.2 out of 5
Maintain financial sustainability	Sustainable earnings	R577 million	R808 million
	Net profit	R500 million	R1 214 million
	Return on average equity	2.0%	5.7%
	Non-performing loan book (after specific provisions)	3.3%	1.9%
	Cost recovery/fees generated on delivery projects	100%	112%
Provide innovative infrastructure solutions	New product development	Pilot syndication product	Pilot syndication product approved by Board
	Effectiveness of business intelligence and knowledge management process	Effectiveness of implementation measured through internal survey	Rating of 3 out of 5
Continuous improvement of internal systems and processes	Cost-to-income	42.0%	34.4%
Create and maintain high performance culture	Development and retention of key skills	Retain 90% of key skills	90% of key skills retained
	Leadership development as part of succession planning programme	• Coaching programme implemented for identified Group Executives and General Managers • Approval of succession plan	100% completed
	Implementation of culture change initiative	80% of milestones completed in line with project plan	80% completed

Note 1: As part of the DBSA's annual strategic review process and finalisation of the 2015/16 DBSA Corporate Plan, the Bank refined its mandate and strategic objectives, as defined in the approved 2014/15 Corporate Plan, and collapsed the following strategic objectives: "Improve the quality of life of people through the development of social infrastructure", "Support economic growth through investment in economic infrastructure", "Support regional integration", "Infrastructure delivery support and programme implementation" and "Provide excellent client service" into "Sustained growth in development impact" and "Integrated infrastructure solutions provider". All related key performance indicators were also collapsed into the two objectives. In addition the Bank's mandate statement was updated to incorporate elements of the desired outcomes sought. Refer to pages 10 and 11 for an overview of the Bank's vision, mission and strategic objectives. No changes were made to any key performance indicators or targets as approved in the 2014/15 Corporate Plan. For presentation purposes the balanced scorecard reflected above has been updated to reflect the alignment of the strategic objectives to the respective key performance indicators and targets.

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

Under the Amendment Act, the Bank's authorised capital has been increased to R20.2 billion, which is divided into two million and twenty thousand ordinary shares of R10 000 each.

Furthermore, the authority of the Board to increase the share capital (after consultation with the shareholders) is limited to the issued share capital and only the Minister has authority to adjust the authorised share capital, after consultation with the Board.

AUTHORISED CAPITAL

2 020 000 ordinary shares (2014: 500 000) at par value of R10 000 each.

CALLABLE CAPITAL (AUTHORISED BUT UNISSUED SHARE CAPITAL)

2 000 000 ordinary shares (2014: 480 000) at a par value of R10 000 each.

ISSUED CAPITAL

20 000 ordinary shares (2014: 20 000) at par value of R10 000 each.

GOING CONCERN

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

BORROWING POWERS

As per Regulation 44 of the Regulations made under section 17 of the DBSA Act, the Directors may 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	2015	2014
Approved annual borrowing programme	18.0	R10.0
Debt raised during the year	13.8	R6.1
Unutilised under the annual borrowing programme	4.2	R3.9
Closing unutilised borrowing capacity after debt raised during the year	12.9	R7.0
Total borrowing capacity (excluding callable capital)	58.8	R49.9
Closing medium- to long-term debt, including repurchase agreements and derivative liabilities	45.9	R42.9

DIRECTORS' REPORT (CONTINUED)

for the year ended 31 March 2015

DIRECTORATE AND SECRETARIAT

Details pertaining to the names of Board members and the Secretariat appear on pages 34 to 37.

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

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

Name	Position	Number of terms served as Non-executive Director	Current service contract	
			From	To
Current				
Mr PJ Moleketi	Independent Non-executive Chairperson	2	1 January 2013	31 December 2015
Mr FM Baleni	Independent Non-executive Deputy Chairperson	2	1 January 2013	31 December 2015
Mr PK Dlamini	Chief Executive Officer and Managing Director	Not applicable	1 September 2012	31 August 2016
Dr L Bhengu-Baloyi	Independent Non-executive Director	2	1 August 2014	31 July 2017
Ms T Dingaan	Independent Non-executive Director	3	1 August 2013	31 July 2016
Mr O Latiff	Independent Non-executive Director	3	1 August 2013	31 July 2016
Ms B Mabuza	Independent Non-executive Director	2	1 August 2014	31 July 2017
Ms D Marole	Independent Non-executive Director	2	1 August 2014	31 July 2017
Mr A Moloto	Independent Non-executive Director	1	1 August 2014	31 July 2017
Ms G Mtetwa	Independent Non-executive Director	1	1 August 2014	31 July 2017
Ms K Naidoo	Chief Financial Officer	Not applicable	1 January 2013	31 December 2015
Ms A Sing	Independent Non-executive Director	1	1 August 2014	31 July 2017
Prof M Swelling	Independent Non-executive Director	1	1 August 2014	31 July 2017
Ms M Vilakazi	Independent Non-executive Director	2	1 August 2014	31 July 2017
During the year				
Mr A Boraine ¹	Independent Non-executive Director	3	1 August 2011	31 July 2014
Mr A Julies ²	Non-executive Director (shareholder representative)	1	1 January 2013	30 November 2014
Dr C Manning ¹	Independent Non-executive Director	3	1 August 2011	31 July 2014

1. These Directors' contracts came to an end during the financial year 2015 and were not renewed.

2. Resigned with effect from 1 December 2014.

The details of the Directors' interests in related party transactions and Directors' emoluments are set out in notes 41 and 45 respectively of the financial statements. The governance structure is detailed on page 38.

REMUNERATION POLICY

The Human Resources, Nomination, Social and Ethics Committee ensures that employees are fairly rewarded for their contributions to the performance of the Bank. The provision of performance bonuses is at the sole discretion of the Board.

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 179.

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 R36.1 million during 2015 financial period.

CHANGES IN ACCOUNTING POLICIES

The accounting policies applied during the year ended 31 March 2015 are in all material respects consistent with those applied in the annual financial statements for the year ended 31 March 2014, as no changes in accounting policies were effected in the 2015 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 48 in the financial statements on page 176.

LITIGATION

The Directors are not aware of any litigation against the Bank other than that disclosed under contingent liabilities in note 40 in the financial statements on page 163.

RELATED PARTY TRANSACTIONS

Details of the DBSA's related party transactions are set out in note 41 in the financial statements on page 163.

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 51 in the financial statements on page 176.
- 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 2015

in thousands of rands	Notes	2015	2014
Assets			
Cash and cash equivalents	5	3 901 663	4 135 667
Trade and other receivables	6	227 880	145 296
Investment securities	7	2 009 916	2 161 341
Derivative assets held for risk management	8.1	1 036 624	1 308 325
Post-retirement medical benefits investment	9	59 536	63 209
Home ownership scheme loans	10	5 462	7 544
Equity investments	11	5 092 061	4 610 448
Development bonds	13	1 290 390	772 743
Development loans	14	56 740 219	50 076 235
Property, plant and equipment	15	502 976	461 873
Intangible assets	16	77 412	82 860
Total assets		70 944 139	63 825 541
Equity and liabilities			
Liabilities			
Trade and other payables	17	811 755	813 665
Provisions	18	122 711	55 998
Liability for funeral benefits	19.1	3 100	3 100
Post-retirement medical benefit liability	19.2	160 412	165 051
Funding: debt securities	20	33 353 036	29 216 814
Funding: lines of credit	21	12 565 895	13 606 441
Derivative liabilities held for risk management	8.2	244 545	63 899
Total liabilities		47 261 454	43 924 968
Equity			
Share capital	22	200 000	200 000
Retained earnings		12 260 565	11 296 416
Permanent government funding	23	8 692 344	6 192 344
Revaluation reserve on land and buildings	24	269 256	253 487
Hedging reserve	25	116 288	61 958
Reserve for general loan risks	26	2 143 975	1 893 983
Fair value reserve	27	257	2 385
Total equity		23 682 685	19 900 573
Total equity and liabilities		70 944 139	63 825 541

STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 March 2015

in thousands of rands	Notes	2015	2014
Interest income	28	5 327 312	4 576 209
Interest expense	29	(3 002 929)	(2 487 759)
Net interest income	29	2 324 383	2 088 450
Net fee income	30	232 928	334 630
Net foreign exchange gain	31	489 673	279 945
Net loss from financial assets and financial liabilities	32	(299 832)	(629 496)
Other operating income	33	139 971	244 074
Other income		562 740	229 153
Operating income		2 887 123	2 317 603
Project preparation		(6 138)	(20 867)
Development expenditure	34	(35 015)	(1 579)
Net impairment loss on financial assets	35	(743 361)	(734 871)
Personnel expenses	36	(607 271)	(561 597)
Other expenses	37	(253 175)	(177 597)
Depreciation and amortisation	38	(25 108)	(18 627)
Profit from operations		1 217 055	802 465
Grants	39	(2 914)	(15 423)
Profit for the year		1 214 141	787 042

STATEMENT OF OTHER COMPREHENSIVE INCOME

for the year ended 31 March 2015

in thousands of rands	Notes	2015	2014
Profit for the year		1 214 141	787 042
Items that will not be reclassified to profit and loss			
Gain on revaluation of land and buildings	24	15 769	–
Items that may be reclassified subsequently to profit and loss			
Unrealised (loss)/gain on cash flow hedges	25	(88 253)	109 108
Gain/(loss) on cash flow hedges reclassified to statement of comprehensive income	25	142 583	(87 767)
Fair value adjustment of available-for-sale financial assets	27	(2 128)	(13 535)
		52 202	7 806
Other comprehensive income		67 971	7 806
Total comprehensive income for the year		1 282 112	794 848

STATEMENT OF CHANGES IN EQUITY

for the year ended 31 March 2015

in thousands of rands	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 2013	200 000	40 617	253 487	15 920	3 792 344	1 371 726	11 031 631	16 705 725
Government recapitalisation	–	–	–	–	2 400 000	–	–	2 400 000
Profit for the year	–	–	–	–	–	–	787 042	787 042
Other comprehensive income/(loss)								
Unrealised gain on cash flow hedges	–	109 108	–	–	–	–	–	109 108
Loss on cash flow hedges reclassified to statement of comprehensive income	–	(87 767)	–	–	–	–	–	(87 767)
Fair value adjustment 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
Government recapitalisation	–	–	–	–	2 500 000	–	–	2 500 000
Profit for the year	–	–	–	–	–	–	1 214 141	1 214 141
Other comprehensive income/(loss)								
Unrealised loss on cash flow hedges	–	(88 253)	–	–	–	–	–	(88 253)
Gain on cash flow hedges reclassified to statement of comprehensive income	–	142 583	–	–	–	–	–	142 583
Fair value adjustment of available-for-sale financial assets	–	–	–	(2 128)	–	–	–	(2 128)
Gain on revaluation land and buildings	–	–	15 769	–	–	–	–	15 769
Transfer to reserve for general loan risks	–	–	–	–	–	249 992	(249 992)	–
Total changes	–	54 330	15 769	(2 128)	2 500 000	249 992	964 149	3 782 112
Balance at 31 March 2015	200 000	116 288	269 256	257	8 692 344	2 143 975	12 260 565	23 682 685
Notes	22	25	24	27	23	26		

STATEMENT OF CASH FLOWS

for the year ended 31 March 2015

in thousands of rands	Notes	2015	2014
Cash flows from operating activities			
Profit for the year		1 214 141	787 042
Adjustments for:			
Depreciation and amortisation	38	25 108	18 627
Grants and project preparation		44 067	37 868
Dividends	33	(29 821)	(30 618)
Upfront fees deferred		47 379	8 135
Fees accrued (development loans)		(16 763)	8 306
Realised capital gain on equity investments	11.1	(44 879)	(168 481)
Unrealised loss from financial assets and liabilities		304 248	615 224
Unrealised foreign exchange gain		476 213	77 662
Net impairment	35	743 361	734 870
Net interest income	29	(2 324 383)	(2 088 450)
		438 671	185
Movements in provisions		31 699	(95 011)
Decrease/(increase) in other receivables		43 348	(7 763)
Decrease in home ownership scheme loans		2 082	1 388
Decrease in other payables		(9 126)	(53 725)
Change in liability for funeral benefits and post-retirement medical benefits		(4 639)	15 430
		502 035	(139 496)
Interest received		4 959 549	4 315 032
Interest paid		(2 830 649)	(2 250 987)
Dividends received		29 821	30 618
Net cash generated from operating activities		2 660 756	1 955 167
Cash flows used in development activities			
Development loan disbursements	14	(11 897 533)	(11 281 242)
Development loan principal repayments		6 644 818	4 695 035
Development bonds		(502 000)	(750 000)
Net increase in equity investments		(495 361)	(444 707)
Grants paid and project preparation		(7 443)	(37 868)
Net advances to national mandates		(140 169)	(2 028)
Net cash used in development activities		(6 397 688)	(7 820 810)
Cash flows from investing activities			
Purchase of property, plant and equipment	15	(38 712)	(85)
Proceeds from sale of property and equipment		448	–
Purchase of intangible assets	16	(7 045)	(6 479)
(Decrease)/increase in financial market instruments		(684 879)	326 243
Net cash (utilised)/generated from investing activities		(730 188)	319 679
Cash flows from financing activities			
Receipts from National Treasury	23	2 500 000	2 400 000
Financial market liabilities repaid		(11 963 371)	(8 050 173)
Financial market liabilities raised		13 662 946	14 125 210
Net cash generated from financing activities		4 199 575	8 475 037
Net (decrease)/increase in cash and cash equivalents		(267 545)	2 929 073
Effect of exchange rate movements on cash balances	31	33 541	(45 548)
Movement in cash and cash equivalents		(234 004)	2 883 525
Cash and cash equivalents at the beginning of the year		4 135 667	1 252 142
Cash and cash equivalents at the end of the year	5	3 901 663	4 135 667

ACCOUNTING POLICIES

for the year ended 31 March 2015

1. STATEMENT OF COMPLIANCE

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board (IASB), the requirements of the Public Finance Management Act (PFMA) of South Africa, 1999 (Act No 1 of 1999) 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 1 July 2015.

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). The application of IFRS for financial reporting purposes instead of GAAP was approved by National Treasury.

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 is measured at actuarial values.
- Non-current assets held-for-sale.

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

1.1.2 USE OF ESTIMATES AND JUDGEMENTS

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

- **Note 1.2.5 – 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.

- **Notes 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.

- **Notes 7, 11, 14, 15, 19, 20 and 21 – 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 11 – 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 14 – Measurement of the recoverable amounts and impairment of development loans and bonds:

Development loans and bonds are carried at amortised cost. However judgements are applied when determining fair value and assessments of recoverable amounts and impairments calculations.

- Note 15 – 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 19 – Measurement of funeral benefit obligations and post-retirement medical benefit:

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

- Note 20 – 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 21 – 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 to note 46).

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 18 – 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 asset 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.
- Available-for-sale financial assets.

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

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

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

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

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.

ACCOUNTING POLICIES (CONTINUED)

for the year ended 31 March 2015

1. STATEMENT OF COMPLIANCE (CONTINUED)

1.2 FINANCIAL INSTRUMENTS (CONTINUED)

1.2.1 FINANCIAL ASSETS (CONTINUED)

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

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

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

- It eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring the asset or recognising the gains or losses on a different basis.
- A portfolio of financial assets is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy and information about the Bank is provided internally on that basis to key management personnel. Under these criteria, the main classes of financial assets designated as at 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 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 is 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 is 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 includes an estimated component relating to credit risk adjustment. The treatment of changes in their fair value depends on their classification into the following categories:

Qualifying derivatives

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

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.

ACCOUNTING POLICIES (CONTINUED)

for the year ended 31 March 2015

1. STATEMENT OF COMPLIANCE (CONTINUED)

1.2 FINANCIAL INSTRUMENTS (CONTINUED)

1.2.4 DERECOGNITION (CONTINUED)

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) derecognition of an asset that is sold, recognition of any gain or loss on disposal and the recognition of a receivable from the buyer for payment on the trade date. The settlement date is the date that an asset is delivered to or by an entity and settlement date accounting refers to (a) the recognition of an asset on the day it is received by the entity, and (b) the derecognition of an asset and recognition of any gain or loss on disposal on the day that it is delivered from 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).
- 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.
- For hedges of a forecasted transaction, the transaction is highly probable and presents an exposure to variations in cash flows that could ultimately affect net profit or loss.

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

The fair value of derivative hedging instruments is calculated in the same way as the fair value of instruments held at fair value through profit or loss (refer to note 1.10).

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

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

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

Fair value hedge

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

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

Cash flow hedge

When a derivative financial instrument is designated as a hedge to variability in the cash flows of recognised assets or liabilities, or a highly probable forecast transaction, the effective part of any gain or loss on remeasurement of the

hedging instrument is recognised directly in other comprehensive income and presented in the hedging reserve in equity. The ineffective part of any gain or loss is recognised in profit or loss.

If a hedge of a forecast transaction subsequently results in the recognition of a financial asset or a financial liability, the associated gains and losses that were recognised directly in equity are reclassified into profit or loss in the same period or periods during which the asset acquired or liability assumed affects profit or loss (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 to fair value through other comprehensive income is impaired and an increase in the fair value of the asset was previously recognised in equity, the increase in fair value of the asset recognised in other comprehensive income is reversed to the extent that the asset is impaired. Any additional impairment loss is recognised in the statement of comprehensive income.

ACCOUNTING POLICIES (CONTINUED)

for the year ended 31 March 2015

1. STATEMENT OF COMPLIANCE (CONTINUED)

1.2 FINANCIAL INSTRUMENTS (CONTINUED)

1.2.8 IMPAIRMENT OF FINANCIAL INSTRUMENTS (CONTINUED)

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 will 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.

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 SHAREHOLDERS, DIRECTORS, MANAGERS AND EMPLOYEES

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

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

1.3 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, PLANT 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

ACCOUNTING POLICIES (CONTINUED)

for the year ended 31 March 2015

1. STATEMENT OF COMPLIANCE (CONTINUED)

1.4 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

1.4.3 DEPRECIATION (CONTINUED)

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

1.5 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 a permanent government funding and shares issued. Equity instruments issued by the Bank are recorded at the proceeds received, net of direct issue costs.

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

1.6.2 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%
• High risk	7%

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

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

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

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

- Interest on financial assets and financial liabilities, measured at amortised cost calculated on an effective interest basis.
- Interest on available-for-sale investment securities calculated on an effective interest basis.
- Interest on financial assets and financial liabilities held at fair value through profit or loss, calculated on an effective interest basis.
- 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 rands, which is the Bank's functional currency.

ACCOUNTING POLICIES (CONTINUED)

for the year ended 31 March 2015

1. STATEMENT OF COMPLIANCE (CONTINUED)

1.8 FOREIGN CURRENCY TRANSLATIONS (CONTINUED)

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

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

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

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

Equity investments

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

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

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

- Price of recent investment, if available.
- Discounted cash flow analysis based on free cash flows, earnings or dividends using market-related adjusted discount rates.
- Price earnings growth (PEG).
- Option pricing models.

The Bank ensures that these valuation techniques:

- Make maximum use of market inputs and where applicable rely on entity-specific inputs.
- Incorporate all factors that market participants would consider in setting a price.
- 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 analyses, using market-derived discount rates as at the reporting date. The Bank does not believe that there is a comparable market for its targeted infrastructure programme development loans.

Interest rates used for determining fair value

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

1.11 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 an appropriate discount rate that reflects the current market assessment of the time value of money and, where appropriate, the risks specific to the liability.

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.

ACCOUNTING POLICIES (CONTINUED)

for the year ended 31 March 2015

1. STATEMENT OF COMPLIANCE (CONTINUED)

1.11 PROVISIONS, CONTINGENT LIABILITIES AND CONTINGENT ASSETS (CONTINUED)

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

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

1.12 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. 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.

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.

ACCOUNTING POLICIES (CONTINUED)

for the year ended 31 March 2015

1. STATEMENT OF COMPLIANCE (CONTINUED)

1.19 NON-CURRENT ASSETS HELD-FOR-SALE (CONTINUED)

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 FINANCIAL STATEMENTS

for the year ended 31 March 2015

1. NEW STANDARDS AND INTERPRETATIONS

The following new standards have been issued by the IASB and are not yet effective:

- IFRS 9: Financial Instruments (1 January 2018).
- IFRS 15: Revenue from Contracts with Customers (1 January 2017).

The following annual improvements have been issued by the IASB:

- IAS 16: Property, Plant and Equipment (1 July 2014).
- IAS 19: Employee Benefits (1 January 2016).
- IAS 19: Defined Benefit Plans: Employee Contributions (1 July 2014).
- IAS 24: Related Party Disclosures (1 July 2014).
- IAS 38: Intangible Assets (1 July 2014).
- IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortisation (1 January 2016).
- IFRS 5: Non-current Assets Held-for-sale (1 January 2016).
- IFRS 7: Financial Instruments Disclosures (1 January 2016).
- IFRS13: Fair Value Measurement (1 July 2014).

2. SEGMENTAL INFORMATION

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 FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 March 2015

2. SEGMENTAL INFORMATION (CONTINUED)
OPERATING REPORTABLE SEGMENTS

in thousands of rands	South Africa Financing		International Financing		Infrastructure Delivery		Treasury		*All other		Total	
	March 2015	March 2014	March 2015	March 2014	March 2015	March 2014	March 2015	March 2014	March 2015	March 2014	March 2015	March 2014
Interest income on development loans	3 983 275	3 401 681	823 179	802 936	–	–	–	–	–	–	4 806 454	4 204 617
Interest income on development bonds	112 366	–	–	–	–	–	–	–	–	–	112 366	–
Interest income on investments	16 387	62 028	56	1 193	1 998	35	389 508	308 853	543	(517)	408 492	371 592
Total interest income	4 112 028	3 463 709	823 235	804 129	1 998	35	389 508	308 853	543	(517)	5 327 312	4 576 209
Interest expense	(2 499 058)	(1 974 694)	(351 912)	(294 580)	(1 819)	(985)	(150 127)	(217 443)	(13)	(57)	(3 002 929)	(2 487 759)
Net interest income	1 612 970	1 489 015	471 323	509 549	179	(950)	239 381	91 410	530	(574)	2 324 383	2 088 450
Non-interest income	122 429	135 836	76 297	221 173	156 095	74 638	(5 529)	105 213	23 607	41 844	372 899	578 704
Net fee income	99 419	92 582	22 669	61 744	99 059	44 761	(5 529)	105 212	17 310	30 331	232 928	334 630
Dividends	9 731	9 084	20 090	21 534	–	–	–	–	–	–	29 821	30 618
Sundry income	13 279	34 170	33 538	137 895	57 036	29 877	–	1	6 297	11 513	110 150	213 456
Operating income	1 735 399	1 624 851	547 620	730 722	156 274	73 688	233 852	196 623	24 137	41 270	2 697 282	2 667 154
Expenses	(409 835)	(624 953)	(452 099)	(208 577)	(139 938)	(71 821)	(13 102)	(14 130)	(613 941)	(573 211)	(1 628 915)	(1 492 692)
Operating expenses	(79 923)	(65 323)	(36 628)	(35 262)	(138 913)	(71 821)	(13 102)	(14 130)	(591 880)	(552 658)	(860 446)	(739 194)
Depreciation and amortisation	–	–	–	–	(89)	–	–	–	(25 019)	(18 627)	(25 108)	(18 627)
Net impairment loss on financial assets	(329 912)	(559 630)	(415 471)	(173 315)	(936)	–	–	–	2 958	(1 926)	(743 361)	(734 871)
Development expenditure ¹	(35 015)	(1 579)	–	–	–	–	–	–	–	–	(35 015)	(1 579)
Project preparation	–	–	–	–	–	–	–	–	(6 138)	(20 867)	(6 138)	(20 867)
Revaluation of equity investments ²	(84 294)	(258 506)	(134 816)	(519 187)	–	–	–	–	–	–	(219 110)	(777 693)
Sustainable earnings	1 206 255	739 813	(39 295)	2 958	16 336	1 867	220 750	182 493	(595 942)	(552 808)	808 104	374 323
Net foreign exchange gain/(loss) ³	–	–	–	–	–	–	489 673	279 914	–	31	489 673	279 945
Net (loss)/gain from financial assets and liabilities ²	–	–	–	–	–	–	(77 048)	149 836	(3 674)	(1 639)	(80 722)	148 197
Profit/(loss) before distributions	1 206 255	739 813	(39 295)	2 958	16 336	1 867	633 375	612 243	(599 616)	(554 416)	1 217 055	802 465
Grants	(1 245)	–	–	–	(169)	(5 567)	–	–	(1 500)	(9 856)	(2 914)	(15 423)
Transfer to IDD ⁴	–	–	–	–	–	15 657	–	(985)	–	(14 672)	–	–
Retained profit/(loss)	1 205 010	739 813	(39 295)	2 958	16 167	11 957	633 375	611 258	(601 116)	(578 944)	1 214 141	787 042
Capital expenditure	–	–	–	–	–	6 479	–	–	45 500	85	45 500	6 564
Development loans	43 797 290	36 580 053	12 942 929	13 496 182	–	–	–	–	–	–	56 740 219	50 076 235
Development bonds	1 290 390	772 743	–	–	–	–	–	–	–	–	1 290 390	772 743
Equity investments	2 511 798	2 365 343	2 580 263	2 245 105	–	–	–	–	–	–	5 092 061	4 610 448
Other assets	1	580	611	977	234 714	62 330	6 919 370	7 615 820	666 773	686 408	7 821 469	8 366 115
Total assets	47 599 479	39 718 719	15 523 803	15 742 264	234 714	62 330	6 919 370	7 615 820	666 773	686 408	70 944 139	63 825 541
Total liabilities	30 146 463	23 664 359	8 935 711	9 047 282	206 588	50 373	5 896 262	9 778 286	2 076 430	1 384 668	47 261 454	43 924 968
Key ratios by segment												
Cost-to-income (%)	7	4	7	5	89	97	6	7			34	28
Debt-to-assets ratio (%)	64	60	58	57	88	81	85	128			67	69
Net interest income (%)	39	43	57	63	–	–	61	30			44	46
Return on assets (%)	3	2	(0.3)	0.02	7	3	9	8			1.8	1.0

* All Other segments include Corporate Services, Risk, CEO, Finance Operations, Strategy and Finance divisions.

1. Development expenditure relates to support for under-resourced municipalities.

2. Revaluation gains and losses have been split between equity investments and financial assets for segment reporting purposes.

3. Treasury is responsible for foreign exchange management across the Bank and as such all foreign exchange gains and losses have been reallocated to Treasury.

4. This represents the assistance granted from DBSA to IDD in support of mandate of the division.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 March 2015

3. FINANCIAL ASSETS BY CATEGORY

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

in thousands of rand	Notes	Loans and receivables	Non-financial items	Fair value through profit or loss	Held-to-maturity	Available-for-sale	Total carrying amount	Fair value
March 2015								
Cash and cash equivalents	5	3 901 663	–	–	–	–	3 901 663	3 900 613
Trade and other receivables	6	163 588	64 292	–	–	–	227 880	227 880
Investment securities	7	–	–	1 531 382	99 992	378 542	2 009 916	1 837 659
Derivative assets held for risk management	8.1	–	–	1 036 624	–	–	1 036 624	1 036 624
Home ownership scheme loans	10	5 462	–	–	–	–	5 462	5 462
Equity investments	11	–	–	5 000 376	91 685	–	5 092 061	5 092 061
Development loans	14	56 740 219	–	–	–	–	56 740 219	55 551 070
Development bonds	13	–	–	–	1 290 390	–	1 290 390	1 399 671
		60 810 932	64 292	7 568 382	1 482 067	378 542	70 304 215	69 051 040

in thousands of rand	Level 1 category	Level 2 category	Level 3 category	Total
Cash and cash equivalents	–	3 900 613	–	3 900 613
Trade and other receivables	–	227 880	–	227 880
Investment securities	1 621 660	215 999	–	1 837 659
Derivative assets held for risk management	–	1 036 624	–	1 036 624
Development loans	–	55 551 070	–	55 551 070
Development bonds	1 399 671	–	–	1 399 671
	3 021 331	60 932 186	–	63 953 517

in thousand of rand	Notes	Loans and receivables	Non-financial items	Fair value through profit or loss	Held-to-maturity	Available-for-sale	Total carrying amount	Fair value
March 2014								
Cash and cash equivalents	5	4 135 667	–	–	–	–	4 135 667	3 834 753
Trade and other receivables	6	40 086	105 210	–	–	–	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	8.1	–	–	1 308 325	–	–	1 308 325	1 308 325
Home ownership scheme loans	10	7 544	–	–	–	–	7 544	7 544
Equity investments	11	–	–	4 503 876	106 572	–	4 610 448	4 610 448
Development loans	14	50 076 235	–	–	–	–	50 076 235	45 981 604
Development bonds	13	–	–	–	772 743	–	772 743	683 353
		54 259 532	105 210	7 556 049	1 045 968	250 840	63 217 599	58 774 103

in thousands of rand	Level 1 category	Level 2 category	Level 3 category	Total
Cash and cash equivalents	–	3 834 753	–	3 834 753
Trade and 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 loans	–	45 981 604	–	45 981 604
Development bonds	683 353	–	–	683 353
	2 874 440	51 281 671	–	54 156 111

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

4. FINANCIAL LIABILITIES BY CATEGORY

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

in thousands of rand	Notes	At amortised cost	Designated at fair value through profit or loss	Total carrying amount	Fair value
March 2015					
Trade and other payables	17	811 755	–	811 755	811 755
Funding: debt securities	20	26 515 941	6 837 095	33 353 036	36 056 256
Funding: lines of credit	21	12 565 895	–	12 565 895	12 983 321
Derivative liabilities held for risk management	8.2	–	244 545	244 545	244 545
		39 893 591	7 081 640	46 975 231	50 095 877

in thousands of rand	Level 1 category	Level 2 category	Level 3 category	Total
Trade and other payables	–	811 755	–	811 755
Funding: debt securities	35 841 306	214 950	–	36 056 256
Funding: lines of credit	–	12 983 321	–	12 983 321
Derivative liabilities held for risk management	–	244 545	–	244 545
	35 841 306	14 254 571	–	50 095 877

in thousands of rand	Notes	At amortised cost	Designated at fair value through profit or loss	Total carrying amount	Fair value
March 2014					
Trade and other payables	17	813 665	–	813 665	813 665
Funding: debt securities	20	22 515 912	6 700 902	29 216 814	30 246 675
Funding: lines of credit	21	13 606 441	–	13 606 441	13 889 393
Derivative liabilities held for risk management	8.2	–	63 899	63 899	63 899
		36 936 018	6 764 801	43 700 819	45 013 632

in thousands of rand	Level 1 category	Level 2 category	Level 3 category	Total
Trade and 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	14 996 562	–	45 013 632

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 March 2015

in thousands of rands	2015	2014
5. CASH AND CASH EQUIVALENTS		
Cash and cash equivalents consist of:		
Call deposits	3 106 023	3 566 268
Cash at bank	795 640	569 399
	3 901 663	4 135 667

The average interest rate earned on fixed and call deposits detailed above was 5.60% (March 2014: 5.07%). The Bank's exposure to interest rate risk and sensitivity analysis for financial assets and financial liabilities is disclosed in note 46.

in thousands of rands	2015	2014
6. TRADE AND OTHER RECEIVABLES		
Trade and other debtors	166 067	46 777
Less: provision for bad debts (see below)	(2 479)	(6 691)
	163 588	40 086
VAT	855	12 148
Prepayments	5 161	2 571
Deposits	1 081	1 287
Staff loans (current employees)	207	34
Subsistence and travel	449	396
Payroll	3 933	3 874
Accrued income	–	1 358
Accrued interest income (financial market assets)	52 606	51 223
DBSA Development Fund	–	32 319
Balance at the end of the year	227 880	145 296
Current portion	227 880	112 977
Provision for bad debts reconciliation		
Balance at the beginning of the year	(6 691)	(4 764)
Bad debts written off during the year	197	12
Decrease/(increase) in provision for bad debts	4 015	(1 939)
Balance at the end of the year	(2 479)	(6 691)

Staff loans are for current employees and are interest free. The interest that should have been payable on this account would have been R19 119 (March 2014: R4 912) at a rate of 9.25%.

6. TRADE AND OTHER RECEIVABLES (CONTINUED)

Included in the balance for trade debtors are third party managed funds and mandates comprising:

in thousands of rands	2015	2014
African Capacity Building Foundation	103	–
African Peer Review Mechanism	300	3 299
African World Heritage Fund	–	1 473
Anglo American Capacity Building Programme	2 407	525
Department of Basic Education for Accelerated Infrastructure Schools Programme	142 595	6 728
Department of Human Settlements	–	1
Department of Local Government	–	3
Department of Rural Development and Land Reform	10	2 084
Department of Water Affairs Pretoria	–	7
DOE – Renewable Energy Market Transformation	–	152
Ekurhuleni Metropolitan Municipality	335	–
Elliotdale Rural Human Settlement	2 796	–
Ex-employee debtors	2 086	559
Free State Department of Police Roads and Transport	–	1 419
Finland Ministry of Foreign Affairs	–	810
Gauteng Department of Local Government and Housing	–	291
Gauteng Health Revitalisation Programme	–	747
Greater Kokstad Municipality	30	–
Green Fund	261	8
Independent Power Producers Office	3 984	–
Industrial Development Corporation	169	–
Infrastructure Delivery Improvement Programme	134	–
Infrastructure Investment Programme for South Africa	18	3 599
Jobs Fund	471	12
KFW Bankegruppe	–	39
KFW HIV/VCT 2 Programme	261	456
KFW SADC Water Fund	647	–
KwaZulu-Natal Department of Health	–	31
Land and Agricultural Development Bank	170	732
LG Net	–	163
Moses Kotane Institute	–	359
Municipal Financial Improvement Programme	–	2 872
Municipal Infrastructure Support Agency	–	760
National Department of Health	4 160	7 995
National Department of Health: Health PPP Project	–	870
National Rural Youth Services Corporation	1 139	4 505
National Treasury Cities Support Programme	1 118	1 094
National Treasury Municipal Capacitation Fund	556	547
New Partnership for Africa's Development	208	1 795
Pan African Capacitation Building Platform	–	137
Presidency National Planning	–	416
Spatial Development Initiative	545	254
Water Demand Management	–	7
Total	164 503	44 749

7. INVESTMENT SECURITIES

Investment securities consist of the following:

Investment securities designated at fair value through profit or loss

Government bonds	526 224	758 221
Municipal bonds	832 692	813 108
Corporate bonds	172 466	172 519
	1 531 382	1 743 848

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 March 2015

in thousands of rands		2015	2014
7.	INVESTMENT SECURITIES (CONTINUED)		
	Held-to-maturity investment securities		
	Municipal bonds	99 992	166 653
	Available-for-sale investment securities		
	Government bonds	161 796	238 441
	Corporate bonds	–	706
	Money market instruments	216 746	11 693
		378 542	250 840
	Total investment securities	2 009 916	2 161 341
8.	DERIVATIVE ASSETS AND LIABILITIES HELD FOR RISK MANAGEMENT		
8.1	DERIVATIVE ASSETS HELD FOR RISK MANAGEMENT		
	Instrument type:		
	Interest rate derivatives	280 268	297 690
	Foreign exchange derivatives	756 356	1 010 635
		1 036 624	1 308 325
8.2	DERIVATIVE LIABILITIES HELD FOR RISK MANAGEMENT		
	Instrument type:		
	Interest rate derivatives	(37 287)	(23 958)
	Foreign exchange derivatives	(207 258)	(39 941)
		(244 545)	(63 899)
8.3	NET DERIVATIVES HELD FOR RISK MANAGEMENT		
	Fair value hedges of interest rate risk	242 982	273 732
	Cash flow hedges of foreign exchange risk	189 090	355 078
	Economic hedges (foreign exchange contracts and cross-currency swaps)	360 007	615 616
		792 079	1 244 426
	Fair value hedges of interest rate risk		
	This category consists of interest rate and cross-currency 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 (foreign exchange contracts and cross-currency swaps)		
	This category consists of 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.		
in thousands of rands		2015	2014
9.	POST-RETIREMENT MEDICAL BENEFITS INVESTMENT		
	Fair value of plan assets	59 536	63 209
	This asset represents the movement of the Bank's contribution to Medipref Management Limited 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 the beginning of the year	63 209	64 848
	Income	3 233	3 385
	Expenses	(701)	(780)
	Contributions paid	(11 527)	(9 556)
	Increase in market value	5 322	5 312
	Closing balance at the end of the year	59 536	63 209

in thousands of rands		2015	2014
10.	HOME OWNERSHIP SCHEME LOANS		
	Current employees	3 662	3 881
	Ex-employees	1 800	3 663
		5 462	7 544

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. No further loans have been issued since March 2007.

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 2015 the effective interest rate was 7.5% (2014: 7.5%).

in thousands of rands		2015	2014
11.	EQUITY INVESTMENTS		
	Equity investments consist of the following:		
	Equity investments designated at fair value through profit or loss	5 000 376	4 503 876
	Equity investments held-to-maturity	91 685	106 572
		5 092 061	4 610 448
11.1	EQUITY INVESTMENTS DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS		
	Cost		
	Balance at the beginning of the year	4 423 210	3 978 504
	Acquisitions	625 049	688 528
	Capital return	(187 873)	(243 822)
	Balance at the end of the year	4 860 386	4 423 210
	Fair value adjustment and impairment		
	Balance at the beginning of the year	(523 001)	93 364
	Current year fair value adjustment (refer to note 32)	(204 223)	(772 673)
	Realised capital gain	44 879	168 481
	Impairment loss (refer to note 35)	–	(12 173)
	Balance at the end of the year	(682 345)	(523 001)
	Foreign exchange adjustments		
	Balance at the beginning of the year	603 667	272 262
	Unrealised gain (refer to note 31)	160 475	194 970
	Realised gain (refer to note 31)	58 193	136 435
	Balance at the end of the year	822 335	603 667
	Fair value at the end of the year	5 000 376	4 503 876

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 March 2015

11. EQUITY INVESTMENTS (CONTINUED)**11.1 EQUITY INVESTMENTS DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS (CONTINUED)**

In accordance with the best investment and valuation practice, a marketability and other discount is applied to direct equity investments. The guideline provides that marketability and other discount in the range 10% to 30% should be factored into the valuation. Different factors are considered in setting the marketability and other discount and it is possible for the marketability and other discount for a particular instrument to be outside the guideline range.

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 private equity and venture capital investments. The guidelines also set out the valuation methodologies that may be considered for use in estimating the fair value of underlying businesses and unquoted instruments in a private equity fund, namely price of recent investment, earnings multiple, discounted cash flows or earnings (of underlying businesses), discounted cash flows (from the investment) and industry valuation benchmarks. The guidelines also provide that in the case of unquoted equity investments, marketability and other discounts in the range 10% to 30% should be factored into the valuation. Different factors are considered in setting the marketability discounts and it is possible for the marketability discount for a particular instrument to be outside the guideline range.

11.2 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.

in thousands of rands	2015	2014
Held-to-maturity investments at fair value		
Balance at the beginning of the year	106 572	111 591
Amortised interest on effective interest method (refer to note 32)	(14 887)	(5 019)
Balance at the end of the year	91 685	106 572
11.3 AGE ANALYSIS OF EQUITY INVESTMENTS		
1 (one) year	3 904	11 931
1 (one) year but within 2 (two) years	28 340	458 000
2 (two) years but within 3 (three) years	534 496	697 505
3 (three) years but within 4 (four) years	1 682 094	1 730 616
4 (four) years but within 9 (nine) years	2 730 706	1 575 594
10 (ten) years and older	112 521	136 802
	5 092 061	4 610 448
11.4 SECTORAL ANALYSIS OF EQUITY INVESTMENTS		
Commercial infrastructure	2 379 611	1 923 553
Institutional infrastructure	810 948	843 468
Residential facilities	1 811 502	1 743 427
Social infrastructure	90 000	100 000
	5 092 061	4 610 448
11.5 GEOGRAPHICAL ANALYSIS OF EQUITY INVESTMENTS		
South Africa	2 068 895	2 016 896
International	3 023 166	2 593 552
	5 092 061	4 610 448
US dollar and euro amounts included in the above International equity investments		
US dollar amount included	161 073	164 112
Euro amount included	28 560	27 057

12. FAIR VALUE HIERARCHY DISCLOSURES

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

Notes	Valuations with reference to observable prices Level 1	Valuations based on observable input Level 2	Valuations based on unobservable input Level 3*	Total	
March 2015					
Available-for-sale financial assets					
Investment securities	7	162 543	215 999	–	378 542
Financial assets designated as at fair value through profit and loss					
Investment securities	7	1 531 382	–	–	1 531 382
Derivatives assets held for risk management	8.1	–	1 036 624	–	1 036 624
Equity investments	11	–	4 568 386	431 990	5 000 376
Total financial assets		1 693 925	5 821 009	431 990	7 946 924
Financial liabilities designated as at fair value through profit and loss					
Funding: debt securities	20	6 622 145	214 950	–	6 837 095
Derivatives liabilities held for risk management	8.2	–	244 545	–	244 545
Total financial liabilities		6 622 145	459 495	–	7 081 640

Notes	Valuations with reference to observable prices Level 1	Valuations based on observable input Level 2	Valuations based on unobservable input Level 3*	Total	
March 2014					
Available-for-sale financial assets					
Investment securities	7	239 147	11 693	–	250 840
Financial assets designated as at fair value through profit and loss					
Investment securities	7	1 743 848	–	–	1 743 848
Derivative assets held for risk management	8.1	–	1 308 325	–	1 308 325
Equity investments	11	–	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 as at fair value through profit and loss					
Funding: debt securities	20	6 471 296	229 606	–	6 700 902
Derivative liabilities held for risk management	8.2	–	63 899	–	63 899
Total financial liabilities		6 471 296	293 505	–	6 764 801

* 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 are based on unobservable inputs.

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 March 2015

12. FAIR VALUE HIERARCHY DISCLOSURES (CONTINUED)**12.1 EQUITY INVESTMENTS**

For investments within level 3 of the fair value hierarchy, valued at R431.9 million at 31 March 2015 (2014: R439.1 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 rands	2015	2014
13. DEVELOPMENT BONDS		
Development bonds consist of the following:		
Held-to-maturity development bonds		
Municipal bonds	1 290 390	772 743
13.1 ANALYSIS OF DEVELOPMENT BONDS		
Balance at the beginning of the year	772 743	–
Movement during the year	517 865	772 743
Gross development bonds	1 290 608	772 743
Allowance for impairment of development bonds (refer to note 13.3)	(218)	–
Balance at the end of the year	1 290 390	772 743
13.2 MOVEMENTS DURING THE YEAR		
Bonds issued	502 000	750 000
Interest accrued (refer to note 28)	112 366	58 315
Gross repayments	(96 501)	(35 572)
	517 865	772 743
13.3 ALLOWANCE FOR IMPAIRMENT OF DEVELOPMENT BONDS RECONCILIATION		
Balance at the beginning of the year	–	–
Impairment charge (refer to note 35)	218	–
Balance at the end of the year	218	–
Development bonds are held-to-maturity investments that are measured at amortised cost using the effective interest rate method.		
14. DEVELOPMENT LOANS		
14.1 ANALYSIS OF DEVELOPMENT LOANS		
Balance at the beginning of the year	52 449 846	44 956 364
Movements during the year	7 219 338	7 493 482
Gross development loans	59 669 184	52 449 846
Allowance for impairment of development loans (refer to note 14.9)	(2 928 965)	(2 373 611)
Net development loans at the end of the year	56 740 219	50 076 235
Movements during the period		
Loans disbursed – current year	11 897 533	11 281 242
Interest accrued – statement of comprehensive income (refer to note 28)	4 806 454	4 204 617
Interest on acquired loans	3 684	–
Interest accrued – impairment (refer to note 14.9)	24 134	71 959
Development loans written off (refer to note 14.9)	(214 306)	(755 700)
Foreign exchange adjustment	1 746 500	1 325 194
Gross repayments	(11 233 840)	(8 816 699)
Fees raised – current year	189 179	182 869
	7 219 338	7 493 482

in thousands of rands

14. DEVELOPMENT LOANS (CONTINUED)**14.2 MATURITY ANALYSIS OF DEVELOPMENT LOANS**

	2015	2014
Due within 1 (one) year	8 024 744	6 864 612
Due after 1 (one) year but within 2 (two) years	4 872 986	4 429 334
Due after 2 (two) years but within 3 (three) years	3 965 629	4 569 219
Due after 3 (three) years but within 4 (four) years	3 858 644	3 885 734
Due after 4 (four) years but within 9 (nine) years	17 363 324	16 864 597
Due after 9 (nine) years but within 14 (fourteen) years	15 974 187	11 456 659
Due after 14 (fourteen) years	5 609 670	4 379 691
	59 669 184	52 449 846

14.3 SECTORAL ANALYSIS

	2015	2014
Commercial – fund	1 100 234	1 620 552
Commercial – manufacturing	601 785	719 178
Commercial – mining	789 651	902 047
Commercial – tourism	388 403	609 477
Commercial – other	322 250	432 141
Communication and transport infrastructure	3 585 116	3 775 842
Energy – electricity	26 318 401	19 188 172
Energy – non-grid standalone	720 561	939 871
Human resources development	1 127 457	1 207 906
Institutional infrastructure	17 858	25 327
Residential facilities	3 366 516	1 911 840
Roads and drainage	12 851 626	12 260 428
Sanitation	1 558 068	1 342 523
Social infrastructure	3 624 828	3 828 497
Water	3 296 430	3 686 045
	59 669 184	52 449 846

14.4 GEOGRAPHICAL ANALYSIS

	2015	2014
Eastern Cape	2 678 560	2 420 948
Free State	909 345	851 935
Gauteng	21 812 488	17 037 368
KwaZulu-Natal	7 987 572	6 809 848
Limpopo	1 140 552	952 304
Mpumalanga	1 282 972	1 347 735
North West	950 633	632 642
Northern Cape	5 142 732	4 593 042
Western Cape	3 577 835	3 515 688
Multi-regional – South Africa	2 543	4 226
SADC (excluding South Africa)	14 183 952	14 284 110
	59 669 184	52 449 846

SADC (excluding South Africa)

	2015	2014
Angola	2 842 148	2 778 342
Botswana	–	40 278
Democratic Republic of Congo	101 511	92 521
Lesotho	755 712	804 322
Malawi	–	11 537
Mauritius	202 274	198 933
Mozambique	782 423	903 077
Namibia	213 209	445 512
Swaziland	190 359	223 650
Tanzania	232 693	286 249
Zambia	4 311 059	4 031 215
Zimbabwe	2 652 796	2 301 113
Multi-regional	1 899 768	2 167 361
	14 183 952	14 284 110

US dollar amounts included in the above SADC loans

1 042 184 1 159 629

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 March 2015

in thousands of rands		2015	2014
14. DEVELOPMENT LOANS (CONTINUED)			
14.5 CLIENT CLASSIFICATION			
Development finance institutions	864 999	1 352 606	
Educational institutions	802 159	862 871	
Local government	18 212 131	14 964 419	
National and provincial government	2 122 694	1 891 387	
Private sector intermediaries	16 423 409	15 285 371	
Public utilities	21 243 792	18 093 192	
	59 669 184	52 449 846	
14.6 FIXED AND VARIABLE INTEREST RATE LOANS			
Fixed interest rate loans	32 796 981	27 627 958	
Variable interest rate loans	26 872 203	24 821 888	
	59 669 184	52 449 846	
14.7 NON-PERFORMING LOANS (INCLUDED IN TOTAL DEVELOPMENT LOANS)			
14.7.1 SECTORAL ANALYSIS			
Commercial – manufacturing	316 303	308 032	
Commercial – mining	254 891	282 254	
Commercial – tourism	384 486	603 052	
Commercial – other	166 551	147 973	
Communication and transport infrastructure	881 756	688 354	
Energy	225 426	233 171	
Human resources development	22 874	38 888	
Institutional infrastructure	1 573	1 444	
Residential facilities	203 674	184 876	
Roads and drainage	109 663	49 033	
Sanitation	103 700	100 284	
Social infrastructure	226 417	295 733	
Water	136 377	110 572	
	3 033 691	3 043 666	
14.7.2 GEOGRAPHICAL ANALYSIS			
Eastern Cape	313 067	330 496	
Free State	137 410	144 087	
Gauteng	552 152	757 041	
KwaZulu-Natal	71 629	86 986	
Limpopo	243 159	221 972	
Mpumalanga	145 658	159 764	
North West	311 416	309 570	
Northern Cape	17 050	8 000	
Western Cape	130 366	220 075	
SADC (excluding South Africa)	1 111 784	805 675	
	3 033 691	3 043 666	
SADC (excluding South Africa)			
Democratic Republic Congo	101 511	92 522	
Mozambique	171 345	159 215	
Swaziland	122 236	148 057	
Zambia	354 168	187 809	
Zimbabwe	97 467	–	
Multi-regional	265 057	218 072	
	1 111 784	805 675	

in thousands of rands		2015	2014
14. DEVELOPMENT LOANS (CONTINUED)			
14.7.3 CLIENT CLASSIFICATION ON NON-PERFORMING LOANS			
Educational institutions	2 245	20 722	
Local government	433 917	420 117	
Private sector intermediaries	2 333 961	2 331 712	
Public utilities	263 568	271 115	
	3 033 691	3 043 666	
14.8 CLIENT CONCENTRATION OF TOTAL DEVELOPMENT LOANS			
One client as percentage of total loan portfolio (%)	19.4	17.1	
Seven clients as percentage of total loan portfolio (%)	53.6	44.0	
14.9 ALLOWANCE FOR IMPAIRMENT OF DEVELOPMENT LOANS RECONCILIATION			
Balance at the beginning of the year	2 373 611	2 336 595	
Impairment of current year interest (refer to note 14.1)	24 134	71 959	
Loans written off during the year (refer to note 14.1)	(214 306)	(755 700)	
Impairment charge (refer to note 35)	745 526	720 757	
Non-performing portfolio	387 010	583 931	
Performing book portfolio	358 516	136 826	
Balance at the end of the year	2 928 965	2 373 611	

15. PROPERTY, PLANT AND EQUIPMENT

in thousands of rands	2015			2014		
	Cost/valuation	Accumulated depreciation	Carrying value	Cost/valuation	Accumulated depreciation	Carrying value
Revalued land	84 600	–	84 600	60 200	–	60 200
Revalued buildings	405 299	(21 299)	384 000	405 809	(17 363)	388 446
Furniture and fittings	18 915	(13 629)	5 286	18 930	(12 140)	6 790
Motor vehicles	1 448	(426)	1 022	1 886	(797)	1 089
Office equipment	17 149	(12 605)	4 544	15 807	(11 772)	4 035
Computer equipment	59 150	(35 626)	23 524	28 918	(27 605)	1 313
Total	586 561	(83 585)	502 976	531 550	(69 677)	461 873

Reconciliation of property, plant and equipment – March 2015

in thousands of rands	Opening balance	Additions	Disposals	Revaluations	Depreciation	Closing balance
Revalued land	60 200	–	–	24 400	–	84 600
Revalued buildings	388 446	8 121	–	(8 630)	(3 937)	388 000
Furniture and fittings	6 790	38	(80)	–	(1 462)	5 286
Motor vehicles	1 089	825	(684)	–	(208)	1 022
Office equipment	4 035	1 315	–	–	(806)	4 544
Computer equipment	1 313	28 413	–	–	(6 202)	23 524
	461 873	38 712	(764)	15 770	(12 615)	502 976

Reconciliation of property, plant and equipment – March 2014

in thousands of rands	Opening balance	Additions	Depreciation	Closing balance
Revalued land	60 200	–	–	60 200
Revalued buildings	392 312	–	(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
	470 297	85	(8 509)	461 873

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 March 2015

15. PROPERTY, PLANT 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 R84.6 million by an independent valuator on 31 March 2015 (2014: R60.2 million, by management). Land is measured at the revalued amount in accordance with the Bank's revaluation policy.

BUILDINGS

The existing buildings were erected in 1987 at a cost of R35.2 million. Improvements of R8.1 million was effected during 2015 financial year (2014: Rnil). The buildings were valued at fair value of R384.0 million by an independent valuator on 31 March 2015 (2014: R392.2 million by management).

The historical carrying value of the existing buildings is R215.2 million (2014: R206.0 million).

16. INTANGIBLE ASSETS

in thousands of rands	2015			2014		
	Cost/ valuation	Accumulated amortisation	Carrying value	Cost/ valuation	Accumulated amortisation	Carrying value
Computer software	140 676	(63 264)	77 412	133 631	(50 771)	82 860

Reconciliation of intangible assets – March 2015

	Opening balance	Additions	Amortisation	Closing balance
Computer software	82 860	7 045	(12 493)	77 412

Reconciliation of intangible assets – March 2014

	Opening balance	Additions	Amortisation	Closing balance
Computer software	86 499	6 479	(10 118)	82 860

in thousands of rands	2015	2014
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17. TRADE AND OTHER PAYABLES

Trade payables	399 372	373 739
Accrued interest (financial market liabilities)	412 383	439 926
Total other payables	811 755	813 665

Included in trade and other payables are amounts due to third party managed funds and mandates comprising:

African World Heritage Fund	30	–
Department of Water Affairs	–	155
Gauteng Cleaner Remedial Fund	34 820	34 370
Gauteng Schools Programme	31	30
Department of Rural Development and Land Reform	9 406	422
Angola – Facility Agency fees	444	3 440
Health PPP Programme	1 747	1 748
Hospital Revitalisation Programme	237	237
IUSS Project with the National Department of Health	–	12 587
Independent Power Producer Project	2 216	2 249
National Department of Health: PPP Project	30	–
Municipal Financial Improvement Programme	506	–
Municipal Infrastructure Support Agency	200	230
Pan African Capacitation Building Platform	6	–
SAM Funding	1 353	1 011
	51 026	56 479

17. TRADE AND OTHER PAYABLES (CONTINUED)

in thousands of rands	Opening balance	Utilised during the year	Current year provision	Closing balance
Included in trade and other payables is retention and bonus provision as reconciled below.				
Retention bonuses	15 640	(200)	3 280	18 720
Bonus provision	135 000	(126 499)	141 499	150 000
	150 640	(126 699)	144 779	168 720

18. PROVISIONS**Reconciliation of provisions – 2015**

in thousands of rands	Opening balance	Current year provision	Utilised during the period	Closing balance
Restructuring	54 419	–	(13 229)	41 190
Developmental expenditure	1 579	30 750	(808)	31 521
Strategic initiatives	–	50 000	–	50 000
	55 998	80 750	(14 037)	122 711

Reconciliation of provisions – 2014

in thousands of rands	Opening balance	Current year provision	Utilised during the period	Closing balance
Restructuring	151 009	–	(96 590)	54 419
Development expenditure	–	1 579	–	1 579
	151 009	1 579	(96 590)	55 998

Provision for restructuring

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 ongoing activities.

Provision for developmental expenditure

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

Provision for strategic initiatives

The provision for strategic initiatives represents costs that are in support of the new strategy that are not associated with the Bank's ongoing activities.

19. EMPLOYEE BENEFITS**19.1 LIABILITY FOR FUNERAL BENEFITS**

This benefit covers all current and retired employees of the Bank. In respect of these employees, a gross amount of R33 000 is paid to the family upon the death of an employee or retired employee. The obligation was valued by management on 31 March 2015.

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

in thousands of rands	2015	2014
Balance at the beginning of the year	3 100	4 300
Decrease in liability	–	(1 200)
Balance at the end of the year	3 100	3 100

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 March 2015

19. EMPLOYEE BENEFITS (CONTINUED)**19.2 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 9, 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:

in thousands of rands	2015	2014
Present value of unfunded obligation		
Present value of unfunded obligation at the beginning of the year	165 051	148 421
Interest cost	14 846	13 638
Current service cost (includes interest to year-end)	34	33
Benefits paid	(10 239)	(9 200)
Actuarial (loss)/gain for the year	(9 280)	12 159
Present value of unfunded obligation at the end of the year	160 412	165 051
The projected unit credit method has been used to determine the actuarial valuation.		
The amount recognised as an expense in the statement of comprehensive income in respect of the defined benefit plan is as follows:		
Interest cost	14 846	13 638
Current service cost	34	33
Actuarial (loss)/gain for the year	(9 280)	12 159
Total charge for the period (included in personnel expenses in the statement of comprehensive income – refer to note 36)	5 600	25 830
Market value of post-retirement medical benefit investment		
Market value of Medipref at the beginning of the year	63 209	64 848
Income	3 233	3 385
Expenses	(701)	(780)
Contributions	(11 527)	(9 556)
Increase in market value	5 322	5 312
Market value of Medipref at the end of the year	59 536	63 209
The principal assumptions in determining the post-retirement medical benefits obligation are as follows:		
Discount rate (before taxation) (%)	8.7	9.3
Medical aid inflation rate (%)	7.9	8.3

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 (%)	7	(1)	1
Accrued liability 31 March 2015 (R'000)	160 412	144 840	178 826
% change		(9)	11.5
Current service cost + interest cost 2015/16 (R'000)	13 517	12 155	15 129
% change		(10.1)	11.9
Sensitivity results from previous valuation: Medical aid inflation rate 2014 (%)	8.3	1	1
Current service cost + interest cost 2014/15 (R'000)	14 880	13 296	16 800
% change		(10.6)	12.9

19. EMPLOYEE BENEFITS (CONTINUED)

in thousands of rands

The obligation for the four years prior to March 2014 is as follows:

March 2013	148 421
March 2012	354 880
March 2011	262 788
March 2010	233 913

19.3 DEFINED CONTRIBUTION PLAN

in thousands of rands

	2015	2014
The total amount expensed during the period (including group life assurance and income continuity benefits)	43 518	38 928

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 2015 is 453 (2014: 431).

in thousands of rands	2015	2014
20. FUNDING: DEBT SECURITIES		
Classification of debt securities		
Held at fair value through profit or loss	6 837 095	6 700 902
Held at amortised cost	26 515 941	22 515 912
	33 353 036	29 216 814

Debt securities designated at fair value through profit or loss consists of listed and unlisted DV bonds and private placements. The debt securities held at fair value through profit and loss are assessed upon credit rating review by rating agencies for own credit risk adjustment.

Debt securities carried at amortised cost consists of Eurorand bond issues, money market issuance (bridging bonds and short-term commercial paper), medium- and long-term fixed rating and floating rate bond.

Unsecured floating rate debt securities nominal values

Floating rate notes – Commercial paper	2 613 000	1 000 000
Floating rate notes – Medium-term notes	2 866 000	1 169 000
	5 479 000	2 169 000

Unsecured floating rate notes (DVCs and DVFs)

A R35 billion Domestic Medium-Term Note Programme is currently registered and listed on the JSE Securities Exchange as at 31 March 2015.

The Bank issued several floating commercial paper notes during the financial year under instruments codes DVC bonds. These instruments have a maturity of less than one year.

The Bank also issued several floating medium-term notes under instrument codes DVF. These instruments have a maturity of three to five years.

The Bank has elected to carry these floating rate notes at amortised cost.

in thousands of rands	2015	2014
21. FUNDING: LINES OF CREDIT		
Held at amortised cost		
Lines of credit	12 565 895	13 606 441

Other funding held at fair value through profit or loss represents the hedged funding that forms part of effective qualifying hedge relationships.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 March 2015

in thousands of rands		2015	2014
22. SHARE CAPITAL			
Authorised			
2 020 000 ordinary shares (31 March 2014: 500 000) at a par value of R10 000 each		20 200 000	5 000 000
Callable capital (authorised but not yet issued)			
2 000 000 ordinary shares (31 March 2014: 480 000) at a par value of R10 000 each		20 000 000	4 800 000
In terms of regulation 18 of the DBSA Act Directors may issue shares and call upon the shareholders in respect of monies payable under such issue.			
The Board may, with the approval of the shareholder previously given at a shareholder's meeting, increase the issued share capital of the Bank by the creation and issue of ordinary and preference shares.			
The DBSA Act 13 of 1997 was amended during the year to amongst others increase the authorised share capital to R20.2 billion, divided into 2 020 000 ordinary shares. In terms of section 13(2A) of the amended act, the Minister may, after consultation with the Board and notice in the Gazette, adjust the amount of the authorised share capital of the Bank and number of ordinary shares.			
in thousands of rands		2015	2014
Issued capital			
20 000 ordinary shares (31 March 2014: 20 000) at a par value of R10 000 each		200 000	200 000
All issued capital is fully paid for.			
23. PERMANENT GOVERNMENT FUNDING			
Balance at the beginning of the year		6 192 344	3 792 344
Government recapitalisation		2 500 000	2 400 000
Balance at the end of the year		8 692 344	6 192 344
This represents capital provided by the South African government and remains part of the permanent capital of the Bank.			
During the current financial period, a capital injection of R2.5 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.			
24. REVALUATION RESERVE ON LAND AND BUILDINGS			
Balance at the beginning of the year		253 487	253 487
Gain on revaluation of land and buildings		15 769	–
Balance at the end of the year		269 256	253 487
This reserve represents the fair value adjustment recognised on the revaluation of the land and buildings.			
25. HEDGING RESERVE			
Balance at the beginning of the year		61 958	40 617
Unrealised (loss)/gain on cash flow hedges		(88 253)	109 108
Gain/(loss) on cash flow hedges reclassified to the statement of comprehensive income		142 583	(87 767)
Balance at the end of the year		116 288	61 958
The net gain reclassified to the statement of comprehensive income was included in the net foreign exchange gain line item.			
26. RESERVE FOR GENERAL LOAN RISKS			
Balance at the beginning of the year		1 893 983	1 371 726
Transfer to general loan reserve		249 992	522 257
Balance at the end of the year		2 143 975	1 893 983
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.			

in thousands of rands		2015	2014
27. FAIR VALUE RESERVE			
Balance at the beginning of the year		2 385	15 920
Change in value of available-for-sale financial assets		(2 128)	(13 535)
Balance at the end of the year		257	2 385
The fair value reserve comprises all fair value adjustments for available-for-sale financial market instruments excluding impairment loss.			
28. INTEREST INCOME			
Interest income received on:			
Cash and cash equivalents		182 005	80 036
Investment securities		182 667	216 224
Held at fair value through profit and loss		153 902	172 698
Held-to-maturity		17 489	23 622
Available-for-sale		11 276	19 904
Investments under repurchase agreements		–	116
Derivatives assets		26 890	11 405
Home ownership scheme loans		543	591
Equity investments		16 387	4 905
Development loans (refer to note 14.1)		4 806 454	4 204 617
Development bonds (refer to note 13.2)		112 366	58 315
Total interest income		5 327 312	4 576 209
28.1 INTEREST INCOME ON DEVELOPMENT LOANS			
Interest income on development loans			
On performing loans		4 744 505	3 939 848
On non-performing loans		61 949	264 769
		4 806 454	4 204 617
28.2 INTEREST INCOME ON DEVELOPMENT LOANS – CLIENT CLASSIFICATION			
Development finance institutions		56 528	68 815
Educational institutions		74 744	79 096
Local government		1 652 597	1 465 260
National and provincial government		136 614	86 050
Private sector intermediaries		1 320 425	1 198 222
Public utilities		1 565 546	1 307 174
		4 806 454	4 204 617
29. INTEREST EXPENSE			
Interest expense incurred on:			
Other payables		6 663	1 861
Funding: debt securities		2 928 016	2 508 965
Funding: lines of credit		245 988	221 824
Funding under repurchase agreements		–	1 895
Derivative liabilities held for risk management		(177 738)	(246 786)
Total interest expense		3 002 929	2 487 759
Net interest income		2 324 383	2 088 450
Included in interest expense on Funding: debt securities for the year ended 31 March 2015 is R653 million (March 2014: R687 million) relating to debt securities designated held at fair value through profit or loss.			
Included in interest expense on Funding: debt securities for the year ended 31 March 2015 is R2.176 billion (2014: R1.82 billion) relating to debt securities held at amortised cost.			

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 March 2015

in thousands of rands	2015	2014
30. NET FEE INCOME		
Fee income		
Advisory fees	–	2 465
Appraisal fees	2 664	29 881
Arranging fees	26 518	32 005
Breakage costs	1 340	1 624
Commitment fees on lending	43 842	47 285
Consulting fees	–	3 345
Contract cancellation fees	500	8 520
Directors' fees	99	220
Guarantee fees	4 997	220 451
Management fees	116 592	71 553
Prepayment fees	7 090	11 029
Restructuring fee	2 572	48
Unwinding costs	14 613	1 234
Upfront fees	20 756	27 582
Waiver fees	85	62
Total fee income	241 668	457 304
Fee expense		
Guarantee fees	4 663	113 336
Commitment fees on funding	4 077	9 012
Appraisal fees	–	326
Total fee expense	8 740	122 674
Net fee income	232 928	334 630
Included in management fees are fees from third party managed funds:		
Agence Francaise Development PPS Fund	70	261
African Capacity Building Foundation	–	9
African Peer Review Mechanism	–	496
African World Heritage Fund	1 114	93
Anglo American South Africa	3 345	141
Angola Facility Agency	680	–
Department of Basic Education for Accelerated Infrastructure Schools Programme	69 666	22 143
Department of Rural Development and Land Reform	1 319	1 393
Department of Water Affairs	(284)	487
Cities Preparation Facility	1 500	–
DOE – Renewable Energy Market Transformation	(128)	160
Dryland Rehabilitation Programme	22	80
Energy and Environmental Programme	–	320
Ekurhuleni Metropolitan Municipality	14	–
Elliotdale Rural Human Settlement	6 293	3 912
Finland Ministry for Foreign Affairs	–	828
Gauteng Health	(65)	901
Green Fund	3 206	3 076
Independent Power Producers Office	1 966	–
Infrastructure Investment Programme for South Africa	877	3 157
Infrastructure Delivery Improvement Programme	2 770	–
Jobs Fund	3 428	3 818
KFW HIV/VCT 2 Programme	111	337
KFW SADC Water Fund	568	–
Municipal Financial Improvement Programme	3 500	1 500
Limpopo Department of Health	11 320	–
Municipal Infrastructure Support Agency	–	2 608
Muyexe Comprehensive Development	–	66
National Rural Youth Services Corporation	28	403
National Department of Health	3 544	14 927
National Treasury – The PPP Unit	–	1 379
National Treasury Cities Support Programme	493	667
National Treasury Municipal Capacitation Fund	–	1
New Partnership for Africa's Development	–	46
Spatial Development Initiative	905	1 574
Tripartite Trust Account DFID	330	6 756
Ubunye	–	14
	116 592	71 553

in thousands of rands	2015	2014
31. NET FOREIGN EXCHANGE GAIN		
Unrealised		
Foreign exchange gain/(loss): Cash and cash equivalents	33 541	(45 548)
Foreign exchange (loss)/gain: Hedging derivatives – funding	(331 694)	371 984
Foreign exchange gain: Equity investments (refer to note 11.1)	160 475	194 970
Foreign exchange gain: Development loans and sundry	988 944	805 638
Foreign exchange loss: Hedging derivatives – development loans	(187 382)	(64 706)
Foreign exchange loss: Funding (Lines of Credit)	(1 140 097)	(1 470 786)
	(476 213)	(208 448)
Realised		
Foreign exchange gain: Development loans	758 995	516 400
Foreign exchange gain: Equity investments (refer to note 11.1)	58 193	136 435
Foreign exchange gain/(loss): Funding and hedging	148 698	(164 442)
	965 886	488 393
Net foreign exchange gain	489 673	279 945
32. 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	(30 751)	(497 687)
Realised	4 723	7 306
	(26 028)	(490 381)
Foreign exchange derivatives		
Unrealised	43 148	78 590
Realised	861	(26 459)
	44 009	52 131
Investment securities designated at fair value through profit or loss		
Government bonds – unrealised	(14 173)	(43 597)
Government bonds – realised	13 044	5 669
Corporate bonds – unrealised	1 053	(16 934)
Municipal bonds – unrealised	19 583	(64 140)
	19 507	(119 002)
Debt securities		
Designated at fair value through profit or loss – unrealised	(114 538)	707 087
Own credit risk adjustment included in the fair value adjustment amounted to R78 million (2014: Rnil).		
Equity investments		
Designated at fair value through profit and loss – unrealised (refer to note 11.1)	(204 223)	(772 673)
Held-to-maturity – unrealised (refer to note 11.2)	(14 887)	(5 019)
	(219 110)	(777 692)
Other		
Post-retirement medical benefits investment designated at fair value through profit or loss – unrealised	(3 672)	(1 639)
Total net loss from financial assets and liabilities	(299 832)	(629 496)
33. OTHER OPERATING INCOME		
Non-interest income		
Dividend income	29 821	30 618
Gain on sale of equipment	70	17
Sundry income	110 080	213 439
	139 971	244 074

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 March 2015

in thousands of rands		2015	2014
34. DEVELOPMENT EXPENDITURE			
Development expenditure to secondary and under-resourced municipalities		35 015	1 579
35. NET IMPAIRMENT LOSS ON FINANCIAL ASSETS			
Impairment of other receivables		(4 015)	1 939
Impairment on equity investments (refer to note 11.1)		–	12 173
Impairment on development loans (refer to note 14.9)		745 526	720 759
Impairment on housing scheme loans		1 632	–
Impairment on development bonds (refer to note 13.3)		218	–
		743 361	734 871
36. PERSONNEL EXPENSES			
Post-retirement medical benefits liability movement (refer to note 19.2)		5 600	25 830
Personnel expenses		601 671	535 767
		607 271	561 597
Included in other personnel expenses are the following:			
Directors' emoluments (refer to note 45)		16 142	13 027
Executive members' remuneration (refer to note 45)		34 379	27 743
		50 521	40 770
37. OTHER EXPENSES			
Auditor's remuneration		6 274	6 649
Technical services		29 658	34 006
Communication costs		7 733	7 466
Information technology costs		39 146	32 498
Legal expenses		10 325	8 239
Public relations activities		9 372	7 375
Subsistence and travel		33 199	24 015
Loss on sale of assets		315	–
Strategic transformation initiatives		50 000	–
Low value assets		2 087	68
Other		65 066	57 281
		253 175	177 597
38. DEPRECIATION AND AMORTISATION (refer to notes 15 and 16)			
Revalued buildings		3 937	3 866
Furniture and fittings		1 462	1 526
Motor vehicles		208	194
Office equipment		806	1 049
Computer equipment		6 202	1 874
Intangible assets		12 493	10 118
		25 108	18 627
39. GRANTS			
Free State Department of Police Road and Transport		1 244	–
Jobs Fund – retention bonus		–	2 366
National Treasury: BRICS		246	1 675
Municipal Infrastructure Support Agency		–	4 578
Presidency National Planning		365	–
Training assistance – Vulindlela Academy		168	6 804
Social Responsibility Fund		294	–
Malawi DFI consulting fees		597	–
		2 914	15 423

In the prior year an amount of R1.5 million for development expenditure was disclosed as a grant.

in thousands of rands		2015	2014
40. CONTINGENCIES			
40.1 EMPLOYEE LOANS			
Loan balances secured		103	103
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.			
40.2 GUARANTEES			
The Bank has approved and issued guarantees on behalf of borrowers amounting to		172 625	288 036
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 book debt to the credit provider		172 625	288 036
40.3 CONTINGENT LIABILITIES			
The Bank operates in a legal and regulatory environment that exposes it to litigation risks. As a result the Bank is involved in disputes and legal proceedings which arise in the ordinary course of business. The Bank does not expect the ultimate resolution of any of the proceedings to have a significant adverse effect on the financial position of the Bank. These claims cannot be reasonably estimated at this time.			
41. RELATED PARTIES			
41.1 RELATED PARTY RELATIONSHIPS			
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 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 DBSA has a 100% shareholding in Frandevco.			
41.2 TRANSACTIONS WITH RELATED PARTIES			
The following is a summary of transactions with related parties during the year and balances due at the end of the period:			
41.2.1 NATIONAL PUBLIC ENTITIES			
The total book debt of loans extended to national public entities amounts to R13.1 billion (2014: R10.1 billion). None of these loans are non-performing.			
41.2.2 NATIONAL MANDATES			
The net amount advanced to national mandates at year-end amounted to R144.3 million (2014: R4.2 million).			
41.2.3 FRANDEVCO			
There were no transactions with Frandevco during the year (2014: Rnil). Refer to note 49.			
41.2.4 RELATED PARTY TRANSACTIONS			
There were no related party transactions with Directors and key management personnel during the year (2014: Rnil).			
in thousands of rands		2015	2014
42. COMMITMENTS			
At the reporting date, the Bank had the following commitments:			
• Development loan commitments		10 572 339	6 931 264
• Development expenditure		33 754	17 357
• Grants		4 371	36 736
• Equity investments commitments		1 946 909	1 894 655
• Capital commitments		85 000	–
		12 642 373	8 880 012

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 March 2015

42. COMMITMENTS (CONTINUED)**42.1 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.

42.2 DEVELOPMENTAL EXPENDITURE

Developmental expenditure on loan commitments approved but not yet contracted are to be financed from funds generated from operation and available cash resources.

42.3 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.

42.4 EQUITY INVESTMENT COMMITMENTS

Commitment relates to private equity funds approved but not yet disbursed.

42.5 CAPITAL COMMITMENTS

Capital expenditure is in respect of property, plant and equipment and intangible assets authorised but not contracted for. These commitments will be financed from available cash resources, funds generated from operations and available borrowing capacity. These commitments are expected to be settled in the following financial year.

43. FUNDS ADMINISTERED ON BEHALF OF THIRD PARTIES

in thousands of rands	2015	2014
Balance at the beginning of the year	2 072 450	2 092 076
Funds received	4 975 373	2 169 821
Interest, foreign exchange and other movements	143 372	141 833
Funds disbursed	(6 565 131)	(2 331 280)
Balance at the end of the year	626 064	2 072 450

44. TAXATION

The Bank is exempt from South African normal taxation in terms of section 10(1)(l)(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.

45. SCHEDULE OF DIRECTORS' AND PRESCRIBED OFFICERS' EMOLUMENTS**45.1 EXECUTIVE MEMBERS' REMUNERATION AND PRESCRIBED OFFICERS**

	Basic salaries and fees R	Medical aid, group life and provident fund contribution R	Subsistence and travel R	Cell costs R	Bonus R	Total March 2015 R	Total March 2014 R
Chief Executive Officer and Managing Director							
Mr P Dlamini	4 426 609	552 707	105 494	–	4 452 000	9 536 810	7 221 932
Executive Managers							
Mr P A Currie	2 240 681	276 900	17 930	20 000	2 054 432	4 609 943	3 786 725
Mr M Hillary	1 937 388	320 250	12 226	22 000	1 798 260	4 090 124	3 513 108
Mr E Dietrich ¹	346 987	86 160	–	6 000	–	439 147	–
Ms D Mashishi	2 026 295	272 901	3 657	22 000	1 798 260	4 123 113	3 606 830
Ms K Naidoo	2 452 435	277 852	–	22 000	2 233 834	4 986 121	4 144 752
Mr T Nchocho ²	1 560 249	362 506	40 505	45 000	2 148 678	4 156 938	4 007 491
Mr R Shaik	2 070 465	325 976	55 779	55 000	1 874 800	4 382 020	3 682 498
Ms S Sibisi	2 077 898	269 864	18 308	55 000	1 854 744	4 275 814	3 510 291
Mr M Vivekanandan	2 737 777	544 794	14 865	18 000	–	3 315 436	1 597 830
Total	21 876 784	3 289 910	268 764	265 000	18 215 008	43 915 466	35 071 457

Notes:

- Acting Group Executive from 1 February 2015.
- Resigned 31 January 2015.

45. SCHEDULE OF DIRECTORS' AND PRESCRIBED OFFICERS' EMOLUMENTS (CONTINUED)**45.2 REMUNERATION OF NON-EXECUTIVE DIRECTORS AND CO-OPTED MEMBERS OF THE BOARD**

	Fees for services as Directors R	Subsistence and travel R	Total March 2015 R	Total March 2014 R
Mr PJ Moleketi (Chairman)	861 650	4 218	865 868	862 261
Mr FM Baleni (Deputy Chairman)	590 250	5 565	595 815	361 664
Dr L Bhengu-Baloyi ¹	444 200	–	444 200	418 902
Mr A Boraine ³	133 400	–	133 400	514 902
Ms T Dinga	731 700	–	731 700	617 100
Ms A Kekana ⁴	–	–	–	37 500
Mr OA Latiff	748 808	–	748 808	491 952
Ms B Mabuza ¹	504 000	4 270	508 270	445 358
Dr C Manning ³	194 350	1 554	195 904	509 138
Ms D Marole ¹	530 450	1 827	532 277	531 840
Ms M Vilakazi ¹	394 702	2 246	396 948	611 191
Mr A Moloto ²	309 650	–	309 650	–
Ms G Mtetwa ²	254 300	1 828	256 128	–
Ms A Sing ²	314 100	2 945	317 045	–
Prof M Swelling ²	207 150	–	207 150	–
Co-opted members				
Prof B Figaji	361 600	–	361 600	466 864
Mr M Matsabu	–	–	–	37 752
	6 580 310	24 453	6 604 763	5 906 424

Notes:

- Re-appointed 1 August 2014.
- Appointed 1 August 2014.
- Term expired 31 July 2014.
- Resigned 30 June 2013.

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

INTEREST RATE RISK

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 March 2015

46. RISK MANAGEMENT (CONTINUED)

INTEREST RATE RISK (CONTINUED)

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 over both 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 portfolio value analysis.

The management of interest rate risk against these limits is supplemented by scenario analysis, which measures the sensitivity of the Bank's net interest income and market value of equity to extreme interest rate movements. At a minimum, scenarios include hypothetical interest rate shocks, both up and down, of at least 100 basis points.

The repricing profile as at financial year-end is encapsulated in the table 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 R55.2 million (March 2014: R106.8 million).

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 2015, the Bank had a combined ZAR interest rate and USD interest rate swaps portfolio with a total notional contract amount of R4.8 billion (March 2014: R5.05 billion). The Bank classifies interest rate swaps as fair value hedges and states them at fair value (refer to note 8). The net fair value of these swaps as at 31 March 2015 was R333 million (March 2014: R358.6 million), comprising assets of R370 million (March 2014: R382.5 million) and liabilities of R37.3 million (March 2014: R23.9 million). These amounts are recognised as fair value derivatives.

The table below shows the contractual repricing gap for 31 March 2015:

		DBSA contractual repricing gap in million of rands								
		<1m	1-3m	3-12m	1-2 yrs	2-3 yrs	3-4 yrs	4-5 yrs	>5 yrs	Total
Cash and cash equivalents	ZAR	3 276	-	-	-	-	-	-	-	3 276
	EUR	1	-	-	-	-	-	-	-	1
	USD	625	-	-	-	-	-	-	-	625
Money market instruments	ZAR	50	167	-	-	-	-	-	-	217
Investment: government bonds	ZAR	-	-	272	272	-	106	-	-	650
Investment: municipal bonds	ZAR	-	-	100	100	-	-	-	1 917	2 117
Investment: corporate bonds	ZAR	-	-	-	-	-	75	-	75	150
Development loans	EUR	-	-	-	-	-	-	-	7	7
	USD	-	2 960	7 646	-	67	-	-	596	11 269
	ZAR	3 627	3 697	7 070	274	571	1 029	779	27 122	44 169
Derivative: development loans	USD	(14)	(558)	(336)	(27)	35	-	-	231	(669)
	ZAR	11	656	35	22	11	-	-	(180)	555
Total financial market assets		7 576	6 922	14 787	641	684	1 210	779	29 768	62 367
CCS: Lines of credit	EUR	-	-	73	31	-	-	186	2 005	2 295
CCS: Lines of credit	USD	-	-	(780)	-	-	-	-	-	(780)
CCS: Lines of credit	ZAR	-	-	(845)	-	-	-	-	(295)	(1 140)
Funding bonds	ZAR	(215)	(1 571)	(1 295)	(1 000)	-	-	(9 228)	(15 025)	(28 334)
Funding: Lines of credit	EUR	-	-	(73)	(31)	-	-	(186)	(2 005)	(2 295)
Funding: Lines of credit	USD	-	(4 190)	(5 064)	-	(61)	-	-	(231)	(9 546)
Funding: Lines of credit	ZAR	-	(565)	(153)	-	-	-	-	-	(718)
IRS: Funding bonds	ZAR	-	(2 350)	(2 000)	1 000	-	3 350	-	-	-
IRS: Lines of credit	ZAR	-	-	-	-	-	-	-	-	-
Funding: Money market debt	USD	-	-	-	-	-	-	-	-	-
Funding: Money market debt	ZAR	-	(2 863)	(1 650)	-	-	-	-	-	(4 513)
Total financial market liabilities		(215)	(11 539)	(11 787)	-	(61)	3 350	(9 228)	(15 551)	(45 031)
Repricing gap		7 361	(4 617)	3 001	641	624	4 560	(8 449)	14 217	
Cumulative repricing gap		7 361	2 744	5 744	6 385	7 008	11 568	3 119	17 336	

46. RISK MANAGEMENT (CONTINUED)

The table below shows the contractual repricing gap for 31 March 2014:

		DBSA contractual repricing gap in million of rands								
		<1m	1-3m	3-12m	1-2 yrs	2-3 yrs	3-4 yrs	4-5 yrs	>5 yrs	Total
Cash and cash equivalents	ZAR	4 136	-	-	-	-	-	-	-	4 136
	EUR	-	-	-	-	-	-	-	-	-
	USD	-	-	-	-	-	-	-	-	-
Money market instruments	ZAR	-	-	-	-	-	-	-	-	-
Investment: government 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
Derivative: 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: Lines of credit	ZAR	(215)	(4 170)	-	215	1 000	-	-	3 170	-
Funding: Money market debt	USD	-	-	-	-	-	-	-	-	-
Funding: Money market 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	

The above analysis is based on performing assets only. Variable interest rate instruments are included in the maturity bucket in which they reprice. Fixed rate instruments, although not technically subject to repricing risk, are included in the maturity bucket in which the instrument matures, due to the assumption that it will be rolled at maturity or that it will be held as cash.

FOREIGN EXCHANGE RISK

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

The Bank's primary foreign exchange 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 March 2015

46. RISK MANAGEMENT (CONTINUED)

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 2015, the Bank had FECs with a notional amount of R54 million (March 2014: R83.1 million) and cross-currency swaps with a notional amount of R2.35 billion (March 2014: R2.8 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.

FOREIGN CURRENCY SENSITIVITY ANALYSIS

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

Currency (in thousands)	2015		2014	
	EUR	USD	EUR	USD
Cash at bank	66	51 545	3	25 638
Loan assets	550	929 396	–	1 134 254
Equity investments	28 553	160 436	26 605	163 371
Cross-currency swaps	176 395	(113 911)	155 350	(51 000)
Derivative foreign exchange contracts	–	(5 643)	–	(7 901)
Liabilities	(176 399)	(787 205)	(155 354)	(1 000 920)
	29 165	234 618	26 604	263 442

FOREIGN CURRENCY EXCHANGE RATE (FX) SENSITIVITY ANALYSIS

Sensitivity	%	EUR potential impact		USD potential impact		FX sensitivity combined
		EUR/ZAR	USD/ZAR	EUR/ZAR	USD/ZAR	
	(15)	11.0591	(57)	10.3067	(426)	(483)
	(10)	11.7096	(38)	10.9130	(284)	(322)
	(5)	12.3601	(19)	11.5192	(142)	(161)
	–	13.0107	–	12.1255	–	–
	5	13.6612	19	12.7318	142	161
	10	14.3117	38	13.3381	284	322
	15	14.9623	57	13.9443	426	483

Spot exchange rate used: EUR/ZAR 13.0107, USD/ZAR 12.1255

LIQUIDITY RISK

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

In order to shield the Bank against the risk of a liquidity shortfall, the Bank's liquidity risk management policy requires the maintenance of prudential liquidity levels conservatively based on the level of actual disbursements for a rolling 12 months. In addition, in the interest of added prudence, the Bank has adopted the Basel III recommended liquidity risk metrics (the liquidity coverage ratio and the net stable funding ratio).

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

Total liquidity at 31 March 2015 was R5.9 billion (March 2014: R6.02 billion). This includes cash and cash equivalents of R3.9 billion (March 2014: R4.1 billion), money market instruments of R217 million (March 2014: Rnil), corporate and municipal bonds of R1.1 billion (March 2014: R1.02 billion), and government bonds amounting to R688 million (March 2014: R0.9 billion).

46. RISK MANAGEMENT (CONTINUED)

in thousands of rands	Amount
Available liquidity as at 31 March 2015	
High quality liquid assets	
Cash	3 901 663
T-bills	217 400
Government bonds	694 238
Other less liquid assets	
SOE bonds	179 403
Municipal bonds	858 179
Total available liquidity	5 850 883

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 multi-lateral, bilateral and other development finance institutions, money and capital securities issuance under the Bank's domestic medium-term programme and capital market repurchase transactions.

The Bank uses cash flow forecasts and cumulative maturity gap analysis to assess and monitor its liquidity requirements and risk levels. A maturity gap profile report forms part of the asset and liability report which is reviewed and analysed by the ALCO on a periodic basis. Calculated on a nominal maturity basis, the 12-month cumulative liquidity gap as at 31 March 2015 was approximately R3.1 billion (31 March 2014: R623 million).

The table below analyses the contractual liquidity gap for 31 March 2015.

in millions of rands		Contractual liquidity gap								Grand total
		<1m	1-3m	3-12m	1-2 yrs	2-3 yrs	3-4 yrs	4-5 yrs	>5 yrs	
Cash and cash equivalents	ZAR	3 326	–	3 000	–	–	–	–	–	6 326
	EUR	1	–	–	–	–	–	–	–	1
	USD	625	–	–	–	–	–	–	–	625
Money market instruments	ZAR	50	167	–	–	–	–	–	–	217
Investment: government bonds	ZAR	–	–	272	272	–	106	–	–	650
Investment: municipal bonds	ZAR	–	–	167	33	–	–	–	1 917	2 117
Investment: corporate bonds	ZAR	–	–	–	–	–	75	–	75	150
Development loans	EUR	–	–	1	1	1	1	1	–	5
	USD	28	93	1 062	1 668	1 581	1 162	957	4 719	11 270
	ZAR	16	65	2 473	2 903	3 043	2 593	2 368	30 594	44 055
Derivatives: development bonds	USD	(14)	–	(580)	(45)	(31)	–	–	–	(670)
	ZAR	11	–	492	31	21	–	–	–	555
Total financial market assets		4 043	325	6 887	4 863	4 615	3 937	3 326	37 305	65 301
CCS: Lines of credit	EUR	–	10	251	249	254	234	213	1 085	2 296
CCS: Lines of credit	USD	–	–	(49)	(98)	(98)	(98)	(98)	(341)	(782)
CCS: Lines of credit	ZAR	–	(2)	(150)	(108)	(121)	(108)	(94)	(557)	(1 140)
Funding bonds	ZAR	(215)	–	–	(2 571)	–	(1 295)	(9 228)	(15 025)	(28 334)
Funding: Lines of credit	EUR	–	(8)	(224)	(249)	(283)	(234)	(184)	(1 114)	(2 296)
Funding: Lines of credit	USD	–	(470)	(2 441)	(1 778)	(1 242)	(767)	(749)	(2 098)	(9 545)
Funding: Lines of credit	ZAR	–	(7)	(88)	(94)	(94)	(94)	(94)	(247)	(718)
Funding: Money market debt	ZAR	–	(1 745)	(2 768)	–	–	–	–	–	(4 513)
Total financial market liabilities		(215)	(2 222)	(5 469)	(4 649)	(1 584)	(2 362)	(10 234)	(18 297)	(45 032)
Liquidity gap		3 828	(1 897)	1 418	214	3 031	1 575	(6 908)	19 008	
Cumulative liquidity gap		3 828	1 931	3 349	3 563	6 594	8 169	1 261	20 269	

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 R7.47 billion. The table above includes the anticipated capital injection of R3 billion from the National Treasury within the next 12 months.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 March 2015

46. RISK MANAGEMENT (CONTINUED) LIQUIDITY RISK (CONTINUED)

As per the table above DBSA has a positive cumulative liquidity gap where the contractual inflows exceed outflows across all time buckets. This profile is anticipated due to the nature of the business where the Bank has raised long dated stable funding and generated short-term amortising assets.

There are no behavioural assumptions made on the liquidity gap and all assets and liabilities are disclosed with the underlying contractual maturity as determined by the cash flow profile for each record.

The table below analyses the contractual liquidity gap for 31 March 2014.

in millions of rands		Contractual liquidity gap								Grand total
		<1m	1-3m	3-12m	1-2 yrs	2-3 yrs	3-4 yrs	4-5 yrs	>5 yrs	
Cash and cash equivalents	ZAR	4 136	–	–	–	–	–	–	–	4 136
	EUR	–	–	–	–	–	–	–	–	–
	USD	–	–	–	–	–	–	–	–	–
Investment: government 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	11 911
	ZAR	19	626	2 165	3 027	3 115	2 748	2 376	24 758	38 834
Derivatives: development bonds	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	31 146	57 622
CCS: Lines of credit	EUR	8	77	200	235	209	247	192	1 082	2 250
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)	(2 250)
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)	(812)
Funding: Money market debt	ZAR	–	(1 855)	(1 650)	–	–	–	–	–	(3 505)
Total financial market liabilities		(42)	(3 905)	(3 962)	(2 190)	(3 929)	(1 332)	(883)	(25 331)	(41 574)
Liquidity gap		4 153	(3 059)	(472)	3 346	849	2 716	2 700	5 815	
Cumulative liquidity gap		4 153	1 094	622	3 968	4 817	7 533	10 233	16 048	

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 includes the anticipated capital injection from the National Treasury of R5.5 billion over the next two years.

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.

46. RISK MANAGEMENT (CONTINUED) 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 its oversight duties, sets the tone for the management of risk and defines the level of risk that the Bank is willing to assume, as well as considers the granting of large credits and reviews the overall performance in the management of risk through its subcommittees.

Credit risk governance: The ongoing governance of the Bank's risk-taking activities is devolved to management. For credit risk management, the Bank has in place a number of committees, at both 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

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 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 overleaf. 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 March 2015

46. RISK MANAGEMENT (CONTINUED)

CREDIT RISK (CONTINUED)

CREDIT RISK RATINGS, PRICING AND MITIGATION (CONTINUED)

Rating grade	Mid joint PD (%)	Lower bound PD (%)	Upper bound PD (%)	Mapping to S&P	Mapping to Moody's
MS 1	0.01	–	0.02	AAA	Aaa
MS 2	0.02	0.02	0.03	AA+	Aa1
MS 3	0.03	0.03	0.04	AA	Aa2
MS 4	0.04	0.04	0.05	AA-	Aa3
MS 5	0.05	0.05	0.06	A+	A1
MS 6	0.06	0.06	0.08	A	A2
MS 7	0.10	0.08	0.14	A-	A3
MS 8	0.17	0.14	0.24	BBB	Baa1
MS 9	0.30	0.24	0.40	BBB	Baa2
MS 10	0.50	0.40	0.68	BBB-	Baa3
MS 11	0.85	0.68	1.13	BB+	Ba1
MS 12	1.40	1.13	1.90	BB	Ba2
MS 13	2.40	1.90	3.20	BB-	Ba3
MS 14	4.00	3.20	5.50	B+	B1
MS 15	7.00	5.50	9.50	B	B2
MS 16	12.00	9.50	16.00	B-	B3
MS 17	58.00	16.00	99.99	CCC	Caa etc
Default	100.00	99.99	100.00	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 return on equity (ROE), net present value (NPV) and sustainability profit on an economic basis. The model has been applied since January 2013 and further improvements will be made to it.

The Bank has moved to the second version of this model in 2014 with updates to cost structure included. The risk ratings are used for both 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 specialised legal agreements like guarantees and similar legal contracts in support of credit extension to private sector clients with weaker credits. Financial covenants are also an important tool for credit mitigation within the DBSA.

CREDIT RISK MONITORING, MEASUREMENT AND REPORTING

The Bank dedicates considerable resources to monitor the quality of credit throughout the lifetime of assets and measure the exposure and performance of assets across portfolios.

At individual 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.

46. RISK MANAGEMENT (CONTINUED)

CREDIT RISK EXPOSURE

Maximum exposure

in thousands of rands	March 2015			March 2014		
	Gross amount	Allowance for impairment	Carrying amount	Gross amount	Allowance for impairment	Carrying amount
(a) Development loans						
Non-performing book						
Municipalities	433 916	188 035	245 881	420 117	134 645	285 472
Other	2 599 773	1 331 544	1 268 229	2 623 550	1 047 038	1 576 512
	3 033 689	1 519 579	1 514 110	3 043 667	1 181 683	1 861 984
Performing book						
Low risk						
Municipal	11 920 098	136 350	11 783 748	9 962 743	7 983	9 954 760
Other	1 781 916	10 483	1 771 433	3 294 334	15 207	3 279 127
Medium risk						
Municipal	5 837 727	4 802	5 832 925	4 444 722	21 938	4 422 784
Other	33 201 335	210 610	32 990 725	28 960 823	143 322	28 817 501
High risk						
Municipal	20 389	–	20 389	136 838	–	136 838
Other	3 874 030	350 995	3 523 035	2 606 720	166 274	2 440 446
	56 635 495	713 240	55 922 255	49 406 180	354 724	49 051 456
Total book debt	59 669 184	2 232 819	57 436 365	52 449 847	1 536 407	50 913 440

The following types of collateral are held in respect of the above loans: guarantees, cession of debtors, cession of income streams, mortgages, investments, notarial bonds, sinking fund investments, promissory notes, insurance policies and treaty obligations.

in thousands of rands	March 2015			March 2014		
	Gross amount	Allowance for impairment	Carrying amount	Gross amount	Allowance for impairment	Carrying amount
(b) Development bonds						
Performing						
Municipal	1 290 608	218	1 290 390	772 743	–	772 743

The maximum exposure relating to development bonds is R1.3 billion (2014: R773 million).

in thousands of rands	March 2015			March 2014		
	Gross amount	Allowance for impairment	Carrying amount	Gross amount	Allowance for impairment	Carrying amount
(c) Other receivables:						
Trade debtors – 90 days and over	9 564	2 479	7 085	9 096	6 524	2 572
Other debtors – 90 days and above	3 916	–	3 916	167	167	–
	13 480	2 479	11 001	9 263	6 691	2 572
Performing book						
Trade debtors: 30 days	30 064	–	30 064	27 960	–	27 960
Other debtors: 30 days	1 962	–	1 962	3 512	–	3 512
Trade debtors: 30-60 days	108 774	–	108 774	8 252	–	8 252
Other debtors: 30-60 days	–	–	–	5 129	–	5 129
Trade debtors: 60-90 days	16 575	–	16 575	67	–	67
Other debtors 60-90 days	–	–	–	9 974	–	9 974
	157 375	–	157 375	54 894	–	54 894
Staff and study loans	656	–	656	430	–	430
Municipal deposits	1 081	–	1 081	1 287	–	1 287
Prepaid expenses	5 161	–	5 161	2 571	–	2 571
	6 898	–	6 898	4 288	–	4 288
Total book debt	177 753	2 479	175 274	68 445	6 691	61 754

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 March 2015

46. RISK MANAGEMENT (CONTINUED)**CREDIT RISK (CONTINUED)****CREDIT RISK EXPOSURE (CONTINUED)****Maximum exposure (continued)**

in thousands of rands		2015	2014
(d) Commitments (Loans signed, but not yet fully disbursed)			
Low risk	Municipal	496 367	730 371
	Other	890 000	539 901
Medium risk	Municipal	698 261	493 716
	Other	8 063 319	4 816 895
High risk	Municipal	–	153 528
	Other	424 392	196 853
		10 572 339	6 931 264

in thousands of rands		2015	2014
(e) Guarantees		172 625	288 036

in thousands of rands	2015					2014				
	Total	3 months	3-6 months	6-12 months	>12 months	Total	3 months	3-6 months	6-12 months	>12 months
(f) Loans that are past due or individually impaired										
Overdue amounts	166 928	138 179	27 526	1 079	144	282 964	269 644	(1 262)	13 738	844
Not yet due	24 418 550					13 817 285				–
	24 585 478					14 100 249				

The fair value of collateral held in respect of the above amounted to R206 million (2014: R206 million). For the purposes of calculating this aggregated total, the fair value of each collateral is limited to the carrying value for each individual loan.

The above collaterals consist of guarantees, cession of debtors, mortgages, investments, notarial bonds, sinking fund investments and insurance policies.

in thousands of rands		2015	2014
(g) Financial counterparty exposure			
Bonds		1 531 382	1 743 848
Derivatives		792 078	1 244 426
Cash and money markets		4 118 409	4 147 360
		6 441 869	7 135 634

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 shareholder's 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 2015, the debt to equity stood at 195.4% (2014: 216.3%). The capital ratio is calculated as shareholder's capital divided by unweighted assets, where unweighted assets comprise total assets (as shown on the statement of financial position). Shareholder's capital comprises share capital, permanent government funding, retained earnings, general provisions and the fair reserve. As at 31 March 2015, the capital ratio stood at 33.4% (2014: 31.2%).

in thousands of rands

47.**THIRD PARTY MANAGED FUNDS COST RECOVERED****Third party funds and mandates**

	2015	2014
Agence Francaise Development Project Preparation and Feasibility Studies Fund	175	–
African Capacity Building Foundation	–	3
African Peer Review Mechanism	4 042	2 681
African World Heritage Fund	5 121	5 152
Anglo American	6 738	–
Aurecon	–	8
Cities Preparation Facility	2 570	–
Department of Basic Education for Accelerated Infrastructure Schools Programme	4 688	–
Department of Human Settlements – Western Cape	–	3 289
Department of Rural Development and Land Reform	2 421	–
Department of Water Affairs	1	–
Renewable Energy Market Transformation Programme	–	1 252
Dryland Rehabilitation Programme	4	–
Ekurhuleni Metropolitan Municipality	280	–
Elliotdale Human Rural Settlement	914	–
Energy Environment Partnership Programs	–	777
Gauteng Department of Health	816	–
Green Fund	14 741	11 061
GTAC – IPP Office	9 562	–
Infrastructure Delivery Improvement Programme	3 225	–
Infrastructure Investment Programme for South Africa	2 687	–
Investment Climate Facility	103	–
Jobs Fund	28 800	26 571
KFW/VCT II – HIV Prevention by Voluntary Counselling and Testing Programme	1 310	–
National Treasury Municipal Financial Improvement Programme	3 889	3 146
Municipal Infrastructure Support Agency	2 011	3 776
National Rural Youth Services Corps	6 568	2 605
National Department of Health	12 760	–
National Treasury – The Power Producer Projects Unit	1 454	–
National Treasury Cities Support Programme	7 108	2 879
National Treasury Municipal Capacitation Fund	12	–
New Partnership for Africa Development	4 365	5 208
Pan African Capacity Building Platform	2 472	1 642
Renewable Energy Market Transformation Programme	2	–
Spatial Development Initiatives	2 997	869
Ticket Restoration Programme	4	–
Tripartite-Aid-for-Trade Pilot Programme	4	–
Ubunye	–	12
	131 844	70 931

Third party managed funds managed per division

Financing Operations	59 848	38 797
Finance	21 920	28 652
Infrastructure Delivery	47 507	3 482
South Africa Financing	2 569	–
	131 844	70 931

Cost recovery for each division

Corporate Services	120 870	70 931
Financing Operations	582	–
Finance	2 199	–
Infrastructure Delivery	7 983	–
South Africa Financing	210	–
	131 844	70 931

Corporate Service division includes the Human Capital unit.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 March 2015

48. EVENTS AFTER THE REPORTING PERIOD

The financial statements were authorised for issue by the Board on 1 July 2015. There were no adjusting events that occurred after the reporting date.

The Board approved the increase of the Domestic Medium-Term Programme limit from R35 million to R80 million.

49. 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 is the Bank's intention to dispose of the investment within 12 months. The value of the asset at the reporting date is R2 (2014: R2).

50. FINANCE LEASE OBLIGATION

in thousands of rands	2015	2014
Minimum lease payments due		
– within one year	630	4 407
– in second to fifth year inclusive	–	630
Total	630	5 037
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.		

51. FRUITLESS AND WASTEFUL EXPENDITURE

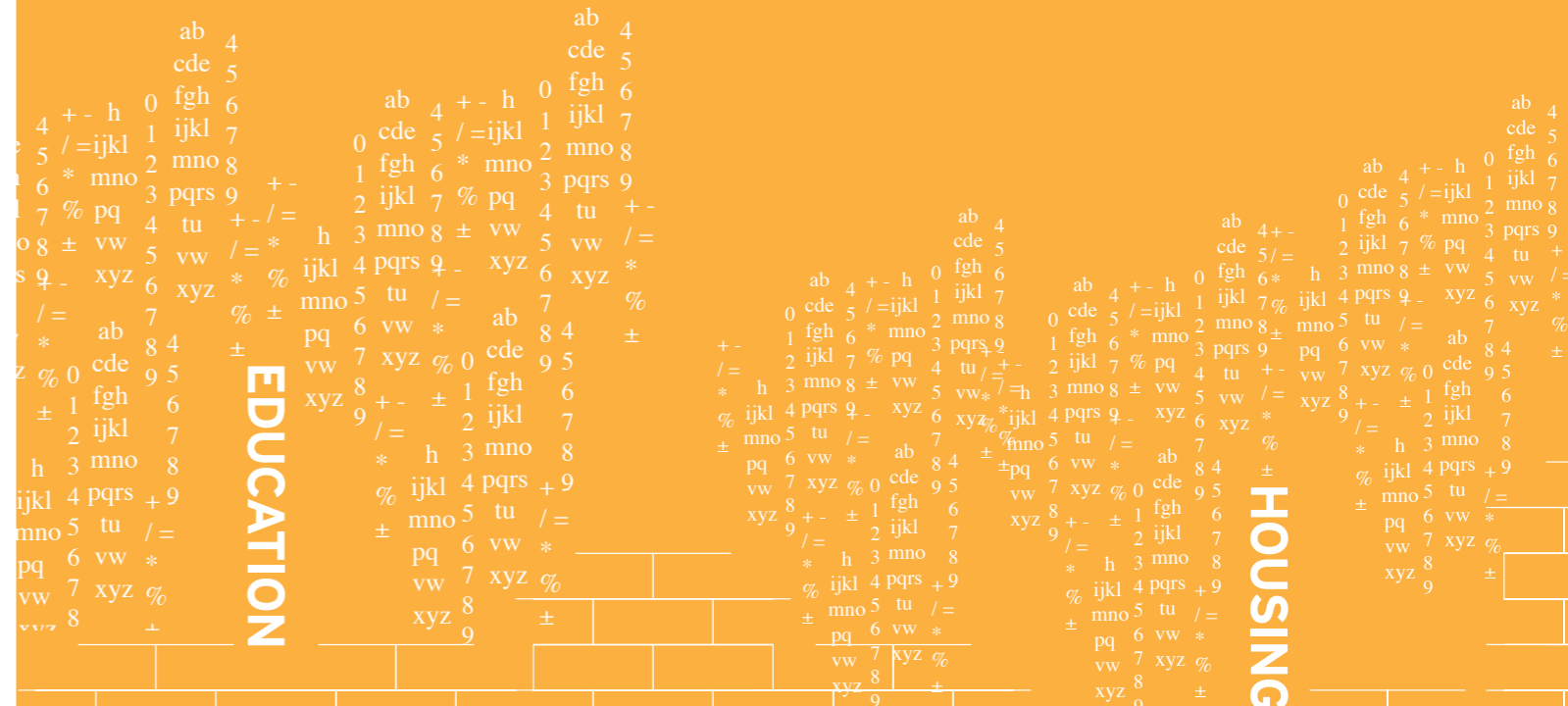
Fruitless and wasteful expenditure	21	113
Less: Amounts received	(3)	–
	18	113
Details of fruitless and wasteful expenditure		
Interest on late payments	14	113
Catering order not collected	7	–
	21	113

No disciplinary steps were taken.

52. COMPARATIVE FIGURES

Certain comparative figures have been reclassified.

> REFERENCE INFORMATION



REFERENCE INFORMATION

for the year ended 31 March 2015

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
B-BBEE	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
DBE	Department of Basic Education
DBSA	Development Bank of Southern Africa Limited
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
ECOWAS	Economic Community of West African States
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
SA Inc.	South Africa Incorporated
SADC	Southern African Development Community
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, but includes revaluation on equity investments

BUSINESS AND REGISTERED ADDRESS

1258 Lever Road, Headway Hill, Midrand
 PO Box 1234, Halfway House, Midrand, Gauteng
 Switchboard: +27 11 313 3911
 Reception: +27 11 313 3500
 +27 11 313 3297
 Fax: +27 11 313 3086

