DBSA
Development Bank
of Southern Africa

ANNUAL REPORTS
2011/12

DBSA
Development Fund

DBSA
ANNUAL REPORT

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The financial year of the DBSA is from 1 April to 31 March. Unless otherwise indicated, references to a combined year, for instance 2011/12, are to the financial year ended 31 March 2012.

Abbreviations

AADFI	Association of African Development Finance Institutions
AFD	Agence Française de Développement
ASIDI	Accelerated Schools Infrastructure Delivery Initiative
AVCA	African Venture Capital Association
BBBEE	broad-based black economic empowerment
BNDES	Banco Nacional de Desenvolvimento Econômico e Social
BRIC	Brazil, Russia, India and China
BRICS	Brazil, Russia, India, China and South Africa
BSC	Balanced Scorecard
CIDB	Construction Industry Development Board
CoGTA	Department of Cooperative Governance and Traditional Affairs
COMESA	Common Market for Eastern and Southern Africa
COP17	17th Conference of the Parties
CPI	consumer price index
CSIR	Council for Scientific and Industrial Research
CTCN	Climate Technology Centre and Network
DBSA	Development Bank of Southern Africa Limited
DFID	Department for International Development
DFRC	Development Finance Resource Centre
DIRCO	Department of International Relations and Cooperation
DOC	Department of Communications
DPE	Department of Public Enterprise
DPME	Department of Performance Monitoring and Evaluation
DRC	Democratic Republic of Congo
DTI	Department of Trade and Industry
EAC	East African Community
EDD	Economic Development Department
ERM	enterprise-wide risk management
ERP	Enterprise Resource Planning
ETQA	Education Training Quality Assurance
GDP	gross domestic product
GIS	geographic information system
GRI	Global Reporting Initiative
HIV/Aids	Human immunodeficiency virus/acquired immune deficiency syndrome
ICT	information and communication technology
IDC	Industrial Development Corporation
IDIP	Infrastructure Delivery Improvement Programme
IT	information technology
JICA	Japan International Cooperation Agency
KfW	Kreditanstalt für Wiederaufbau
LG	Local Government
LGD	loss given default
MFIP	Municipal Finance Improvement Programme
MIG	Municipal Infrastructure Grant
MISA	Municipal Infrastructure Support Agency
NBF	NEPAD Business Foundation
NEPAD	New Partnership for Africa's Development
NPC	National Planning Commission
NT	National Treasury
PFMA	Public Finance Management Act
PICC	Presedential Infrastructure Coordinating Commission
PPP	public-private partnership
PRASA	Passenger Rail Agency of South Africa
REIPPP	Renewable Energy Independent Power Producers Programme
RMI	Risk Management Integration
SADC	Southern African Development Community
SAFCOL	South African Forestry Company Limited
SA Inc.	South Africa Incorporated
SALGA	South African Local Government Association
SAM	social accounting matrix
SANAICTT	South African Network for Accelerating Investments in Climate Technology Transfer
SANBI	South African National Biodiversity Institute
SAQA	South African Qualifications Authority
SSN	South South North
TCTA	Trans-Caledon Tunnel Authority
TIPS	Trade and Industrial Policy Strategies
UNEP FI	United Nations Environment Programme Finance Initiative
UNFCCC	United Nations Framework Convention on Climate Change
ZINARA	Zimbabwe National Road Administration

What is the Development Bank of Southern Africa about?

1983

The Development Bank of Southern Africa (DBSA) was established to perform a broad economic development function within the homeland constitutional dispensation that prevailed at the time.

1994

The new constitutional and economic dispensation in South Africa led to the transformation of the Bank's role and function.

1997

In 1997, the DBSA was reconstituted as a development finance institution in terms of the Development Bank of Southern Africa Act, No. 13 of 1997. The constitution and conduct of the DBSA Board of Directors are primarily governed by the DBSA Act and further regulated by the Public Finance Management Act, No. 1 of 1999, and sections 27 to 31 of the Companies Act, No. 71 of 2008.

2012

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

Future

Our vision

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

Our mission

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

Objectives and strategy

Objectives of the Bank

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

Strategic objectives

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

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

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

Financier, advisor, partner, integrator, implementer

Financier

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

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

Advisor

To build institutional, financial and knowledge capacity for development:

- External training
- Subsidised lending
- Technical assistance grants

Partner

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

- Co-funding
- Mobilise funding for clients

Integrator

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

Implementer

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

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Vision

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

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Business performance overview

	5-year average	2011/12	2010/11	2009/10	2008/09	2007/08
Total DBSA contribution to approvals (R million)[1]	21 029	**24 796**	34 101	15 000	20 480	10 767
Average value per approval (R million)	252.3	**467.8**	509.0	110.1	87.1	87.5
Number of investment approvals in period	123	**53**	67	137	235	123
Disbursements (R million)	8 019	**8 034**	8 336	8 257	9 306	6 160
Technical assistance grants disbursed (R million)	64.1	**58.8**	65.2	67.5	82.5	46.3
Number of employees (excluding contractors, etc.)	640	**629**	703	680	608	578
Net contribution per employee to disbursements (R million)	12.6	**12.8**	11.8	12.2	15.3	10.7
Impact on employment (thousands of jobs)[2]	27.8	**21.2**	22.2	31.6	31.2	32.8
Impact on GDP (R million)[3]	6 002	**4 312**	4 729	7 605	7 757	5 609

1. Excludes technical assistance grants and terminations.

2. Based on DBSA's disbursements within South Africa only.

3. Based on DBSA's disbursements within South Africa only, at constant 2011/12 prices.

Financial performance overview

	5-year average	2011/12	2010/11	2009/10	2008/09	2007/08
Financial position (R million)						
Cash and cash equivalents	2 158	**2 113**	1 180	2 707	2 475	2 314
Financial market assets	4 984	**4 842**	4 159	5 521	5 321	5 078
Investment in development activities[1]	35 843	**44 432**	41 323	36 133	31 997	25 330
Other assets	699	**950**	736	695	589	525
Total assets	43 684	**52 337**	47 397	45 056	40 382	33 246
Financial market liabilities[2]	25 543	**33 612**	28 588	26 327	22 405	16 781
Other liabilities	905	**1 198**	957*	943	741	686
Total liabilities	26 448	**34 810**	29 546*	27 270	23 146	17 466
Total equity	17 236	**17 528**	17 851*	17 786	17 236	15 780
Financial performance (R million)						
Interest on development loans	2 961	**3 514**	3 119	3 077	2 784	2 312
Interest on investments	536	**468**	469	525	677	542
Total interest received	3 497	**3 982**	3 588	3 602	3 461	2 854
Interest expense	1 849	**2 286**	1 945	1 971	1 705	1 338
Net interest income	1 648	**1 697**	1 642	1 631	1 756	1 516
Operating income[3]	1 799	**1 950**	1 794*	1 751	1 857	1 643
Operating expense[4]	696	**779**	758	716	669	556
Sustainable earnings	784	**677**	808*	807	871	757
Profit/(loss) for the year (before transfer to Development Fund)	783	**(108)**	286*	859	1 586	1 293
Financial ratios (%)						
Total capital and reserves to loan ratio	54.2	**43.4**	47.2	53.9	58.5	67.8
Long-term debt to equity	148.7	**193.8**	161.6	149.4	131.3	107.6
Debt/equity (including callable capital)[5]	127.2	**152.2**	127.4	117.6	131.3	107.6
Cash and cash equivalents to total assets	5.1	**4.0**	2.5	6.0	6.1	7.0
Total capital and reserves to assets	40.2	**33.5**	37.7	39.5	42.7	47.5
Financial market liabilities to investment in development activities	70.8	**75.6**	69.2	72.9	70.0	66.2
Non-performing book debt as a % of total book debt	4.9	**4.9**	4.2	4.9	5.4	5.2
Non-performing arrears as a % of total book debt	2.2	**2.2**	2.1	2.3	2.2	2.1
Return on average equity	4.8	**(0.6)**	1.6	5.0	9.6	8.5
Return on average assets	2.2	**(0.2)**	0.6	2.1	4.3	4.2
Interest cover (times)	1.9	**1.7**	1.8	1.8	2.0	2.1
Net interest income margin (income statement)[6]	47.5	**42.6**	45.8	45.3	50.7	53.1
Operating costs to income	38.5	**39.9**	42.2	40.5	36.0	33.8

1. *Development activities include development loans and equity investments.*
2. *Financial market liabilities comprise medium- to long-term funding debt securities, medium- to long-term funding lines of credit, funding under repurchase agreements and derivative 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. *Approval to include callable capital in gearing ratio granted November 2009.*
6. *This ratio is calculated as net interest income (interest income less interest expense) over interest income.*

* *Restated for prior year adjustment.*

Governor's foreword

The past year has seen a concerted reaffirmation of the government's commitment to realising its vision of a better life for all South Africa's people, through equitable and sustained economic growth, the accelerated delivery of social services, job creation and the reduction of poverty. The Presidential Infrastructure Coordinating Commission, the New Growth Path and the National Development Plan embrace the above vision and outline the framework and strategic priorities to be pursued over the short, medium and long term.

Under the guidance of the Presidential Infrastructure Coordinating Commission, 17 Strategic Integrated Projects were developed to support infrastructure development in key economic nodes and address service delivery in the poorest provinces. Each Strategic Integrated Project comprises a number of specific infrastructure components and programmes. The five priorities embodied in the 2009–14 Medium-Term Strategic Framework and the New Growth Path announced in 2011 emphasise the pivotal role of national development finance institutions in giving effect to the government's strategic goals and objectives in areas such as infrastructure development, leveraging private sector investment, facilitating investment and promoting regional integration, among others. As a leading development finance institution, the DBSA has an important role to play in harnessing its human and financial capital in new and innovative ways to support national initiatives for infrastructure development.

A cross-cutting imperative is the creation of sustainable jobs, which brings special challenges in the selection, design and implementation of projects in order to leverage the optimal job-creating potential of investments. This will have significant implications for institutions such as the DBSA in the foreseeable future.

Pravin Gordhan
Governor of the DBSA and
Minister of Finance

In 2011, I requested the DBSA to implement key national initiatives and programmes, including the Accelerated Schools Infrastructure Delivery Initiative (ASIDI) and the Jobs Fund, in partnership with the national Department of Basic Education and the National Treasury respectively. Furthermore, the DBSA already had work in progress in the form of cooperative partnerships with the Departments of Health and Energy respectively for supporting public-private partnerships (PPPs) in health infrastructure and independent power producers in the renewable energy sector. These programmes entailed robust and detailed scoping design and implementation. ASIDI, which involves building new schools and eradicating unsafe school structures (i.e. mud schools), is in implementation in the Eastern Cape. Detailed planning and preparation for 49 schools were completed in 2011/12. The programme is expected to be completed by 31 August 2012 and, upon completion, will accommodate 12 000 learners in the Umtata, Libode and Lusikisiki districts. At the heart of all infrastructure programmes lies the key objective of job creation, and the ASIDI programme created 790 temporary jobs. It is also gratifying to note that, under the stewardship of the DBSA, significant progress has been made in the operationalisation and implementation of the Jobs Fund. In 2011/12, the Jobs Fund approved a total of R1.8 billion, largely in the enterprise development, work seekers and infrastructure windows. It leveraged an amount of R1.7 billion from the private, public and non-governmental sectors, resulting in a total amount of R3.5 billion and 34 innovative job creation projects to be implemented in the 2012/13 financial year.

It is heartening to note that the DBSA has risen to the challenges I put to it with zeal and ingenuity. Its engagement with government departments has contributed to the accelerated rollout of priority infrastructure projects in the health and energy sectors. In the health sector, the DBSA is participating in initiatives to facilitate PPPs in the provision of hospital infrastructure. The Bank has collaborated with the Department of Health on a number of important projects in Gauteng, Limpopo, KwaZulu-Natal and the Eastern Cape. This represents progress, and I look forward to seeing these initiatives gain further momentum and deliver concrete results in the year ahead. The DBSA also supported the Department of Energy in expediting the regulatory process and creating the enabling environment necessary for the Department to procure renewable energy, through Eskom, from independent power producers. The Bank approved R7.5 billion to fund a number of renewable energy projects across South Africa.

In the local sphere of government, which represents the DBSA's key operational focus, enormous challenges remain. Local government is constitutionally mandated to be at the forefront of the delivery of basic services to our citizens, within both the urban and the rural context. Institutional capacity constraints within this sphere still inhibit effective and efficient service delivery. The DBSA has continued to make significant contributions on various fronts. In addition to disbursements on Bank-financed projects, its capacity building support through various programmes, including the Siyenza Manje programme, contributed towards unlocking R7.2 billion in capital expenditure from other sources. Through the DBSA's Vulindlela Academy, a significant number of officials were trained in the areas of planning, finance, management and leadership. As a result of interventions supported by the DBSA, some 456 284 households benefited from access to basic and bulk sanitation, while 456 560 households obtained access to basic and bulk water supply. However, much remains to be done to empower local governments so that they give full effect to their roles and responsibilities, and there are ever-growing expectations regarding the DBSA's contribution in the years ahead.

The Bank continues to consolidate its role as a leading catalyst of finance and expertise for infrastructure development and regional integration within the Southern African Development Community (SADC). It is pleasing to note that the strong operational momentum established during recent years has been maintained. The strategic emphasis on regional integration and African development presents the DBSA with a challenge to redouble its efforts in this regard, in partnership with stakeholders in the region. South Africa's accession to the increasingly influential BRICS formation, an association of rapidly advancing developing nations, offers enormous opportunities not only for the country but also for our neighbours in the region. Among others, the DBSA's participation in the financial cooperation mechanisms established within the BRICS structure further enhances the potential to mobilise resources for development and regional integration within SADC.

Notwithstanding the significant progress made by all spheres of government and its agencies, such as the DBSA, in meeting the complex development challenges facing our country, it is imperative that substantial and rapid progress be made towards achieving the economic freedoms to which all South Africans aspire. The DBSA must continue to push the frontiers and proactively pursue the opportunities that exist for it to enhance and broaden its role as a leading agent for development in South Africa and the southern African region.

The DBSA's quest to establish itself as a centre of excellence for infrastructure development is demonstrating tangible results, and I wish to reaffirm my commitment to working closely with the Board to ensure that the organisation remains appropriately resourced to deliver on its challenging mandate. I would also like to take the opportunity to thank the Board, the outgoing Chief Executive Officer, Mr Paul Baloyi, management and staff for their performance this year and their dedication and hard work in contributing to a better quality of life for the people we serve.

Pravin Gordhan
Governor of the DBSA and Minister of Finance

Board of Directors

Front row from left to right: Ms Albertinah Kekana; Mr Frans Msokoli Baleni; Mr Phillip Jabulani Moleketi; Ms Thembisa Dingaan.
Back row from left to right: Mr Tshokolo Petrus Nchocho; Ms Dawn Marole; Ms Mary Vilakazi; Mr Andrew Boraine; Dr Lungile Bhengu-Baloyi; Dr Claudia Manning; Ms Wendy Lucas-Bull; Mr Kenneth Brown; Ms Busisiwe Mabuza.

*Mr Paul Cambo Baloyi**

*Mr Omar Aboobaker Latiff***

* Mr Paul Baloyi resigned 31 March 2012.
** Board member – Mr Omar Latiff was not available at time of taking the photograph.

1. MR PHILLIP JABULANI MOLEKETI (55)

Director of Companies

DBSA non-executive and independent Director as from: 1 January 2010

Chairman of the DBSA Board as from: 1 September 2010

Academic qualifications:

- Advanced Management Programme, Harvard Business School (2003)
- MSc (Financial Economics), University of London (2001)
- Postgraduate Diploma in Economic Principles, University of London (1996)

Other directorships:

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

2. MR FRANS MSOKOLI BALENI (52)

General Secretary: National Union of Mineworkers

DBSA non-executive and independent Director as from: 1 January 2010

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

Academic qualifications:

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

Other directorships:

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

3. MR TSHOKOLO PETRUS NCHOCHO (44)

Acting Chief Executive Officer

DBSA staff member as from: 1 February 2002

Group Executive as from: 1 April 2010

Academic qualifications:

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

Other directorships:

- Africa Agricultural Fund: Advisory Board member
- New Africa Fund II: Member of Investment Committee
- New Africa Mining Fund: Trustee (DBSA nominee)
- Old Mutual Housing Impact Fund: Trustee (DBSA nominee)
- Shanduka Value Partners Fund: Trustee (DBSA nominee)

4. DR LUNGILE BHENGU-BALOYI (55)

Founder and Director: Development and Leadership Consulting

DBSA non-executive and independent Director as from: 1 August 2011

Academic qualifications:

- PhD (Public Administration), University of Durban-Westville (2003)
- LLM (Public Health Law), University of Durban-Westville (2000)
- MA (Social Policy), University of Durban-Westville (2002)
- Advanced University Diploma (Adult Education), University of Natal (1989)
- BSc (Dietetics), Medical University of South Africa (1984)
- Diploma in Nutrition, Medical University of South Africa (1981)

Other directorships:

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

5. MR ANDREW BORAINE (53)

Chief Executive: Cape Town Partnership;

Adjunct Professor: African Centre for Cities, University of Cape Town

DBSA non-executive and independent Director as from: 1 August 2005

Academic qualifications:

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

Board of Directors (continued)

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

6. MR KENNETH BROWN (50)

Deputy Director-General: Intergovernmental Relations, National Treasury

DBSA non-executive Director as from: 1 January 2010

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

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

7. MS THEMBISA DINGAAN (39)

Consultant and Director of Companies

DBSA non-executive and independent Director as from: 1 August 2007

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

Other directorships:
- Adapt IT Holdings Ltd: Non-executive Director
- Apollo Tyres South Africa (Pty) Ltd: Non-executive Director
- Export Credit Insurance Corporation of South Africa: Non-executive Director
- Imperial Holdings Ltd: Non-executive Director
- Mustek Ltd: Non-executive Director
- Skweyiya Investment Holdings (Pty) Ltd: Executive Director
- Ukhamba Holdings: Non-executive Director

8. MS ALBERTINAH KEKANA (39)

Director

DBSA non-executive and independent Director as from: 1 August 2011

Academic qualifications:
- Advanced Management Programme, Harvard Business School (2008)
- CA (SA) (2005)
- Postgraduate Diploma in Accounting, University of Cape Town (1993)
- BCom (Accounting), University of Cape Town (1992)

Other directorships:
- Anglo Platinum Ltd: Non-executive Director
- Mineworkers Investment Company (Pty) Ltd: Non-executive Director
- Vodacom Group: Non-executive Director

9. MR OMAR ABOOBAKER LATIFF (58)

Director and Partner: PricewaterhouseCoopers

DBSA Director as from: 1 August 2007

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

Other directorships:
- Bellewan (Pty) Ltd: Non-executive Director
- DBSA Development Fund: Non-executive Director
- Jodya cc: Member
- LMD Africa Chartered Accountants Inc.: Non-executive Director
- LMD Africa Forensics (Pty) Ltd: Non-executive Director
- Omar Aboobaker Latiff Family Trust: Trustee
- PricewaterhouseCoopers Advisory Services (Pty) Ltd: Director
- PricewaterhouseCoopers Incorporated: Director
- PricewaterhouseCoopers Partnership: Partner
- Project Preparation Trust: Trustee

10. MS WENDY LUCAS-BULL (59)

Executive Director: Peotona Group Holdings (Pty) Ltd

DBSA non-executive and independent Director as from: 1 August 2005

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

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

11. MS BUSISIWE MABUZA (48)

Investment Executive: Vulindlela Holdings (Pty) Ltd

DBSA non-executive and independent Director as from: 1 August 2011

Academic qualifications:
- BA (Mathematics), City University of New York (1994)
- MBA, Stern School of Business, New York University (1994)

Other directorships:
- Afgri Ltd: Non-executive Director
- CEF (Pty) Ltd: Non-executive Director

- DBSA Development Fund: Non-executive Director
- Forbes Africa: Non-executive Director
- IDC: Non-executive Director

12. DR CLAUDIA MANNING (45)

Executive Director: ECIAfrica

DBSA non-executive and independent Director as from:
11 August 2005

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

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

13. MS DAWN MAROLE (51)

Chairman: Executive Magic (Pty) Ltd Consulting

DBSA non-executive and independent Director as from:
1 August 2011

Academic qualifications:
- Executive Leadership Development Programme, Gordon Institute of Business Science (2001)
- MBA, Northeastern University (1989)
- Diploma in Tertiary Education, University of South Africa (1983)
- BCom (Accounting), University of Zululand (1983)

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

14. MS MARY VILAKAZI (35)

Independent Consultant

DBSA non-executive and independent Director as from:
1 August 2011

Academic qualifications:
- CA (SA) (2002)
- H Dip Auditing, University of Johannesburg (2001)
- BCom Hons (Accounting), University of the Witwatersrand (1999)
- BCom (Accounting), University of the Witwatersrand (1998)

Other directorships:
- MMI Holdings Ltd: Non-executive Director
- Kagiso Media Ltd: Non-executive Director
- Holdsport Ltd: Non-executive Director
- FSB Long-term Insurance Advisory Committee Member to the Minister of Finance

15. MR PAUL CAMBO BALOYI (56)

Chief Executive Officer and Managing Director: DBSA

DBSA Executive Director and staff member between: 1 July 2006 and 31 March 2012

Academic qualifications:
- Advanced Management Programme, INSEAD (2006)
- MBA, University of Manchester (2004)
- Senior Executive Programme, Harvard Business School (2001)
- Management Development Programme, University of Stellenbosch (1996)
- Commercial Banking Diploma, Institute of Bankers, Licentiate (1989)

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

MS BATHOBILE SOWAZI

DBSA Corporate Secretariat

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

Chairman's report

During 2011/12, the DBSA continued the task of repositioning itself as a centre of excellence for infrastructure development, in pursuit of its vision of "a prosperous and integrated region, progressively free of poverty and dependency". In this year, the DBSA Board renewed its compact with the shareholder and approved an updated corporate strategy. It also undertook strategic initiatives that entrenched the Bank's programmatic approach and engagement with national and provincial departments and state-owned enterprises in the delivery of social and economic infrastructure in South Africa and the rest of the SADC region.

The year was characterised by several challenges stemming from the aftermath of the global financial crisis, namely, a weak recovery of the South African economy amid a fragile global recovery, sovereign debt crises in the Eurozone, and more stringent scrutiny of sovereign ratings and subsequent access to credit.

The DBSA made great inroads in delivering on its strategy. Investments in approvals, commitments and disbursements were maintained compared to the previous year. In line with the corporate strategy, a substantial proportion of these approvals and commitments were directed towards important infrastructure, such as energy, water, mining, sanitation, transport and communications. Building on the progress made during the previous year, the Bank strengthened its partnerships with several national departments to support the identification, scoping, implementation and financing of infrastructure projects and other development solutions. In terms of the agreement signed with the national Department of Health in 2010/11, the DBSA made progress on the building and upgrading of five flagship academic hospitals, using the PPP model. It facilitated the procurement of transactional advisors for these hospital programmes and contributed a third of the funding for technical advice, which led into the feasibility phase. Financial close is expected in December 2012, while construction is expected to commence in January 2013.

Phillip Jabulani Moleketi
DBSA Chairman of the Board

In furthering the agreement signed with the Department of Energy and the National Treasury, the DBSA facilitated the promulgation of the new regulations on generation capacity, thereby creating an enabling environment for private sector participation in the renewable energy generation programme. In addition, the Bank approved a total of R7.5 billion for a number of renewable energy projects, namely, !Ka Xu Solar One, Bokpoort Concentrated Solar Power Project, Jeffreys Bay Wind, Kalahari Solar One, De Aar Solar and Droogfontein Solar.

In the course of 2011/12, the South African government announced the R9 billion Jobs Fund, an innovative programme aimed at providing impetus to and enhancing employment opportunities in South Africa. The DBSA was entrusted with the implementation of the Jobs Fund on an agency basis. Much progress has been made on this initiative, with R1.8 billion approved for projects in all four funding windows: enterprise development (51%), work seekers (23%), infrastructure (17%) and institutional capacity building (9%). It is estimated that thousands of jobs will be created from the first round of approved projects.

The DBSA recognises the challenges that municipalities face in the delivery of infrastructure and services. In a bid to strengthen the institutional capacity of municipalities to deliver, the Bank, through its Vulindlela Academy, continued to provide training to municipal officials in a number of areas, such as financial management and project management. Further support was provided through the training of artisans to carry out the much-needed operations and maintenance of municipal infrastructure.

Despite the many challenges in its operating environment, the DBSA achieved admirable results in 2011/12. Project approvals for the year reached R27 billion, of which 86% is related to projects in South Africa. Many factors, including the uneven economic recovery, the structurally weak position of many municipalities, and capacity constraints, affected the pace at which infrastructure projects were implemented, particularly at local government level. This, in turn, constrained the level of disbursements on projects supported by the DBSA. However, concerted efforts on the part of the Bank and its partners within the government resulted in expedited Municipal Infrastructure Grants (MIGs) to the value of R7.2 billion. The overall beneficiation of DBSA interventions amounted to R15.3 billion. This is indeed a remarkable achievement, given the challenging operating conditions.

In the rest of the SADC region, the Bank's operations continued to grow, with new project approvals, commitments and disbursements of R3.8 billion, R2.9 billion and R3.2 billion respectively. Though the approvals and commitments are slightly lower than in 2010/11, it is worth noting that the Bank focused on project development while leveraging its partnerships with multilateral institutions, such as Agence Française de Développement (AFD), the European Investment Bank, the German Kreditanstalt für Wiederaufbau (KfW), the Department for International Development (DFID) of the United Kingdom and the Japan International Cooperation Agency (JICA). Through these partnerships, several projects in the North-South Corridor are in preparation. A number of pioneering road projects in the North-South Corridor will contribute to regional integration through improved intra-regional connectivity. In line with the government's strategic emphasis on promoting regional integration, the DBSA will continue to target programmes and projects in the SADC region that support this strategic goal.

The Bank's financial position remains sound and allows for incremental growth in its lending and investment portfolio over the medium term. While total assets grew by 10.5% from R47.4 billion to R52.4 billion during the 2011/12 financial year, the Bank's financial performance was lower than expected, mainly arising from impairments and unrealised revaluation losses on equity investments due to the prevailing adverse economic and market conditions, ending the year with a net loss on the statement of comprehensive income. The Bank acknowledges the challenges posed by the less than satisfactory earnings performance and remains committed to delivering on its mandate within a sound financial framework. In cash flow terms, the Bank's performance was strong, with cash flow generated from operating activities being 25% higher than last year. This attests to the good quality of the Bank's loan assets. Going forward, increased financial support for the rollout of anticipated national programmes, in addition to the Bank's current development activities, will result in an increased requirement for appropriately priced funding. Discussions on possible options in this regard are under way between the Bank and the National Treasury.

The Governor of the Bank, Minister Pravin Gordhan, has provided invaluable strategic guidance and support to the Bank during the year, for which we are particularly grateful. I wish to express my sincere appreciation to the outgoing Chief Executive Officer, Paul Baloyi, for his stewardship of the Bank over the last six years.

I further extend my gratitude to the management team and staff for the hard work and dedication over the year. I am confident that even more will be achieved during the year ahead. My colleagues on the Board fulfilled their fiduciary responsibilities with enthusiasm and provided valuable direction and support to the Bank. Last, but not least, I wish to welcome the new Board of Directors and take this opportunity to wish them the best in serving our nation.

Phillip Jabulani Moleketi
DBSA Chairman of the Board

Executive management

1. **MR PAUL CURRIE (50)**
Group Chief Risk Officer

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

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

2. **MR ERNEST DIETRICH (49)**
Group Executive: Treasury

DBSA staff member as from:
2 January 2001

Group Executive as from:
1 April 2006

Academic qualifications:
- CFA Charter (2002)
- MBA, University of Cape Town (1996)
- MSc (Mathematics), University of the Western Cape (1992)
- HDE, University of the Western Cape (1985)

3. **DR PAUL KIYINGI KIBUUKA (51)**
Group Executive and Managing Director: DBSA Development Fund

DBSA staff member as from:
1 August 1994

Group Executive as from:
1 July 2009

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

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

4. **MR MAGARE LUTHER MASHABA (60)**
Group Executive: South Africa Operations

DBSA staff member as from:
14 January 1985

Group Executive as from:
1 September 2001

Academic qualifications:
- Advanced Management Programme, INSEAD Executive Education (2004)
- Treasury Management Training, New York Institute of Finance (2002)
- Financial Markets and Instruments, University of Pretoria (2000)
- Capital Markets Explained, International Faculty of Finance (1999)
- MSc (Ag. Econ), Michigan State University (1993)
- Diploma in Economics, Economics Institute, University of Colorado (1991)
- BSc Hons (Ag. Econ), University of Pretoria (1986)
- BSc (Ag. Econ), University of Fort Hare (1981)

5. **MS DOLORES MASHISHI (43)**
Group Executive: Human Capital

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

Academic qualifications:
- General Management Programme, Harvard Business School (2011)
- Strategic Management: Human Resources, Wits Business School (2001)
- Management Advancement Programme, Wits Business School (1999)
- MSc Ed (Development Psychology), University of Illinois at Chicago (1994)
- BEd (Psychology), University of the Witwatersrand (1991)
- BA Ed (Education and Psychology), North-West University (1989)

6. **MR RAVINDRA NAIDOO (41)**
Group Executive: Development Planning

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

Academic qualifications:
- Certificate in South African Executive Leadership (State-Owned Enterprises), University of London/SOAS-DPE (2011)
- Certificate in Management Consulting Skills, Wits Business School (2010)
- MPA, John F. Kennedy School of Government, Harvard University (2004)
- Certificate in Managing Development Policy, Harvard University (2003)
- BCom (Law), University of KwaZulu-Natal (1991)

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

7. MR TSHOKOLO PETRUS NCHOCHO (44)

Group Executive: Investment Banking

DBSA staff member as from:
1 February 2002

Group Executive as from:
1 April 2010

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

Other directorships:
- Old Mutual Housing Impact Fund: Trustee (DBSA nominee)
- New Africa Mining Fund: Trustee (DBSA nominee)
- Shanduka Value Partners Fund: Trustee (DBSA nominee)
- Africa Agricultural Fund: Advisory Board member
- New Africa Fund II: Member of Investment Committee

8. MR ANTON REDELINGHUIS (62)

Acting Group Chief Financial Officer

Acting Group Executive: Business Technologies and Facilities

DBSA staff member as from:
1 July 2009

Acting Group Executive as from:
1 August 2011

Academic qualifications:
- International Programme Managers Programme, INSEAD (2008)
- Advanced Management Programme, INSEAD (1999)
- MCom (1981)
- CA (SA) (1977)
- BCom Hons (Accounting), North-West University (1976)

Other directorships:
- ATKV: Non-executive Director, Deputy Chairperson and Chairperson of the Audit and Risk Committee

9. MR ADMASSU YILMA TADESSE (43)

Acting Group Executive: International Division

Group Executive: Group Strategy, Marketing and Communication

DBSA staff member as from:
1 June 2002

Group Executive as from:
1 September 2006

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

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

Organisational structure

Paul Baloyi[1]
Chief Executive Officer
and
Managing Director

Anton Redelinghuis[2]
Acting Group Chief Financial Officer

Paul Kibuuka
Group Executive and Managing Director: DBSA Development Fund

Ravi Naidoo
Group Executive: Development Planning

Ernest Dietrich
Group Executive: Treasury

Luther Mashaba
Group Executive: South Africa Operations

Dolores Mashishi
Group Executive: Human Capital

Paul Currie
Group Chief Risk Officer

Tshokolo Petrus Nchocho[4]
Group Executive: Investment Banking

Admassu Tadesse[3]
Group Executive: Group Strategy, Marketing and Communication

Admassu Tadesse[3]
Group Executive: International Division

Anton Redelinghuis[2]
Acting Group Executive: Business Technologies and Facilities

1. *Resigned 31 March 2012.*
2. *Resigned 31 March 2012.*
3. *Resigned 31 March 2012.*
4. *Acting CEO as from 1 May 2012.*

Chief Executive Officer's report

The year under review

I am pleased to report that the DBSA exceeded most of its developmental and operational targets during the year under review, despite the many challenges in the operating environment. Good progress was made in the key performance areas of new project approvals and agreements. Total project approvals for the year were R27.5 billion, and 86.3% of this amount went towards projects in South Africa. Total commitments were R8.4 billion and disbursements were R8.1 billion.

The DBSA has succeeded in moving beyond the previously defined boundaries of its operational focus, as directed by the shareholder and the Board. It has demonstrated flexibility and agility in being able to respond rapidly and effectively to new challenges and demands. Among these challenges are the new strategic directions articulated in the Medium-Term Strategic Framework for 2009–14, in which the government identified five priority areas: the creation of decent work, promotion of sustainable livelihoods, education, health and rural development, including energy. The Bank's financial position remains sound: its investment-grade credit ratings were maintained, net interest margins improved over the previous year, and costs were managed within the prudential limits set by the Board. The Bank's financial performance in the 2011/12 financial year was lower than expected in a very challenging operating environment. While total assets grew by 10.5% from R47.4 billion to R52.4 billion, impairments and unrealised revaluation losses on equity investments impacted negatively on our net earnings after development expenditure was taken into account.

In light of the shortcoming in financial performance, DBSA management with the support from the Board of Directors have already initiated organisational improvement measures to address this. We are confident of restoring positive results in the near term, noting that the Bank's balance sheet remains strong and underpinned by good quality credit assets and cash flow generation.

Tshokolo Petrus Nchocho
DBSA Acting Chief Executive Officer and Managing Director

Support to municipalities and training

In the arena of municipal infrastructure delivery, which is critical to the Bank's mandate, challenges continued to mount during the year. Institutional capacity constraints, weak governance, ageing infrastructure, and flawed and inadequate maintenance significantly affected the ability of many municipalities to fulfil their constitutional obligations.

As in previous years, the Vulindlela Academy, which is the capacity building, knowledge-sharing and skills transfer platform of the DBSA, worked to address these challenges proactively. The Academy offers accredited capacity building and training to development intermediaries, including municipalities, government departments, parastatals, public utilities and non-governmental organisations in South Africa, as well as development finance institutions elsewhere in southern Africa. During 2011/12, the Academy trained 19 000 external learners (target: 12 000), including:

- 12 787 officials from municipalities, intermediaries and development finance institutions, in the priority skills areas of planning, finance, management and leadership
- 232 delegates from the SADC region
- 5981 councillors, as part of the national Councillor Induction Programme

Despite the anticipated slowdown in infrastructure delivery during 2011/12, the DBSA's direct disbursements in South Africa and elsewhere in the region, combined with the MIG expenditure facilitated by the Bank, amounted to R15.3 billion.

After considerable discussion with the relevant government stakeholders, a decision was taken in April 2011 to unbundle the Siyenza Manje programme. The finance component was transferred to the National Treasury, while the technical component was transferred to the Department of Cooperative Governance and Traditional Affairs (CoGTA). As a consequence of these changes, the performance of finance deployees now falls under the National Treasury's Municipal Finance Improvement Programme (MFIP). On the technical side, CoGTA established the Municipal Infrastructure Support Agency (MISA) to manage and coordinate infrastructure delivery at local government level.

As part of the DBSA's support to local government, technical and planning experts were deployed to various municipalities throughout the country to alleviate constraints on service delivery. These deployees provided the following capacity building support:

- Through MISA, 93 deployees (79 engineers and 14 town planners) provided support to 94 municipalities (58 directly and 36 on a shared-services basis).
- Deployees facilitated 2244 technical infrastructure projects to the value of R14.3 billion during 2011/12. Most of these projects were in the areas of water (24%), roads (23%) and sanitation (14%).
- An estimated 456 560 households obtained access to water (145 933 households received new access to a basic water supply and 310 627 benefited from an upgraded bulk water system).
- An estimated 456 284 households obtained access to sanitation (167 466 households received access to basic sanitation and a further 288 818 benefited from upgraded bulk sanitation systems).

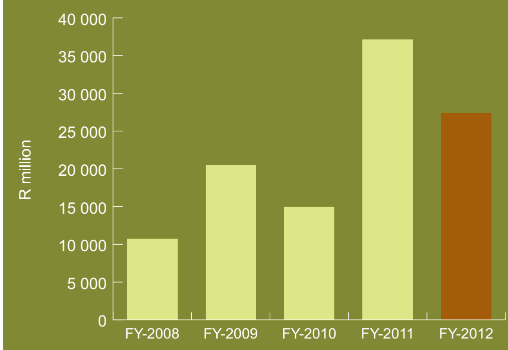
Support to the region

The DBSA continued to provide strong development finance support outside South Africa in 2011/12, with commitments of R2.9 billion (against a target of R3 billion) and disbursements of R3.2 billion (against a target of R2.4 billion). Total approvals reached R3.8 billion (against a target of R3.8 billion).

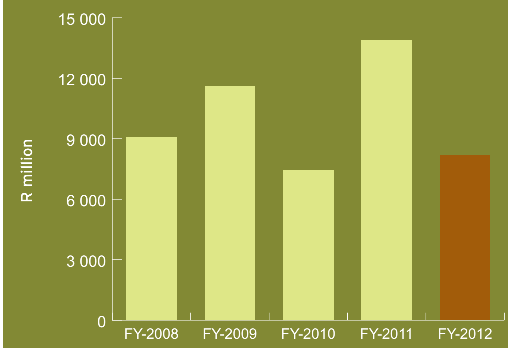
The transactions recorded during the year were in line with a number of specific strategic thrusts of the Bank's regional strategy. The following are some of the notable transactions:

- A US$227 million (R1.9 billion) loan for the Kilwa Energy Project (Tanzania) was approved, laying the foundation for future transactions in a country that is particularly difficult to enter as senior debt lender.
- A US$150 million (R1.1 billion) loan for Banco BAI in Angola was approved.
- A US$100 million (R790 million) senior debt facility was signed for the expansion of the Nova Cimangola Cement Plant in Angola. This is the DBSA's largest commitment to

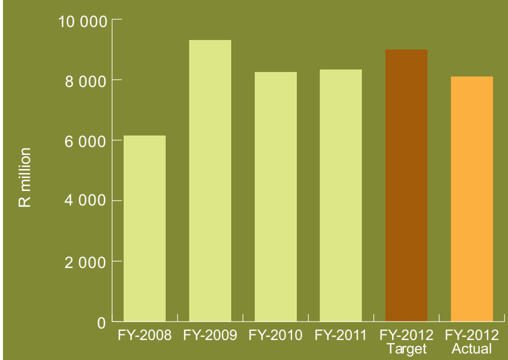
Total value of approvals, 2007/08 to 2011/12



Total value of commitments, 2007/08 to 2011/12



Total value of disbursements, 2007/08 to 2011/12



Chief Executive Officer's report (continued)

Angola to date and is in line with its plan to support this important reconstructive growth market. The transaction also links up with the DBSA's strategy to invest in sectors that support the feasibility of other infrastructure projects.

- The DBSA demonstrated its commitment to the reconstruction of Zimbabwe by finalising disbursements of R464 million on the US$206 million (R1.4 billion) loan to the Zimbabwe National Road Administration (Zinara). The project aims to rehabilitate a major road artery spanning 801 km from Plumtree through Harare to Mutare, and represents the Bank's biggest commitment to Zimbabwe thus far.
- The Eastern and Southern African Trade and Development Bank (PTA Bank) is viewed as one of the DBSA's strategic partners in the region. The line of credit agreement between the two parties has strengthened the partnership, as it allows PTA Bank to increase its product diversification and lengthen the tenure of its loans to its clients. An amount of R542 million was disbursed as part of the line of credit agreement during the year.
- The Bank disbursed R1.3 billion to the National Road Fund Agency in Zambia.

Progress on development mandates

The Governor and the Board of Directors directed the Bank, in its roles as advisor, implementer and financier, to support various national and provincial departments in important sectors such as health, education, water, sanitation and energy. Building on the progress made last year with regard to the national Health and Basic Education Roadmaps, the DBSA has reached new milestones on these mandates.

Education

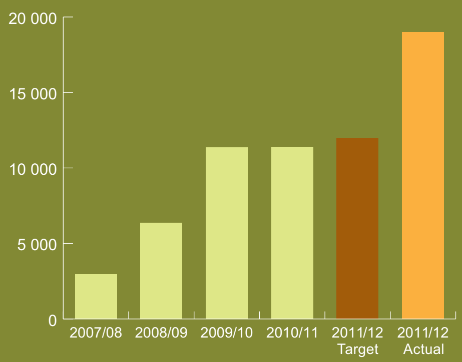
The Department of Basic Education and the DBSA entered into a Memorandum of Agreement to strengthen the Department's capacity to deliver on schools infrastructure, in line with the government's call for improvements in this area. In the year under review, the DBSA facilitated the establishment of the Programme Support Unit within the Department, which will be responsible for the rollout of an approved infrastructure delivery plan. In terms of the Memorandum of Agreement, the DBSA is expected to undertake project planning and preparation, manage the contracts of service providers, and monitor progress on the construction of 395 schools in 2012/13 and 2013/14. In 2011/12, plans were made to build 50 schools in the Eastern Cape (with one school subsequently removed from the list as the Department of Basic Education had handed it over to a contractor). So far, the Department has approved 16 construction companies and in January 2012 they were appointed to build the remaining 49 schools in the Umtata, Libode and Lusikisiki districts. The total value of this construction programme is R672 million. Construction is under way and is expected to be completed by 31 August 2012.

Health

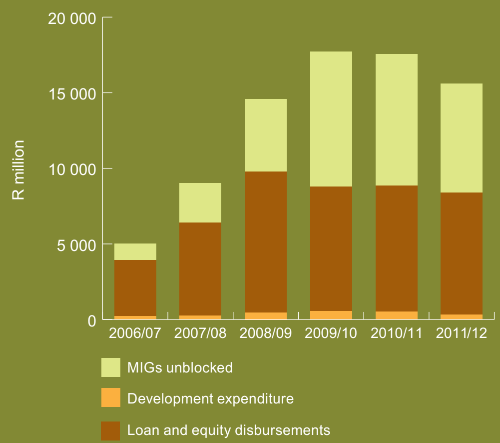
The national Department of Health, with the guidance and approval of the National Health Council, launched the Infrastructure Unit Support Systems programme to fast-track the delivery of health infrastructure in South Africa. The programme is a structured collaboration between the Department, the DBSA, the Council for Scientific and Industrial Research (CSIR) and other stakeholders. Running from October 2010 to March 2013, the programme has the overall objective of optimising the acquisition, operation and management of South Africa's public healthcare infrastructure through all stages of the infrastructure lifecycle.

In support of this programme and the Department's wider initiatives, the DBSA is required to assist in the assessment of health capital projects. This involves obtaining and capturing physical, contractual and financial status information on all current health projects in the public sector in South Africa, in order to identify potential progress blockages and budget shortfalls for timely remedial interventions. The first phase, initiated as a pilot, involved the development of the data-capturing tool, the capturing and processing of data on all hospital revitalisation projects (Hospital

Number of learners trained by Vulindlela Academy, 2007/08 to 2011/12



Development expenditure, loan and equity disbursements and MIGs unblocked, 2006/07 to 2011/12



Revitalisation Grant), and reporting on these. This work was completed and the data and reports were made available to the national Department of Health.

The second phase assessed all current and planned public health projects in South Africa, including identifying areas where contractual, financial and management interventions are needed to address delays in implementation. This phase is under way and will assess all capital infrastructure projects in the health sector, regardless of funding stream, including the Hospital Infrastructure Grant, the equitable share and the Hospital Revitalisation Grant.

The National Infrastructure Unit of the national Department of Health and the Infrastructure Team of the Gauteng Department of Health and Social Development have been engaged in a process to address the funding and procurement of professional service providers to support the implementation of priority projects in Gauteng. An Implementation Protocol, as envisaged in clause 35 of the Intergovernmental Relations Framework Act, No. 13 of 2005, was signed between the national Department and the Gauteng Department of Health and Social Development. This led to the appointment of the DBSA as an implementing agent to support the fast-tracking of identified priority infrastructure projects in the health sector in Gauteng.

In the past year, the DBSA began to support the national Department of Health and various provincial Departments in accelerating the delivery of important health projects and initiatives, including:

- Chris Hani Baragwanath Hospital in Gauteng
- Dr George Mukhari Hospital in Gauteng
- Limpopo Academic Hospital in Limpopo
- King Edward VIII Hospital in KwaZulu-Natal
- Nelson Mandela Academic Hospital in the Eastern Cape
- Limpopo Nursing College in Limpopo

It is gratifying to report that the DBSA has appointed transaction advisors in all but two of these projects to perform detailed feasibility studies. Construction on several projects is expected to commence in 2012/13.

Energy

Renewable energy from independent power producers

In December 2010, the DBSA, the National Treasury and the Department of Energy signed a Memorandum of Agreement in which the parties undertook to work towards creating an enabling environment for independent power producers. As per the Memorandum, the DBSA facilitated the appointment of transaction advisors, whose main role was to advise and support the Department of Energy with the design of a fair, competitive and transparent procurement process and documentation. This culminated in the release of Request for Proposal documents to the market. A power purchase agreement and implementation agreement were signed to enable the Department of Energy to procure, through Eskom, renewable energy from independent power producers.

At the end of July 2011, the transaction advisors completed phase 1 of the process. The final Request for Proposal documents for the procurement of the 3725 MW of renewable energy were released to the market on 3 August 2011. The phasing of submission dates worked on the basis that the total allocation of megawatts per technology would be made available during the first bid submission round, but if that were undersubscribed (with regard to all compliant bids submitted for that technology), the remaining megawatts would be available to bidders during a second round of submissions.

The first window opened in November 2011 and preferred bidders were announced on 8 December 2011. Of the 28 bidders announced (representing 1416 MW of the 3725 MW target), 12 had DBSA support, representing potential participation by the Bank of R9.6 billion. Submissions for the second round to procure the remaining megawatts closed on 5 March 2012. The DBSA supports over 30 projects in this round, with an estimated participation value of R13 billion. During the first phase of the bidding process, the following projects were approved for funding by the DBSA: !Ka Xu Solar One (R7.5 billion), Bokpoort Concentrated Solar Power Project (R1.9 billion), Jeffreys Bay Wind (R1.1 billion), Kalahari Solar One (R1.1 billion), De Aar Solar (R697 million) and Droogfontein Solar (R680 million).

The year ahead

The year ahead should be an interesting one for the DBSA in many respects, especially as the programmes mentioned above and elsewhere in this Annual Report gain momentum. The DBSA recognises the rising expectations of its shareholder and stakeholders. In terms of its 2012/13 Corporate Plan, the Bank will carry forward its accelerated development drive, with a sharp focus on integrated and innovative infrastructure development. The scale and depth of the Bank's interventions will continue to grow, and special attention will be given to ensuring the sustainability of its interventions, enhancing their development impact, and ensuring that they result in meaningful improvements in the quality of life of South Africa's people.

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

I take this opportunity to wish Admassu Tadesse success in his new role as President and CEO of the PTA Bank of the Common Market for Eastern and Southern Africa. Furthermore, I wish to thank Mr Pieter de la Rey, who served the Bank diligently as Chief Financial Officer for the last four years, and Ms Leonie van Lelyveld, who held various executive roles during her period of employment at the DBSA. I wish them the best in their future careers.

Last, but not least, the management and staff of the Bank have demonstrated unwavering commitment in achieving remarkable results during a very challenging year. I acknowledge their immense contribution and look forward to another year in which we reach new and exciting milestones as we pursue the Bank's vision and mission.

Tshokolo Petrus Nchocho
DBSA Acting Chief Executive Officer and Managing Director

Macroeconomic overview

In 2011/12, a turbulent international economic and financial environment brought challenges and risks to the economies of both South Africa and the Southern African Development Community (SADC). The DBSA's operating environment continued to be demanding. Domestically, the need to reduce poverty and inequality by addressing development backlogs and delivering job-creating economic growth remained pressing. However, despite improvements in the flow of public sector infrastructure projects as the year advanced, budget and institutional capacity constraints in the municipal sector in particular continued to limit the rate at which infrastructure projects could be planned and executed.

Global conditions

In the early part of 2011, growth in the world economy continued to surprise on the upside, despite structural weaknesses, chronic imbalances in the global economy, and persistent vulnerabilities in the financial system. The two-speed economic recovery of 2010 lasted into the new year. Although it was slower, considerable growth momentum remained in the emerging and developing economies, in particular in developing Asia and sub-Saharan Africa. Recovery remained elusive, however, in most of the advanced economies of Europe and the Americas. Sustained private sector drivers of domestic demand failed to materialise and few economies – with the notable exception of Germany – could draw significant benefit from exports to the fast-growing developing economies of Asia. This complex situation was exacerbated by events of natural and socio-political origin, which had significant negative economic effects. The March earthquake and tsunami in Japan disrupted the Japanese economy and global supply chains; a severe winter in the northern hemisphere affected production and energy prices; and political instability in some Middle Eastern and North African countries tightened oil markets and placed upward pressure on the international oil price.

As 2011 progressed, the pace of the global recovery began to slow, as the fiscal and other structural constraints in the advanced economies and overheating pressures in important developing countries reasserted themselves. Recovery began to falter in the United States and the need for fiscal consolidation in many European economies weakened their growth performance and outlook. In this fragile situation, business and consumer confidence was vulnerable. Fiscal pressures associated with unsustainably high levels of public debt in the Eurozone periphery triggered a sovereign debt crisis, with significant negative impacts on economic growth, socio-political stability and confidence in affected countries. The growing crisis held serious contagion dangers both within Europe and beyond. Dangers associated with sovereign rating downgrades, higher lending risk premiums and funding costs, and debt write-offs for banks, with the destruction of balance sheet value and subsequent deleveraging (which tightened the supply of bank credit), began to weigh increasingly heavily on both financial sector confidence and real economic activity. The resultant financial market turbulence and weaker European growth performance began to affect economies outside Europe through trade, credit and investment flows.

Emerging and developing economies could not escape the negative effects of the Eurozone crisis and sluggish growth in the United States. The economies of Central and Eastern Europe were worst affected by the Eurozone crisis. In the large developing economies of Asia – such as China and India – growth remained rapid but lost some momentum as the year progressed. Both internal and external forces played a role in the deceleration in these countries. External forces (the slow growth in the United States and the crisis in Europe) played an important role in constraining exports. Internally, rising price pressures led to monetary policy action to temper demand growth. In some countries, funding pressures also began to constrain the growth of parts of the business sector, such as smaller businesses in China.

By September 2011, nearer-term global economic prospects had deteriorated significantly and downside risks had escalated. By December, the global recovery had stalled and the world economy was in a challenging position. Growth was slowing in the fast-growing developing economies in Asia, Europe was in trouble, and hopes for a turnaround of the United States economy were muted at best.

In this global environment, the growth in the demand for commodities and manufactured goods slowed. After sharp rises in raw material commodity prices in 2010, prices began to moderate but remained elevated. However, socio-political instability in the Middle East and North Africa continued to affect oil supplies and underpin oil prices. This benefited oil producers but put the cost structures of oil-consuming countries under pressure. Bouts of instability in global financial markets led to sell-offs of riskier assets and greater volatility in the currency markets. In this environment, gold and the US dollar benefited from investor flight to safety.

Given weakening economic conditions, monetary policy remained supportive in most countries, with continued low interest rates, supplemented in some countries by the provision of additional liquidity and monetary accommodation. However, in some of the fast-growing emerging and developing economies, where overheating and inflation dangers emerged over the year (such as China, India, South Korea, Malaysia, Nigeria and Poland), central banks raised interest rates.

These developments brought marked fluctuations in global investor sentiment, along with turbulence and volatility in financial flows and markets. Emerging markets were affected by the swings in sentiment, particularly when investors withdrew funds to seek safety in traditional safe-haven assets. The downgrades of sovereign and corporate borrowers by credit-rating agencies affected the cost of funding for governments, state-owned companies and banks in affected countries.

Conditions in southern Africa

Despite deteriorating global economic conditions, sub-Saharan Africa saw rapid growth in 2011 owing to its strong fundamentals. Output south of the Sahara grew by nearly 5% overall and output in eight of the 15 member states of SADC rose by 5% or more. Countries that produce oil and industrial commodities fared best, while those that are heavily dependent on oil imports or agricultural exports tended to fare less well. Furthermore, countries particularly exposed to markets or financing in crisis-hit European countries encountered increasing challenges.

The strong growth performance in sub-Saharan Africa was based on both external and internal factors. Among the external factors were continued demand for commodities from the fast-growing economies of Asia, the expansion in mineral export capacity in a number of countries, and commodity prices that, despite declines, were still strong in historical terms. Internal factors included rising consumer demand driven by urbanisation, demographic developments and growing household spending power. Furthermore, in some countries, public investment in infrastructure, such as transport, energy and ports, contributed to higher activity levels and reinforced the foundations for future economic growth.

The growth fundamentals of the African continent remain strong, although there are risks in the nearer term. The more significant of these relate to developments in Europe, in particular the impact that any escalation of the Eurozone crisis could have on global trade and cross-border financial flows, including access to trade credit and portfolio and direct investment flows.

The South African economy

For the South African economy, 2011 proved to be an interrupted journey. After a firm start to the year, which brought hope that the recovery of the last quarter of 2010 could perhaps be sustained in adverse global circumstances, the momentum fell away by mid-year. In the last quarter of 2011, however, signs of growth re-emerged.

A number of factors, on the supply and the demand side, lay behind this performance. For 2011 as a whole, the primary sector was the main impediment to the economic recovery. The manufacturing sector (slowly recovering but affected by the global recession) and the services sector provided the bulk of the growth, despite a weak manufacturing performance in the second and third quarters. On the demand side, despite commodity prices that are still high and growing export trade with Asia, the poor economic performance of two of South Africa's large traditional export markets – Europe and the United States – negatively affected growth. On the supply side, the main interruptions to the recovery were the negative impact of excessively wet weather on agriculture and mining; the disruption of some global supply chains following the Japanese earthquake and flooding in South-East Asia; safety, technical and maintenance stoppages in some areas of mining; and industrial action in mining and manufacturing, which led to a loss of production. These negative supply-side factors were largely felt in the second and third quarters of the year, but matters had begun to improve by the fourth quarter.

Over the year, increases in consumption spending by the household sector, which accounts for some 60% of domestic demand, was a prominent factor in domestic economic growth. Among the factors supporting growth in consumer spending were continued low interest rates; real increases in disposable income as a result of high wage settlements; social grant income support for the poor from the public sector; and an increase in employment across a number of sectors (notably non-gold mining, electricity, construction, services and the public sector) after a period of recession and job shedding in the economy. But unemployment remains high and inequality and poverty are widespread.

Significantly higher rates of economic growth and job creation are needed. Government efforts to accelerate progress are being prioritised, including faster infrastructure development to relieve growth bottlenecks, targeted industrial policy to strengthen the manufacturing sector, and job creation initiatives such as the Jobs Fund. Furthermore, public initiatives are under way to improve service delivery in the housing, utilities, health and education sectors; these will improve the quality of life and provide better opportunities for people.

Another feature of the domestic economy was the re-emergence of fixed investment as a growth factor, after the stagnation following the infrastructure boom before the 2010 FIFA World Cup. Fixed investment spending regained some momentum as the year progressed, although levels remained well below the 2008 peaks. Public corporations, such as Eskom and Transnet, spent more on major infrastructure projects in the electricity and transport sectors. Significantly, after several years of decline, spending by the various tiers of the general government began to rise, mainly in the housing, construction and water sectors. In the private sector, fixed investment was initially most prominent in the agriculture, mining and telecommunications sectors, but it later broadened into the manufacturing and storage sectors. Net inventory investment also gave support to the demand side of the economy during the year, as restocking began in late 2010 after a protracted period of inventory rundown over the recession.

Inflation, as measured by the consumer price index (CPI), had begun to increase in the latter stages of 2010 and continued to rise in 2011. Having remained in the 3% to 6% monetary policy target range since early 2010, CPI inflation rose from close to the lower bound at the beginning of the year to breach the upper bound in the latter stages of the year. Price

Macroeconomic overview *(continued)*

pressures were largely the result of cost-push factors, with food and administrative prices for fuel and electricity playing a significant role. Despite the breach of the upper bound of the policy target range, the absence of demand pressures in the economy and the need to support economic growth continued to motivate the monetary authorities to keep the policy rate unchanged at the historical low of 5.5%.

Given the adverse developments in the global economy, which constrained the rate of growth in exports, and higher levels of imports resulting from stronger domestic demand, the trade account of the balance of payments deteriorated over the year. This, together with the structural shortfall on the services account, meant that the deficit on the current account of the balance of payments widened. Despite shocks to the global economy and financial markets and the resultant fluctuating investor risk appetite for emerging market assets, the shortfall on the current account was easily financed with net capital inflows. Primary bond issuance in international markets, net inflows of foreign direct investment, and net inflows of volatile portfolio investment all played a role in financing the deficit. As a result, for the year as a whole, net gold and other foreign reserves rose significantly. Given global economic difficulties, sentiment swings in international financial markets, and domestic developments in South Africa, the exchange rate of the rand proved unstable. After early strength against the US dollar, the rand depreciated for much of the year before pulling back somewhat towards the end of the year. On a real effective basis, the rand lost value over the year, assisting the external competitiveness of South African producers.

The DBSA

The challenges in the DBSA's operating environment in 2011/12 derived in part from global and local economic developments and in part from persistent structural socio-economic and institutional realities in South Africa.

As the year progressed, slowing domestic economic momentum and continued low nominal interest rates were particular challenges to the Bank's performance. In the former case, segments of the Bank's domestic client base experienced pressure on revenue streams, which affected both portfolio risk and the Bank's ability to grow its asset base. Furthermore, conditions in local financial markets meant more competition from other banks in the local government and infrastructure lending market. This resulted in pressure on margins and constituted a further constraint on the potential rate of DBSA asset growth in these markets. The Bank's income was also affected by the continued low level of domestic interest rates, which detrimentally affected the interest income stream from investments. On the upside, rapid economic growth in many countries in sub-Saharan Africa and their positive longer-term economic fundamentals facilitated favourable outcomes for the Bank's lending operations in the SADC region.

Looking ahead, the Bank's operating conditions in 2012/13 are likely to remain challenging. Any momentum to the domestic economic recovery is likely to be slow in coming, and significant external risks to the economy are still evident. Domestically, interest rates should remain low for much of the year, and administered price increases, especially for electricity and fuel, will mean further upward pressure on operating costs, with implications for both the DBSA and its clients. Although competitive pressures in the domestic infrastructure financing market are likely to remain, some acceleration and broadening of public and private sector capital expenditure should begin to assist the Bank's performance. Ensuring a supply of bankable public sector projects will remain a challenge.

However, it is likely that the Bank will still be required to support project and programme development and management capacity in the public sector.

Development impact overview

Macroeconomic impact

The DBSA uses a partial general macroeconomic equilibrium model based on a social accounting matrix (SAM) to calculate the socio-economic impact of its projects. The model specifically incorporates the sectoral investment focus of the Bank. The model, which has 2006 as a base year, has been adjusted to 2011 prices, and the discussion below is in real (inflation-adjusted) terms.

In 2011/12, the DBSA approved projects to the value of R24.8 billion. The value of the Bank's signed agreements with clients was R8.4 billion and the value of disbursements was R8.1 billion. The bulk of the disbursements (61%) in South Africa went to energy (44.4%), entrepreneurial and manufacturing (25.7%) and communication (11.6%).

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

It is estimated that the total funding approved by the Bank has a potential impact of R24.0 billion on GDP, of which R15.9 billion will be in South Africa. This constitutes approximately 0.54% of South Africa's GDP in 2011/12 (2010/11: 0.75%). The actual impact of the Bank's disbursements on the GDP of the African region is estimated at R7.0 billion, of which R4.3 billion is in South Africa.

The total funding approved by the DBSA in 2011/12 has an estimated potential impact on employment creation of over 102 600 employment opportunities in the African region. Of these, 72 700 employment opportunities could be created in South Africa. The Bank's own disbursements will create an estimated 33 000 employment opportunities, of which 21 200 (64%) will be in South Africa (down from the 2010/11 figure of 22 200).

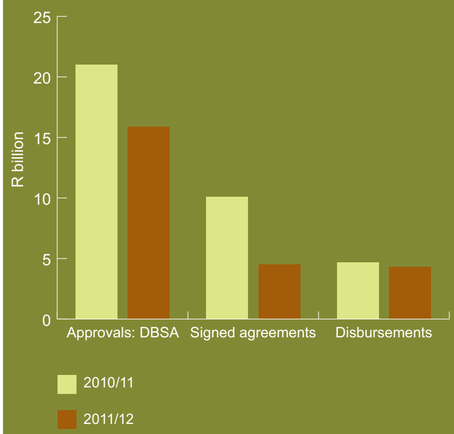
To support the economic activity initiated by these disbursements, a capital amount of R23.3 billion will be employed, directly and indirectly, in the African region. Over R13.5 billion of this will be in South Africa, made up of R5.0 billion in DBSA disbursements and R8.5 billion in capital invested by other industries to supply the additional materials and goods required. This amounts to 2.4% of South Africa's total gross fixed capital formation in 2011.

Every investment results in additional income to households through economic linkages. The total funding approved by the DBSA has the potential to create additional household income of R10.6 billion in South Africa. Of this amount, R1.8 billion will be to the benefit of low-income households earning less than R35 000 a year.

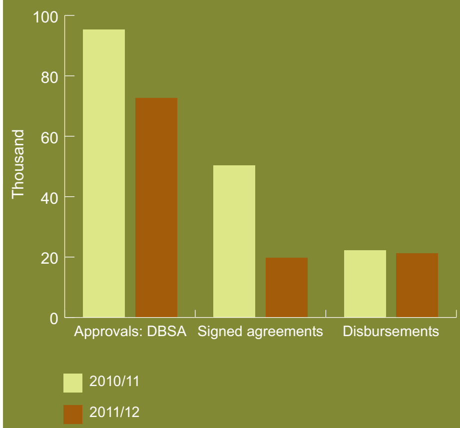
The DBSA's disbursements will create additional total household income of R2.9 billion in South Africa, of which R0.5 billion will accrue to low-income households.

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

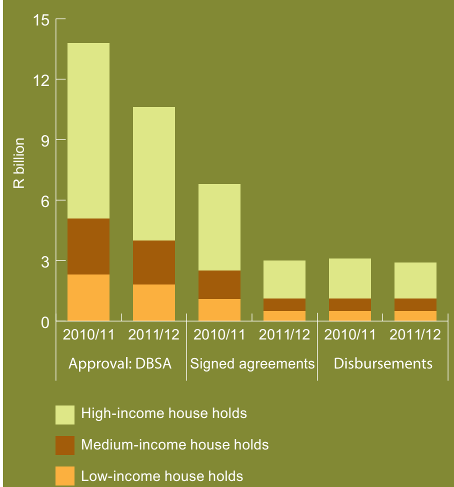
Estimated impact on GDP in South Africa, 2010/11 and 2011/12



Estimated impact on employment in South Africa, 2010/11 and 2011/12



Estimated impact on household income in South Africa, 2010/11 and 2011/12



Development planning overview

Introduction and key principles

During 2011/12, the activities of the Development Planning Division continued to be refined in alignment with the work valued by the DBSA shareholder (the government of South Africa). This alignment has focused on the Bank's role as a national and regional leader in infrastructure planning, financing and development.

The DBSA has been mandated to act as the reference bank for South Africa in the BRICS formation, and the Bank's role has gradually extended to incorporate this work. As a new role player, the DBSA needs to improve its knowledge of the other BRICS countries in order to participate fully in the relationship. Each reference bank in the five BRICS member countries has a role to play in the interbank mechanism and in other financial relationships among the partners. The Development Planning Division has introduced a BRICS programme that encompasses research, policy analysis, advisory services and sector strategies for the regional programmes of important government departments.

The Division cemented its partnerships with various South African government departments, development finance institutions, state-owned enterprises, and international and local networks. It plays an important technical advisory role, with its sector specialists providing critical support services to programmes in sectors such as energy (especially green energy), health, human settlements, infrastructure, information and communication technology (ICT), transport, water and sanitation, and mining. The Division is dedicated to strengthening its partnerships and engagements with key stakeholders, while also providing policy and advisory support to these stakeholders in order to accelerate South Africa's infrastructure delivery programme. In the process, the DBSA as a whole will deepen its specialist knowledge and expertise, and increase its development impact in the economic and social infrastructure environments, both locally and internationally.

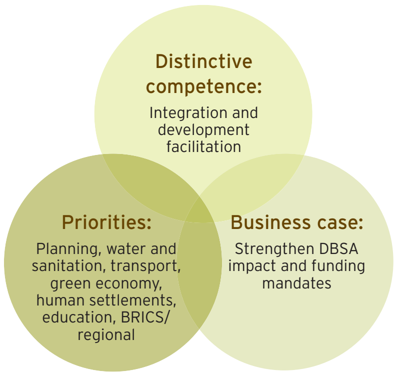
Ravi Naidoo
Group Executive

Strategic overview

The Development Planning Division assists in fulfilling the DBSA mandate by:

- Supporting development facilitation in priority infrastructure-related sectors and programmes, with the aim of enhancing the development impact of the state and investment capacity within these priority sectors
- Enhancing and supporting the DBSA's investment portfolio through development planning and facilitation in order to expedite infrastructure delivery in priority sectors
- Supporting local and regional networks, knowledge-sharing institutions and decision-makers by promoting new development insights and practical collaboration

The Division's competencies as a development facilitator



As depicted in the preceding figure, the Division has a demonstrated and distinctive competence as a facilitator of development programmes. Externally, it uses this competence to enhance state programmes within the scope of the DBSA mandate. Internally, as reflected in the figure below, the Division serves as the hub for shared advisory services (including research and information). This facilitates better knowledge sharing and the management of advisory costs within the DBSA.

The Division usually develops a partnership framework, defined by either a formal Memorandum of Understanding or a Memorandum of Agreement, depending on the scale of the programme and how it is classified. These arrangements are aligned with the DBSA's development impact approach and its mandate to accelerate infrastructure delivery in South Africa. The Division plays an instrumental role in ensuring that the decision-making on any programme is sound and based on evidence. In so doing, it enhances the Bank's ability to achieve its mandate of providing high-quality advice to relevant stakeholders and government departments, thus improving the quality of the policy-making process.

Operations overview

Highlights of the Division's work over the past 12 months are presented in the figure "State infrastructure needs and Development Planning Division outputs" overleaf.

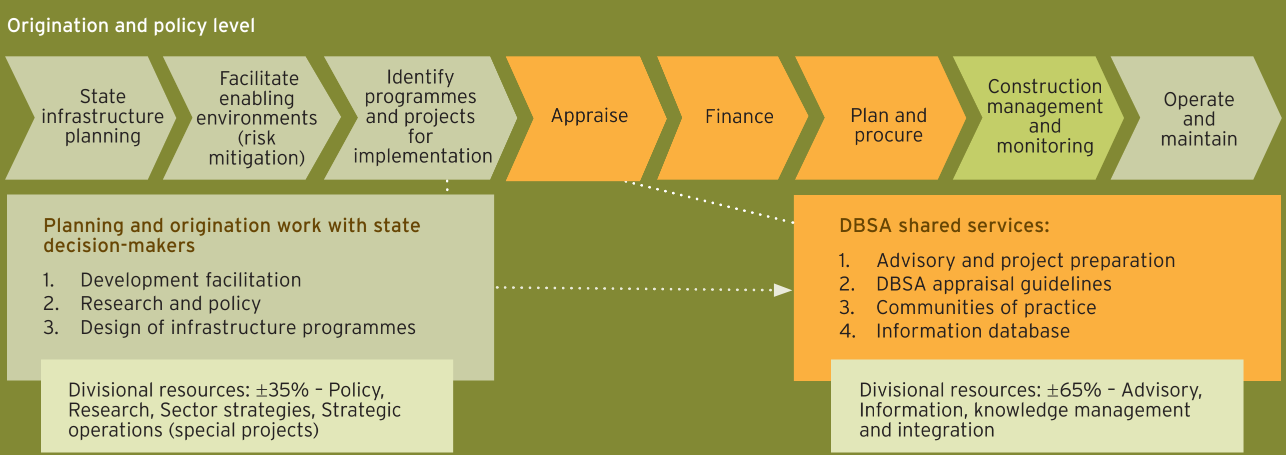
Advisory and research support

Through expanding the internal sector focus and knowledge base, the Division provides critical support for the implementation of sector strategies by the operational divisions of the DBSA. Strategic interventions and support programmes were implemented to enhance the Bank's role in the priority sectors. During 2011/12, the Division undertook around 160 advisory support projects and developed an estimated 70 knowledge products (including strategies, appraisal guidelines, project appraisals, etc.). The main achievements in this regard include:

- The DBSA Human Settlements Investment Strategy
- Appraisal guidelines for human settlements to support the implementation of the Human Settlements Investment Strategy
- The DBSA Environmental Strategy
- The eThekwini Transport Densification Strategy
- An ICT sector analysis for the Investment Banking Division
- The Regional Bulk Water Infrastructure Development project

The Division also developed a number of tools to support investment decision-making within the Bank:

The Division's competencies within the DBSA



Development planning overview (continued)

State infrastructure needs and Development Planning Division outputs

State infrastructure planning → Facilitate enabling environments (risk mitigation) → Identify programmes and projects for implementation → Appraise → Finance → Plan and procure → Construction management and monitoring → Operate and maintain

1. BRICS economic country strategy
2. North-South Corridor Framework report
3. State of Economic Infrastructure report
4. Integrated Infrastructure framework
5. Infrastructure Inputs Monitoring Project
6. SADC Infrastructure Master Plan
7. Infrastructure Barometer
8. Development Report 2011
9. Municipal Infrastructure Investment Framework (Rd 7)
10. Green Jobs report
11. NPC National Development Plan (Infrastructure Chapter)
12. Geographical Information System for infrastructure planning

Shareholder's expressed infrastructure planning needs:

"... requires long-term planning, detailed analysis, and continual learning and adaptation"

"... coordinating role ... strengthen public partnership ... strategically positioned"

1. Engagement with Presidency (DPME, NPC), DTI, DIRCO, DOC, PICC, DPE
2. Convene DFI Forum
3. Presidential Review Commission engagement
4. Convene multi-department strategy process (e.g. BRICS Process with DIRCO, NT, EDD, DTI)
5. Originate DEA mandate, Green Fund mandate
6. Risk model: Infrastructure delivery improvement programme
7. Municipal differentiation model
8. Strengthen State implementation capacity: e.g. Health CEO competency assessment, leading to legislation
9. Establishment of the Parliamentary Budget Office
10. Development Southern Africa journal

1. 160 advisory support projects, 70 knowledge products (including strategies, appraisal guidelines, project appraisals, etc.)
2. Health mandate management
3. Water mandate management
4. Transport mandate preparation (including DPE/Transnet)
5. Development impact model (SAM model)
6. Repositioning LG Resource Centre with COGTA
7. Developing profiles of provinces (Limpopo)
8. SADC country profiles
9. DBSA Communities of Practice: Technical, environment
10. Knowledge Week (Green Infrastructure)
11. Research on BRICS trade flows, swap arrangements, regional development
12. Knowledge management integration (e.g. case studies)

- A Development Impact Rating Framework was designed as a strategic business tool to enhance the Bank's sustainability. The Framework provides an auditable means to validate internal compliance with DBSA strategy and demonstrate alignment with the DBSA's priority infrastructure sectors, as well as its objectives on employment creation, environmental adaptation and climate change.
- The Bank's Environmental Appraisal Guidelines were revised and a draft Environmental Impact Matrix was developed to enhance its decision-making on environmental impact assessment.

Integrated infrastructure planning

One of the outputs for 2012 was the completion of a framework for good practices in integrated infrastructure delivery. Importantly, it includes projections of the economic and social infrastructure plans of the public sector up to 2022. The work will aid the Bank's investment activities and strengthen its technical capacity as a centre of excellence in support of the government's infrastructure initiatives, notably the Presidential Infrastructure Coordinating Commission and the National Planning Commission (NPC). During the year under review, the Division also worked intensely with the NPC in drafting the Economic Infrastructure Chapter of the "National Development Plan 2030".

Green projects

The Division initiated collaboration with government on environment management and green infrastructure. In collaboration with the Investment

Banking Division, the Development Planning Division drew up a Memorandum of Agreement with the government to establish and manage a Green Fund. The Memorandum was signed in April 2012 and the Fund commenced in the same month with an initial capitalisation of R800 million. Taking the initiative forward in the new financial year will require the involvement of both the Department of Environmental Affairs and the National Treasury, since it entails mandate support from the Department and financial support from the Treasury.

Under the Green Programme, the DBSA collaborated with the Industrial Development Corporation (IDC) and Trade and Industrial Policy Strategies (TIPS) on a substantial study to estimate the potential for green job creation in South Africa. The Green Jobs report was well received, obtaining ministerial endorsement and extensive media coverage. The study's methodology could be used to make evidence-based projections of employment creation in various other economic and social sectors.

Knowledge products

The DBSA held its annual Knowledge Week from 12 to 14 October 2011 at the DBSA Vulindlela Academy, in partnership with the Department of Environmental Affairs and in collaboration with the Department of Public Enterprises, the South African National Biodiversity Institute (SANBI), the Council for Scientific and Industrial Research (CSIR) and the Construction Industry Development Board (CIDB). This event positioned the Bank at the forefront of the greening of infrastructure development in South Africa.

The Division also published one of the flagship publications of the DBSA, the 2011 Development Report themed "Prospects for South Africa's future". The report provides an independent perspective on South Africa's potential long-term development path. It is hoped that this report will contribute to the work of key national departments such as the National Planning Commission and other critical role players.

Two Policy Briefs, five issues of the Development Southern Africa journal and three Working Papers were published in the past year. The second edition of the divisional magazine, *eDigest*, focused on climate change and was pivotal in the promotion of the DBSA to the United Nations Framework Convention on Climate Change (UNFCCC) at COP17.

Information management and analysis

In the year under review, the Division created the DBSA Municipal Differentiation Model, which categorises municipalities according to their performance and endowment scores. The model differentiates between municipalities on the basis of specific criteria and the application of technically sound statistical measures of weighting and rank determination. The results from the model enhance understanding of how the endowments (the economic base of municipalities) are employed. They are of invaluable use in the implementation of infrastructure delivery programmes, as understanding municipal performance is critical in determining the viability of a particular programme and the kinds of support required.

The Division's geographic information system (GIS) capability was improved with the development of a web-based application that makes spatial information available and allows the user to create maps. The system gives easy access to spatial information on a self-service basis.

The Development Planning Division continues to provide routine information analysis services to the operational divisions of the Bank, including the International Division, South Africa Operations, Investment Banking and the DBSA Development Fund. It also gave inputs to the Integrated Planning 2020 project, which focused on an institutional and regulatory framework for infrastructure provision, statutory or regulatory planning frameworks, project selection and approval requirements, and indicators used for monitoring infrastructure performance in the sector.

Comprehensive country profiling was carried out for the International Division to inform its investment decisions in Angola, Botswana, the Democratic Republic of Congo (DRC), Lesotho, Malawi, Mozambique, Namibia, Swaziland, Tanzania and Zambia. A time series database for all SADC countries was also compiled.

BRICS

The DBSA's BRICS programme has two purposes: first, to inform the DBSA's engagement with the BRICS partners as a reference bank in relation to interbank mechanisms, financial frameworks and other financial agreements into which the banks might enter during the course of the relationship; and second, to inform and support the interests of SA Inc., more broadly on the African continent and within the BRICS bloc.

Four studies have been commissioned on Brazil, Russia, India and China, which will be shared at roundtable discussions. The BRICS group in the Division also developed an "SA Inc." perspective, which outlines South Africa's potential foreign policy in Africa in the context of BRICS.

Health

The Division continued to support the national Department of Health in rolling out the Infrastructure Unit Support Systems programme, which is designed to overcome delays in the delivery of health infrastructure in South Africa.
The DBSA implemented the Capital Project Status Reporting programme and facilitated the establishment of a Project Management Support Unit. The mandate was transferred to the Development Fund during the 2011/12 financial year as efforts shifted beyond facilitation and towards project management requirements.

This year saw the adoption of regulations that implement important proposals flowing from the competency assessment of hospital Chief Executive Officers and district managers undertaken in 2010/11.
The Division facilitated this assessment for the Minister of Health. Many of the recommendations of the assessment were directly absorbed into the regulations enacted in August 2011.

Development planning overview (continued)

South Africa's state-owned enterprises

AT A GLANCE

Partnerships

strengthened among the major state-owned enterprises and development finance institutions

Planning

The government acknowledges that planning and implementation need to be strengthened at all levels

The state's emerging requirements of development finance institutions:

- State-owned enterprises and development finance institutions must underpin the role of the state in directing national economic development by mobilising domestic and foreign capital and by establishing initiatives or partnerships that support the formation of social capital.
- Public-public partnerships must be strengthened among the major state-owned enterprises and development finance institutions, such as the DBSA, the IDC, various pension fund institutions, Eskom, the Passenger Rail Agency of South Africa (PRASA), Transnet and others.
- The dual mandate of state-owned enterprises and development finance institutions is to achieve a balance between the required level of self-funding and support for developmental projects that the private sector would ordinarily not fund. Those tasked with costly development mandates must be strategically positioned to generate the revenues sufficient to cover the costs associated with executing their respective, but interrelated, mandates.
- A new impetus is needed in the planning and implementation of major capital projects. This requires long-term planning, detailed analysis and continual learning and adaptation. The government acknowledges that public sector capacity to implement projects is inadequate, and is taking steps to strengthen planning and implementation capacity at all levels.
- The DBSA is to play a coordinating role in raising finance for the Presidential Infrastructure Coordinating Commission projects, in partnership with multilateral finance institutions, foreign investors and other investment funds.

Improving state capacity

In 2011/12, the Division assisted in the establishment of the Parliamentary Budget Office (PBO). The Division is now playing an important advisory role in establishing the PBO, enabling Parliament to amend the national budget as per Section 77 of the South African Constitution. An effective PBO will be of considerable value to public sector infrastructure delivery.

A synthesis report on the state of infrastructure, entitled South Africa: State of economic infrastructure 2011, was completed for the Department of Performance Monitoring and Evaluation.

The DFI Forum serves as a platform for discussing issues of common interest to development finance institutions. Four Working Groups were initiated to prepare proposals on improving the effectiveness of the development finance system, in support of achieving the objectives of the developmental state. The Forum created a Risk Management Working Group to establish risk management as a strategic issue on the agenda of development finance institutions and to enhance risk management capacity within the development finance system. On 7 March 2012, the Forum hosted the Presidential Review Committee, submitting DFI Forum issues to the Committee and commenting on its findings. A report on the discussions was submitted to the Committee.

Prospects for the year ahead

In the year ahead, the Development Planning Division will continue to provide analytical support to the operational divisions of the DBSA, the Infrastructure Delivery Improvement Programme (IDIP), the National Treasury and the Local Government Resource Centre. It will also support social accounting matrix (SAM) modelling work and the Municipal database maintained by the South African Local Government Association (SALGA).

Most of the strategic work outlined in the figure on Development Planning Division outputs will continue to be deepened in a manner that advances the DBSA mandate as an infrastructure DFI. A focus for 2012/13 will be the regional/international dimension.

The Division will support the government in the area of industrialisation by providing advisory and policy services for the development of industrial infrastructure in South Africa and the rest of the continent, including a supporting framework that sets out the broad deliverables. Infrastructure programmes could promote the competitiveness of South African enterprises by leveraging investment in export-oriented manufacturing industries and promoting the export of value added manufactured products.

The BRICS team will continue to contribute to knowledge management and knowledge sharing across the Bank in relation to BRICS developments for the 2013 Summit that South Africa will host. The team will also continue to engage with the relevant national departments (Trade and Industry, International Relations and Cooperation, Economic Development and National Treasury) to support the involvement of SA Inc. in the BRICS programme. The DBSA will co-host seminars with various government departments to provide support for and inputs into strategies and programmes. As an implementing agency, the Bank will also provide technical support for identifying projects in connection with BRICS in Africa and the President's infrastructure programme. The DBSA has become integrated into the government's BRICS programme and will continue to play a facilitative and advisory role in the coming year.

Several publications will be released which capture the DBSA's engagements with key stakeholders on various development issues. These publications will include a focus on Integrated Infrastructure Planning and Implementation; and range from hard copies to web-based publications.

There will be considerable engagement with stakeholders in the area of integrated infrastructure planning, and this will inform practical application and good practice. Under the Green Programme, joint work teams will be established in areas identified in the Memorandum of Agreement with the Department of Environmental Affairs. One of these, the task team on green infrastructure, will take forward the proposal that the South African Network for Accelerating Investments in Climate Technology Transfer (SANAICTT) be registered as a Climate Technology Centre and Network (CTCN), and also assist with implementing and operationalising the Green Fund in partnership with the Investment Banking Division.

Providing support for mandate activity by originating projects and generating investment projects will remain a priority. As for enhancing DBSA investment and capacity, the focus will be on operationalising sector strategies and institutionalising relationships with the operational divisions to support a strategic approach to pursuing investments within the mandate of the DBSA. The production of Sector Briefs aligning strategy and practice will offer further support in this regard.

Operations overview – South Africa Operations

Strategic overview

South Africa continues to face many challenges to improve infrastructure for socio-economic development and the delivery of municipal and other services. The country's towns and cities are characterised by unequal development levels, especially in rural areas. Millions of people still do not have access to municipal and other social services. This has been recognised as one of the most critical areas of need for the country's poor. The South Africa Operations Division has been tasked specifically with delivering development solutions at this level to support and complement government efforts to address service delivery gaps.

The main task of the Division is to help improve service delivery nationally through the provision of loan funding for infrastructure development to municipalities, local and provincial utilities and other intermediaries, including tertiary education institutions. In addition, it also provides non-financial technical assistance in the form of project support, advice and development facilitation. Through these offerings, the Division has established itself as a prominent role player in development finance support at local and provincial levels.

The distinctive feature of its approach is its value proposition, which focuses on providing integrated development solutions, including close relationship management, risk management, as well as supporting and strengthening the client's service delivery capacity.

Luther Mashaba
Group Executive

Current portfolio

The adjacent figure shows the current composition of the book debt of South Africa Operations as at 31 March 2012, in which municipal loans constitute 82% of the portfolio. The municipal market has been segmented into three categories, namely metros, secondary municipalities and under-resourced municipalities. Of the 278 municipalities in South Africa, 172 are on the Division's book. With respect to funding, metros and secondary municipalities dominate the municipal book. The Division's exposure to under-resourced municipalities remains very low, but it represents 84% of the total debt of this market segment. Under-resourced municipalities will continue to be one of the Division's priority focus areas in the next financial year and beyond.

The balance of the book (18%) consists of other public entities, such as provincial intermediaries, water boards and tertiary education institutions. These non-municipal intermediaries also serve as additional delivery channels for infrastructure development. Through its support to these intermediaries, the Division helps to accelerate the provision of infrastructure and services to communities.

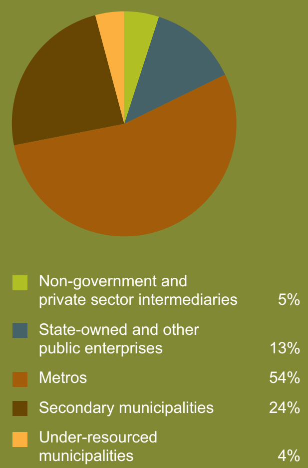
Divisional structure and development delivery framework

To enable the execution of its mandate, the Division has established four clusters. Three of these perform the core function of originating and packaging viable infrastructure projects for funding and provision of non-financial technical assistance to benefit communities across South Africa. The client-facing clusters are organised in spatial terms, covering all nine provinces of the country to maintain the geographic spread of the Division's main functions.
In addition, there is a central portfolio management cluster, which supports the frontline clusters by coordinating activities relating to divisional portfolio planning, risk monitoring and reporting. The delivery framework is outlined in the figure below.

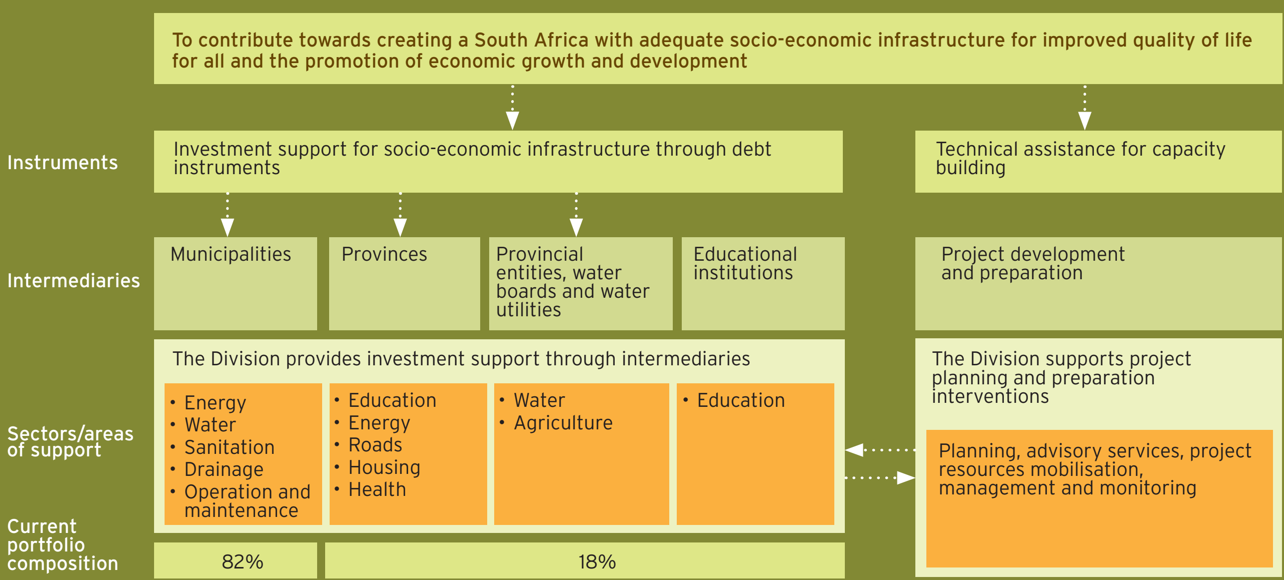
Operating environment

The Division's operating environment is influenced by a number of factors that constrain the absorption of DBSA

Composition of South Africa Operations portfolio (book debt), 31 March 2012



Divisional delivery framework



Operations overview – South Africa Operations (continued)

funding by intermediaries, while also presenting opportunities for business development. At local government level, many municipalities are under severe financial pressure, as they have limited institutional capacity to collect revenue for services rendered to their residents. This negatively affects their ability to expand and sustain service delivery. In addition, the budgetary allocations from the fiscus are inadequate for eradicating backlogs and funding priority programmes to improve and sustain service delivery at municipal level. This is further exacerbated by under-spending on the already limited allocations. A further worrying practice is the neglect on maintenance of existing infrastructure, which contributes to breakdowns in service delivery. Such service interruptions lead residents to boycott payment for services, thus reinforcing the cycle of revenue pressures on municipalities.

Municipalities continue to experience significant challenges related to the provision of basic or improved services to communities, as evidenced by the growing number of service delivery protests at community level.

Although non-municipal institutions have created new delivery channels for the Division and have shown an increased appetite for infrastructure development finance, they too face several institutional capacity challenges. These include a shortage of qualified staff and the lack of technical and administrative capacity to plan, implement, operate and maintain infrastructure facilities, which, in turn, prevents some of them from being able to borrow funding for infrastructure investment.

Infrastructure needs remain significant across the country. According to the World Bank's Municipal infrastructure finance synthesis report of 2009, South Africa will need approximately R500 billion over a ten-year period for municipal infrastructure investment. Of this amount, an estimated R421 billion will be required to finance new infrastructure to support economic and population growth and the rehabilitation of ageing infrastructure, while the remaining R79 billion will be required to eradicate backlogs. This suggests that the annual requirement for additional infrastructure investment over the same period is R50 billion. Borrowing by intermediaries will play an important role in addressing these backlogs, as fiscal transfers are unlikely to be sufficient. The 2009 World Bank report analyses the backlogs per municipal category, as highlighted in the figure opposite.

Service delivery backlogs increase the total demand for funding. At the same time, certain intermediaries lack credit absorption capacity and cannot meet the criteria for raising and managing funding. As a result, although the volume of funding being mobilised from the market is higher, it is concentrated in fewer well-capacitated metros and at the top end of secondary municipalities. The mobilisation of funding for smaller secondary and under-resourced municipalities is limited, in view of their poor credit absorption and implementation capacity.

The credit appetite for municipal debt among commercial banks and asset managers has increased, probably in response to legislative and policy changes introduced to stimulate private sector participation in public infrastructure funding, and also through the private sector's own drive to diversify into the municipal market. Considerations such as risk, transaction costs and higher liquidity in the banking sector have also presumably contributed to the private sector seeking alternative investment opportunities in infrastructure. These conditions have partly led to intensified price-based competition for funding the few available low-risk municipalities with high credit quality.

Legacy of global financial crisis

The aftermath of the 2008 global financial crisis continued to have a negative impact on the Division's operations. The uncertainty about the prospects for economic recovery resulted in intermediaries reprioritising their infrastructure plans, which lowered the demand for borrowing towards infrastructure project financing. This resulted in a slight decrease in the Division's municipal and non-municipal new book. However, by the end of the 2011/12 financial year, the Division's overall loan portfolio stood at R21 billion.

Impact of competition in the municipal market

The Division started the year under review with a good project pipeline and secured new approvals in excess of this year's annual target. However, stiff price-based competition from the private sector was experienced, leading to an inability to convert new approvals into signed commitments from which to effect disbursements. The Division experienced challenges in converting approvals to commitments and disbursements.

The total value of approvals was R9.3 billion (126% of the annual target) for 38 approved projects spread across 32 clients. Approvals were higher for metropolitan clients (57%), while secondary municipalities accounted for 35%. For under-resourced municipalities, approvals remained at low levels (3%). The rest of the approvals were shared among non-municipal clients (6%).

During the year under review, the conversion rate from approvals to commitments was 8%, representing R787 million in funding. One of the factors contributing to this challenge is that metros, which have a significant share of the stated approvals, continued to be price sensitive. This culminated in the Division only disbursing R921 million for the year. Low disbursements led to a lower development impact than anticipated, with only 3538 jobs created and 41 817 households that gained access to services.

Divisional strategic approach

Considering the issues emerging from the operating environment, the Division has realigned its approach during the year under review to emphasise the following main areas in support of business development:

- **Expansion of service delivery channels:** Special emphasis was placed on project origination and structuring through engagement with clients at all phases of the business cycle. This involved the provision of technical assistance and advisory services to assist with project identification and feasibility studies as well as detailed project packaging, resource mobilisation, financing and project implementation support.

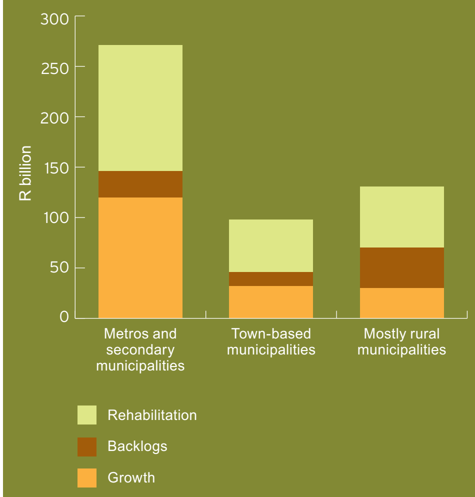
- **Developing innovative support instruments and interventions:** In conducting its business, the Division applied a combination of conventional and proactive approaches. It continued to participate in infrastructure funding and tenders advertised by municipalities, initiated bilateral engagements (through signing mandate agreements), and provided preapproved loan facilities. In addition, bridge financing of Municipal Infrastructure Grant (MIG) multi-year allocations across the Medium-Term Expenditure Framework and project origination also formed part of the emerging proactive approaches employed by the Division.
- **Diversification of client base:** This involved continued support to the municipal market and intensified penetration of other non-municipal markets, including utilities such as water boards and intermediaries such as universities, further education and training institutions and colleges.
- **Originating projects in areas of institutional failure:** In collaboration with the provincial government, the Division pursued the signing of mandate agreements, with the intention of enabling the DBSA to play a central role in project initiation as lead arranger and financier of high-impact programmes.

Focus for the year ahead

The Division recognises that it operates in an increasingly competitive environment characterised by complex market dynamics, with a potential negative impact on the delivery of infrastructure development. Despite this, it remains positive about its role in supporting socio-economic infrastructure investment across South Africa. In 2012/13, the Division will concentrate on the following strategic areas for infrastructure development:

- Intensify support to less capacitated municipalities to enable them to utilise development finance, and plan, prepare and implement projects. This requires the Division's participation across the full value chain and includes the provision of financial and non-financial instruments.
- Accelerate infrastructure investment by providing bridging finance and technical support to municipalities in the utilisation of conditional grant transfers (e.g. the Municipal Infrastructure Grant, the Integrated National Electrification Programme Grant and the Public Transport Infrastructure and System Grant).
- Provide additional funding to partially and fully capacitated municipalities for investment in socio-economic infrastructure projects.
- Support with planning and facilitation in catalytic projects to enable metros and other municipalities to accelerate infrastructure delivery and to optimise development impact.
- Participate in national and provincial initiatives aimed at scale infrastructure delivery, such as the Strategic Infrastructure Project (SIP6) and the Student Accommodation Programme, through planning, project preparation and funding assistance.

Municipal infrastructure investment requirements, 2009



Operations overview – Investment Banking

Strategic focus

The Division's business coverage encompasses mainly private sector companies, state-owned enterprises and public-private partnerships (PPPs). Banking activities are undertaken in support of the infrastructure and enterprise development mandate of the DBSA. The Division's value offering is a full end-to-end project origination and execution, which includes project development advice, structuring and capital raising by way of underwriting, arranging, financing and syndications.

The business mandate of the Investment Banking Division can be described as follows:

- Large-scale infrastructure projects aimed at eliminating backlogs and expediting essential social service delivery in support of sustainable living conditions and improved quality of life within communities. These projects support social service delivery in sectors such as health, water and sanitation, human settlements and passenger transportation.
- Large-scale infrastructure projects aimed at overcoming capacity and bottleneck constraints and unlocking economic growth potential. These projects support growth in sectors such as industrial transportation, telecommunications, mining, tourism and renewable energy.

Tshokolo Petrus Nchocho
Group Executive

The Investment Banking Division's products and services

Products

Project development advisory	Project financing	Equity investing
• Project identification and scoping • Feasibility assessment • Technical assistance • Development funding • Institutional modelling • Financial structuring	• Debt • Mezzanine finance • Equity • Limited/non-recourse lending • Development funding • Technical assistance	• Private equity • DBSA investments • Empowerment financing

Underwriting	Arranging	Lending	Syndication	Transaction management

Services

The Division's strategy is to strengthen its existing position, and that of the DBSA as an infrastructure bank of excellence, driven by professional and motivated human capital, through:

- Partnering with government departments and state-owned enterprises to unlock national project development, advisory, financial arranging and underwriting opportunities in order for the DBSA to deploy its balance sheet effectively
- Serving as a mechanism for the government to attract private sector capital to PPPs and other bankable projects with proven commercial viability
- Positioning the DBSA as a preferred funder of project opportunities in the private sector to accelerate development impact in priority sectors (health, water, energy, human settlements, the green economy, transport, mining, ICT, tourism, education and financial services)
- Pioneering a programmatic approach to unlocking the development of infrastructure projects in priority socio-economic sectors, in order to multiply the scale of development impact achieved
- Coordinating and aligning the Division's investment activities in support of the government's policy objectives in order to remain relevant to policy actions and outcomes

Operations overview

During 2011/12, the Division banked R14.2 billion in approvals, R4.4 billion in commitments and R4.0 billion in disbursements. This was a satisfactory year for the Division, as it exceeded most of its targets. Investment flows were driven largely by the fact that approvals and commitments of 2010/11 gained momentum during 2011/12. Of the R15 billion facility granted to Eskom and the R3 billion commitment to the Old Mutual Housing Impact Fund, R2 billion and R1 billion were disbursed respectively. Across the market, while positive signs emerged as banks started to increase investment activity following the financial crisis of 2008, low levels of project financing activity are still being experienced within important areas of national priority.

On the demand side, the government reiterated its commitment to its R844.5 billion infrastructure investment plan, mainly in the energy, transportation and logistics, and water and sanitation sectors.

Operations overview – Investment Banking (continued)

Private sector approvals for the year amounted to 87.5% of the R14.2 billion in total credit approvals. The Renewable Energy Independent Power Producers Programme (REIPPP) accounted for 53% of this amount. The mix of projects included a broad spectrum of private enterprises and public sector entities, and covered a range of sectors.

Once financial closure is reached on a transaction, it is classified as "committed" to indicate the unconditional availability of funds for drawdown. The Division experienced delays in the process of negotiating and closing two significant projects (in mining and energy). These would have increased its commitments by another R3 billion. Instead, the total funding commitments for the year amounted to R4.4 billion, across a range of sectors.

The Division's financing outflows in the form of disbursed funds amounted to R4 billion for the year.

Key sector programmes and investments

Health

The DBSA signed a Memorandum of Understanding with the National Treasury to promote cooperation in various areas suited to PPPs, including funding requirements, capacity building, programme management and the origination of project support. The Health PPP programme is among the initiatives to be pursued under the Memorandum. Included in the scope of the PPPs are projects related to physical infrastructure, medical equipment and facilities management. Clinical services are excluded.

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

The following flagship projects were identified under the Health PPP programme:

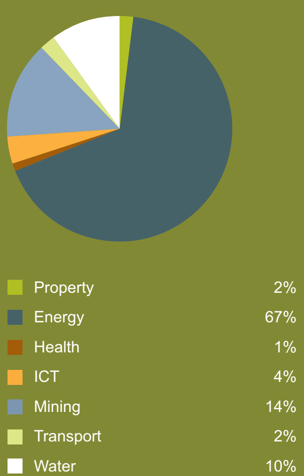
- Chris Hani Baragwanath Hospital, Gauteng
- Dr George Mukhari Hospital, Gauteng
- Limpopo Academic Hospital, Limpopo
- King Edward VIII Hospital, KwaZulu-Natal
- Nelson Mandela Academic Hospital Complex, Eastern Cape

In addition, a Joint Implementation Agreement was concluded with the Limpopo Department of Health to plan, fund and build five nursing colleges in the five districts of the province, using PPPs. These colleges will help to alleviate the shortage of nurses in the province. To date, a R55 million project preparation facility has been approved to co-fund feasibility studies with the National Treasury and the national Department of Health. This facility is intended to assist in preparatory work required to bring projects nearer to financial close. The improvement of South Africa's healthcare infrastructure is of paramount importance to realising the goals of the National Health Strategic Plan. While the government is committed to supporting these projects, a number of institutional bottlenecks must be unblocked to fast-track progress in this regard.

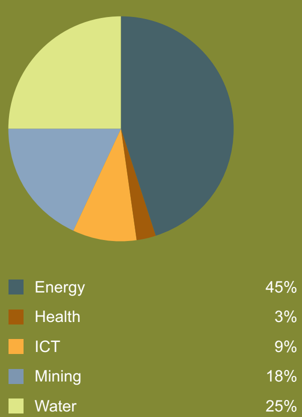
Energy

The Eskom deal announced during the latter part of 2010 is a landmark deal solidifying the DBSA's long-term commitment to the energy sector. The Division obtained approval of debt finance of R15 billion to be

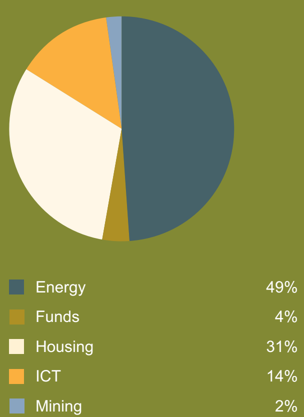
Value of approvals per sector, 2011/12



Value of commitments per sector, 2011/12



Value of disbursements per sector, 2011/12



disbursed over the next five years for the construction of the Medupi and Kusile power stations. During 2011/12, R2 billion was disbursed to Eskom, taking the total amount disbursed to R3 billion. This investment will support Eskom in addressing the security of electricity supply in the country by commissioning additional capacity of approximately 16 000 MW by 2017. This deal demonstrates the DBSA's commitment to addressing the security of energy supply in the country, supporting economic development and growth.

Independent power producers

The DBSA, together with the National Treasury, is supporting the Department of Energy in creating an enabling environment for private sector investment in energy generation, with a specific focus on renewable energy from independent power producers as part of the Integrated Resource Plan.

During November 2011, the Department of Energy fast-tracked the selection of preferred bidders for its Renewable Energy Independent Power Producers Programme (REIPPP), which is capable of delivering generation capacity of 1415.5 MW, mainly in solar and wind energy. The Division aligned its competencies and capacity to support and bank R12.6 billion in funding across 12 projects selected as part of Round 1. Successful bidders tendering for an additional 1275 MW as part of Round 2 finalised submissions by March 2012. The Division is already building a pipeline with prospective project developers.

The DBSA's role in the funding of the REIPPP includes debt finance, but also the equity funding portion required by broad-based black economic empowerment (BBBEE) entities to participate in project structures. A strong potential exists to support a further R11 billion in projects during Round 2 of the REIPPP. Of this amount, the Bank will have to carve out its specific contribution to BBBEE parties.

In addition to the REIPPP, R2 billion of funding was approved in project debt financing and empowerment equity funding for an open-cycle gas turbine project by an independent power producer. The plan is to locate this peaking power project in KwaZulu-Natal and the Eastern Cape. The development impact that the Bank can make in the energy sector, regarding both infrastructure and empowerment, will be embodied in its efforts on and financial commitment to renewable energy projects for a long time to come.

Water

The Trans-Caledon Tunnel Authority (TCTA) is the designated implementation agent directed by the Department of Water Affairs to procure project finance and develop important bulk water infrastructure projects for municipalities and industry. The Division has collaborated with TCTA to unlock financing opportunities on a number of large-scale bulk water infrastructure projects, and this supportive relationship was formalised during 2010. The Division has secured Bank approval for financing the TCTA on the Mooi–Mgeni Transfer Scheme (R250 million) and the Komati Water Scheme Augmentation Project (R828 million). The Division expects to advance its investment in the water sector as the TCTA requests disbursements from the DBSA in terms of its capital investment programme during 2012/13.

The DBSA signed a mandate letter to assist the Department of Water Affairs with planning, feasibility studies, funding and implementation of regional bulk infrastructure projects. Finding solutions to the acid mine drainage problem in mining areas forms part of this mandate. Under the mandate, the DBSA will engage with local and district municipalities, together with the Department of Water Affairs, to create effective institutional models that generate opportunities to identify, scope and develop new projects in support of upgrading and expanding the existing bulk regional water infrastructure. Progress under this mandate was not as swift as the Division expected. However, the government has committed significant expenditure and made substantial plans to upgrade ageing and inadequate infrastructure, and the Division is working in steering committees with important government stakeholders to carry the process forward.

Human settlements

Given the housing backlog in South Africa, the Division continues to seek investment opportunities in a variety of human settlement projects. These include investment approvals for new and existing clients in student accommodation and affordable housing schemes, and for externally managed funds whose mandate is congruent with that of the DBSA.

A total of R1.1 billion was disbursed during the financial year to the Old Mutual Housing Impact Fund, increasing the DBSA's penetration in the sector. Bulk infrastructure remains a major obstacle for development opportunities, particularly at the municipal level, and the Division continues to appraise a number of new project opportunities, some of which are expected to come to fruition in the coming year.

Transport

The government is focusing on industrial transport in order to support the movement of freight from road to rail, reduce the carbon footprint, create jobs, grow the mineral and mining sector, increase localisation and BBBEE, and position South Africa as a regional trans-shipment hub for sub-Saharan Africa. In terms of these objectives, the DBSA will continue to pursue opportunities where it is best able to support Transnet, the implementation agent for all freight transport and logistics.

As part of its funding strategy, Transnet has identified a need for development finance institutions to supplement the funding requirements of its R300 billion programme. In addition, it has announced plans to introduce private sector participation in a range of projects. Given the DBSA's role in catalysing infrastructure development and private sector participation, it is envisaged that projects in the Transnet programme will present opportunities for the

Operations overview – Investment Banking (continued)

Bank to offer substantial support, not only to Transnet but also to project developers, equipment suppliers and various BBBEE participants.

The Division is in discussion with various private sector parties where opportunities exist in the upgrading and expansion of freight rail (both infrastructure and rolling stock), which is essential for overcoming logistical bottlenecks in mining and manufacturing value chains.

Environmental finance

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

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

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

The year ahead

The Division will continue to align its new business origination efforts with the National Treasury's infrastructure appraisal criteria:

- **Context:** Focus on projects that promote a better quality of life
- **Demand:** Prioritise projects with strong demand for service
- **Viability:** Projects must demonstrate value for money
- **Funding the cost to society:** The cost recovery burden must be fairly distributed
- **Delivery mechanism:** Projects must be backed by sound institutional arrangements

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

The South African energy sector should see more independent power producers coming to market once Round 2 of the REIPPP has been finalised and preferred bidders shortlisted. The Division will continue to support the government's vision of introducing renewable energy into the South African electricity grid by 2014. Significant progress needs to be made in bringing to fruition the flagship PPPs for tertiary hospitals and the identification and prioritisation of specific water and sanitation infrastructure projects in provinces. In summary, the Division's strategic theme for the year ahead will be major national infrastructure programmes.

Operations overview – International Division

Nature and scope of the DBSA's regional operations

The International Division is responsible for the DBSA's operations on the African continent beyond South Africa and is the custodian of the Bank's African development strategy. It provides a mix of financial and non-financial products and services to a range of public and private sector clients and partners on the continent.

The Division's strategy builds on the development strategies of each of the countries and the region within which it operates. It places a high priority on infrastructure development, which is one of the leading constraints on Africa's socio-economic development and regional economic integration. In identifying priority sectors for infrastructure and development finance, the Division's strategy draws on the guiding principles of the New Partnership for Africa's Development (NEPAD) and the Regional Indicative Strategic Development Plan, as well as evolving developments in the region and Regional Economic Communities. Similar priorities are reflected in the South African government's Medium-Term Strategic Framework for its international relations and cooperation in Africa.

Admassu Tadesse
Group Executive

The DBSA as representative and facilitator bank in the BRICS Interbank Cooperation Mechanism

AT A GLANCE

In January 2011, South Africa received a formal invitation from the emerging economic coalition of Brazil, Russia, India and China (BRIC) to become a full member. The BRIC coalition was established in 2001 in recognition of the synergies and potential for mutually beneficial economic cooperation between the four member countries.
The invitation to South Africa to join the coalition is seen as a further stimulus to South-South economic and development cooperation, and will advance investment and trade flows between these large emerging markets. South Africa's entry into the coalition will not only promote the integration of its economy with those of the BRIC countries, but will also enable the country to leverage BRIC financial cooperation and investment in the rest of the African continent.

During April 2011, a high-level DBSA mission to China was undertaken as part of South Africa's delegation to the BRICS summit. At the summit, the DBSA was appointed as South Africa's representative and facilitator bank to the BRICS Interbank Cooperation Mechanism, where it joins the China Development Bank, Banco Nacional de Desenvolvimento Econômico e Social (BNDES) of Brazil, Russia's state corporation (Vnesheconombank) and the Export-Import Bank of India.

The DBSA's role will be to assist with the creation of the instruments and platforms for promoting and facilitating South African investments in the rest of Africa as well as in the BRIC countries, and to promote infrastructure development on the continent. In line with this, the International Division has played an important role in engaging with the BRICS partners on economic infrastructure projects in the region. South African institutional and private sector cooperation with BRIC country institutions and companies will increase in scope and depth over time.

The International Division has historically been a provider of senior debt, and this emphasis remains. However, equity investments continue to be considered on a case-by-case basis in order to complement risk capital in viable projects. Equity investments can either be direct or indirect through third-party funds. In certain instances, technical assistance grant funding may be given to suitable clients. The primary focus of technical assistance products is on specific and direct project preparation and related upstream business development that feeds into the investment pipeline of the Division, consistent with its strategy of deal origination. The secondary focus of technical assistance grants is on targeted research and information, as well as capacity development that applies directly to intermediaries and strategic operational partners.

Within infrastructure development, the Division places a high priority on the infrastructure subsectors of power, transport (particularly road rehabilitation and development), water and telecommunications, all of which are critical enablers of other sectors such as agriculture and trade. In addition, it supports social infrastructure in sectors such as health, while considering other sectors that either support infrastructure development, such as mining and tourism, or promote exports and economic diversification.

Regional context and operating environment

Africa is experiencing a new commercial vibrancy and its accelerated growth has resulted from more than its natural resource endowments. Africa's gross domestic product (GDP), at over US$1,7 trillion in 2010, is now roughly equal to that of Brazil and Russia, and the continent is among the fastest-growing economic regions in the world.

Since the start of the financial crisis in 2008, concerns about fiscal sustainability, particularly in the developed world, have seen investors looking to emerging markets as important investment destinations. According to the December 2011 issue of *The Economist*, over the past decade, six of the world's ten fastest-growing countries have been African. In eight of the past ten years, Africa has grown faster than East Asia. Even allowing for the knock-on effect of the northern hemisphere's slowdown, the International Monetary Fund expects Africa to grow by nearly 6% in 2012, at about the same rate as Asia. Such economic growth and expansion have garnered significant interest from investors across the globe and have introduced new competitive and complementary dynamics on the continent.

These new 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 rates. This is particularly challenging for infrastructure sectors and projects that have long-term goals and offer relatively low financial returns.

Operations review

Following on the successes of the previous financial year, the International Division once again recorded outstanding results in terms of asset and revenue growth. It was particularly successful in converting the exceptionally high approval and commitment levels of the previous year into disbursements, leading to record disbursement levels of R3.2 billion (US$419 million), marginally higher in rand terms than the previous year's R3.0 billion (US$441 million).

Notable disbursements included R1.3 billion (US$170 million) channelled towards the rehabilitation of five priority roads along the North-South Corridor, managed by the National Road Fund Agency of Zambia. Three of these roads form part of the Trans-African Highway route running from Cape Town to the DRC's Katanga Province and onwards to Kinshasa. Similarly, the first investment towards roads

Operations overview – International Division (continued)

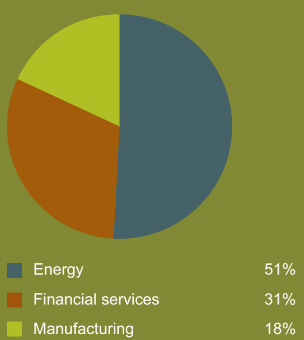
rehabilitation in Zimbabwe was made: R437 million (US$54 million) of the US$206 million programme developed together with the Zimbabwe National Road Administration (ZINARA) was disbursed during 2011/12, so that much-needed improvements could commence on the Harare-Plumtree and Harare-Mutare road links.

The Division continued its support for the development of cleaner, renewable energy sources on the continent. It made further investments of R292 million (US$41 million) in the Kariba North Bank Hydropower Plant Extension Project, as well as R121 million in the Energy for Future Plant in Namibia, which uses encroacher bush that grows (and regrows) abundantly in the area as a source of biomass energy for the recently completed Ohorongo Cement Plant.

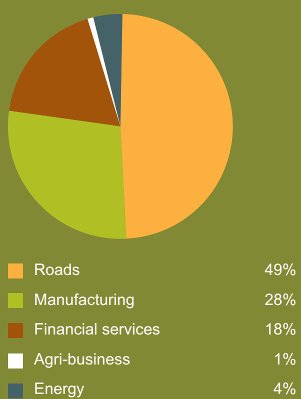
Despite the record disbursement levels, the International Division recognises that the development of bulk infrastructure is extremely complex and time-consuming. Significant infrastructure projects, particularly in the energy, telecommunications and health sectors, can take a number of years to reach financial close. After the record approvals and commitments achieved in the previous financial year, the Division entered a renewed project development phase in the year under review, particularly through its project preparation funds discussed later in this report. Consequently, both approvals and commitments for the current year were lower than during 2010/11. Total approvals amounted to R3.8 billion (US$481 million) compared to R6.3 billion (US$924 million) in the previous year. Commitments totalling R2.9 billion (US$395 million) were made, as against R4.4 billion (US$649 million) in 2010/11.

Nevertheless, the Division is particularly pleased about the inroads made into strategic markets

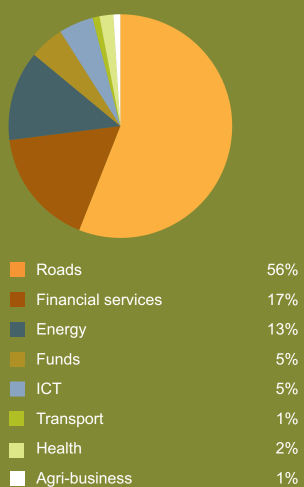
Value of approvals per sector, 2011/12



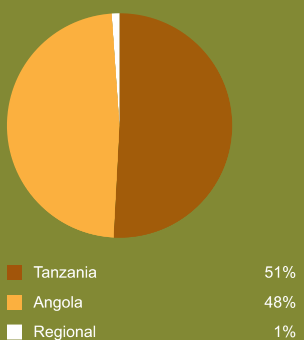
Value of commitments per sector, 2011/12



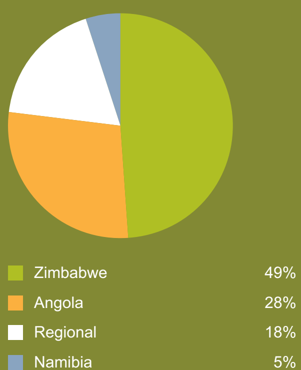
Value of disbursements per sector, 2011/12



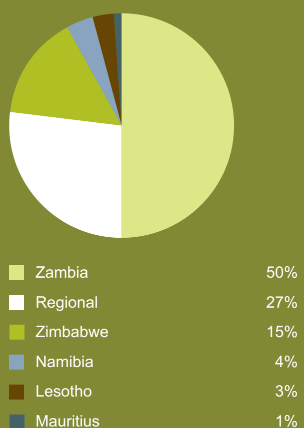
Value of approvals per country, 2011/12



Value of commitments per country, 2011/12



Value of disbursements per country, 2011/12



through approvals and commitments to important projects in Angola and Tanzania. A case in point is the Division's R790 million (US$100 million) commitment towards the expansion of the Nova Cimangola Cement Plant in Angola. The availability of cement continues to be a crucial constraint on infrastructure development on the African continent, nowhere more than in Angola. In view of this constraint, the International Division followed up its investments in cement production plants in Tanzania and Namibia with this commitment to cement production in Angola.

The Division has long supported and provided lines of credit to other development finance institutions in the region with regard to economic and infrastructure development. During the reporting year, it obtained approval for a line of credit of US$150 million to Banco Africano de Investimentos. This will support its sovereign-backed special lending programme to small and medium enterprises in Angola, which aims to facilitate the diversification of the country's oil-dominated economy. Similarly, the Division disbursed a further R542 million (US$75 million) to a long-standing partner, the trade and development finance institution of the Common Market for Eastern and Southern Africa (COMESA), PTA Bank, in support of regional economic development and integration in the COMESA region. Other development bank partners supported in the region include the Development Bank of Zambia, the Infrastructure Development Bank of Zimbabwe, the Tanzania Investment Bank and the East African Development Bank.

Another notable approval is the Division's US$227 million senior loan to the independent Tanzanian power producer, Kilwa Energy Company, to construct a 210 MW power plant fired by natural gas at Somanga Funga in the Kilwa district. The project is expected to increase the capacity of the national power grid of Tanzania by as much as 35% and will greatly assist rural electrification in a country with an average electrification rate of less than 2%. The Division also completed its investment in the landmark Lesotho Hospital PPP project through a further investment of R75 million during the year under review. The new 390-bed Queen Mamohato Memorial Hospital came into use in October 2011.

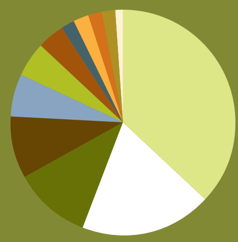
There was one termination amounting to R1.2 billion, where the project was approved by the Bank, but not taken up by the client during the course of the year. A diagrammatic representation of the country and sector distribution of the Division's approvals, commitments and disbursements is presented on the previous page.

The record disbursements helped the Division to grow its international loan portfolio to its highest level ever. At year-end, the net loan book stood at R9.9 billion (US$1.3 billion), 30% higher than the previous year's level of R7.6 billion (US$1.1 billion). The significant growth in the loan book has set the Division up for strong earnings growth in the year ahead, in line with its principle of supporting development on the continent on a financially sustainable basis.

Investments in Zambia continue to make up more than a third of the Division's loan portfolio, but strong growth has been recorded particularly in Lesotho and Zimbabwe. Although the energy sector continues to see extensive investment flows, the International Division's commitment to the development of the North-South Corridor has resulted in the roads sector constituting 23% of its loan portfolio. A diagrammatic representation of the country and sector distribution of the Division's loan portfolio is presented in the adjacent column.

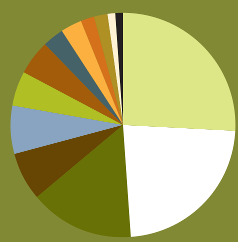
Although the International Division is primarily a provider of senior debt, strategic equity investments continue to play an important role in the product mix of the Bank. The Division made its first investment towards the development of a satellite network dedicated to the developing world by providing R154 million (US$19 million) in equity funding to the O3b Satellite project. It also invested R149 million (US$19 million) in a diverse portfolio of equity funds, including the African Infrastructure

Loan portfolio by country, 2011/12



Zambia	37%
Multi-country	19%
Mozambique	11%
Lesotho	9%
Namibia	6%
Zimbabwe	5%
Tanzania	4%
Mauritius	2%
Angola	2%
Swaziland	2%
Malawi	2%
DRC	1%

Loan portfolio by sector, 2011/12



Energy	26%
Roads	23%
Financial services	15%
Health	7%
Manufacturing	7%
ICT	5%
Mining	5%
Agriculture	3%
Transportation	3%
Water	2%
Tourism	2%
Residential facilities	1%
Community facilities	1%

Operations overview – International Division (continued)

Investment Fund, the Pan-African Infrastructure Development Fund and the Emerging Capital Partners III Fund. These investments, together with the impact of a weaker rand, led to an increase in rand terms of the Division's equity portfolio from R1.5 billion (US$222 million) in the previous financial year to R1.6 billion (US$213 million) at the end of 2011/12.

Project origination and development

The International Division regards project origination and development as an important initiative for reasons of both development impact and business strategy. While the primary rationale for project development is to champion infrastructure solutions for the region, there is a secondary rationale related to business strategy, namely to enable the Division to take a leadership role in the development of projects and secure financing opportunities. The initiative is informed by a combination of considerations, principally business and financial criteria related to the bankability and attractiveness of development projects, together with criteria related to the scale, sustainability and strategic importance of their development impact. This initiative furthers the advocacy and thought leadership role that the Bank wishes to play in the region. It intends to unlock important cross-border and regional infrastructure projects, selectively using own risk capital while mobilising funding from strategic partners. For this reason, it is strongly supported by a related initiative on resource mobilisation, which seeks to harness wider grant resources from international partners as a means of reducing cost and risk for the Division.

Project-specific resource mobilisation

The International Division engages in targeted resource mobilisation for the benefit of Regional Economic Communities on the continent through the provision of special purpose grant funds, risk capital and concessional lines of credit. In many instances, resources are mobilised through strategic partnerships with various regional and international development institutions, such as Agence Française de Développement (AFD), the European Investment Bank and the German Kreditanstalt für Wiederaufbau (KfW), as well as the United Kingdom's Department for International Development (DFID). Together with these partners, the International Division successfully continues to manage various facilities that enhance regional integration and development impact on the continent.

Specifically, project preparation funds will be made available through partnerships with the European Investment Bank's Project Development and Support Fund, the AFD's Project Preparation and Feasibility Study and the Tripartite Trust Account of COMESA, the East African Community (EAC) and SADC, which is funded by DFID. The Tripartite Trust Account fund recently committed capital grant funding of US$6.6 million towards an innovative North-South Corridor project that is installing a fixed electronic weighbridge at Kafue in Zambia to enhance the monitoring of corridor road usage and the collection of appropriate customs duties. A further US$23.5 million grant has been committed to the rehabilitation of a 24.4 km section of road on the North-South Corridor between Lusaka and Chirundu in Zambia, which forms an essential part of the regional road network. Work also continues on the establishment of the Project Preparation and Development Facility with contributions expected from KfW and the European Union.

Regional deployments

The Division has started a process of deploying staff to important regional locations in order to expand the scope and depth of its operations within SADC. This regional deployment initiative is aimed at enhancing relationships in strategic markets and improving the operational collaboration with relevant development institutions on the African continent. The deployments will also help to improve the standard of operations of the host institutions, harmonise approaches to dealing with development challenges in Africa, and create a mechanism to increase the rate of project identification and development. To date, one DBSA staff member has been seconded to the Tanzania Investment Bank and another to the Angola Development Bank in Luanda. A third deployment to the Fonds de Promotion de l'Industrie in the DRC is being finalised.

The establishment of a physical presence in Tanzania, Angola and eventually the DRC will increase the Division's proximity to clients, improve access to deal flow, reduce lead times, and heighten the Bank's competitiveness in marketplaces that are seeing more competition from various multinational commercial banks and regional development finance institutions.

The year ahead

Looking ahead, the International Division will continue to promote and support infrastructure and related economic development projects in the region, with a focus on priority initiatives such as the North-South Corridor and African Union-NEPAD infrastructure initiatives that are being championed by South Africa. Special purpose funds will be used to assist project development. This will be done with due regard for South Africa's economic development strategies and initiatives, including those promoting a green economy, industrial development, job creation and regional integration.

The Division will continue to advance its operations in the region, working closely with its various partners, in particular South African state-owned enterprises and institutions, such as the IDC, the Public Investment Corporation, Eskom, Airports Company South Africa and Transnet, as well as its new BRICS mechanism partners. It will also continue to encourage and facilitate the engagement of South Africa's private sector in the region, especially in the areas of construction and infrastructure. The Division will continue to explore the creation of a new BRICS-based development finance institution that will promote South-South economic and development cooperation and give special attention to infrastructure development in Africa.

Risk management overview

As a development finance institution, the Bank is required to manage risks as it pursues its vision of ***driving development impact in the region through expanding access to development finance and effectively integrating and implementing sustainable development solutions.*** Risk management plays a crucial role in ensuring that the Bank delivers on its mandate while remaining financially sustainable in its interventions.

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

Risk is managed on three levels in the Bank, namely strategic, operational and business. There are two primary focus areas, namely enterprise-wide risk management and credit and investment risk management. The former includes the management of risks related to people, processes and systems, regulatory compliance, legal risk and business continuity, while the latter includes development impact risk and investment risk.

Paul Currie
Group Chief Risk Officer

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

Improving risk management strategies and programmes

The DBSA has placed particular emphasis on its ability to respond to the risk exposures that may arise from its extended mandate and it works continually to improve performance in this area.

In 2010, Group Risk Assurance designed the Risk Management Integration (RMI) programme to facilitate the implementation of risk management improvement strategies. The RMI programme promotes collective ownership and sponsorship by both Group Risk Assurance and the operational divisions; enhances change management monitoring; facilitates the integration of improved risk management processes and existing business practices, as well as changes in organisational relationships; and defines and formalises the risk structures and risk management roles at all levels of the organisation. These features contributed to the successful execution of the programme during 2011/12.

In the period under review, the Division focused on four strategies for ongoing improvements.

- **Improving risk management capacity at divisional level:** A pilot project was undertaken to test the decentralisation of risk management in the Bank. Decentralised ERM and credit and investment risk management structures, processes and systems were developed, implemented and tested in the International Division. The outcomes of the pilot project encouraged the Division to pursue decentralisation in the lending divisions and provided clarity on the plans required to achieve this strategy.
- **Improving risk management monitoring and reporting:** The standards for monitoring and reporting on risk were enhanced at both the divisional and the consolidated reporting levels.
- **Strengthening risk governance:** Governance practice and standards in relation to both ERM and credit and investment risk management were further strengthened.
- **Sustaining risk management improvements:** Group Risk Assurance is conscious of the need to sustain and institutionalise the improvements made in risk management. Three key initiatives were introduced to achieve this goal.
  - The Chief Risk Officer established a Risk Leadership Forum as a platform for discussion between all senior risk management staff. The Forum aims to ensure that risk management is understood and practised consistently across the DBSA; that risk policies and principles are supported and applied consistently; and that the roles and responsibilities in relation to risk are clarified.
  - Significant resources were invested in comprehensive training on credit risk skills for development financiers. Besides enhancing the skills of the relevant staff, the courses generated a more consistent approach to risk evaluation.
  - A dedicated talent management approach was introduced to ensure that risk skills within the Bank can be understood and managed on a collective basis, thus creating development opportunities for staff and enabling effective deployment of resources.

In the year ahead, the Bank will maintain its focus on the four strategies for improvement outlined above to make them more effective.

- **Divisional capacity:** The full decentralisation of all ERM and credit and investment risk management processes will proceed in 2012/13. The focus will be on rolling out divisional risk management structures, processes and reporting in the South Africa Operations and Investment Banking Divisions, and on the counterparty credit and investment risks managed by the Treasury Division. These divisions will be fully accountable for managing all the risks in their operating environments. The Development Fund's risk management system will be further reviewed in relation to the risk exposures that may arise from its extended mandate, with the objective of realigning and strengthening its risk management capabilities.
- **Monitoring and reporting:** Both the divisional and the consolidated ERM and credit and investment risk reporting will be further enhanced and institutionalised.
- **Risk governance:** The capabilities of the Group Risk Assurance Division will be realigned to enhance corporate-level ERM and credit and investment risk governance and oversight, and to improve the leadership and technical services on risk provided to all divisions. Other enhancements will include the further development of the end-to-end impairments process; the continued development and implementation of credit-rating models and tools; and the development and institutionalisation of a mechanism to validate these models.
- **Sustaining improvements:** The focus of the Risk Leadership Forum will be expanded, so that it is able to guide and support managers at Group and divisional levels in implementing the identified risk improvement projects. The training courses on credit risk for development financiers will continue and there will be an additional focus on more advanced skills. The change management process adopted in the previous year will be augmented to monitor and facilitate the adoption of changes and improvements in risk management practice.

Risk management overview (continued)

Enterprise-wide risk management and control

The customised model that guides all enterprise-wide risk management (ERM) in the Bank is illustrated in the figure below.

The Division's strategic role in ERM

The strategic role of the Division is to:

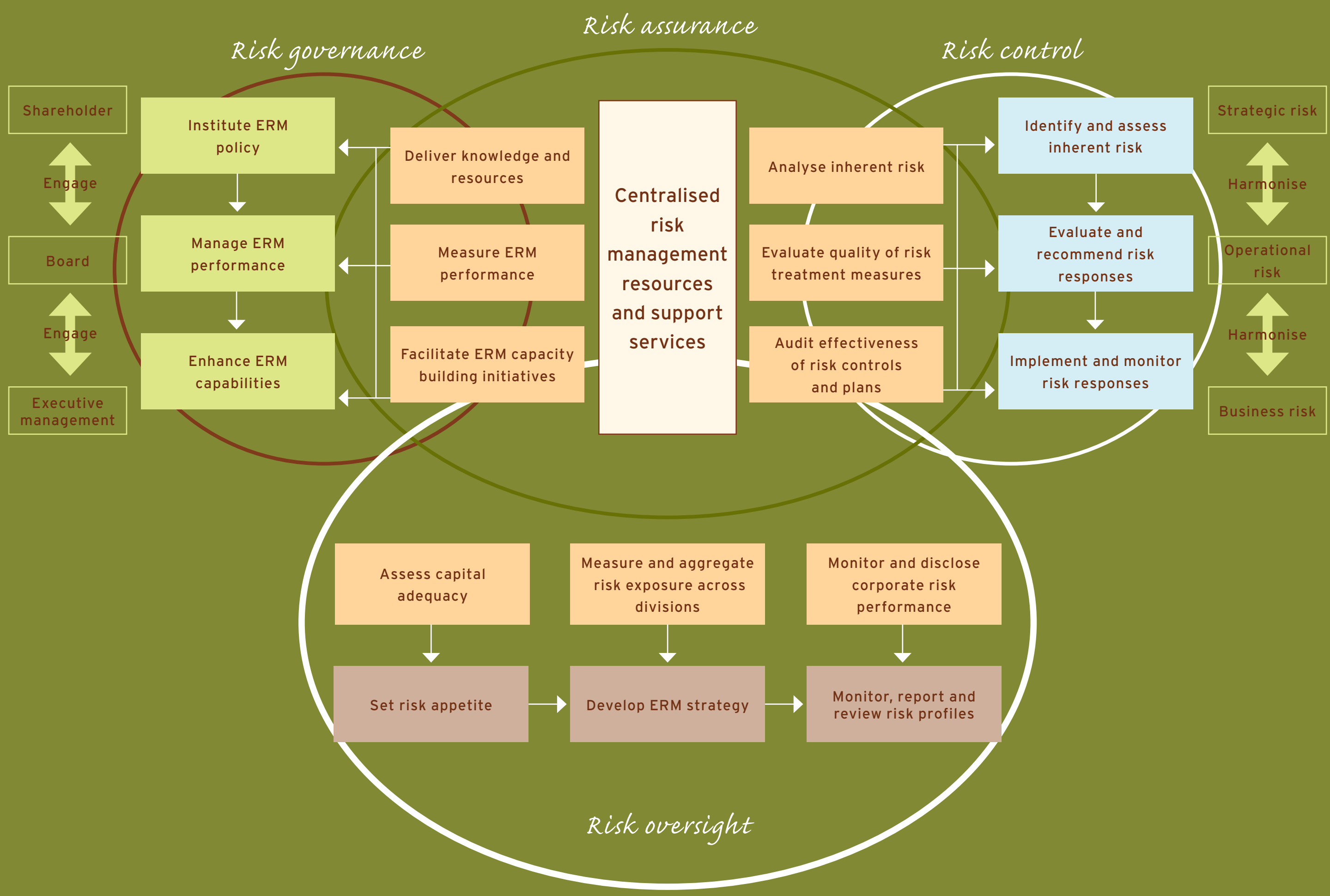
- Coordinate the divisional ERM structures
- Coordinate and integrate the different ERM functions
- Develop tailormade strategies that enable each business to manage its unique risk exposures

Achievements in 2011/12

One of the key focus areas for the year was the implementation of the approved ERM framework. A pilot project was undertaken in the DBSA's International Division to test the application of the ERM policies and processes at divisional and business unit level. Group Risk Assurance deployed resources to the International Division, divisional risk management committees were established and risk management process guidelines developed and implemented.
The exercise proved very successful and will be extended to the Bank's other operating divisions in 2012/13.

The DBSA's top ten corporate risk exposures and the associated key risk indicators were updated in line with the organisation's extended mandate. A risk universe was developed which broadly defines and categorises the Bank's 17 key risk types. The ERM reporting templates at both divisional and corporate level were refined and enhanced. Work also began on the Bank's Risk Appetite Framework.
All these initiatives have helped the Bank to standardise its approach to risk.

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



Credit and investment risk management

The Division's strategic role in credit and investment risk

The Group Risk Assurance Division supports the Bank's strategy by managing risk in order to attain particular objectives.

- The Division seeks to embed policies and processes on credit and investment risk appetite and prudential limits regarding capital availability in the Bank's activities. It guides the formulation of risk strategy and businesses' risk positioning by ensuring that sound risk principles and practices are adopted and maintained. It performs these roles with regard to the burgeoning opportunities in SADC, the BRICS countries, government programmes and other mandates.
- Further, the Division seeks to align development impact with credit and investment risk decisions, and to optimise reward by evaluating risk exposures and ongoing outcomes in tandem.
- The Division supports the Bank's continued involvement in higher-risk markets, mainly under-resourced municipalities, by ensuring that the risk profiles are acceptable and balanced against pressing developmental objectives.

Achievements in 2011/12

In the period under review, the Bank continued to transfer the management of and accountability for risk management to lines of business, while the Division's central role evolved into one of policy setting and overall monitoring to ensure the development and implementation of key risk principles, practices, methodologies and measurements. The following initiatives were undertaken:

- After a successful pilot project, divisional risk structures and decentralised functional responsibilities were established in the International Division.
- Enhanced risk policies and procedures, including new risk characterisations and measurements, were instituted.
- The directives for closer ongoing monitoring, including formal annual review procedures, were improved.
- Procedures were strengthened for early risk detection and more rapid tactical interventions to deal with growing risks.
- The Division's Business Support and Recovery Unit continued to provide an independent, concentrated focus and specialised recovery effort through a team of workout experts.
- The Business Support and Recovery Unit improved its assistance to the Divisions in the early risk intervention stages. A collaborative approach has been adopted, so that assessments and remedial options are offered before a workout becomes necessary.

Portfolio analysis, evaluation and reporting

Improvements were made, at both divisional and consolidated reporting levels, to the reporting on the credit and investment risk portfolio, including the measurement of development impacts. This results in more consistent and insightful portfolio analysis, evaluation and reporting through the use of improved metrics, including components of credit risk-rating models.

In the year ahead, portfolio reporting will be enhanced further as more granular data becomes available.

Credit Risk Models

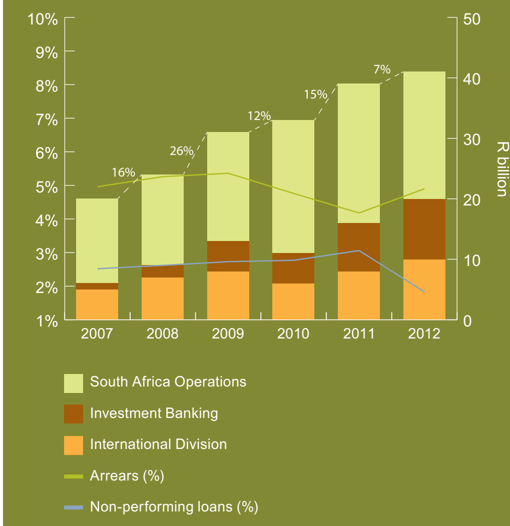
After extensive revision, second-generation Credit Risk Models have been developed. The Credit Models Technical Committee, which was established during the period under review, delivered improvements in terms of accuracy, usability and user acceptance.

The models will be refined further in the coming year and the outputs will be more closely integrated with credit processes through the use of rule sets derived from ratings. The probability of default (PD) and loss given default (LGD) components of the Credit Risk Models will further support the enhancement of impairment methodologies.

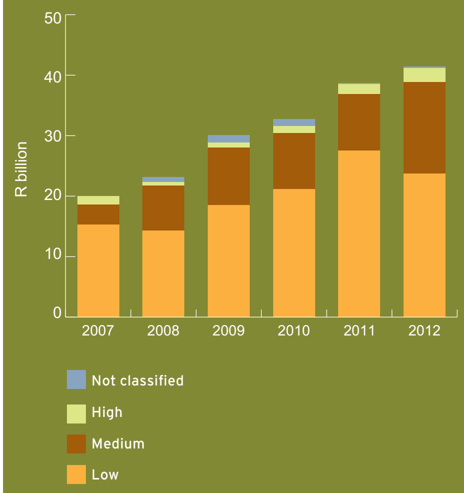
Quality of the credit portfolio

The total loan book increased by 7%, from R38.7 billion in 2010/11 to R41.4 billion at the end of 2011/12. The Investment Banking Division and

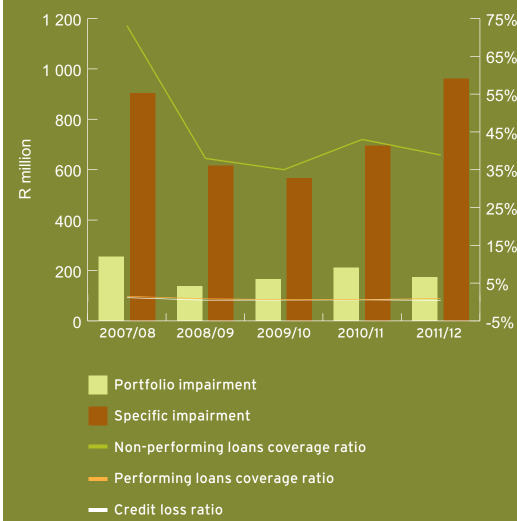
Credit performance of total loan book, 2006/07 to 2011/12



Risk classification of total loan book by value, 2006/07 to 2011/12



Specific and portfolio impairments, coverage ratios and credit loss ratios, 2007/08 to 2011/12



Risk management overview (continued)

International Division were the key drivers of growth, increasing their loan books by 23.3% and 28.3% respectively. The loan book of the South Africa Operations Division declined by 7%. Both Investment Banking and the International Division continue to benefit from the disbursement of high-value transactions such as the Housing Impact Fund, the Zambian National Road Fund Agency and the Zimbabwean National Road Administration. The South Africa Operations Division was affected by the decline in demand for loan products by metropolitan municipalities (metros), owing to a shift in funding towards the bond market as well as a higher appetite for metro business by commercial banks.

To mitigate some of the risks of the high-value transactions in the SADC region, the Bank uses appropriate credit enhancement instruments, including political risk insurance cover when deemed necessary.

As part of the continuing enhancement of risk management within the Bank, an updated municipal risk-rating model was implemented during the year. As a result, a number of South Africa Operations Division clients previously classified as low risk migrated to the medium risk category. This changed the risk distribution of the Division's portfolio, which in turn affected the overall risk distribution of the Bank's portfolio. The risk distributions for the International Division and Investment Banking portfolios remained similar to the previous year.

The level of non-performing loans as a percentage of the gross loan book increased from 4.18% at the end of 2010/11 to 4.9% in 2011/12. The higher levels of non-performing loans are attributed mainly to the Investment Banking Division. A number of private sector clients became non-performing because of the difficult economic environment. Arrears decreased from 3.06% to 1.83% during the period. The decrease in arrears as a percentage of the loan book was mainly due to lower arrears in the active portfolio, as most clients paid on time compared to the previous financial year, when they paid in the middle of April.

The coverage ratio (ratio of impairments held against the exposures) for both the non-performing loans and the active book decreased owing to the implementation of a new LGD model for the municipal portfolio. In the past, the Bank applied a uniform LGD model to all municipal clients. The new model implemented during the year resulted in a lower overall LGD for the portfolio, and hence in lower coverage ratios.

The credit loss ratio (ratio of the impairments for the year to the average gross loan book for the year) increased from 0.66% to 0.92%. This increase was as a result of the full impairment of a major preference shares exposure. Management decided to fully impair the exposure as the client is experiencing difficult economic conditions and the probability of recovery is regarded to be low.

The Bank's loan portfolio remains healthy and further significant growth is expected in the next two years, especially from the Investment Banking and International Division portfolios. Enhancements to the Bank's credit and investment risk management continue to ensure that the quality of the portfolio is preserved.

Furthering the risk management enhancement initiated in 2010, the Bank continues to implement more robust processes to manage the portfolio and ensure that the levels of non-performing loans and credit loss do not exceed thresholds agreed with the Board of Directors.

The year ahead

In 2012/13, Group Risk Assurance will continue extending tested risk management approaches to all the divisions of the Bank, in line with its own decentralised structure and enhanced monitoring capability. It will also focus on approaches to the early identification and resolution of risk.

Building on the foundations established in 2011/12, the DBSA will continue to place strategic emphasis on the enhanced coordination and integration of ERM and seek to follow global best practice in this regard. Risk strategies will be tailored for each of the Bank's businesses so that they are able to mitigate the unique risk exposures they encounter.

In the area of risk governance, efforts will continue to enhance ERM strategies and practices. ERM structures and processes at divisional level will be strengthened, along with both divisional and corporate risk committees.

From a risk assurance perspective, the divisional and corporate risk reports will be monitored as before and the Bank's Risk Appetite Framework will be implemented.

As regards risk control, the divisional ERM process tested during the pilot project will be implemented and institutionalised in the two investment divisions.


INTERCONTINENTAL.

Corporate governance

Governance principles

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

During the year, the Board of Directors continually assessed the governance landscape of the Bank and is satisfied that it has adequately discharged its responsibilities. The DBSA is required to comply with various pieces of legislation that also set out governance requirements, chief among these being the Public Finance Management Act (PFMA), No. 1 of 1999. All the relevant legislation was considered and the Bank was found to be in substantive compliance. Where different pieces of legislation set different requirements, as a rule the Bank complied with the harsher requirement. The Directors are committed to full compliance with the spirit and principles embodied in appropriate international corporate governance codes and strive to align the Bank's corporate governance with national and international best practice. The Bank endeavours to maintain the highest standards of integrity and ethical conduct, and keeps abreast of new developments in the field of governance.

Bathobile Sowazi
Corporate Secretary

Shareholder linkages

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

Strategic objectives and performance management

In line with section 52 of the PFMA, the Bank submitted a Corporate Plan to the National Treasury in March 2012. This serves as an agreement between the Bank and the shareholder, and documents the key performance measures and targets against which organisational performance is assessed.

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

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

The DBSA uses the Balanced Scorecard (BSC) methodology to implement its strategy and to monitor and report on performance against predetermined targets. The Bank has reviewed its key performance indicators and the results of this evaluation are shown in the Directors' report on page 84. The Finance Committee of the Board evaluated the organisational performance, while its Human Resources and Nominations Committee oversaw the assessment of the performance of the Chief Executive Officer and the executive management team.

Governance structures

Board of Directors

The constitution and business of the Board of Directors are governed by the DBSA Act and its Regulations, and the relevant provisions in the PFMA and the Companies Act. The constitution of the DBSA Board changed during the year under review, following the appointment of five new members.

In line with the recommendations of the King III Code, the DBSA has a unitary board structure. The Board currently consists of 14 members. Twelve of these are independent non-executive Directors and one is a non-executive Director (the representative from the National Treasury), while the Chief Executive Officer is the sole executive Director. In line with the requirements of the King III Code, the Board is recommending to the Minister of Finance that the Chief Financial Officer be appointed to the Board as an executive Director.

The current composition of the Board and brief résumés of the Board members can be found on pages 8 to 11.

Directors' appointment and induction

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

During the period under review, five new Directors were appointed: Dr Lungile Bhengu-Baloyi, Ms Albertinah Kekana, Ms Busisiwe Mabuza, Ms Dawn Marole and Ms Mary Vilakazi. The newly appointed Directors strengthen the Board's overall expertise and ability to deliver on the DBSA's expanded mandate.

The DBSA Board is committed to the advancement of new and existing Directors and accordingly organised induction and orientation sessions during January 2012.

Mr Paul Baloyi resigned as Chief Executive Officer effective 31 March 2012, after serving a six-year term as executive Director. The Board has initiated the process of recruiting a new Chief Executive Officer and has appointed Mr TP Nchocho (Group Executive: Investment Banking) as acting Chief Executive Officer until the new appointment has been finalised.

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 that will be updated periodically to align with changes in the corporate governance environment.

Board Committees

The DBSA Act mandates the Board to appoint any subcommittees necessary for carrying out its fiduciary responsibilities. Establishing and delegating some of the technical work to specialist subcommittees does not relieve the Board of its legal responsibilities. The Board has consequently sought to strengthen its monitoring mechanisms by enhancing the reporting done by the different committees at Board meetings to facilitate timely feedback on their work. In addition, the committees table any resolutions taken at their meetings for ratification by the subsequent Board meeting.

Corporate governance *(continued)*

The DBSA Board has six permanent committees: the Audit and Risk Committee, the Finance Committee, the Board Credit and Investment Committee, the Development Planning Committee, the Human Resources and Nominations Committee, and the Strategic Mandates Committee (added during 2011/12). During the year under review, a Special Board Subcommittee was established to coordinate and manage the transitional period following the resignation of the Chief Executive Officer. The Subcommittee met twice during the year and was then disbanded.

In line with principles of the King III Report, all committees of the Board have formal terms of reference to ensure effective decision-making, monitoring and reporting. The terms of reference are reviewed periodically, along with the overall effectiveness and performance of the committees. The committees are discussed individually below and the Bank's committee decision-making structure is reflected on page 59.

Audit and Risk Committee

The Audit and Risk Committee oversees the Bank's internal control framework, and reviews and evaluates the integrity of financial and other statutory reporting, risk management processes (including information technology (IT) risk), compliance with laws and regulations, and ethics management. It oversees the internal and external audit functions, and reviews the Internal Audit Plan and the annual assessments of significant risk exposures.

The Committee has six members, five of whom are independent non-executive Directors with one executive Director, and is chaired by Ms Albertinah Kekana, an independent non-executive Director. The Board has taken note of the recommendations of the King III Report that all members should be independent non-executive Directors. However, the Board is comfortable that the current constitution of the Committee does not impair its independence.

In addition, the Board has taken note of the recommendation that the audit and risk portfolios be separated into two committees; in view of various business practicalities, however, the Board has decided to combine these portfolios in one committee.

The external auditors have a standing invitation to attend the meetings of the Committee.

Finance Committee

The Finance Committee has seven members, six of whom are independent non-executive Directors. Ms Thembisa Dingaan, an independent non-executive Director, chairs the Committee.
It oversees and advises the Board on income, expenditure and capital budget requirements; tax management; treasury arrangements and funds mobilisation strategies; transfer pricing policies; the management of assets and liabilities; and the Bank's overall financial sustainability.

Board Credit and Investment Committee

The Credit and Investment Committee has eight members of whom six are non-executive Directors, one executive Director and one co-opted member and is chaired by Ms Wendy Lucas-Bull, an independent non-executive Director. It is responsible for the consideration and approval of credit and investment proposals.
In addition, the Committee reviews the Bank's credit strategy; the credit risk management programme; trends in portfolio quality and the adequacy of provision for credit losses; new products and financial instruments; and the credit risk management policies approved by the Board.

Development Planning Committee

The Committee currently consists of six Directors, two of whom are non-executive Directors and one executive Director, and three co-opted members. Mr Andrew Boraine, an independent non-executive Director, chairs the Committee. It oversees the implementation of the knowledge management strategy to ensure the integration of knowledge management products within the Bank.
The Committee serves as a sounding board for corporate knowledge publications, development policy and research products. To assist it in this function, the Committee has appointed a review board comprising specialists in the different sectors to provide guidance on the flagship publications of the DBSA.

Human Resources and Nominations Committee

The Human Resources and Nominations Committee has four main responsibilities: oversight of the implementation of the Bank's human capital strategy; oversight of remuneration practices; the vetting of key appointments and nominations, including those of Directors; and oversight of governance and issues related to Directors. Chaired by Ms Dawn Marole, the Committee comprises seven Directors, six of whom are independent non-executive, and one co-opted member.

Strategic Mandates Committee

The Strategic Mandates Committee was founded during 2011/12.
Its primary focus is the consideration and approval of new national mandate proposals and the evaluation of programme implementation.
The Committee comprises six non-executive Directors and one executive Director and is chaired by the Chairman of the DBSA Board, Mr Jabu Moleketi.

Board and committee composition and record of attendance

The Board met seven times during 2011/12. The composition of the Board and its committees, together with the record of attendance of individual Directors, in person or via teleconference, is shown on page 58.

Corporate Secretary

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

Directors' remuneration policy

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

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

Details of all the fees and expenses paid to Board members during the year under review are shown on page 134.

Ethics management

The Bank recognises that ethical behaviour is crucial to the performance of the organisation as a whole and of individual employees. Awareness of the Code of Ethics among employees is a primary focus area and programmes were put in place to reinforce this during 2011/12. The ethics officer played a critical role in offering counsel on request to staff members to ensure that ethical principles are clearly understood. A dedicated ethics helpline is maintained to encourage staff to ask for advice on ethical issues and report any concerns about ethics.

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

A list of related-party transactions involving Board members is provided on page 133.

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 of ethical behaviour, legislative compliance and sound accounting practice lay the foundation for its internal control processes, while the enterprise-wide risk management approach and risk strategy adopted by the Board form the framework for internal control. Executive management is accountable for determining the adequacy, extent and operation of control systems.

The Internal Audit function conducts periodic reviews of functional areas 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 the function, and the Chief Audit Executive has unfettered access to the Chairpersons of the Audit and Risk Committee and the Board to ensure the escalation of any significant audit matters requiring immediate Board attention. During the year under review, the Internal Audit function performed its work in accordance with the approved internal audit plan and the Institute of Internal Auditors' Standards. An independent quality assurer also conducted a quality assurance review in accordance with the Institute of Internal Auditors' Standards; the Internal Audit function obtained a "Generally Complies" rating, indicating that it is operating to the highest standards applicable.

Fraud prevention and whistle-blowing

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

Corporate governance (continued)

DBSA Board and Committee composition and record of attendance at meetings, 2011/12

	DBSA Board	Audit and Risk Committee	Finance Committee	Board Credit and Investment Committee	Development Planning Committee	Human Resources and Nominations Committee	Strategic Mandates Committee	Special Subcommittee
Number of meetings	7	4	4	9	4	5	1	2
Directors								
Mr J Moleketi	7/7			7/9		5/5	1/1	2/2
Mr F Baleni	3/7				1/3	4/5	1/1	2/2
Mr P Baloyi	7/7	4/4	4/4	8/9	1/4	5/5	1/1	
Dr L Bhengu-Baloyi[1]	4/4				1/1	1/1		
Mr A Boraine	6/7	1/3	1/3		4/4		1/1	
Mr K Brown	2/7				1/3			
Ms T Dingaan	7/7	4/4	4/4	9/9		4/4		2/2
Ms A Kekana[1]	2/4	1/1	1/1				1/1	
Mr OA Latiff	6/7	4/4	4/4					
Ms W Lucas-Bull	5/7	4/4	4/4	8/9				2/2
Ms B Mabuza[1]	3/4			2/2		1/1		
Dr C Manning	6/7			8/9		5/5	1/1	
Ms D Marole[1]	3/4	0/1	0/1			1/1	1/1	2/2
Ms M Vilakazi[1]	1/4	0/1	0/1	0/2				
Members co-opted to Board Committees								
Prof. D Everatt					3/4			
Prof. B Figaji[1]	1/2			8/9		2/5		
Dr R Kfir					3/4			
Prof. V Taylor					4/4			

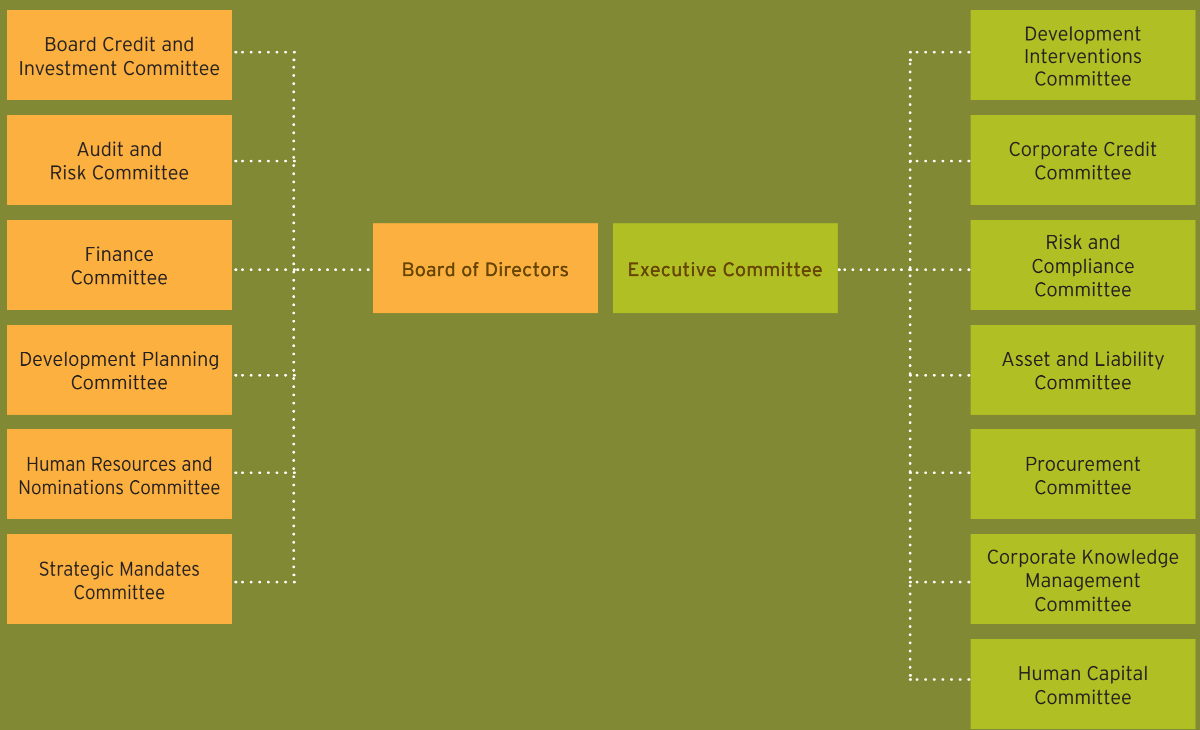
1. The member was appointed to the Committee during the year under review; the number of possible meetings that could be attended was adjusted accordingly.

Hotline statistics

Details	2009/10	2010/11	2011/12	Total
Hotline reports	13	8	**11**	32
Direct reports	55	37	**18**	110
Total allegations	68	45	**29**	142
– Founded	35	25	**12**	72
– Unfounded	33	20	**13**	66
– In progress	–	–	**4**	4
Disciplinary action*				
– No action required	44	28	**13**	85
– Dismissed	5	2	**1**	8
– Warning	12	6	**2**	20
– Resigned	6	4	**1**	11
– Pending	–	4	**3**	7
– Other corrective action	1	1	**5**	7

* *Relates to founded and unfounded allegations.*

DBSA decision-making structure



Human Capital overview

The Human Capital Division is a key enabler within the Bank. The Division is responsible for facilitating an environment that optimises the engagement, deployment and leveraging of its human capital. In working to develop and maintain such an environment and adapt to the strategic shift taking place within the Bank, the Division must strike a balance between:

- Designing and implementing human capital solutions to ensure that the business is effectively capacitated to meet demanding commitments
- Maintaining efficient human capital processes and integrated information systems to enhance decision-making and ensure effective governance

In 2011/12, the Division focused on building the Bank's talent to deliver on the Bank's mandate.

Organisational capability

Level of staff engagement

At the beginning of 2011, the DBSA commissioned the Corporate Leadership Council of the Corporate Executive Board Group to conduct a survey on employee preferences and satisfaction levels, as a key aspect of developing the Bank's employee value proposition. The survey assessed the experience of employees in five categories, namely people, work, organisation, opportunities and reward. The Bank scored a satisfaction rating of 37% (against a benchmark of 35%). Targeted intervention programmes were then developed to address gaps revealed by the survey. The exercise was repeated in 2012 to gauge the effect of the engagement plan and confirm priority focus areas for the future.

Staff turnover

In setting the organisational capability metrics for the DBSA, the following rates were taken into account:

- The historical turnover rate of the Bank (11%)
- The staff turnover norm in the financial industry (currently 12%)

During the year, the turnover rate was 8.6%, well below the 11% target. The reasons for exit are analysed and the findings help to shape the organisational culture and approach to recognition, retention and talent management, all of which are part of the employee engagement interventions being implemented over the next three years.

Capacity building

The Division must facilitate a continuous supply of appropriate skills to ensure that the Bank can achieve its strategic objectives. The following important interventions were made with regard to the future supply of talent:

- **Skills audit:** A skills analysis was completed to determine available skills and gaps. The requisite core skills were identified, a gap analysis

Dolores Mashishi
Group Executive

was undertaken and an intervention plan was compiled to close the gaps in the core sectors deemed national priority areas (health, energy, water and sanitation, education, transport and human settlements). The skills audit will enable the Bank to implement a workforce planning strategy for future resourcing requirements in the medium to long term.

- **Leadership development programme:** The Division has prioritised the development of management and leadership skills to ensure a capable leadership pipeline.
- **Talent and succession management:** Succession management is critical in ensuring a continuous supply of leadership and skills within the Bank. A succession management methodology has been finalised and in the new financial year succession management will be piloted at an executive level to identify at least one successor per executive.
- **Learning and development:** The DBSA is firmly committed to the learning and development of all employees. While the Bank ensures access to quality learning offerings in line with individual roles and responsibilities, individuals are also encouraged to take ownership of their developmental journey. Traditionally, learning was viewed as a mechanism to enrich human capability in relation to performance, but today it is considered more holistically in relation to career planning, succession management and skill projections into the future. The Bank has raised additional funding to address critical skills shortages in relation to development finance, HIV/Aids, and leadership and management development.

Reward and recognition

The DBSA's remuneration philosophy guides the way it uses total rewards to attract, retain, motivate and reward employees in support of its human capital and business strategies. The Bank's remuneration and employment policies are designed to align the interests of the shareholder, Directors, management and employees; build long-term shareholder value; attract and retain high-calibre employees who embrace the institution's values; and reward contributions to its performance. The Human Resources and Nominations Committee of the DBSA Board considers the human resources strategy, the broader employment policies, organisational performance and remuneration for the Group. The remuneration strategy includes a guaranteed pay component and benefits (on a total cost-to-company basis), as well as a short-term incentive bonus component for executives, managers, and professional and support staff. The levels of guaranteed pay are informed by appropriate surveys to benchmark remuneration at least once a year.

Remuneration in the DBSA is based on performance, and salary reviews up to the "professional" occupational level are therefore based on performance differentiation.

Governance: Policies and legislative compliance

In the year under review, the Division revisited all the DBSA's people policies and integrated them into a single Employment Policy, with a view to enhancing the employee value proposition. The Bank fully supports the objectives of the Employment Equity Act, No. 55 of 1998, and believes that economic forces will lead in time to the equitable representation of race groups at each occupational level. A specific effort is being made to increase representivity for people living with disability and the target has been set at 3% over the next five years. The Bank's achievements against the targets thus far are reflected in the various employment equity plans and reports that have been submitted to the Department of Labour since the inception of the Act. New five-year targets (2012–17) have been set and an Employment Equity Committee has been established to monitor progress in future.

Employee wellbeing

The DBSA Employee Wellness Programme is concerned with all aspects of the individual's functioning within the organisation. It aims to protect and enhance the health and wellbeing of all employees, thereby improving business effectiveness to the benefit of all stakeholders. The programme directly supports the attraction and retention of key talent and the enhancement of employee productivity and overall performance. It provides for psychosocial wellness through external counselling services; for general health management through medical aid consultations; for measurement of health through the annual DBSA Wellness Day; and for disability and disease management and occupational health and safety through an on-site nurse and work safety programmes. The Bank will continue to increase the level of participation in these programmes.

Conclusion

The Human Capital Division will continue to build the Bank's internal capabilities during 2012/13 in the following primary focus areas:

- **Corporate interventions: Organisational capability**
  - Level of staff engagement (target 41%): Implementing recommendations and continuous staff engagement initiatives
  - Workforce plans for identification of critical skills and retention plans
  - Skills development: Focusing on managerial and leadership development
- **Human capital key deliverables**
  - Skills development: Refining behavioural competencies for leadership
  - Performance management: Embedding a culture of high performance and methodology and system refinement
  - Remuneration and benefits: Customising the remuneration process for market compatibility and shareholder value
  - Mentoring and coaching: Implementing a formal Bank-wide mentoring and coaching programme

These interventions will contribute towards excellence in service delivery within the DBSA and strengthen its high-performing human capital.

Information technology

The DBSA views ICT as a pivotal part of its business. Access to relevant IT systems enable the business to deliver on its mandate efficiently and effectively.

Over the past three years, the primary focus has been on building a fully integrated platform of transactional systems to support financial, loans, procurement and human capital management. The SAP Enterprise Resource Planning (ERP) platform was chosen and became fully operational in April 2011. During 2011/12, the focus shifted to developing tools that could provide analytic, reporting and decision-support capabilities, using the data and functional capabilities of the SAP ERP environment. To this end, a suite of business intelligence tools was implemented in the finance, contracts administration and procurement areas of the business. The human capital requirements are now being defined and will be implemented soon. In addition, preparations have been completed to interface the SAP Data Warehouse with the Bank's Esri GIS. This will allow the DBSA to present its data spatially, adding a further dimension to the business intelligence solution.

A Development Impact System was developed and implemented during the year. This system, driven by the Operations Evaluation Cluster, has been designed to interface with the SAP system and the SAM to extract data for determining the development impact of the Bank's infrastructure projects. It is widely used in the frontline divisions of the Bank, and further enhancements are anticipated in the new financial year.

Strengthening the Bank's ICT governance was a primary objective during the past year, and especially important in view of the implementation of the SAP and the controls associated with it. Considerable effort went into redefining the change management and authorisations processes, resulting in a vastly improved capability. Work was also completed on the asset management processes.

The data centre underwent various upgrades in the course of 2011/12. The centralised storage was upgraded to cater for current and future disk space requirements, and new file servers were procured to support the implementation of the business intelligence solution and provide additional capacity to the SAP environment. The data centre has sufficient capacity to meet the Bank's requirements in the short to medium term, while capacity planning is under way to provide for the longer-term requirements. The amount of data being transferred between the data centre and the disaster recovery site every day made it necessary to upgrade the link between the two sites. A SAP disaster recovery test was completed successfully, providing reassurance to the business in the event of a disaster.

Looking forward strategically, a number of "game-changing" technologies are being considered. Cloud computing is becoming a reality in South Africa as the communications technologies become more readily available and cheaper to implement and operate. In the coming year, the Bank plans to replace the current performance management system and continue implementing the business intelligence solution. Budget has been made available to upgrade the internal corporate network to support technologies that have video and audio requirements.

The ICT Cluster is well positioned to continue providing the Bank with technology solutions that enhance its delivery capabilities through a resilient and innovative ICT platform.

Treasury overview

Market conditions

Monetary conditions remained accommodative during the financial year under review, with the South African Reserve Bank's repo rate remaining at the 5.5% level that prevailed at the end of the previous financial year. Real growth in the GDP picked up to 3.1% in 2011, from 2.9% in 2010. Meanwhile, growth in CPI inflation accelerated, exceeding the 6% level during the period from October 2011 to February 2012. Inflation rose to 5.6% on average in the latest financial year under review, up from 3.8% in the previous year. This was partly attributable to a notable weakening of the rand. On a trade-weighted basis, the currency depreciated by 6.8%, in contrast to its 3.1% gain in the previous financial year. Sovereign debt and fiscal woes in Europe as well as intermittent investor concerns about demand for commodities emanating from important markets, such as China and India, contributed to dampening the rand's performance.

Mr Ernest Dietrich
Group Treasurer

The weakening of the currency had a positive effect on the valuation of the Bank's equity investments that are denominated in foreign currency (predominantly US dollar). With the Bank's foreign currency equity investments not hedged against currency fluctuations, the rand value of these investments rose, in contrast to prior periods when strengthening of the rand resulted in a decrease in valuations.

In the domestic capital markets, credit spreads on average continued to narrow on the back of growing economic activity and accommodative monetary policy conditions. Relative to the end of the previous financial year, five-year bond yields dipped by 87 basis points to end the year at 7.12%. Ten-year yields were 75 basis points lower, ending at 8.01%. These movements reflect the shift lower in the "belly" of the bond yield curve, while the very short and long ends did not move as much. A similar trend was evident in the swap curve.

Swaps continued to trade through the government curve, with the gap remaining substantially the same as at the end of the previous financial year.

Funding

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

Excluding the refinancing of money market paper, new debt raised amounted to R7.4 billion in the year under review (2010/11: R7.9 billion). About 60% of funding was sourced from the domestic bond market, 30% from committed foreign credit lines, and the balance from facilities with commercial banks.

The Bank's domestic bond issues continued to enjoy robust support from investors. A total nominal amount of R4.3 billion (2010/11: R3.6 billion) was raised via the DV22 (maturing in 2020) and DV23 (2023) fixed-rate bonds at the regular monthly auctions. The spreads to government benchmarks on these bonds continued to narrow, although not to the same extent as in the previous financial year. By financial year-end, the government spreads on the DV22 and DV23 were at 88 and 84 basis points, respectively, down from 91 basis points as at 31 March 2011.

The table below shows the Bank's outstanding domestic bond issues at the end of 2011/12, while the chart overleaf depicts the distribution of the Bank's debt portfolio by source and the evolution of its bond spreads.

Domestic bonds in issue, 31 March 2012

Bond	Issue date	Maturity date	Years to maturity	Outstanding issued amount (R billion)	Coupon (%)	Yield to maturity (%)
DV13	25 August 2008	25 August 2013	1.4	1.8	10.06	7.59
DV21	31 May 2000	15 June 2016	4.2	1.0	15.00	7.55
DV22	7 February 2008	7 February 2020	7.9	8.8	9.45	8.68
DV23	21 February 2003	27 February 2023	10.9	9.0	10.00	9.21
DVF12*	13 October 2009	13 October 2012	0.5	2.2	6.70	6.09

Source: JSE

* *Floating-rate note*

Treasury overview (continued)

Liquidity

The Bank maintained liquidity levels within the Board approved liquidity risk management parameters.

Low short-term interest rates continued to exert pressure on the Bank's income from short-term liquidity holdings. Liquidity was nevertheless conservatively managed – at financial year-end, total liquidity amounted to R4.8 billion (2010/11: R3.8 billion), invested primarily in cash, money market instruments, government bonds, and municipal and corporate bonds.

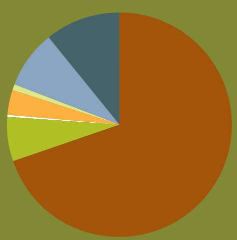
Credit ratings

The three main rating agencies maintained their ratings during the financial year. All the ratings continued to be at the sovereign equivalent. Moody's (in November 2011) and Standard & Poor's (in March 2012), however, lowered their outlook for the sovereign to "negative" from "stable". As a result, and in line with their methodology for government-owned entities, the outlook for the Bank was also adjusted. The ratings are summarised below.

Credit ratings, 31 March 2012

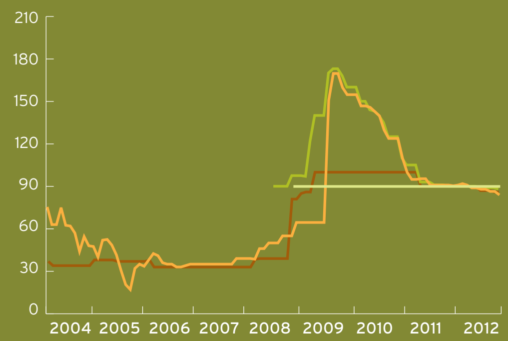
Agency	Type	Short term	Long term	Outlook
Fitch	National	F1+(zaf)	AAA(zaf)	Stable
Moody's	Foreign-currency issuer rating	Not rated	A3	Negative
Standard and Poor's	Foreign currency Local currency	A-2 A-1	BBB+ A	 Negative

Outstanding debt by source (FYE 2012)



Domestic bond market	69.8%
International capital markets	6.5%
Domestic money market	0.3%
Community bank facilities	3.7%
Other	0.7%
Bilateral	8.4%
Supranational	10.7%

DV bond spreads to government (bps)



Financial and development investment overview

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

Economic environment

The Eurozone crisis following on from the global financial crisis in 2008 triggered a sovereign debt crisis, with significant negative impacts on economic growth, socio-political stability and confidence in affected countries. Given weakening economic conditions, monetary policy remained supportive in most countries, with continued low interest rates, supplemented in some countries by the provision of additional liquidity and monetary accommodation. These developments brought marked fluctuations in global investor sentiment, along with turbulence and volatility in financial flows and markets. Emerging markets were affected by the swings in sentiment, particularly when investors withdrew funds to seek safety in traditional safe-haven assets. The downgrades of sovereign and corporate borrowers by credit-rating agencies affected the cost of funding for governments, state-owned companies and banks in affected countries, and the DBSA not escaping this challenge. Refer to pages 22 to 24 for a more comprehensive macro-economic overview.

The effect of the prolonged low interest rate environment, high cost of funding, constraints on ability of the domestic public and private sectors to take up funding, and competitive margins offered by commercial banks challenged the ability of the Bank to lend in its traditional markets. The financial performance of the Bank has been negatively impacted by the prolonged strained economic environment. Despite these challenges, the Bank continued to deliver against its mandate by providing development lending and spending on development enhancing activities in line with its strategic objectives, while maintaining financial and risk management practices.

Impact of macro-economic environment on financial performance

The Bank's financial performance is sensitive to changes in both interest rates and foreign exchange rates, in particular the US Dollar. The sensitivity towards changes in interest rates and foreign exchange rates is outlined in detail under the Financial Risk Management note in the financial statements on pages 136 to 148.

With respect to interest rates, the Bank is asset sensitive, with an expected increase/(decrease) in net interest income over a 12-month period of approximately R34.4 million (2011: R24 million) for an immediate 100 basis points parallel upward/(downward) shift in the yield curve. Interest rate risk is primarily managed through the use of interest rate swaps, in line with the Bank's hedging strategy.

With respect to exchange rates, the potential rand sensitivity of a 10% strengthening of the Rand against the US Dollar and Euro based on the current open positions and currency exposures, is a reduction in profits of R122.1 million and R25.8 million respectively.

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

Sources of revenue

The DBSA has been financially self-sustaining, with no financial support from Government through grants or capital injections since 1994. This position is under review due to the current declining financial performance of the Bank.

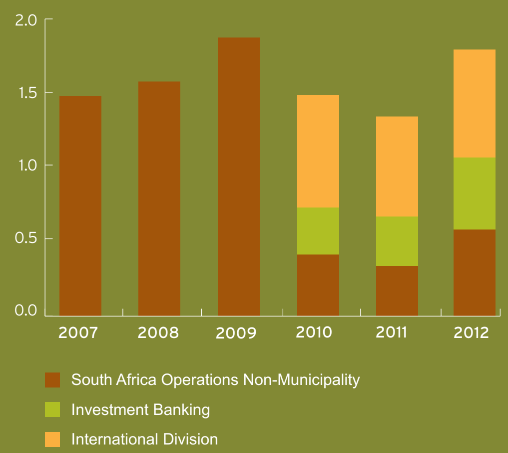
The main source of revenue of the Bank is net interest income, which accounts for more than 85% of operating income. The main drivers of operating income are loans disbursements linked to the level of investment activity, interest rates, and foreign exchange rates.

The graphs on the right depict the divisional disbursement- and operating income trends. The disparity between the disbursement growth and income growth is as a result of equity investment disbursements not generating immediate operating income.

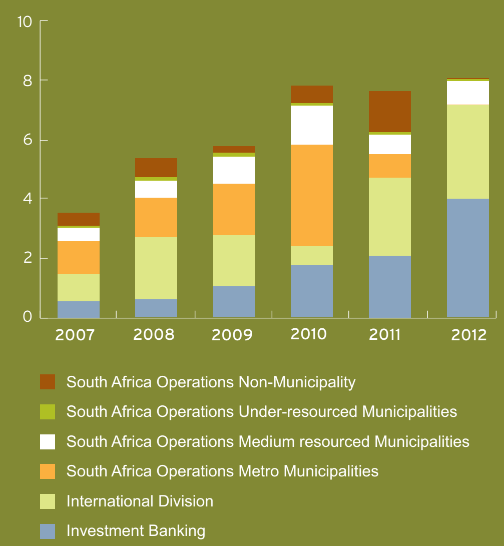
Capital adequacy management

The DBSA is not a deposit taking institution and therefore not subject to the Banks Act. Although the Bank is therefore not obliged to comply with Basel, it monitors and manages its capital adequacy within the regulatory leverage constraint and self-imposed capital adequacy framework approved by the Board. The overarching regulatory leverage limit of 250% translates into a minimum unweighted capital requirement of 28.6%.
As at 31 March 2012, the unweighted capital ratio stood at 33.4% (2011:

Divisional Operating Income (R billion)



Disbursements by value (R billion)



Trend in net profit (R million)

Financial and development investment overview
(continued)

37.2%), with an unutilised borrowing capacity of R10.2 billion (2011: R16.0 billion). A review and enhancement of the capital allocation framework is currently underway.

Trends in key financial ratios

The following are the key financial ratios and measures that the Bank monitors and manages against:

	2008	2009	2010	2011	2012
Development loan disbursements (R'billion)	5.3	8.8	7.8	6.5	**7.7**
Cost to income (%)	33.8	36.0	40.5	42.2	**39.9**
Net interest margin (%)	5.9	4.9	4.2	3.9	**3.7**
Long-term debt to equity (%)	107.6	131.3	149.4	161.6	**193.8**
Return on average assets (%)	4.2	4.3	2.1	1.6	**(0.2)**
Return on average equity (%)	8.5	9.6	5.0	1.8	**(0.6)**
Non-performing book as % of total loan book	5.2	5.4	4.9	4.2	**4.9**
Grants as % of sustainable earnings[1]	5	28	51	38	**48**

1. Sustainable earnings is the operating profit before grants, foreign exchange and revaluation gains/(losses)

Current year financial performance

The Bank reported a net loss for the current financial year of R370.8 million (2011: R29.4 million profit). The loss was mainly driven by unrealised losses on equity investments, with the decline in the platinum price coupled with increased platinum mining costs being a significant contributor in the current year. When removing these unrealised gains/(losses), the Bank generated a cash surplus of R947.7 million (2011: R750.2 million). After the initial decline between 2008 and 2010, the cash surpluses showed a slow but steady growth again since 2011.

R million	2008	2009	2010	2011	2012
Net (loss)/profit for the year	1 266	1 426	606	29	**(372)**
Add back: significant unrealised movements					
Revaluation (gains)/losses on equity investments and other financial instruments	(546)	(495)	(469)	399	**900**
Foreign exchange (gains)/losses	(38)	(224)	262	57	**(177)**
Impairments and write-offs	331	238	228	229	**495**
Post-retirement medical aid provision	28	36	13	36	**101**
Near-cash surplus for the year	1 041	981	640	750	**947**
Other non-cash adjustments	394	(198)	(189)	(106)	**(142)**
Cash flows from operations	1 435	783	451	644	**805**

The trend in the net profit is depicted in the graph on the next page, with the factors contributing to the changed financial performance outlined in the income statement changes analysis graph.

The disproportionate balance of debt versus equity has resulted in some of the deterioration of the financial performance over the past three to five years. The leverage ratio over the past five years has increased from 107.6% in 2008 to 193.8% in 2012, and keeps on edging closer to the regulatory limit of 250%. In November 2009 the Minister of Finance approved the inclusion of the callable capital (i.e. authorised but unissued share capital) when calculating the leverage ratio (the change in Regulation 44 to the DBSA Act still has to be published). This had the effect of increasing the balance sheet capacity, as the inclusion of the current R4.8 billion callable capital reduces the leverage ratio from 193.8% to 152.2%.

However, although the callable capital allows for additional debt capacity and therefore balance sheet capacity, the negative impact of higher levels of gearing on financial performance is evidenced by the inverse relationship between the leverage ratio excluding callable capital, and the interest cover ratio. While the leverage ratio increased from 107.6% in 2008 to 193.6% in 2012, the interest cover over the same period decreased from 2.1 times to 1.7 times.

Although a positive (and growing) annual cash surplus and cash flows from operations is generated, the quantum of the cash plough back contribution (cash surplus plus loan capital repayments received) is not sufficient to fund disbursements out of internally generated funds, and therefore has to be supplemented with debt financing. The percentage of disbursements funded by debt financing has grown from 4% in 2008 to 100% in 2012.

Various factors contribute to the funding constraints of the Bank, which include:

- The declining interest cover ratio, which progressively reduces the relative size of the plough back surpluses;
- The leverage ratio (excluding callable capital) edging closer to the regulatory limit; and
- The proportion of fixed versus variable costs which reduces responsiveness of the Bank to changing economic and market conditions.

Non-cash adjustments to current year surpluses

Revaluation gains and losses from financial assets and liabilities

Unrealised revaluation losses on equity investments of R877.2 million account for 97.5% of the net loss from financial assets and liabilities. This is offset by unrealised and realised foreign exchange gains on equity investments of R150.3 million and R3.2 million respectively, and realised gains on disposal of equity investments of R134 million. The net loss on equity investments for the year therefore totals R589.7 million.

The effect of the sharp decline in the platinum price over the past financial year accounts for 69% of the equity impairments (mining operations no longer financially viable) and 21% of the equity revaluations. A further 14% due to equity revaluation losses in direct equity investments, and a further 48% due to movements in the values of third party managed funds, some of which are still in the start-up or construction phases.

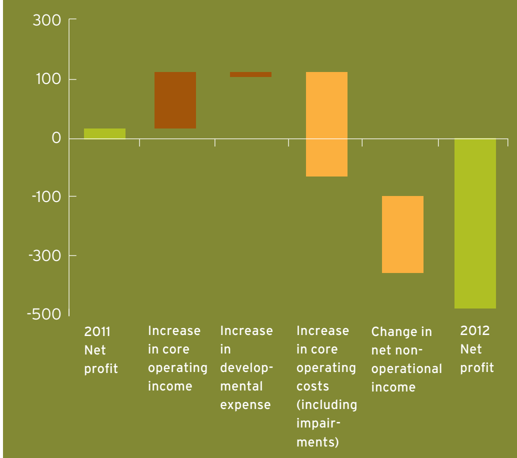
The DBSA strategically invests in unlisted equities to support development objectives in infrastructure projects.
The current equity portfolio is worth R4.0 billion. The large swing in the equity investment valuations (reversals of significant unrealised gains reported in previous financial years) are mainly the result of economic conditions, which, even if anticipated could not have been avoided, as these investments by nature are illiquid and takes time to exit.

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

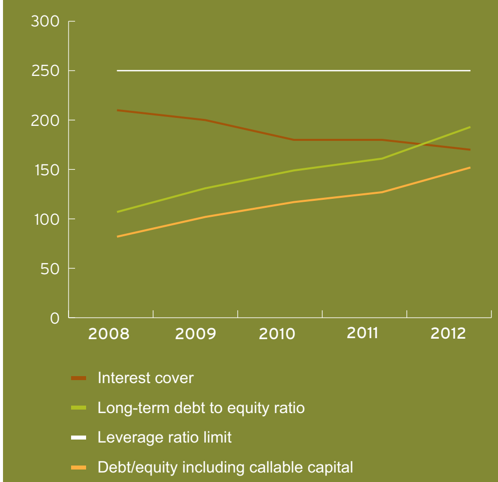
Impairments

Impairments are significantly higher than the prior year, with the movement in equity investment impairments of R288 million (2011: R nil) accounting for over half of

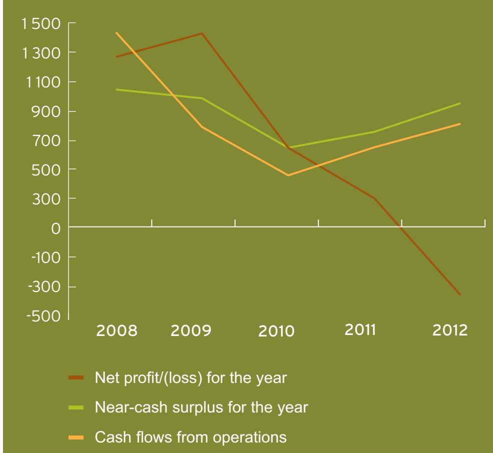
Trend in net profit (R million)



Debt capacity (%)



Net profits versus cash profits (R million)



Financial and development investment overview (continued)

the current year movement of R494.5 million. This was mainly as a result of a platinum exposure that became impaired when a mining operation the Bank supported became unviable due to the continued deterioration in the platinum price.

Net development loans grew by R2.6 billion (6.8%) to R40.4 billion. The strength and quality of the loan book remained within acceptable norms. The value of the non-performing loans as a percentage of the total loan book was 4.9% (2010/11: 4.2%), as shown in the figure below. The annual loan impairments (including write-offs) also remained within industry norms. The movement in the development loan write-offs and movement in impairments totaling R204.4 million also remained in line with the prior year (2011: R231.2 million). The sector and client distributions of the loan book and non-performing portion of the book are illustrated in the graphs on the next page.

Post-retirement medical aid provision

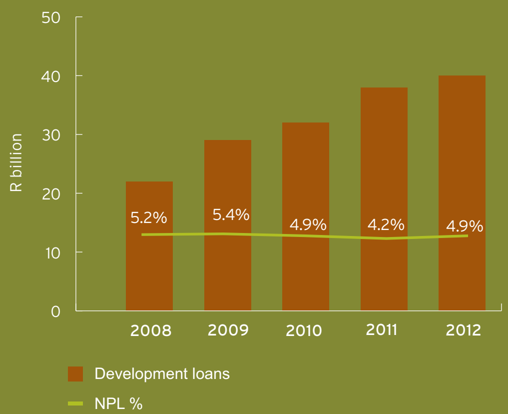
The Bank provided a Post-retirement medical aid (PRMA) benefit to staff employed prior to 1 July 2007. Adverse market movements between October 2011 and March 2012, resulted in an unrealised valuation loss adjustment on this liability of R100.6 million (2011: R36.0 million). This provision accounted for 17.3% of staff costs in 2012 (2011: 6.4%).

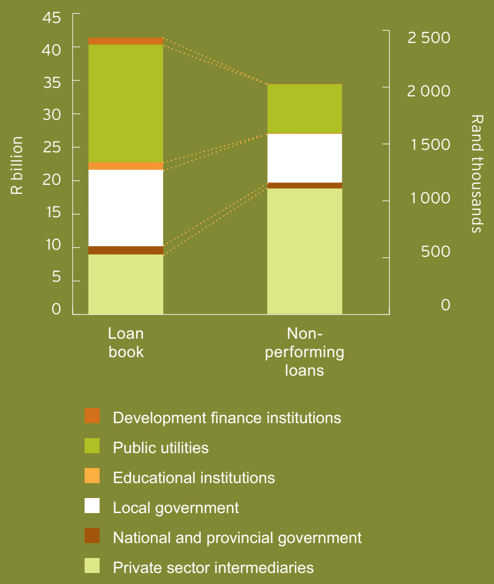
The annual growth in the PRMA liability consistently outpaced inflation and has been a concern for management for at least two years. Consequently, various options to manage this liability were investigated over this period, and after testing and confirming staff interest in a buy-out option, the Minister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

Operating income

5-year financial performance trends (R billion)	2008	2009	2010	2011	2012
Operating income excluding foreign exchange gains/(losses) and revaluation gains/(losses)	1.82	1.78	1.75	1.79	1.95

Operating income excluding revaluation gains and losses and foreign exchange adjustments increased by 8.7% to R1.95 billion (2011: R1.75 billion). Net interest income increased only marginally (R54.6 million or 3.3%) from the prior year, with the bulk of the growth in operating income coming from realised gains on disposal of equity investments.





The only-marginal increase in the net interest income was the result of the proportional increase in interest expense of 17.5% exceeding the increase in interest income of 11.0%, due to the leverage ratio increasing from 161.6% in 2011 to 193.8% in 2012. Progressively higher proportions of new disbursements need to be funded through debt financing as the surplus cash generated internally through plough back surpluses and loan capital repayments are lower than the level required to fund new disbursements in proportions that would maintain the leverage ratio.

Operating expenditure

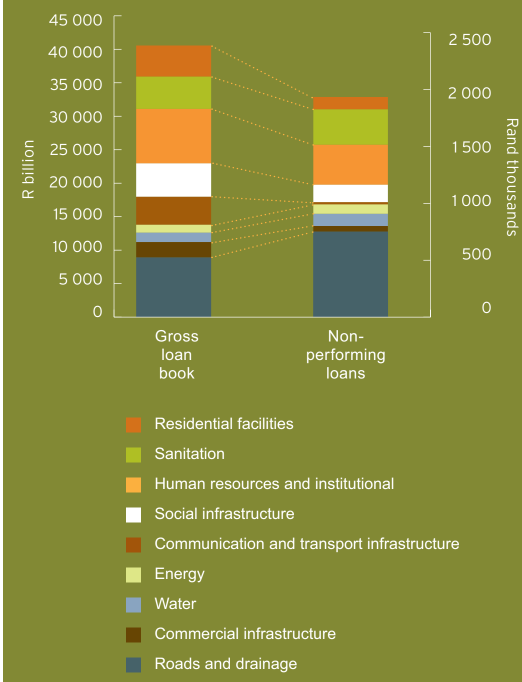
Operating expenditure consist of personnel expenses, other expenses and depreciation. Over the past five years the cost to income ratio grew from 33.8% to 39.9% in 2012, after reaching a high of 42.2% in 2011. The increase in the ratio is attributable to the slower than anticipated growth in operating income rather than the increase in the operating expenditure itself. As the adverse conditions in the macro-economic environment stifled the anticipated growth in operating income, management implemented expense management strategies to contain controllable expenditure in the short term. This is evidenced by the fact that operating expenses grew by only 2.8%, which is lower than inflation despite the significant increase in the PRMA provision. When excluding the unexpected increase of R64 million higher than in the prior year in the PRMA provision, the operating expenses decreased by R43.7 million or 5.8% against 2011. In parallel, management continues to pursue funding initiatives aimed at addressing the high cost of funding in the current economic environment. These initiatives include negotiations with the shareholder for capital injections that would support future disbursements growth. The trends in the top three expenditure operating line items are described in more detail below.

	2008	2009	2010	2011	2012
Total operating expenses (R million)	589	669	716	758	779
Top-3 expenditure trends (R million)					
Remuneration	377	404	479	550	569
Information technology	38	49	46	36	38
Consulting fees	24	36	21	24	27
Top-3 expenditure as % of total operating expenditure					
Remuneration	64.0	60.4	67.0	72.5	73.1
Information technology	6.5	7.4	6.4	4.8	4.9
Consulting fees	4.0	5.3	3.0	3.2	3.4

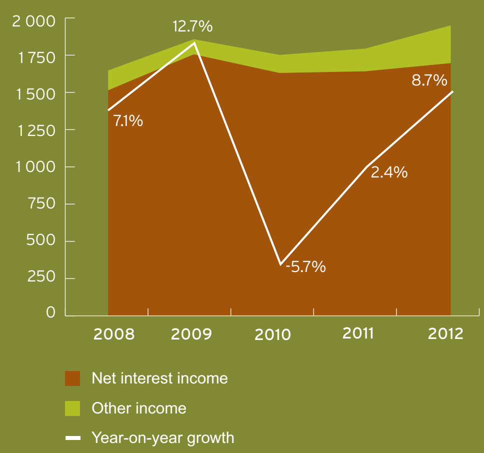
Remuneration

As a services organisation, remuneration forms the largest component of the operating expenses, currently accounting for 73.1% (2011: 72.5%). A significant component of other expenses is also driven by headcount. Remuneration increased from R377.1 million in 2008 to R569.2 million in 2012 at a compound annual growth rate of 10.8%. The annual PRMA provision growing at a compound annual rate of 38.1% contributed 3.23% to the annual growth in personnel expenses, hence the initiatives to manage this liability as discussed earlier. The significant increase in the PRMA provision in 2012 was offset by the reduction in the bonus allocation. The above inflation rate of increase in remuneration of 7.6% per annum was the consequence of a step-change in headcount as well as a change in the organisational structure between 2009

Sector distribution of loan book (R million)



Operating income trend (R million)



Financial and development investment overview (continued)

and 2010 in anticipation of the accelerated growth strategy embarked upon by the Bank at this time.

Information technology expenditure

Information technology expenses account for 4.9% of operating expenses remained relatively constant over the past five years, despite the increases in headcount and the implementation of a new operating system between July and October 2011. The constant pursuit of efficiencies and technology savings over the last five year has seen the costs remain at the R38.2 million level as in 2008, translating into an annual compound rate of only 0.2%.

Consulting fees

The Bank utilises the services of consultants to supplement the short-term (passing) needs for specialized skills and expertise, to meet stakeholder expectations in infrastructure delivery, rather than entrenching these in the headcount of the organization. The annual compound growth rate in consulting fees over the past five years was 3.34%. After an initial increase in 2009, this cost item was managed down significantly since 2010 in recognition of the expensive nature of this resource type.

Expenditure on development

The Bank allocated R517.7 million (2010/11: R519.0 million) to development expenditure, directly through the transfer to the DBSA Development Fund and utilised for training and the implementation of national mandates and capacity building grants, as well as indirectly for development planning, technical assistance grants and concessional lending. The Siyenza Manje programme (capacity deployment to low capacity municipalities) was transferred to the Department of Cooperative Governance and Traditional Affairs and the National Treasury on 1 April 2011. The DBSA transfer to the DBSA Development Fund continued, and is allocated to other development initiatives. The total development expenditure represented 76.5% (2010/11: 64.3%) of sustainable earnings for the year.

Focus for the year ahead

Macro-economic outlook

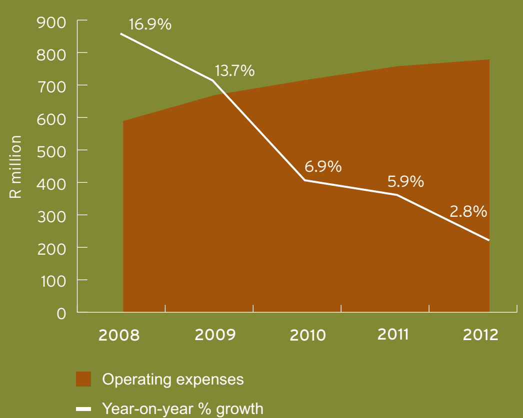
The macro-economic outlook is discussed under the macro-economic overview on pages 22 to 24.

Financial impact of divisional initiatives

The Bank is currently undergoing an organistional review with the objective of assessing the appropriateness of the overall business-, financial- and treasury model applied. The outcome of the review would be the development of funding and other solutions to improve efficiencies and move the Bank towards a positive financial performance and an improved financial and cash position. Amongst others, a substantial reduction in the cost of funding is required, which will require the treasury activities to be moved from passive to active management of the net cost of debt.

While the organisational review is underway, business in line with the Bank's infrastructure mandate must continue, both in South Africa as well as in the wider SADC and African

Operating expenses trend (2007/08 – 2011/12)



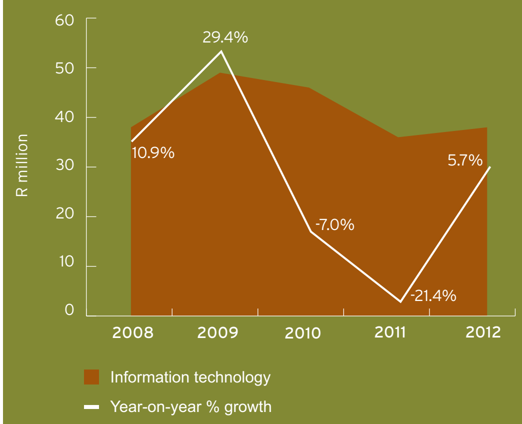
Remuneration (2007/08 – 2010/11)

region. The focus areas outlined by the frontline divisions will impact on the financial performance of the Bank in varying ways.

- The intensified support to less capacitated municipalities and the Bank's participation across the full value chain to accelerate infrastructure investments as discussed under the Operations overview – South Africa operations on pages 32 to 35, will require the allocation of direct as well as indirect financial resources through grant and concessional finance, as well as human capacity (i.e. operating expenses) to facilitate the servicing of these markets;
- The increased project development support to government programs in priority sectors (health, energy, water, housing and transportation) as discussed under the Operations overview – Investment Banking section on pages 36 to 40, will most likely have the effect of delayed pay-off benefits, as the lead times and upfront investment in developing these large scale projects span more than one financial year. Also, the sourcing of sufficient funding due to the bulky nature of these investments will be an important consideration; and
- The continued exploration of the creation of a new BRICS-based development finance institution that will promote South-South economic and development cooperation and infrastructure development in Africa as outlined in the Operations overview – International division on pages 42 to 46, will require funding and financial resources beyond the current capacity of the Bank, therefore the continued pursuit of smart partnerships. Furthermore, the creation of a subsidiary or separate entity will require focused attention in the Finance division for setting up the appropriate systems, processes and controls supportive of a newly created entity.

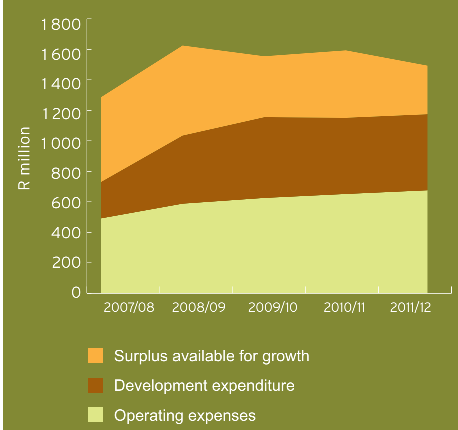
The aim and function of the Finance division is to develop mechanisms supportive of these development activities, without further compromising the financial sustainability of the organisation.

Information technology expenditure (2007/08 – 2011/12)



Consulting (2007/08 – 2011/12)

Operating and development expenses, 2007/08 to 2011/12



DBSA
ANNUAL
FINANCIAL
STATEMENTS

Directors' responsibility for financial reporting

for the year ended 31 March 2012

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

In preparing the financial statements:

- The Development Bank of Southern Africa Act, No. 13 of 1997, has been adhered to
- The Public Finance Management Act, No. 1 of 1999, has been adhered to
- International Financial Reporting Standards have been adhered to
- Sections 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

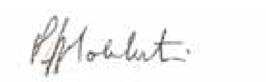
To enable the Directors to meet their financial reporting responsibilities:

- 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 Committee and internal auditors review the financial and internal control systems, accounting policies, reporting and disclosure

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

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

The financial statements that appear on pages 82 to 149 were approved by the Board of Directors on 31 July 2012 and signed on its behalf by:



Phillip Jabulani Moleketi
Chairman of the Board

Tshokolo Petrus Nchocho
Acting CEO/Managing Director

Albertinah Kekana
Chairperson of the Audit Committee

Report of the Audit and Risk Committee

for the year ended 31 March 2012

We are pleased to present our report for the financial year ended 31 March 2012.

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 58 in the corporate governance statement. In compliance with Treasury Regulations 27.1.3 and 27.1.4 the chairperson is a non-executive independent director and has the requisite business, financial and leadership skills for the position. All the committee members are financially literate, with the majority being non-executive members. The names and qualifications of directors serving on the Audit and Risk Committee are detailed in the Board of Directors section of the annual report on pages 8 to 11.

Audit and Risk Committee responsibility

The Audit and Risk Committee reports that it has complied with its responsibilities arising from section 51(1)(a) of the PFMA and Treasury Regulations 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; and
- (iii) an appropriate procurement and provisioning system which is fair, equitable, transparent, competitive and cost effective.

The Audit and Risk Committee's responsibility also includes:

- Considering the appointment, rotation and/or termination of the external auditors and nominate to the Board for approval;
- Approve the terms of engagement of the external auditors, including their audit fee, and determining the nature and extent of any non-audit services;
- Monitor and report to the Board on the independence, objectivity and required skills and competence of the external auditors to execute the audit in terms of International Standards on Auditing;
- Monitoring the effectiveness of the processes to create awareness and develop an understanding of relevant legislation and regulation to ensure compliance by management;
- IT Governance on behalf of the Board to ensure proper system security, data integrity and business continuity, disaster recovery and review of the reports of the Chief Information Officer;
- Oversight over the enterprise wide risk management (ERM) approach to managing risk exposures; and
- Consideration of the expertise, resources and experience of the Bank's finance function. The vacancy of the Chief Financial Officer since 1 August 2011 was noted, and priority attention given to the filling of this critical position.

Combined assurance

The Audit and Risk Committee's corporate governance processes comply with the requirements of King III with respect to ensuring that a combined assurance model is applied to provide a coordinated approach to assurance.

Assurance by Management

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

Report of the Audit and Risk Committee

for the year ended 31 March 2012

Assurance by Compliance function

- Monitored the disclosure of Board members' and employee conflicts of interest and interest in contracts;
- Monitored the disclosure by Board members and employees in the gifts register. All gifts received with values above R350 must be declared in terms of the Bank's policies; and
- Received and reviewed reports on compliance with legislation and regulatory environment. No instances of material non-compliance with specific matters in key applicable laws and regulations were identified during the year.

Assurance by Risk Management

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

- Treasury related risks are monitored through an internal Asset and Liability Management Committee. A gap identified which will be addressed during the organizational review, is that the monitoring of the Asset and Liability Management is housed within the Treasury division of the Bank;
- Portfolio risks are monitored through an internal Portfolio Management Review Committee. Based on reports received from management, the monitoring of the loan portfolio is considered adequate. However, a gap identified is the valuation of equity investments which will be addressed appropriately during the upcoming financial year through a formalised valuation policy and valuations committee that will be established; and
- Operational risks are addressed under the ERM framework.

Assurance by Internal Audit

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

Assurance by the Independent External Auditors

- Reviewed and approved the External Audit Plan, including the proposed scope and audit fee and determining the nature and scope of non-audit services;
- Received and reviewed external audit reports for the year which included the annual report for the year ended 31 March 2012, the interim results for the six months ended 30 September 2011, and the reports on the effectiveness of internal controls, systems and processes; and
- Made appropriate recommendations to the Board regarding the rotation of the external audit function.

Fraud and corruption

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

- Risk incidents are logged in an operational risk register and monitored;
- There is sufficient forensic capability in internal audit with an appointed forensic specialist; and
- The Bank has a toll-free whistleblowing hotline operated by Deloitte and employees are encouraged to report any suspected corrupt, fraudulent, criminal or unethical practices. A summary of the hotline statistics and resulting disciplinary actions where this was required is included in the Corporate Governance report on page 54.

Fruitless and wasteful expenditure

The Bank's policy for reporting on irregular and fruitless and wasteful expenditure is currently under revision for implementation.

IT Governance

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

- Strengthening of ICT governance was a primary objective of the Business Technologies and Facilities division during the financial year, and the existing IT governance framework and Information Security Framework is currently being reviewed and updated;
- A proper business recovery plan and off-site disaster recovery center 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; and
- 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 were 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 the internal auditors and discussions with the independent external auditors on the results of their audits and the status in addressing the matters raised, that the internal accounting controls (manual and automated) are operating satisfactorily, to ensure that the financial records may be relied upon for preparing the annual financial statements, and accountability for assets and liabilities is maintained.

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

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

The Audit and Risk Committee is satisfied with the content and quality of quarterly reports prepared and issued 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; and
- Reviewed significant adjustments resulting from the audit.

The Audit and Risk Committee has evaluated the Annual Report and Sustainability Report for the year ended 31 March 2012 and considers that it complies, in all material respects, with requirements of Section 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 2012, and the results of its operations and cash flow information for the year then ended, and concurs and accepts the independent external auditors' conclusions on the annual financial statements, and is of the opinion that the audited annual financial statements should be accepted and read together with the report of the independent external auditors.

Albertinah Kekana
Chairman of the Audit and Risk Committee

Independent auditors' report to Parliament

for the year ended 31 March 2012

Report on the financial statements

We have audited the financial statements of the Development Bank of Southern Africa Limited (DBSA) as set out on pages 90 to 149, which comprise the statement of financial position at 31 March 2012, the statements of comprehensive income, statement of changes in equity and statement of cash flow 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, the requirements of the Public Finance Management Act of South Africa, sections 27 to 31 of the Companies Act of South Africa (Act No. 71 of 2008), being the relevant and corresponding sections of those specified in the Development Bank of Southern Africa Act, 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.

Auditors' responsibility

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

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our 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 Limited as at 31 March 2012, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards, the requirements of the Public Finance Management Act of South Africa and sections 27 to 31 of the Companies Act of South Africa, being the relevant and corresponding sections of those specified in the Development Bank of Southern Africa Act.

Other reports required by the Companies Act

As part of our audit of the financial statements for the year ended 31 March 2012, we have read the Directors' report for the purpose of identifying whether there are material inconsistencies between this report and the audited financial statements. The Directors' report is the responsibility of the directors. Based on reading the Directors' report we have not identified material inconsistencies between this report and the audited financial statements. However, we have not audited the Directors' report and accordingly do not express an opinion on this report.

Report on other legal and regulatory requirements

Public Audit Act requirements (PAA)

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

Predetermined objectives

We performed procedures to obtain evidence about the usefulness and reliability of the information in the Directors' report included under the section headed "Performance Information" as set out on pages 84 to 89 of the annual report, and reported thereon to the accounting authority.

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

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

There were no material findings on the "Performance Information" section included in the Directors' report concerning the usefulness and reliability of the information.

Compliance with laws and regulations

We performed procedures to obtain evidence that the entity has complied with applicable laws and regulations regarding financial matters, financial management and other related matters.

We did not identify any instances of material non-compliance with specific matters in key applicable laws and regulations as set out in the General Notice issued in terms of the PAA.

Internal control

We considered internal control relevant to our audit of the financial statements, the performance information, included in the Directors' report and compliance with laws and regulations.

We did not identify any deficiencies in internal control that we considered sufficiently significant for inclusion in this report.

KPMG Inc.
Registered Auditor

Per: S van den Boogaard
Chartered Accountant (SA)
Registered Auditor
Director
31 July 2012

KPMG Forum
1226 Schoeman Street
Hatfield
Pretoria

SizweNtsalubaGobodo Inc.
Registered Auditor

Per: L Govender
Chartered Accountant (SA)
Registered Auditor
Director
31 July 2012

SizweNtsalubaGobodo Head Office
20 Morris Street East
Woodmead
Johannesburg

Directors' report

for the year ended 31 March 2012

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 2012.

Nature of business

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

Corporate Governance

The Directors embraces the principles of the King III Code and the Companies Act, and endeavours to comply with these recommendations in so far as they are not in conflict with the DBSA Act, No. 13 of 1997.

Financial results and activities

The financial results of the Bank are fully disclosed on pages 90 to 149. The key financial indicators for the year under review are:

- Net interest income increased by 3.3% to R1.70 billion (2010/11 restated: R1.64 billion) and recorded operating income of R1.23 billion (2010/11 restated: R1.34 billion).
- Cost-to-income ratio improved from 42.2% in 2010/11 (restated) to 39.9%.
- The Bank recorded a loss from operations of R107.8 million in the year under review (2010/11 restated: profit from operations R286.4 million).
- The Bank recorded a R371 million loss for the year, largely attributable to an impairment provision adjustment of R495 million, R879 million unrealised loss in the revaluation of equity investments and a R101 million expense adjustment relating to the post-retirement medical benefit liability.
- Disbursed development loans and equity investments amounting to R8.1 billion (2010/11: R8.3 billion).
- The quality of the loan book remains within acceptable parameters, with non-performing loans at 4.9% of the total loan book (2010/11: 4.2%), while the provision for loan impairment is R961 million (2010/11: R909 million).
- Debt-to-equity ratio increased to 193.8% (2010/11 restated: 161.6%).

Summarised information on the financial performance of the Bank is included in the unaudited financial overview section on pages 68 to 75.

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 effect, corporate strategic objectives and targets are developed and approved by the Board of Directors. The tables below compare the planned and related actual performance for 2011/12 on the high-level corporate strategic objectives. The Bank achieved satisfactory results during 2011/12, meeting a large majority of its strategic objectives. This is indicative of the Bank's commitment to delivering on its vision of an "integrated region progressively free of poverty and dependence".

Performance information

Balanced Scorecard perspective: Development impact

Strategic goal	Strategic objective	Key performance indicator	Target	Results
Co-deliver social and economic infrastructure and promote broad-based economic growth, job creation, regional integration and prosperity	Catalyse, expand and enable delivery of basic and social services	• Siyenza Manje programme		
		– Municipal Infrastructure Grant/ Capital expenditure	R8 billion	R7.2 billion
		– % of municipalities with improved audit opinions	60%	Not applicable[1]
		• Agencies:		
		– Value of infrastructure facilitated	R120 million	R29.1 billion[2]
		Operations and maintenance:		
		– O&M plans developed and implemented	24	25
		– Number of SMMEs benefiting from O&M	30	54
		– Number of municipalities implementing O&M	10	11
	Provide and build human and institutional capacity	• Vulindlela Academy:		
		– Number of external learners trained	12 000	19 000
		– Number of learners certified	2 400	4 458
	Promote broad-based economic growth (job creation, efficiency, fixed capital formation and regional integration)	• Jobs created and households impacted:		
		– Number of temporary jobs facilitated	48 000	79 017
		– Number of households benefiting from basic services support (direct and bulk)	540 000	912 844
	Provide assistance for clients' social and economic infrastructure projects	Rand value of disbursements to identified intermediaries:	R9.0 billion	R8.1 billion
		• Municipalities: Metros	R1.3 billion	R19 million[3]
		• Municipalities: Secondary	R1.1 billion	R797 million[3]
		• Municipalities: Under-resourced	R400 million	R63 million[3]
		• Other public intermediaries	R1.7 billion	R2.0 billion
		• Private sector intermediaries	R2.1 billion	R2.0 billion
		• Rest of SADC	R2.4 billion	R3.2 billion
	Be a leading model in the African development scene, in the areas of development expertise, development effectiveness and sustainability, effective corporate governance and financial sustainability	Customer and partner satisfaction with the value, quality and relevance of the expertise offered by the DBSA	Rating of 4 out of 5	Rating of 3.8 out of 5

1. During the period under review, the financial component of the Siyenza Manje Programme was transferred to the National Treasury. As a result, the resources required to execute on this KPI were not available to the DBSA.

2. The overachievement on this KPI was due to the unanticipated expansion of the Infrastructure Delivery Improvement Programme (IDIP), benefiting the health, education, public works and road & transport sectors.

3. Planned disbursements to the municipal markets were lower due to increased competition in the metro market and the inability of various secondary and under-resourced municipalities to take up funding due to absorption capacity constraints.

Directors' report (continued)

for the year ended 31 March 2012

Balanced Scorecard perspective: Sustainability

Strategic goal	Strategic objective	Key performance indicator	Target	Results
Engender internal financial sustainability	Maintain financial health	Maintain corporate credit rating in line with sovereign rating	Maintain rating in line with sovereign rating	Maintained rating in line with sovereign rating
		Sustainable earnings (defined as earnings before adjustments for foreign exchange, revaluations, technical assistance grants and grants to the DBSA Development Fund)	R784 million	R677 million[4]
		Cost-to-income ratio	44.0%	39.9%
		Non-performing book debt as a % of total book debt	Below 6%	4.9%
		Net interest income as a % of average interest-bearing assets	3.5%	3.7%
Serve as a centre of excellence for effective development finance, knowledge and governance	Be a leading model in the African development scene, in the areas of development expertise, development effectiveness and sustainability, effective corporate governance and financial sustainability	Quality of policy engagement and research:		
		• Quality of research	Rating of 4 out of 5	Rating of 3.9 out of 5[5]
		• Dissemination of recommendations to key stakeholders	Rating of 4 out of 5	Rating of 4.3 out of 5[6]

Balanced Scorecard perspective: Organisational capability

Strategic goal	Strategic objective	Key performance indicator	Target	Results
Engender organisational capacity	Appropriate levels of competent, motivated and empowered staff	Level of staff engagement (staff satisfaction survey)	37.0%	29.0%[7]
		Staff retention ratio	11.0%	8.9%

4. *Sustainable earnings were lower than budgeted due to the impact of higher than expected impairment provision of R495 million and a R101 million expense adjustment relating to the post-retirement medical benefit liability.*
5. *The Infrastructure Barometer and Development Reports were completed during the year.*
6. *Infrastructure planning under the water and health sectors resulted in two MoA's being concluded with the respective national departments. In addition, various recommendations made on the Health Management Competency Assessment were adopted by the government and published in the* Government Gazette.
7. *The prior period EVP score yielded a result of 37% overall satisfaction with the Bank's attraction and retention drivers. In the current period the score decreased to 29%. Factors affecting the outcome of the score included the uncertainty resulting from the expansion of the Bank's mandate and leadership movements during the year.*

Dividend

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

Share capital

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

Authorised capital

500 000 ordinary shares (2011: 500 000) at par value of R10 000 each.

Callable capital (authorised but unissued share capital)

480 000 ordinary shares (2011: 480 000) at par value of R10 000 each.

It should be noted that the Minister of Finance has agreed to recommend to Parliament an amendment to the DBSA Act No. 13 of 1997 to increase the callable capital of the Bank from the current R4.8 billion to R20 billion.

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

Issued capital

20 000 ordinary shares (2011: 20 000) at par value of R10 000 each.

Going concern

The Directors noted the challenges and declining financial performance over the last three years, and appropriate measures to improve the long-term financial sustainability is under review. 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 (Act No13 of 1997), 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.

	2012	2011
Approved annual borrowing program	R15.0 billion	R12.0 billion
Debt raised during the year	R8.0 billion	R8.0 billion
Unutilised under the annual borrowing program	R7.0 billion	R4.0 billion
Closing unutilised borrowing capacity after debt raised during the year	R10.2 billion	R16.0 billion
Total borrowing capacity (excluding callable capital)	R43.8 billion	R44.6 billion
Closing medium to long-term debt, including repurchase agreements and derivative liabilities	R33.6 billion	R28.6 billion

Directors' report *(continued)*

for the year ended 31 March 2012

Directorate and Secretariat

Details pertaining to the names of Board members and the Secretariat appear on pages 8 to 11.

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

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

Name	Position	Number of terms served as non-executive Director, including current term	Current service contract From	To
Current				
Mr J Moleketi	Independent non-executive Chairperson	1	1 January 2010	31 December 2012
Mr F Baleni	Independent non-executive Deputy Chairperson	1	1 January 2010	31 December 2012
Mr P Baloyi[8,9]	Chief Executive Officer and Managing Director	Not applicable	1 July 2011	31 March 2012
Dr L Bhengu-Baloyi[10]	Independent non-executive Director	1	1 August 2011	31 July 2014
Mr A Boraine	Independent non-executive Director	3	1 August 2011	31 July 2014
Mr K Brown	Non-executive Director (Shareholder representative)	1	1 January 2010	31 December 2012
Ms T Dingaan	Independent non-executive Director	2	1 August 2010	31 July 2013
Ms A Kekana[10]	Independent non-executive Director	1	1 August 2011	31 July 2014
Mr OA Latiff	Independent non-executive Director	2	1 August 2010	31 July 2013
Ms W Lucas-Bull	Independent non-executive Director	3	1 August 2011	31 July 2014
Ms B Mabuza[10]	Independent non-executive Director	1	1 August 2011	31 July 2014
Dr C Manning	Independent non-executive Director	3	1 August 2011	31 July 2014
Ms D Marole[10]	Independent non-executive Director	1	1 August 2011	31 July 2014
Ms M Vilakazi[10]	Independent non-executive Director	1	1 August 2011	31 July 2014

8. Mr P Baloyi resigned as Chief Executive Officer (CEO) with effect from 31 March 2012 and was replaced by Mr TP Nchocho as acting CEO until a permanent appointment has been made by the Minister of Finance.

9. Appointed as CEO with effect from 1 July 2006.

10. Director appointed during the financial year under review.

The details of the Directors' interests in related party transactions and Directors' emoluments are set out in notes 40 and 44 respectively of the financial statements. The Governance structure is detailed on pages 54 to 59.

Remuneration policy

The Human Resources and Nominations Committee ensures that employees are fairly rewarded for their contributions to the performance of the Bank. The provision of performance bonuses is the sole discretion of the Board. No performance bonuses were awarded to management level employees for the 2012 financial year. This decision is aligned with the deteriorated financial performance of the Bank.

Business and registered address

The Bank's business and registered address details appear on page 149.

Taxation status

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

Changes in accounting policies

The accounting policies applied during the year ended 31 March 2012 are in all material respects consistent with those applied in the annual financial statements for the year ended 31 March 2011, as no changes in accounting policies were effected in the 2012 financial year.

Events after the reporting period

The appointment of the following key senior executives and official starting dates were finalised subsequent to the balance sheet date:

- DBSA Chief Executive Officer and Managing Director – Mr Patrick Khulekani Dlamini (3 September 2011)
- DBSA Chief Financial Officer – Mrs Kameshni Naidoo (3 September 2012)
- Development Bank International (DBI) Chief Executive Officer – Mr Rieaz Moe Shaik (8 August 2012)

The Directors at a special Strategic Mandates Committee meeting dated 21 June 2012 approved an organisational review process, which will possibly lead to a reorganisation, restructure and refinement of the business, treasury and financial model of the Bank.

The Directors are not aware of any matters or circumstances arising since the end of the financial year, which will have a significant effect on the operations of the Bank, the results of the operations or the financial position of the Bank, other than note 47 to the financial statements on page 149.

Litigation

The Directors are not aware of any litigation against the Bank other than disclosed under contingent liabilities in the financial statements on page 132.

Related party transactions

Details of the DBSA's related party transactions are set out on page 133.

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

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

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

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

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

Statement of financial position

at 31 March 2012

in thousands of rand	Notes	2012	Restated 2011
Assets			
Cash and cash equivalents	16	**2 113 154**	1 179 562
Other receivables	17	**305 731**	108 007
Investment securities	18	**2 867 792**	2 794 904
Investments under resale agreements	19	**709 380**	218 022
Derivative assets held for risk management	20.1	**1 265 222**	1 145 848
Post-retirement medical benefits investment	21	**65 313**	68 066
Home ownership scheme loans	22	**11 267**	13 094
Equity investments	23	**4 013 415**	3 477 848
Development loans	25	**40 418 255**	37 845 148
Property and equipment	26	**477 862**	469 837
Intangible assets	27	**89 857**	76 780
Total assets		**52 337 248**	47 397 116
Liabilities			
Other payables	28	**837 836**	690 161
Liability for funeral benefits	29.1	**5 161**	4 526
Liability for post-retirement medical benefits	29.2	**354 880**	262 788
Medium- to long-term funding: debt securities	30	**25 808 711**	23 344 779
Medium- to long-term funding: lines of credit	31	**7 705 306**	4 952 475
Funding under repurchase agreements	32	**–**	219 422
Derivative liabilities held for risk management	20.2	**97 782**	71 684
Total liabilities		**34 809 676**	29 545 835
Equity			
Share capital	33	**200 000**	200 000
Retained earnings		**11 967 245**	12 480 267
Permanent government funding	34	**3 792 344**	3 792 344
Revaluation reserve on land and buildings	35	**255 088**	245 730
Hedging reserve	36	**37 721**	15 318
Reserve for general loan risks	37	**1 262 026**	1 119 827
Fair value reserve	38	**13 148**	(2 205)
Total equity		**17 527 572**	17 851 281
Total liabilities and equity		**52 337 248**	47 397 116

Statement of comprehensive income

for the year ended 31 March 2012

in thousands of rand	Notes	2012	Restated 2011
Interest income	5	**3 982 396**	3 587 673
Interest expense	6	**(2 285 563)**	(1 945 482)
Net interest income		**1 696 833**	1 642 191
Net fee income	7	**41 237**	68 467
Net foreign exchange gain/(loss)	8	**176 581**	(57 168)
Net loss from financial assets and financial liabilities	9	**(899 989)**	(398 903)
Other operating income	10	**212 000**	83 579
Other income		**(470 171)**	(304 025)
Operating income		**1 226 662**	1 338 166
Grants		**(61 307)**	(65 192)
Net impairment loss on financial assets	11	**(494 517)**	(228 716)
Personnel expenses	12	**(580 863)**	(566 059)
Other expenses	13	**(178 151)**	(176 235)
Depreciation and amortisation	15	**(19 647)**	(15 525)
Profit from operations		**(107 823)**	286 439
Grant to DBSA Development Fund	40.2.2	**(263 000)**	(257 000)
Net (loss)/profit for the year		**(370 823)**	29 439

Statement of other comprehensive income

for the year ended 31 March 2012

in thousands of rand	Notes	2012	Restated 2011
Net (loss)/profit for the year		**(370 823)**	29 439
Fair value adjustment of revaluation reserve on land and buildings	35	**9 358**	39 585
Fair value movement of cash flow hedges	36	**22 403**	(16 931)
Fair value adjustment of available-for-sale financial market instruments	38	**15 353**	12 939
Other comprehensive income		**47 114**	35 593
Total comprehensive (loss)/income for the year		**(323 709)**	65 032

Statement of changes in equity

for the year ended 31 March 2012

in thousands of rand	Share capital	Permanent government funding	Revaluation reserve on land and buildings
Balance at 1 April 2010 as restated	200 000	3 792 344	206 145
Profit for the year as stated previously	–	–	–
Other comprehensive income			
Fair value adjustments of revaluation reserve on land and buildings	–	–	39 585
Fair value movements on cash flow hedges	–	–	–
Fair value adjustment of available-for-sale financial market instruments	–	–	–
Transfer to reserve for general loan risks	–	–	–
Total changes	–	–	39 585
Opening balance as previously reported	200 000	3 792 344	245 730
Prior period adjustments (refer to note 1.21)	–	–	–
Balance at 1 April 2011 as restated	**200 000**	**3 792 344**	**245 730**
Loss for the year	**–**	**–**	**–**
Other comprehensive income			
Fair value adjustments of revaluation reserve on land and buildings	**–**	**–**	**9 358**
Fair value movements of cash flow hedges	**–**	**–**	**–**
Fair value adjustment of available-for-sale financial market instruments	**–**	**–**	**–**
Transfer to reserve for general loan risks	**–**	**–**	**–**
Total changes	**–**	**–**	**9 358**
Balance at 31 March 2012	**200 000**	**3 792 344**	**255 088**
Notes	33	34	35

	Hedging reserve	Reserve for general loan risks	Fair value reserve	Retained earnings	Total capital and reserves
	32 249	1 022 146	(15 144)	12 548 509	17 786 249
	–	–	–	75 114	75 114
	–	–	–	–	39 585
	(16 931)	–	–	–	(16 931)
	–	–	12 939	–	12 939
	–	97 681	–	(97 681)	–
	(16 931)	97 681	12 939	(22 567)	110 707
	15 318	1 119 827	(2 205)	12 525 942	17 896 956
	–	–	–	(45 675)	(45 675)
	15 318	**1 119 827**	**(2 205)**	**12 480 267**	**17 851 281**
	–	**–**	**–**	**(370 823)**	**(370 823)**
	–	**–**	**–**	**–**	**9 358**
	22 403	**–**	**–**	**–**	**22 403**
	–	**–**	**15 353**	**–**	**15 353**
	–	**142 199**	**–**	**(142 199)**	**–**
	22 403	**142 199**	**15 353**	**(513 022)**	**(323 709)**
	37 721	**1 262 026**	**13 148**	**11 967 245**	**17 527 572**
	36	37	38		

Statement of cash flows

for the year ended 31 March 2012

in thousands of rand	Notes	2012	Restated 2011
Cash flows from operating activities			
Net (loss)/profit for the year		**(370 823)**	29 439
Adjustments for:			
Depreciation and amortisation	15	**19 647**	15 525
Grants paid		**61 307**	65 192
Dividends received	10	**(35 917)**	(16 168)
Losses on asset disposals		**116**	125
Fees accrued (development loans)		**996**	(4 054)
Realised capital gains on equity investments		**(134 462)**	(57 643)
Unrealised loss from financial assets and liabilities		**883 128**	376 487
Unrealised foreign exchange (gain)/loss		**(3 629)**	95 759
Net impairment loss on financial assets	11	**494 517**	228 716
Net interest income		**(1 696 833)**	(1 642 191)
		(781 953)	(908 813)
Decrease in other receivables		**18 621**	17 913
Decrease in home ownership scheme loans		**1 827**	2 423
(Decrease)/increase in other payables		**(53 870)**	108 931
Change in liability for funeral benefits and post-retirement medical benefits		**92 727**	29 365
		(722 648)	(750 181)
Interest and dividends received		**3 595 228**	3 356 091
Interest paid		**(2 067 389)**	(1 961 411)
Net cash generated from operating activities		**805 191**	644 499
Cash flows used in development activities			
Development loan disbursements		**(6 450 606)**	(7 665 147)
Development loan principal repayments		**4 765 820**	2 554 332
Net increase in equity investments		**(1 412 311)**	(552 321)
Grants paid		**(68 073)**	(81 636)
Net advances to National Mandates		**(80 606)**	–
Net cash used in development activities		**(3 245 776)**	(5 744 772)
Cash flows from investing activities			
Purchase of property and equipment	26	**(9 662)**	(28 328)
Proceeds from sale of property, plant and equipment		**376**	–
Purchase of intangible assets	27	**(22 221)**	(23 132)
Movement in financial market assets		**(975 895)**	1 261 422
Net cash (utilised by)/generated from investing activities		**(1 007 402)**	1 209 962
Cash flows from financing activities			
Financial market liabilities repaid		**(3 656 494)**	(5 576 351)
Financial market liabilities raised		**8 040 425**	7 954 028
Net cash generated from financing activities		**4 383 931**	2 377 677
Net increase/(decrease) in cash and cash equivalents		**935 944**	(1 512 634)
Effect of exchange rate movements on cash balances	8	**(2 352)**	(14 592)
Movement in cash and cash equivalents		**933 592**	(1 527 226)
Cash and cash equivalents at the beginning of the year		**1 179 562**	2 706 788
Cash and cash equivalents at the end of the year	16	**2 113 154**	1 179 562

Accounting policies

for the year ended 31 March 2012

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 of South Africa, and 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 and Treasury Regulations.

The financial statements were approved by the Board of Directors on 31 July 2012.

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

1.1 Reporting entity

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

1.2 Basis of preparation

1.2.1 Basis of measurement

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

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

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

1.2.2 Functional and presentation currency

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

Transactions in foreign currencies are accounted for at the rates of exchange ruling on the date of the transactions. Financial market assets and liabilities denominated in foreign currencies are translated at the rates of exchange ruling at the reporting date.

1.2.3 Use of estimates and judgements

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

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

- Note 1.3.5 – Hedge accounting
- Note 1.5.3 and 1.6.3 – Depreciation and the useful lives of property and equipment and intangible assets
- Notes 18, 19, 20, 30, 31 and 32 – Valuation of financial instruments
- Note 23 – Valuation of equity investments
- Note 25 – Measurement of the recoverable amounts of development loans
- Note 26 – Valuation of land and buildings
- Note 29 – Measurement of funeral benefit obligations and post-retirement medical benefit

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

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

Accounting policies *(continued)*

for the year ended 31 March 2012

1. Statement of compliance *(continued)*

1.3 Financial instruments

1.3.1 Financial assets

The Bank classifies its financial assets into the following categories:

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

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

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

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

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.

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; or
- A portfolio of financial assets is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the Bank is provided internally on that basis to key management personnel. Under these criteria the main classes of financial assets designated as fair value through profit and loss by the Bank are equity investments and investment securities.

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

Loans and receivables

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

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

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

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

Held-to-maturity financial assets

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

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

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

Available-for-sale financial assets

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

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

1.3.2 Financial liabilities

The Bank initially recognises financial liabilities on the date at which they are originated. Regular way purchases are recognised on the trade date at which the Bank commits to the purchase. All other financial liabilities (including liabilities designated at fair value through profit or loss) are initially recognised on the trade date at 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 for reporting date. The bases for designation are discussed under each category below.

Financial liabilities at fair value through profit or loss

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

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

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 income statement. Changes in fair value of the derivatives used to hedge the interest rate risk are reported in net interest income in the income statement.

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.

Accounting policies *(continued)*

for the year ended 31 March 2012

1. Statement of compliance *(continued)*

1.3 Financial instruments *(continued)*

1.3.3 Derivative financial instruments

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

Qualifying derivatives

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

Non-qualifying derivatives

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

1.3.4 Derecognition

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

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

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

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

1.3.5 Hedge accounting

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

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

A hedging relationship exists where:

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

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

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

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

The Bank utilises various derivative instruments like cross-currency swaps, interest rate swaps, 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.

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

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

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

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

Hedge of monetary assets and liabilities

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

1.3.6 Repurchase and resale agreements

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

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

1.3.7 Offsetting of financial instruments

Financial assets and financial liabilities are set off and the net amount presented in the statement of financial position when, and only when, the Bank has a legal right to set off the amounts and there is an intention to settle on a net basis, or to realise the financial asset and settle the financial liability simultaneously. Income and expenses are presented on a net basis only when permitted under IFRS, or for gains and losses arising from a group of similar transactions such as in the Bank's trading activity.

Accounting policies *(continued)*

for the year ended 31 March 2012

1. Statement of compliance *(continued)*

1.3 Financial instruments *(continued)*

1.3.8 Impairment of financial instruments

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

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

Available-for-sale financial assets

Where an available-for-sale financial asset remeasured to fair value through other comprehensive income is impaired, and an impairment of the asset was previously recognised directly in other comprehensive income, the impairment is transferred to the income statement 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 income statement.

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

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

Calculation of recoverable amount

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

Reversals of impairment

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

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

1.3.9 Cash and cash equivalents

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

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

1.3.10 Loans to shareholders, directors, managers and employees

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

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

1.4 Impairment of non-financial assets

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

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

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

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

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

1.5 Property and equipment

1.5.1 Recognition and measurement

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

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

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

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

1.5.2 Subsequent costs

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

Accounting policies *(continued)*

for the year ended 31 March 2012

1. Statement of compliance *(continued)*

1.5 Property and equipment *(continued)*

1.5.3 Depreciation

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

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

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

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

1.6 Intangible assets

1.6.1 Recognition and measurement

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

1.6.2 Subsequent expenditure

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

1.6.3 Amortisation

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

Item	Estimated useful life
Software	3 – 15 years

1.7 Share capital and reserves

1.7.1 Share capital

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

1.7.2 Permanent government funding

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

1.7.3 Hedging reserve

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

1.7.4 Fair value reserve

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

1.7.5 Reserve for general loan risks

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

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

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

1.7.6 Revaluation reserve on land and buildings

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

1.8 Revenue

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

1.8.1 Interest

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

The calculation of the effective interest rate includes 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.

1.8.2 Fees and commission

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

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

1.9 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 by an independent quantity surveyor using the income capitalisation approach, which is calculated using an average market-related rental per square meter, discounted by a capitalisation rate.

1.10.2 Post-retirement medical benefits investment

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

Accounting policies *(continued)*

for the year ended 31 March 2012

1. Statement of compliance *(continued)*

1.10 Determination of fair values *(continued)*

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 analysed into the following categories:

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

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

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

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

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

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

Equity investments

After initial recognition, the Bank measures equity 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 rely as little as possible on entity-specific inputs
- Incorporate all factors that market participants would consider in setting a price
- Are consistent with accepted economic methodologies for pricing financial instruments

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

Capital market securities

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

Derivatives

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

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

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

Interest-bearing loans and borrowings

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

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

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

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

1.12 Financial guarantees

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

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

Accounting policies *(continued)*

for the year ended 31 March 2012

1. Statement of compliance *(continued)*

1.13 Employee benefits

1.13.1 Defined contribution plan

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

1.13.2 Defined benefit plan

The Bank contributes to a defined benefit plan for post-retirement medical benefits for a closed group of eligible employees and pensioners. The Bank currently holds an investment that is used to fund the liability for the post-retirement medical benefit. This investment does not meet the definition of a "Plan Asset" and is not offset against the post-retirement obligation.

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

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

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

1.13.3 Termination benefits

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

1.13.4 Short-term employee benefits

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

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

1.13.5 Home ownership scheme

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

1.14 Contingent liabilities and commitments

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

1.15 Other operating income

Other fee income (appraisal, upfront, commitment, guarantee and penalty fees) is recognised as the related services are performed.

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

1.16 Events after reporting date

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

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

1.17 Funds administered on behalf of third parties

The Bank has entered into agreements with a number of development entities to administer funds on their behalf. The activities of these entities relate to development and include development research, policy formulation, grants and loans.

These funds are not included in the statement of financial position of the Bank.

1.18 Related parties

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

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

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

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

Accounting policies *(continued)*

for the year ended 31 March 2012

1. Statement of compliance *(continued)*

1.19 Non-current assets held-for-sale

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

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

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

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

1.20 Segment reporting

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

1.21 Prior year adjustment

The 31 March 2011 figures have been restated as a result of a prior year adjustment.

The guarantee fees on the R15.2 billion guarantee by the government have not been raised in the past due to the DBSA interpretation that the fees will only be payable if utilised against a debt issue, as well as the fact that the Bank has never been invoiced by the Department of National Treasury. Upon confirmation of this understanding, we were advised that a formal application for the waiving of the guarantee fee would have to be submitted to the Department of National Treasury's Guarantees Certification Committee. This application is currently being prepared.

in thousands of rand	2012	Restated 2011	Restated 2010
Increase in liabilities			
Increase in other payables	–	(61 741)	(16 066)
Increase in guarantee fee expense			
Decrease in profit for the year	–	45 675	16 066
Adjustment against retained earnings at the beginning of the year	**61 741**	16 066	–

Notes to the annual financial statements

for the year ended 31 March 2012

1. New standards and interpretations not yet effective

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

- IFRS 7: *Financial Instruments*: *Disclosures Amendments* (effective 1 January 2013).
- IFRS 9: *Financial Instruments* (effective 1 January 2015).
- IFRS 10: *Consolidated Financial Statements* (effective 1 January 2013).
- IFRS 11: *Joint Arrangements* (effective 1 January 2013).
- IFRS 12: *Disclosure of Interest in Other Entities* (effective 1 January 2013).
- IFRS 13: *Fair Value Measurement* (effective 1 January 2013).
- IAS 1: *Presentation of Financial Statements Amendments* (effective 1 July 2012).
- IAS 19: *Employee Benefits Amendments* (effective 1 January 2013).
- IAS 27: *Consolidated and Separate Financial Statements Amendments* (effective 1 January 2013).
- IAS 28: *Investments in Associates Amendments* (effective 1 January 2013).
- IAS 32: *Financial Instruments: Presentation Amendments* (effective 1 January 2013).

2. Segment reporting

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

- South Africa municipal business
- SADC countries
- Investment banking
- Treasury

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

Notes to the annual financial statements *(continued)*

for the year ended 31 March 2012

2. Segment reporting *(continued)*

Operating reportable segments

in thousands of rands	South Africa March 2012 Audited	South Africa March 2011 Audited	SADC (excluding South Africa) March 2012 Audited	SADC (excluding South Africa) March 2011 Audited
Interest income on development loans	**2 035 118**	1 999 076	**593 207**	428 978
Interest income on investments	**–**	–	**–**	–
Total interest income	**2 035 118**	1 999 076	**593 207**	428 978
Interest expense	**(1 303 877)**	(1 329 420)	**(234 494)**	(182 928)
Net interest income	**731 241**	669 656	**358 713**	246 050
Non-interest income	**4 662**	5 916	**134 151**	92 430
Net fee income	**4 343**	5 083	**44 042**	49 715
Dividends	**–**	–	**26 400**	8 001
Sundry income	**319**	833	**63 709**	34 714
Operating income	**735 903**	675 572	**492 864**	338 480
Expenses	**(23 584)**	(222 839)	**(275 109)**	(130 056)
Operating expenses	**(103 789)**	(119 475)	**(38 402)**	(42 367)
Depreciation and amortisation	**–**	–	**–**	–
Net impairment loss on financial assets	**80 205**	(103 364)	**(236 707)**	(87 689)
Sustainable earnings	**712 319**	452 733	**217 755**	208 424
Net foreign exchange gain/(loss)	**–**	–	**154 511**	(95 605)
Net gain/(loss) from financial assets and liabilities	**7 286**	3 415	**(342 524)**	(103 790)
Profit before distributions	**719 605**	456 148	**29 742**	9 029
Grants	**(18 970)**	(17 578)	**(22 035)**	(36 798)
Transfer to Development Fund	**–**	–	**–**	–
Retained profit	**700 635**	438 570	**7 707**	(27 769)
Capital expenditure	**–**	–	**–**	–
Total assets	**22 182 096**	23 138 860	**12 531 296**	10 131 448
Total liabilities	**13 310 154**	14 235 150	**6 709 046**	5 363 499
Key ratios by segment				
Cost to income (%)	**14**	18	**8**	13
Debt to assets ratio (%)	**60**	62	**54**	53
Net interest income (%)	**36**	33	**60**	57
Return on assets (%)	**6**	4	**–**	–

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

Investment Banking		Treasury		Reconciling item*		Total	
March 2012 Audited	March 2011 Audited	**March 2012 Audited**	March 2011 Audited	**March 2012 Audited**	March 2011 Audited	**March 2012 Audited**	March 2011 Audited
885 708	691 096	**–**	–	**70**	–	**3 514 103**	3 119 150
38 670	2 842	**428 693**	464 449	**930**	1 232	**468 293**	468 523
924 378	693 938	**428 693**	464 449	**1 000**	1 232	**3 982 396**	3 587 673
(477 296)	(426 941)	**(269 850)**	(6 060)	**(46)**	(133)	**(2 285 563)**	(1 945 482)
447 082	266 997	**158 843**	458 389	**954**	1 099	**1 696 833**	1 642 191
141 819	75 491	**(23 714)**	(11 055)	**(3 681)**	(10 736)	**253 237**	152 046
27 919	44 389	**(23 718)**	(11 098)	**(11 349)**	(19 622)	**41 237**	68 467
9 517	8 167	**–**	–	**–**	–	**35 917**	16 168
104 383	22 935	**4**	43	**7 668**	8 886	**176 083**	67 411
588 901	342 488	**135 129**	447 334	**(2 727)**	(9 637)	**1 950 070**	1 794 237
(372 856)	(78 430)	**(23 763)**	(27 671)	**(577 866)**	(527 539)	**(1 273 178)**	(986 535)
(36 563)	(37 963)	**(23 763)**	(27 671)	**(556 497)**	(514 818)	**(759 014)**	(742 294)
–	–	**–**	–	**(19 647)**	(15 525)	**(19 647)**	(15 525)
(336 293)	(40 467)	**–**	–	**(1 722)**	2 804	**(494 517)**	(228 716)
216 045	264 058	**111 366**	419 663	**(580 593)**	(537 176)	**676 892**	807 702
(11 648)	2 583	**33 872**	36 311	**(154)**	(457)	**176 581**	(57 168)
(541 950)	(103 725)	**(20 047)**	(194 145)	**(2 754)**	(658)	**(899 989)**	(398 903)
(337 553)	162 916	**125 191**	261 829	**(583 501)**	(538 291)	**(46 516)**	351 631
(14 589)	(2 506)	**–**	–	**(5 713)**	(8 310)	**(61 307)**	(65 192)
–	–	**–**	–	**(263 000)**	(257 000)	**(263 000)**	(257 000)
(352 142)	160 410	**125 191**	261 829	**(852 214)**	(803 601)	**(370 823)**	29 439
–	–	**–**	–	**31 921**	51 460	**31 921**	51 460
12 556 082	10 084 492	**4 231 631**	3 357 430	**836 143**	684 886	**52 337 248**	47 397 116
6 347 883	5 097 235	**7 626 455**	4 217 879	**816 138**	632 072	**34 809 676**	29 545 835
6	11	**18**	6			**40**	42
51	51	**180**	121			**67**	62
48	38	**37**	99			**43**	46
(6)	3	**6**	16			**–**	1

Notes to the annual financial statements (continued)

for the year ended 31 March 2012

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	Held-for-trading or designated at fair value through profit or loss*	Held-to-maturity	Available-for-sale	Total carrying amount	Fair value
2012							
Cash and cash equivalents	16	**2 113 154**	**–**	**–**	**–**	**2 113 154**	**2 113 154**
Other receivables	17	**305 731**	**–**	**–**	**–**	**305 731**	**305 731**
Investment securities	18	**–**	**1 800 883**	**199 975**	**866 934**	**2 867 792**	**2 883 445**
Investments under resale agreements	19	**709 380**	**–**	**–**	**–**	**709 380**	**709 380**
Derivative assets held for risk management	20.1	**–**	**1 265 222**	**–**	**–**	**1 265 222**	**1 265 222**
Home ownership scheme loans	22	**11 267**	**–**	**–**	**–**	**11 267**	**11 267**
Equity investments	23	**–**	**3 714 496**	**298 919**	**–**	**4 013 415**	**4 013 415**
Development loans	25	**40 418 255**	**–**	**–**	**–**	**40 418 255**	**40 936 225**
		43 557 787	**6 780 601**	**498 894**	**866 934**	**51 704 216**	**52 237 839**
Restated 2011							
Cash and cash equivalents	16	1 179 562	–	–	–	1 179 562	1 179 562
Other receivables	17	108 007	–	–	–	108 007	108 007
Investment securities	18	–	1 762 727	199 970	832 207	2 794 904	2 806 376
Investments under resale agreements	19	218 022	–	–	–	218 022	218 022
Derivative assets held for risk management	20.1	–	1 145 848	–	–	1 145 848	1 145 848
Home ownership scheme loans	22	13 094	–	–	–	13 094	13 094
Equity investments	23	–	2 977 143	500 705	–	3 477 848	3 477 848
Development loans	25	37 845 148	–	–	–	37 845 148	39 468 864
		39 363 833	5 885 718	700 675	832 207	46 782 433	48 417 621

* *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
2012					
Other payables	28	**837 836**	**–**	**837 836**	**837 836**
Medium- to long-term funding debt securities	30	**17 932 118**	**7 876 593**	**25 808 711**	**28 119 273**
Medium- to long-term funding lines of credit	31	**7 705 306**	**–**	**7 705 306**	**7 919 762**
Derivative liabilities held for risk management	20.2	**–**	**97 782**	**97 782**	**97 782**
		26 475 260	**7 974 375**	**34 449 635**	**36 974 653**
Restated 2011					
Other payables	28	690 161	–	690 161	690 161
Medium- to long-term funding debt securities	30	15 786 374	7 558 405	23 344 779	22 395 457
Medium- to long-term funding lines of credit	31	4 952 475	–	4 952 475	4 937 629
Funding under repurchase agreements	32	219 422	–	219 422	219 422
Derivative liabilities held for risk management	20.2	–	71 684	71 684	71 684
		21 648 432	7 630 089	29 278 521	28 314 353

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

Notes to the annual financial statements (continued)

for the year ended 31 March 2012

5. Interest income

in thousands of rand	2012	Restated 2011
Interest income received on:		
Cash and cash equivalents	**135 284**	146 821
Investment securities	**224 473**	215 767
Held at fair value through profit and loss	**165 769**	157 754
Held-to-maturity	**23 806**	25 457
Available-for-sale	**34 898**	32 556
Repurchase agreements	**11 019**	25 818
Development loans (Performing and non-performing refer to note 5.1)	**3 514 103**	3 119 150
Equity investments	**38 670**	2 842
Home ownership scheme loans	**930**	1 246
Derivatives	**57 917**	76 029
Total interest income	**3 982 396**	3 587 673

5.1. Development loans

	2012	Restated 2011
Performing	**3 403 605**	3 021 265
Non-performing	**110 498**	97 885
	3 514 103	3 119 150

5.2. Client classification for development loans

	2012	Restated 2011
Development finance institutions	**46 963**	19 813
Educational institutions	**96 785**	70 135
Local government	**1 682 198**	1 660 874
National and provincial government	**88 609**	27 743
Private sector intermediaries	**826 136**	778 479
Public utilities	**773 412**	562 106
	3 514 103	3 119 150

6. Interest expense

	2012	Restated 2011
Medium- to long-term funding debt securities	**2 388 980**	2 025 149
Medium- to long-term funding lines of credit	**140 581**	122 538
Resale agreements	**2 014**	10 329
Other interest expense	**1 405**	946
Derivatives hedging funding liabilities	**(247 417)**	(213 480)
Total interest expense	**2 285 563**	1 945 482
Net interest income	**1 696 833**	1 642 191

Included within interest expense on medium- to long-term funding debt securities for the year ended 31 March 2012 is R744 million (2011: R715 million) relating to debt securities designated at fair value through profit or loss.

Included within interest expense on medium- to long-term funding debt securities for the year ended 31 March 2012 is R1.645 billion (2011: R1.310 billion) relating to debt securities held at amortised cost.

7. Net fee income

in thousands of rand	2012	Restated 2011
Fee income		
Guarantee fees	**1 873**	2 661
Management fees	**38 864**	28 942
Commitment fees on funding	**23 314**	20 882
Upfront fees	**36 910**	65 099
Appraisal fees	**1 609**	4 505
Other	**12 961**	6 138
Total fee income	**115 531**	128 227
Fee expense		
Guarantee fees	**52 035**	50 975
Brokerage fees	**28**	23
Commitment fees on funding	**22 231**	8 762
Total fee expense	**74 294**	59 760
Net fee income	**41 237**	68 467

8. Net foreign exchange gain/(loss)

in thousands of rand	2012	Restated 2011
Unrealised		
Foreign exchange gain/(loss): Development loans and sundry	**564 061**	(291 718)
Foreign exchange (loss)/gain: Hedging derivatives development loans	**(230 181)**	70 594
Foreign exchange loss: Cash and cash equivalents (CFCs)	**(2 352)**	(14 592)
Foreign exchange gain/(loss): Equity investments	**150 296**	(94 569)
Foreign exchange (loss)/gain: Funding	**(544 541)**	285 483
Foreign exchange gain/(loss): Hedging derivatives funding	**63 133**	(52 665)
	416	(97 467)
Realised		
Foreign exchange gain/(loss): Development loans	**83 079**	(18 583)
Foreign exchange gain: Equity investments	**3 213**	1 708
Foreign exchange gain: Funding and hedging	**89 873**	57 174
	176 165	40 299
Net foreign exchange gain/(loss)	**176 581**	(57 168)

Notes to the annual financial statements (continued)

for the year ended 31 March 2012

9. Net loss from financial assets and financial liabilities

in thousands of rand	2012	Restated 2011
Net gain/(loss) on derivatives held for risk management		
Interest rate		
Unrealised	**191 499**	(67 013)
Realised	**11 635**	(3 390)
	203 134	(70 403)
Foreign exchange		
Unrealised	**46 422**	(25 707)
Realised	**(28 496)**	(10 324)
	17 926	(36 031)
Investment securities designated at fair value through profit or loss		
Government bonds – unrealised	**29 539**	1 361
Corporate bonds – unrealised	**9 210**	(399)
Municipal bonds – unrealised	**27 102**	3 658
	65 851	4 620
Debt securities		
Designated at fair value through profit or loss – unrealised	**(306 958)**	(83 539)
Equity investments		
Designated at fair value through profit or loss – unrealised (refer to note 23.1)	**(879 003)**	(260 425)
Held-to-maturity – unrealised	**1 814**	56 325
	(877 189)	(204 100)
Other		
Investment securities – realised	**–**	(8 792)
Post-retirement medical benefits investment designated at fair value through profit or loss – unrealised	**(2 753)**	(658)
Total net loss from financial assets and liabilities	**(899 989)**	(398 903)

10. Other operating income

Non-interest income		
Dividend income	**35 917**	16 168
Loss on sale of property and equipment	**(116)**	–
Sundry income	**176 199**	67 411
	212 000	83 579

11. Net impairment loss on financial assets

Impairment on development loans (refer to note 25.9)	**204 368**	231 198
Impairment on equity investments (refer to note 23)	**287 525**	–
Impairment of other receivables increase/(decrease) (refer to note 17)	**2 624**	(2 482)
	494 517	228 716

12. Personnel expenses

Post-retirement medical benefits liability movement (refer to note 29.2)	**100 552**	36 021
Other personnel expenses	**480 311**	530 038
	580 863	566 059
Included in other personnel expenses are Directors' emoluments and Executive management remuneration as detailed below:		
Directors' emoluments	**8 802**	7 123
Executive members' remuneration	**12 474**	15 791
	21 276	22 914

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

13. Other expenses

in thousands of rand	2012	Restated 2011
Auditors' remuneration	**8 578**	8 185
Technical services	**26 864**	23 874
Communication costs	**7 541**	10 274
Information technology	**38 204**	36 140
Legal expenses	**7 454**	4 939
Public relations activities	**5 128**	15 083
Subsistence and travel	**22 901**	20 614
Low value assets	**1 317**	507
Other	**60 164**	56 619
	178 151	176 235

14. Auditors' remuneration

Audit fees	**8 578**	8 142
Fees for other services	**–**	43
	8 578	8 185

15. Depreciation and amortisation (refer to notes 26 and 27)

Revalued buildings	**3 240**	3 186
Computer equipment	**3 623**	4 182
Furniture and fittings	**1 533**	909
Motor vehicles	**192**	22
Office equipment	**1 915**	1 791
Intangible assets	**9 144**	5 435
	19 647	15 525

16. Cash and cash equivalents

Call deposits	**1 762 919**	1 320 957
Cash at bank	**350 235**	(141 395)
	2 113 154	1 179 562

The average annual interest rate earned on fixed and call deposits detailed above was 5.29% (2011: 5.80%). The Bank's exposure to interest rate risk and sensitivity analysis for financial assets and financial liabilities are disclosed in note 46.

Notes to the annual financial statements (continued)

for the year ended 31 March 2012

17. Other receivables

in thousands of rand	2012	Restated 2011
Other receivables	65 423	59 044
Accrued interest income	53 113	49 841
Staff loans	491	935
Prepayments	1 800	691
Department of Health	138 835	–
Department of Basic Education	3 417	–
Department of Local Government	(453)	–
Department of Energy	45 059	–
Impairment provision	(1 954)	(2 504)
	305 731	108 007

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

Impairment provision reconciliation		
Balance at 1 April	(2 504)	(5 700)
(Increase)/decrease in provision	(2 624)	2 482
Amounts written off	3 174	714
Balance at 31 March	(1 954)	(2 504)

18. Investment securities

Investment securities consist of the following:		
Investment securities designated at fair value through profit or loss	1 800 883	1 762 727
Held-to-maturity investment securities	199 975	199 970
Available-for-sale investment securities	866 934	832 207
	2 867 792	2 794 904

Investment securities designated at fair value through profit or loss		
Government bonds	974 725	972 073
Municipal bonds	646 491	619 389
Corporate bonds	179 667	171 265
	1 800 883	1 762 727

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

Held-to-maturity investment securities		
Municipal bonds	199 975	199 970

Available-for-sale investment securities		
Government bonds	261 621	261 084
Corporate bonds	198 055	191 984
Money market instruments	407 258	379 139
	866 934	832 207

19. Investments under resale agreements

in thousands of rand	2012	Restated 2011
Investments under resale agreements	**709 380**	218 022

In the ordinary course of business, the Bank places excess funds or raises short-term funding through the repurchase market. This entails the transfer of financial assets in such a way that all or part of the assets do not qualify for recognition as the risk of ownership remains with the counterparty.

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

At 31 March 2012, the fair value of assets received as collateral was R709 million (2011: R218 million).

20. Derivative assets and liabilities held for risk management

20.1 Derivative assets held for risk management

	2012	Restated 2011
Instrument type:		
Interest rate derivatives	**745 997**	542 966
Foreign exchange derivatives	**519 225**	602 882
	1 265 222	1 145 848

20.2 Derivative liabilities held for risk management

	2012	Restated 2011
Instrument type:		
Interest rate	**(37 421)**	(25 890)
Foreign exchange	**(60 361)**	(45 794)
	(97 782)	(71 684)

20.3 Net derivatives held for risk management

	2012	Restated 2011
Fair value hedges of interest rate risk	**708 576**	517 076
Cash flow hedges of foreign exchange risk	**134 410**	73 409
Economic hedges	**324 454**	483 679
	1 167 440	1 074 164

Fair value hedges of interest rate risk

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

Cash flow hedges of foreign currency debt securities issued

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

Economic hedges

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

Notes to the annual financial statements *(continued)*

for the year ended 31 March 2012

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

20.4 Timing of cash flows for designated cash flow hedges

in thousands of rand			Cash	Cash	Cash	Cash	Cash	Cash	Cash	Cash
Class	Currency	Description	<1 month	1 – 3 months	3 – 12 months	1 – 2 years	2 – 3 years	3 – 4 years	4 – 5 years	>5 years
Cross-currency swaps	EUR	Principal	6 041	37 824	46 521	90 386	93 536	96 686	38 732	352 003
		Interest	1 069	7 639	8 203	14 549	12 254	9 857	7 801	50 591
			7 110	45 463	54 724	104 935	105 790	106 543	46 533	402 594
Cross-currency swaps	USD	Principal	–	–	5 132	4 985	–	–	–	–
		Interest	–	–	–	–	–	–	–	–
			–	–	5 132	4 985	–	–	–	–
Cross-currency swaps	ZAR	Principal	–	(35 338)	(38 746)	(73 923)	(75 791)	(79 088)	(20 697)	(285 721)
		Interest	–	(20 387)	(19 160)	(33 974)	(28 707)	(23 060)	(18 465)	(129 822)
			–	(55 725)	(57 906)	(107 897)	(104 498)	(102 148)	(39 162)	(415 543)

21. Post-retirement medical benefits investment

in thousands of rand	2012	Restated 2011
Fair value of plan assets	**65 313**	68 066

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

Details of the post-retirement medical benefit liability are contained in note 29.2.

22. Home ownership scheme loans

	2012	Restated 2011
Home ownership scheme loans	**11 267**	13 094

The Bank operated a home ownership scheme, in terms of which mortgage bonds were provided to Bank employees at reduced interest rates. No new loans are granted under this scheme and Nedbank Limited administers the winding down of this scheme on behalf of the Bank.
The loans are repayable on a monthly basis and are secured by fixed property. Loans were provided to a maximum of 108% of the market value of the fixed property to allow for transfer fees to be capitalised.
At 31 March 2012 the effective interest rate was 7.5% (2011: 7.5%).

23. Equity investments

	2012	Restated 2011
Equity investments designated at fair value through profit or loss	**3 714 496**	2 977 143
Equity investments held-to-maturity	**298 919**	500 705
	4 013 415	3 477 848

in thousands of rand	2012	Restated 2011
Equity investments represent strategic investments by the Bank and are long-term in nature. As the Bank has more than five investments, a register is maintained.		
23.1 Equity investments designated at fair value through profit or loss		
Cost		
Balance at 1 April	**2 165 691**	1 625 870
Acquisitions	**1 642 787**	658 638
Capital return	**(230 477)**	(118 817)
Balance at 31 March	**3 578 001**	2 165 691
Fair value adjustment and impairment		
Balance at 1 April	**1 000 886**	1 203 668
Current year fair value adjustment (refer to note 11)	**(879 003)**	(260 425)
Realised gain	**134 462**	57 643
Impairment loss	**(83 925)**	–
Balance at 31 March	**172 420**	1 000 886
Foreign exchange adjustments		
Balance at 1 April	**(189 434)**	(96 573)
Unrealised gain/(loss)	**150 296**	(94 569)
Realised gain	**3 213**	1 708
Balance at 31 March	**(35 925)**	(189 434)
Fair value at the end of the year	**3 714 496**	2 977 143

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

Direct equity in ordinary shares:

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

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

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

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

Third party managed private equity:

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

Notes to the annual financial statements *(continued)*

for the year ended 31 March 2012

23. Equity investments *(continued)*

in thousands of rand	2012	Restated 2011
23.2 Equity investments held-to-maturity		
Amortised cost		
Balance at 1 April	**500 705**	431 880
Amortised interest on effective interest method	**1 814**	56 325
Additions	**–**	12 500
Impairment loss	**(203 600)**	–
Balance at 31 March	**298 919**	500 705

Equity investments held-to-maturity consist of preference shares, debentures, shareholders' loans and credit-linked notes. The Bank has not, during the current financial year or three preceding financial years, sold or reclassified before maturity more than an insignificant amount of investments in relation to the total amount of held-to-maturity investments.

24. Fair value hierarchy disclosures

Fair value hierarchy disclosures

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

	Notes	Valuations with reference to observable prices Level 1	Valuations based on observable input Level 2	Valuations based on unobservable input Level 3*	Total
2012					
Available-for-sale financial assets					
Investment securities	18	**459 676**	**407 258**	**–**	**866 934**
Financial assets designated at fair value through profit and loss					
Investment securities	18	**1 800 883**	**–**	**–**	**1 800 883**
Derivative assets held for risk management	20.1	**–**	**1 265 222**	**–**	**1 265 222**
Equity investments	23.1	**181 490**	**2 978 149**	**554 857**	**3 714 496**
Total financial assets		**2 442 049**	**4 650 629**	**554 857**	**7 647 535**
Financial liabilities designated at fair value through profit and loss					
Medium- to long-term funding debt securities	30.1	**7 620 304**	**256 289**	**–**	**7 876 593**
Derivative liabilities held for risk management	20.2	**–**	**97 782**	**–**	**97 782**
Total financial liabilities		**7 620 304**	**354 071**	**–**	**7 974 375**

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

* *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, unlisted equity investments and debt securities.

Level 2

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

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

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

Level 3

Valuations based on unobservable inputs.

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

24.1 Equity investments

For investments within level 3 of the fair value hierarchy, valued at R554.9 million at 31 March 2012 (2011: R526.8 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.

Notes to the annual financial statements *(continued)*

for the year ended 31 March 2012

25. Development loans *(continued)*

in thousands of rand		2012	Restated 2011
25.1	Analysis of development loans		
	Balance at 1 April	**38 753 849**	33 700 108
	Movements during the year	**2 625 646**	5 053 741
	Gross development loans	**41 379 495**	38 753 849
	Impairment against development loans (refer to note 25.9)	**(961 240)**	(908 701)
	Net development loans at 31 March	**40 418 255**	37 845 148
	Movements during the year		
	Loans disbursed	**6 450 606**	7 665 147
	Interest accrued – income statement	**3 514 103**	3 119 150
	Interest accrued – impairment	**64 270**	57 604
	Development loans written off	**(216 099)**	(111 667)
	Foreign exchange adjustment	**647 997**	(306 140)
	Gross repayments	**(7 904 257)**	(5 419 242)
	Fees raised	**69 026**	48 889
		2 625 646	5 053 741
25.2	Maturity analysis of development loans		
	Year 1	**5 281 038**	4 928 443
	Year 2	**4 278 781**	3 217 881
	Year 3	**3 378 888**	4 208 973
	Year 4	**3 375 161**	3 642 425
	Years 5 to 9	**12 816 557**	12 338 652
	Years 10 to 14	**9 006 967**	6 947 114
	Year 15 and thereafter	**3 242 103**	3 470 361
		41 379 495	38 753 849
25.3	Sectoral analysis		
	Commercial infrastructure	**4 743 527**	5 632 375
	Communication and transport infrastructure	**5 099 177**	5 864 424
	Energy	**8 295 086**	5 909 691
	Human resources development	**1 189 987**	1 121 864
	Institutional infrastructure	**16 057**	16 514
	Residential facilities	**2 334 863**	2 430 865
	Roads and drainage	**9 087 516**	7 355 172
	Sanitation	**1 429 999**	1 187 712
	Social infrastructure	**4 259 678**	4 210 226
	Water	**4 923 605**	5 025 006
		41 379 495	38 753 849

in thousands of rand	2012	Restated 2011
25.4 Geographical analysis		
Eastern Cape	**1 667 787**	1 633 061
Free State	**570 997**	596 862
Gauteng	**13 433 450**	12 337 559
KwaZulu-Natal	**7 946 658**	8 114 384
Limpopo	**1 004 072**	1 923 778
Mpumalanga	**1 344 687**	1 595 982
North West	**910 386**	609 056
Northern Cape	**446 295**	413 676
Western Cape	**3 793 787**	3 585 434
Multi-regional – South Africa	**7 614**	9 300
SADC (excluding South Africa) and multinationals*	**10 253 762**	7 934 757
	41 379 495	38 753 849
SADC (excluding South Africa) and multinationals*		
Angola	**178 011**	175 199
Botswana	**57 573**	59 479
Democratic Republic of Congo	**70 780**	62 997
Lesotho	**949 179**	841 805
Malawi	**177 411**	198 027
Mauritius	**184 936**	137 983
Mozambique	**1 086 484**	1 165 733
Namibia	**644 229**	517 330
Swaziland	**202 578**	202 264
Tanzania	**377 717**	568 158
Zambia	**3 754 217**	2 277 841
Zimbabwe	**559 026**	104 721
Multinationals	**2 011 621**	1 623 220
	10 253 762	7 934 757
** Amounts of USD included in the above SADC loans*	**940 123**	688 394
25.5 Client classification		
Development finance institutions	**1 227 471**	712 081
Educational institutions	**1 120 716**	1 092 728
Local government	**17 588 482**	17 542 297
National and provincial government	**1 031 634**	1 642 291
Private sector intermediaries	**8 973 039**	9 875 355
Public utilities	**11 438 153**	7 889 097
	41 379 495	38 753 849
25.6 Fixed and variable interest rate loans		
Fixed interest rate loans	**23 343 346**	23 713 939
Variable interest rate loans	**18 036 149**	15 039 910
	41 379 495	38 753 849

Notes to the annual financial statements *(continued)*

for the year ended 31 March 2012

25. Development loans *(continued)*

in thousands of rand	2012	Restated 2011
25.7 Non-performing loans (included in total development loans)		
25.7.1 Sectoral analysis		
Commercial infrastructure	**787 065**	673 951
Communication and transport infrastructure	**368 449**	149 075
Energy	**326 129**	296 602
Human resources development	**20 114**	12 081
Residential facilities	**112 221**	106 349
Roads and drainage	**50 571**	47 398
Sanitation	**86 928**	96 296
Social infrastructure	**160 574**	143 477
Water	**114 187**	94 239
	2 026 238	1 619 468
25.7.2 Geographical analysis		
Eastern Cape	**113 490**	50 169
Free State	**256 070**	246 994
Gauteng	**86 812**	91 270
KwaZulu-Natal	**33 531**	23 020
Limpopo	**187 641**	144 446
Mpumalanga	**50 674**	50 001
North West	**317 264**	253 326
Northern Cape	**83 392**	86 992
Western Cape	**183 334**	71 313
SADC (excluding South Africa)	**714 030**	601 937
	2 026 238	1 619 468
SADC (excluding South Africa)		
Botswana	**57 573**	59 479
Malawi	**117 490**	122 316
Mauritius	**–**	1 757
Mozambique	**146 531**	36 078
Swaziland	**126 734**	124 098
Zambia	**122 303**	136 839
Multi-regional	**143 399**	121 370
	714 030	601 937
25.7.3 Client classification on total development loans		
Development finance institutions	**51 320**	128 456
Educational institutions	**5 988**	5 939
Local government	**430 251**	371 299
National government	**4 903**	4 438
Private sector intermediaries	**1 103 791**	838 069
Public utilities	**429 985**	271 267
	2 026 238	1 619 468
25.8 Client concentration of total development loans		
One client as percentage of total loan portfolio (%)	**11.9**	13.1
Seven clients as percentage of total loan portfolio (%)	**40.7**	35.8
25.9 Impairment against development loans		
Balance at 1 April	**908 701**	731 566
Impairment of current year interest	**64 270**	57 604
Loans written off during the year	**(216 099)**	(111 667)
Impairment charge	**204 368**	231 198
Non-performing book	**243 156**	165 131
Performing book	**(38 788)**	66 067
Balance at 31 March	**961 240**	908 701

26. Property and equipment

in thousands of rand	2012 Cost/ valuation	2012 Accumulated depreciation and impairment losses	2012 Carrying value	2011 Cost/ valuation	2011 Accumulated depreciation and impairment losses	2011 Carrying value
Revalued land	**60 200**	**–**	**60 200**	60 200	–	60 200
Revalued buildings	**405 190**	**(10 162)**	**395 028**	392 951	(6 923)	386 028
Furniture and fittings	**18 103**	**(8 401)**	**9 702**	16 848	(5 896)	10 952
Motor vehicles	**1 886**	**(347)**	**1 539**	1 606	(477)	1 129
Office equipment	**15 375**	**(8 663)**	**6 712**	14 403	(6 514)	7 889
Computer equipment	**27 887**	**(23 206)**	**4 681**	23 114	(19 475)	3 639
Total	**528 641**	**(50 779)**	**477 862**	509 122	(39 285)	469 837

Reconciliation of property and equipment 2012

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

Reconciliation of property and equipment 2011

in thousands of rand	Opening balance	Additions	Disposals	Revaluations	Depreciation	Closing balance
Revalued land	60 000	–	–	200	–	60 200
Revalued buildings	325 235	24 594	–	39 385	(3 186)	386 028
Furniture and fittings	11 291	585	(15)	–	(909)	10 952
Motor vehicles	1 151	–	–	–	(22)	1 129
Office equipment	7 571	2 219	(110)	–	(1 791)	7 889
Computer equipment	6 891	930	–	–	(4 182)	3 639
Net carrying amount	412 139	28 328	(125)	39 585	(10 090)	469 837

Valuations

Land

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

The land was valued at a fair value of R60.2 million by De Leeuw Group, independent quantity surveyors, on 31 March 2012, using the income capitalisation approach (March 2011: R60.2 million). The land is measured at the revalued amount, in accordance with the Bank's revaluation policy for land.

Buildings

The existing buildings were erected in 1987 at a cost of R35.2 million. Improvements to the value of R2.9 million were effected during the 2012 financial year (2011: R24.6 million).

The buildings were valued at a fair value of R392.27 million by De Leeuw Group, independent quantity surveyors, on 31 March 2012, using the income capitalisation approach (March 2011: R383.27 million).

The historical book value of the existing buildings is R200.2 million (2011: R197.0 million).

Notes to the annual financial statements (continued)

for the year ended 31 March 2012

27. Intangible assets

in thousands of rand	2012 Cost	2012 Accumulated amortisation and impairment losses	2012 Carrying value	2011 Cost	2011 Accumulated amortisation and impairment losses	2011 Carrying value
Computer software	**120 517**	**(30 660)**	**89 857**	98 296	(21 516)	76 780

in thousands of rand	Opening balance	Additions	Amortisation	Closing balance
Reconciliation of intangible assets 2012				
Computer software	**76 780**	**22 221**	**(9 144)**	**89 857**
Reconciliation of intangible assets 2011				
Computer software	59 083	23 132	(5 435)	76 780

28. Other payables

in thousands of rand	2012	Restated 2100
Sundry payables	**293 883**	324 995
DBSA Development Fund	**23 074**	52 061
Sundry accruals	**1 075**	1 612
Accrued interest	**392 697**	311 493
Department of Health	**125 186**	–
Department of Basic Education	**1 921**	–
	837 836	690 161

The Bank's exposure to currency and liquidity risk related to other payables is disclosed in note 46.

29. Employee benefits

29.1 Liability for funeral benefits

This benefit is for all current and retired employees of the Bank. In respect of these employees, a gross amount of R33 000 is paid to the family upon the death of the employee or retired employee. The obligation was actuarially valued on 31 March 2012.

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

in thousands of rand	2012	Restated 2011
Discount rate (before taxation) (%)	**8.50**	9.50
Movement in liability for funeral benefits recognised in the statement of financial position		
Balance at 1 April	**4 526**	4 036
Increase in the liability	**668**	622
Company contributions	**(33)**	(132)
Balance at 31 March	**5 161**	4 526

29.2 Liability for post-retirement medical benefits

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

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

The investment in Medipref, as specified in note 21, has been set aside to fund this obligation.

29.2 Liability for post-retirement medical benefits *(continued)*

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 rand	2012	Restated 2011
Present value of unfunded obligation		
Present value of unfunded obligation at 1 April	**262 788**	233 913
Interest cost	**24 543**	20 717
Current service cost (includes interest to year-end)	**9 268**	8 798
Expected employer benefit payments	**(8 460)**	(7 146)
Actuarial loss for the year	**66 741**	6 506
Present value of unfunded obligation at 31 March	**354 880**	262 788
The projected unit credit method has been used to determine the actuarial valuation.		
The amount recognised as an expense in the income statement in respect of the defined benefit plan is as follows:		
Interest cost	**24 543**	20 717
Current service cost	**9 268**	8 798
Actuarial loss for the year	**66 741**	6 506
Total charge for the year (included in personnel expenses in the income statement – refer to note 12)	**100 552**	36 021
Market value of post-retirement medical benefit investment		
Market value of Medipref at 1 April	**68 066**	68 724
Decrease in market value for the year	**(2 753)**	(658)
Market value of Medipref at 31 March	**65 313**	68 066
The principal assumptions in determining the post-retirement medical benefits obligation are as follows:		
Discount rate (before taxation) (%)	**9.00**	9.50
Medical aid inflation rate (%)	**8.50**	7.75

Sensitivity analysis

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

The liability was recalculated to show the effect of a one percentage point decrease or increase in the rate of medical aid inflation.

	Central assumption	% point decrease	% point increase
Medical aid inflation rate (%)	8.50	(1.00)	1.00
Accrued liability 31 March 2012 (R'000)	354 880	302 488	421 092
% change		(14.80)	18.70
Current service cost + interest cost 2012/13 (R'000)	43 022	35 891	52 211
% change		16.60	21.40
Sensitivity results from previous valuation: Medical aid inflation rate 2011 (%)	7.75	(1.00)	1.00
Current service cost + interest cost 2011/12 (R'000)	33 811	28 438	40 679
% change		(15.90)	20.30

The obligation for the four years prior to March 2011 is as follows:	
March 2010	233 913
March 2009	226 648
March 2008	195 769
March 2007	172 204

Notes to the annual financial statements *(continued)*

for the year ended 31 March 2012

29. Employee benefits *(continued)*

in thousands of rand	2012	Restated 2011
29.3 Defined contribution plan		
Total amount expensed during the year (including group life assurance and income continuity benefits)	**54 987**	52 200

The Development Bank of Southern Africa Provident Fund (the Fund) was established on 1 June 1994. As a condition of employment, all eligible employees are required to join as members.

The Fund, which is governed by the Pension Funds Act, No. 24 of 1956, is a defined contribution plan for permanent employees of the Bank.

The number of employees covered by the plan: 737 (2011: 742)

30. Medium- to long-term funding: debt securities

in thousands of rand	2012	Restated 2011
30.1 At fair value through profit or loss		
Debt securities	**7 876 593**	7 558 405
30.2 Held at amortised cost		
Debt securities	**17 932 118**	15 786 374
	25 808 711	23 344 779

Debt securities designated at fair value through profit or loss consists of DV bonds and private placements listed and unlisted.

Debt securities measured at amortised cost consists of euro/rand bond issues, money market issuance (bridging bonds) and DV bonds.

31. Medium- to long-term funding lines of credit

in thousands of rand	2012	Restated 2011
Held at amortised cost		
Other funding	**7 705 306**	4 952 475

32. Funding under repurchase agreements

in thousands of rand	2012	Restated 2011
Funding under repurchase agreements	**–**	219 422

Refer to note 19, investments under resale agreements.

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

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

At 31 March 2012, there were no financial assets used as collateral (2011: fair value of financial assets was R219 million).

33. Share capital

in thousands of rand	2012	Restated 2011
Authorised		
500 000 ordinary shares (2011: 500 000) at a par value of R10 000 each	**5 000 000**	5 000 000
Callable capital (authorised but not yet issued)		
480 000 ordinary shares (2011: 480 000) at a par value of R10 000 each	**4 800 000**	4 800 000

The Development Bank of Southern Africa Act, No. 13 of 1997, section 18, allows Directors to issue shares from time to time and to call upon the shareholders in respect of any monies to be paid to the Bank.

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

It should be noted that the Minister of Finance has agreed to recommend to Parliament an amendment to the DBSA Act, No. 13 of 1997, to increase the callable capital of the Bank from the current R4.8 billion to R20 billion.

The Minister has also issued an interim Letter of Undertaking amounting to R15.2 billion in favour of the DBSA. This Letter of Undertaking will lapse when the increase in callable capital is formalised.

While the government of the Republic is the sole shareholder of shares in the Bank, any resolution signed by the representative of the government shall be deemed to be a resolution taken at a duly constituted meeting of the shareholders.

Issued capital		
20 000 ordinary shares (2011: 20 000) at a par value of R10 000 each	**200 000**	200 000

All issued capital is fully paid for.

34. Permanent government funding

Received to date	**3 792 344**	3 792 344

This represents capital provided by the South African government and remains part of the permanent capital of the Bank. No funds have been received since March 1994. There are no repayment terms and this funding is interest free. To date no cash repayments have been made and the full amount initially received is equal to the residual amount and is thus allocated to equity.

35. Revaluation reserve on land and buildings

Balance at 1 April	**245 730**	206 145
Fair value adjustment of revaluation reserve on land and buildings	**9 358**	39 585
Balance at 31 March	**255 088**	245 730

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

36. Hedging reserve

Balance at 1 April	**15 318**	32 249
Fair value adjustments of cash flow hedges	**22 403**	(16 931)
Balance at 31 March	**37 721**	15 318

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

Notes to the annual financial statements (continued)

for the year ended 31 March 2012

37. Reserve for general loan risks

in thousands of rand	2012	Restated 2011
Balance at 1 April	**1 119 827**	1 022 146
Transfer to general loan reserve	**142 199**	97 681
Balance at 31 March	**1 262 026**	1 119 827

The reserve is maintained based on the risk grading of the borrowers as detailed in accounting policy note 1.7.5 and movements are recognised directly between the reserve for general loan risk and retained earnings.

38. Fair value reserve

	2012	Restated 2011
Balance at 1 April	**(2 205)**	(15 144)
Fair value adjustments of available-for-sale financial instruments	**15 353**	12 939
Balance at 31 March	**13 148**	(2 205)

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

39. Contingencies

39.1 Employee loans

	2012	Restated 2011
Loan balances secured	**227**	243

The Bank has entered into agreements with financial institutions whereby it stands surety for housing and micro loans of its employees.

39.2 Guarantees

	2012	Restated 2011
39.2.1 The Bank has approved and issued guarantees on behalf of borrowers amounting to	**252 594**	317 051

It is the opinion of management that these borrowers are unlikely to default, and therefore these guarantees were not recognised in the statement of financial position as a liability.

	2012	Restated 2011
The total book debt to the credit provider is:	**252 594**	317 051

39.2.2 The Bank has undertaken to underwrite the commitments of the Development Fund in respect of the continued grant operations to the extent of its agreed contribution to the Fund's funding requirements as determined from time to time.

39.3 Contingent liabilities

39.3.1 There is a claim against the DBSA by Limpopo West Farming & Business for the amount of R18 144 925. The probable loss is R5 443 478 and the possible loss is R9 072 463.

39.3.2 There is a claim against the DBSA by Blue Serenity Investments for the amount of R11 400 000. The probable loss is R3 420 000 and the possible loss is R5 700 000.

39.3.3 Rates and taxes

The Bank is currently being rated as vacant land on certain categories of property, hence no value has been assessed against improvements for rates and taxes purposes. The Bank has for the last three years communicated with the relevant authorities to rectify the situation, and hence are of the view that the possible liability will be negotiated. The potential liability amounts to R14.04 million.

40. Related parties

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

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

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

40.1 Transactions with related parties

The following is a summary of transactions with related parties during the year and balances due at year-end:

40.2 Major public entities

40.2.1 National public entities

The total book debt for loans extended to national public entities amounts to R6 006 262 286 (2011: R4 118 348 412). None of these loans are non-performing.

40.2.2 Development Fund

The DBSA Development Fund is a section 21 company that was incorporated on 21 December 2001. This fund is not consolidated as the requirements of IAS 27 have not been met.

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

In order for the Fund to carry out its functions, it utilises the offices, staff, services and facilities of the Bank, for which it pays a management fee. This fee is charged at a market-related rate of 4% of operating costs of the Fund. At year-end, the net balance owed to the DBSA Development Fund was R16.4 million (2011: R44.2 million).

The management fee income was R3.3 million (2011: R15.9 million).

The grant paid to the DBSA Development Fund was R263.0 million (2011: R257.0 million).

40.2.3 National Mandates

The net advances on National Treasury amounted to R80 606.

40.3 There were no related party transactions with directors and key management personnel for the year ended 2012 (2011: nil), except as disclosed in note 44.

41. Commitments

in thousands of rand	2012	Restated 2011
At the reporting date, the Bank had the following commitments:		
• Loan commitments	**8 706 175**	6 837 902
• Grants	**63 990**	80 672
• Capital commitments	**84 587**	149 350
	8 854 752	7 067 924

41.1 Loan commitments

As the disbursement pattern for loans committed but not disbursed is a primary function of individual borrowers' implementation and administrative capacities, this pattern is not quantifiable. Loan commitments are to be financed from funds generated from operations and funds raised from local financial markets and foreign sources.

41.2 Grants

Grant commitments signed but not yet disbursed are to be financed from funds generated from operations and funds raised from local financial markets and foreign sources.

41.3 Capital commitments

Capital expenditure is in respect of property and equipment authorised but not contracted for.

These commitments will be financed from available cash resources, funds generated from operations and available borrowing capacity. These commitments are expected to be settled in the following financial year.

Notes to the annual financial statements *(continued)*

for the year ended 31 March 2012

42. Funds administered on behalf of third parties

in thousands of rand	2012	Restated 2011
Opening balance	**1 099 781**	756 970
Funds received	**1 144 993**	617 925
Funds disbursed	**(652 559)**	(275 114)
Closing balance	**1 592 215**	1 099 781

43. Taxation

The Bank is exempt from normal taxation in terms of section 10(1)(t)(x) of the Income Tax Act, No. 58 of 1962, as amended and consequently no liability for normal taxation has been recognised.

44. Schedule of Directors' and prescribed officers' emoluments

44.1 Executive members' remuneration

	Basic salaries/ fees R	Medical aid, group life and provident fund contribution R	Other allowances and benefits R	Total 2012 R	Total 2011 R
Chief Executive Officer and Managing Director					
Mr P Baloyi[1]	3 306 328	–	455 020	**3 761 348**	2 732 034
Executive managers					
Mr PA Currie	1 889 770	61 980	35 239	**1 986 989**	1 739 200
Mr P de la Rey[2]	470 633	35 104	313 900	**819 637**	1 683 289
Mr E Dietrich	1 224 511	96 069	331 583	**1 652 163**	1 542 594
Dr SJ Khoza	–	–	–	**–**	1 002 563
Mr L Mashaba	1 592 339	31 077	419 590	**2 043 006**	1 949 688
Ms D Mashishi[3]	861 241	22 092	9 621	**892 954**	–
Mr R Naidoo	1 552 333	–	26 271	**1 578 604**	1 480 908
Mr T Nchocho	1 178 347	96 069	282 815	**1 557 231**	1 538 197
Mrs L Ndlovu	–	–	–	**–**	664 584
Mr A Tadesse[4]	739 608	–	–	**739 608**	1 822 577
Mrs L van Lelyveld[5]	868 148	–	335 783	**1 203 931**	1 647 975
Mr H Weilert	–	–	–	**–**	719 123
Total	13 683 258	342 391	2 209 822	**16 235 471**	18 522 732

1. *Resigned 31 March 2012.*
2. *Resigned 31 July 2011.*
3. *Appointed 1 September 2011.*
4. *Amounts paid to third party – contract ended 31 March 2012.*
5. *Resigned 31 October 2011.*

44.2 Executive members' performance bonus

	2012 Performance incentives*	2011 Performance incentives paid** R
Chief Executive Officer and Managing Director		
Mr P Baloyi	–	2 300 000
Executive managers		
Mr P Currie	–	1 000 000
Mr P de la Rey	–	1 250 000
Mr E Dietrich	–	1 000 000
Mr L Mashaba	–	950 000
Mr R Naidoo	–	925 000
Mr TP Nchocho	–	900 000
Mr A Tadesse	–	1 000 000
Mrs L van Lelyveld	–	1 100 000
Total	–	10 425 000

* *No executive performance incentives are payable for the 2012 financial year.*

** *The 2011 executive incentives were included in the provision for 2011, but were paid in the 2012 financial year.*

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

	Fees for services as Directors R	Subsistence and travel R	Total 2012 R	Total 2011 R
Mr PJ Moleketi (Chairperson)	980 770	3 430	**984 200**	530 202
Mr FM Baleni	444 700	3 150	**447 850**	285 550
Dr L Bhengu-Baloyi[1]	168 500	–	**168 500**	–
Mr A Boraine	461 000	–	**461 000**	371 000
Mrs T Dingaan	664 500	–	**664 500**	610 000
Ms A Kekana[1]	174 112	616	**174 728**	–
Mr OA Latiff	427 223	–	**427 223**	435 835
Mrs W Lucas-Bull	569 420	3 178	**572 598**	523 098
Ms B Mabuza[1]	171 710	630	**172 340**	–
Dr C Manning	412 210	3 360	**415 570**	361 465
Ms D Marole[1]	219 710	630	**220 340**	–
Ms M Vilakazi[1]	77 500	–	**77 500**	–
Dr L Gwagwa[2]	–	–	**–**	273 690
Mr I Mzimela[3]	–	–	**–**	330 050
Mr J Naidoo[4]	–	–	**–**	204 043
Ms T Ramano[5]	–	–	**–**	12 500
Prof. E Webster[3]	–	–	**–**	160 525
Co-opted members				
Prof. D Everatt	36 000	630	**36 630**	48 882
Prof. B Figaji[6]	133 000	–	**133 000**	172 000
Dr R Kfir	36 500	588	**37 088**	36 224
Prof. V Taylor	48 000	–	**48 000**	36 000
	5 024 855	16 212	**5 041 067**	4 391 064

1. *Appointed on 14 October 2011.*
2. *Resigned as Director with effect from 31 October 2010.*
3. *End of contract and resigned as Director on 31 January 2011.*
4. *Retired as Chairperson of the Board with effect from 31 August 2010.*
5. *Resigned on 21 April 2010.*
6. *Prof Figaji is the Chairman of the Development Fund Board. He further serves as a co-opted member on various DBSA subcommittees.*

Notes to the annual financial statements (continued)

for the year ended 31 March 2012

45. Non-current assets held-for-sale

During the previous financial year, as a result of calling on its security against the loan in default, the Bank obtained a 100% shareholding in a property investment company with a view to sell. This investment was classified as a non-current asset held-for-sale, as it had been the Bank's intention to dispose of the investment within the 12 months. The value of the asset at the reporting date is R2.

46. Financial risk management

46.1 Market risk

Market risk is the risk that the Bank's earnings and capital will be adversely affected by movements in the level or volatility of market rates or prices such as interest rates and foreign exchange rates. The overarching objective of market risk management in the Bank is to protect the Bank's net earnings against adverse market movements through containing the innate interest rate and foreign currency risks within acceptable parameters.

Market risk management in the Bank is centralised in the Treasury Division and is governed by the asset and liability management (ALM) policy, incorporating interest rate, currency and liquidity risk parameters. As with all risk management policies of the Bank, the ALM policy resides under the authority of the Board of Directors. Whilst the ultimate responsibility for prudent and effective asset and 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, under the oversight of the Finance Committee of the Board, is responsible for assessing and monitoring the Bank's market risk exposures and is supported in these functions by the Group Risk Assurance (GRA) Division.

46.1.1 Interest rate risk

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

The Treasury Division, under oversight of the Asset and Liability Management Committee, is charged with managing and containing the Bank's interest rate risk exposures within Board-approved limits. To this end, the Bank makes use of derivative instruments to achieve its desired interest rate risk profile.

The Bank's primary interest rate risk management objective is to protect its net interest income (NII) from adverse fluctuations in market interest rates. To achieve this objective, it is the policy of the Bank to measure and manage its interest rate risk exposure both over the short and long term in order to protect the Bank's earnings stream and ensure its continued financial sustainability. Limits are set both with respect to short-term NII sensitivity, using the 12-month cumulative repricing gap to total earning assets ratio, and in the longer term, with respect to the duration range of the Bank's net assets. As at 31 March 2012, the 12-month cumulative repricing gap amounted to 17.84% (2011: 8.39%) of total earning assets, well within the approved limit of 22.5%.

The management of interest rate risk against these limits is supplemented by scenario analysis, which measures the sensitivity of the Bank's net interest income and market value of equity to extreme interest rate movements. At a minimum, scenarios include hypothetical interest rate shocks, both up and down, of at least 100 basis points.

The repricing profile as at financial year-end is encapsulated in the table 46.1.1.2 below. As reflected in the 12-month cumulative repricing gap, the Bank is asset-sensitive, with an immediate 100 basis points parallel upward (downward) shift in the yield curve expected to result in an increase (decrease) in net interest income over the projected 12-month period of approximately R34.4 million (2011: R24 million).

46.1.1.1 Hedging of interest rate risk exposure

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

As at 31 March 2012, the Bank had a combined ZAR interest rate and USD interest rate swaps portfolio with a total notional contract amount of R6.2 billion (2011: R6 billion). The Bank classifies interest rate swaps as fair value hedges and states them at fair value (refer to note 20). The net fair value of swaps as at 31 March 2012 was R709 million (2011: R517 million), comprising assets of R746 million (2011: R543 million) and liabilities of R37 million (2011: R26 million). These amounts are recognised as fair value derivatives.

46. Financial risk management *(continued)*

46.1 Market risk *(continued)*

46.1.1 Interest rate risk (continued)

The table below shows the contractual repricing gap

46.1.1.2 Contractual repricing gap

		Contractual repricing gap								
in millions of rand		**<1 month**	**1 – 3 months**	**3 – 12 months**	**1 – 2 years**	**2 – 3 years**	**3 – 4 years**	**4 – 5 years**	**>5 years**	**Grand total**
Cash and cash equivalents	ZAR	2 017	–	–	–	–	–	–	–	2 017
	EUR	–	–	–	–	–	–	–	–	–
	USD	96	–	–	–	–	–	–	–	96
Money market instruments	ZAR	50	350	84	–	12	–	–	–	496
Repurchase assets	ZAR	710	–	–	–	–	–	–	–	710
Investment: Government bonds	ZAR	–	–	–	–	–	937	–	206	1 143
Investment: Municipal bonds	ZAR	–	–	–	33	67	167	33	484	784
Investment: Corporate bonds	ZAR	100	–	30	–	–	60	–	150	340
Development loans	EUR	–	–	1	1	1	1	1	4	9
	TZS	–	88	–	–	–	–	–	–	88
	USD	554	753	5 307	47	45	46	47	63	6 862
	ZAR	1 249	4 267	6 240	1 911	1 534	1 503	1 427	14 017	32 148
Derivatives: Development loans	TZS	–	(88)	–	–	–	–	–	–	(88)
	USD	(1 225)	(645)	(80)	(17)	(17)	(17)	(17)	(9)	(2 027)
	ZAR	1 229	903	22	20	21	21	22	11	2 249
Total financial market assets		**4 780**	**5 628**	**11 604**	**1 995**	**1 663**	**2 718**	**1 513**	**14 926**	**44 827**
Cross-currency swaps: Lines of credit	EUR	6	45	86	160	169	173	115	792	1 546
Cross-currency swaps: Lines of credit	USD	–	(164)	(56)	20	33	34	34	109	10
Cross-currency swaps: Lines of credit	ZAR	–	(506)	(37)	(93)	(102)	(106)	(48)	(420)	(1 312)
Funding bonds	ZAR	(2 214)	–	–	(1 800)	–	(215)	(1 000)	(19 902)	(25 131)
Funding: Lines of credit	EUR	(6)	(47)	(85)	(160)	(169)	(173)	(115)	(795)	(1 550)
Funding: Lines of credit	USD	–	(1 978)	(2 163)	(12)	(33)	(33)	(33)	(117)	(4 369)
Funding: Lines of credit	ZAR	–	(670)	(281)	–	–	–	–	–	(951)
IRS: Funding bonds	ZAR	(215)	(4 370)	(1 000)	1 200	–	215	1 000	3 170	–
IRS: Lines of credit	ZAR	–	–	–	–	–	–	–	–	–
Funding: Money market debt	USD	(520)	(307)	–	–	–	–	–	–	(827)
Funding: Money market debt	ZAR	–	–	(100)	–	–	–	–	–	(100)
Repurchase liability	ZAR	–	–	–	–	–	–	–	–	–
Total financial market liabilities		**(2 949)**	**(7 997)**	**(3 636)**	**(685)**	**(102)**	**(105)**	**(47)**	**(17 163)**	**(32 684)**
Liquidity gap		**1 831**	**(2 369)**	**7 968**	**1 310**	**1 561**	**2 613**	**1 466**	**(2 237)**	**12 143**
Cumulative liquidity gap		**1 831**	**(538)**	**7 430**	**8 740**	**10 301**	**12 914**	**14 380**	**12 143**	

These are principal amounts only and therefore exclude interest. Spot exchange rates used: EUR/USD 1.3343 USD/ZAR 7.65 USD/TZS 1 588.0

Note that the contractual repricing gap has been adjusted to include the Bank's 2027 zero coupon liability at current book value. This bond contractually matures in 2027 and accrues interest semi-annually toward a maturity value of R7.5 billion.

Notes to the annual financial statements *(continued)*

for the year ended 31 March 2012

46. Financial risk management *(continued)*

46.1 Market risk *(continued)*

46.1.2 Foreign currency risk

Foreign currency risk is the risk of financial loss resulting from adverse movements in foreign currency exchange rates. Currency risk in the DBSA arises primarily as a result of foreign currency denominated borrowings, foreign currency lending, and foreign currency denominated equity investments within the SADC region.

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

As at 31 March 2012, the Bank's net open foreign currency positions amounted to asset positions of EUR25.2 million (2011: EUR33.4 million) and USD159.6 million (2011: USD133.9 million). Foreign currency denominated equity positions of EUR24.3 million (2011: EUR32.1 million) and USD192.8 million (2011: USD157.6 million) constituted the bulk of the Bank's net open foreign currency exposure as at end March 2012.

46.1.2.1 Hedging of foreign currency risk exposure

The Bank uses cross-currency swaps and forward exchange contracts (FECs) to hedge its foreign currency risk. The principal terms of these swaps and FECs are substantially similar to those of the hedged items with regard to maturity dates, interest reset dates, nominal values, and amortisation profile. As at 31 March 2012, the Bank had cross-currency swaps and FECs with a notional amount of R3.6 billion (2011: R3.3 billion).

The notional principal amounts indicate the volume of currency hedged liabilities outstanding at the balance sheet date and do not represent the amount at risk. The fair value of derivative financial instruments represents the positive or negative cash flows which would have occurred had the rights and obligations arising from that instrument been closed out in an orderly market at statement of financial position date.

46.1.2.2 Foreign currency sensitivity analysis

Potential impact of rand sensitivity on profit/loss based on current net open position/currency exposures.

	Currency	
in thousands	**EUR**	**USD**
Cash at bank	2	12 586
Loan assets	979	896 954
Equity investments	24 259	192 817
Cross-currency swaps	151 684	(93 336)
Derivatives FECs	–	(170 292)
Liabilities	(151 685)	(679 138)
Net open positions	**25 239**	**159 591**

Foreign currency exchange rate (FX) sensitivity analysis

in thousands of rand

FX sensitivity combined	**ZAR sensitivity (%)**	**EUR potential impact (%)**	**EUR/ZAR**	**USD potential impact**	**USD/ ZAR**
(259 694)	(15.00)	(38 644)	8.68	(183 131)	6.50
(173 130)	(10.00)	(25 763)	9.19	(122 088)	6.89
(86 565)	(5.00)	(12 881)	9.70	(61 044)	7.27
–	–	–	10.21	–	7.65
86 565	5.00	12 881	10.72	61 044	8.03
173 130	10.00	25 763	11.23	122 088	8.42
259 694	15.00	38 644	11.74	183 131	8.80

Spot exchange rate used: EUR/USD 1.3343 USD/ZAR 7.65

46. Financial risk management *(continued)*

46.1 Market risk *(continued)*

46.1.3 Liquidity risk

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

Although not a deposit-taking institution and therefore not subject to the volatile and uncertain nature of such liabilities, the high levels of uncertainty around the level and timing of loan disbursements, coupled with the dependency on market funding, nevertheless expose the Bank to the very real threat of a liquidity squeeze, primarily as it relates to funding asset growth. Therefore, the major form of liquidity risk for the DBSA relates to ensuring access to funding to enable asset growth, with contractual cash flows typically net positive over the long term (reinvestment risk), in contrast to commercial banks where liquidity risk concerns centre primarily on the risk of liabilities being called (refinance risk).

In order to shield the Bank against the risk of a liquidity shortfall, the Bank's liquidity risk management policy requires the maintenance of prudential liquidity levels conservatively based on the level of liabilities from time to time. Taking cognisance of both the importance of ensuring sufficient liquidity to reduce the dependence on distress borrowing and the potential opportunity cost incurred by excessive liquidity, the liquidity portfolio consists of two pools, namely, the Operational Liquidity Pool, which is aimed at ensuring sufficient cash to meet the Bank's near-term requirements, and the Strategic Liquidity Pool, which, in a normal yield curve environment, is aimed at reducing the cost of liquidity through investment in longer duration, liquid assets.

Liquidity is held primarily in the form of money market instruments such as call deposits, negotiable certificates of deposit, banker's acceptance as well as liquid debt issues from government, municipalities and other approved issuers. It also includes bonds designated as "held-to-maturity" if the remaining maturity is less than three months. Investments are guided by instrument, tenure and duration limits aimed at ensuring sufficient liquidity, consistent with the Bank's liquidity requirements from time to time.

Total liquidity gross of funds raised on the bond repo market averaged R4.9 billion (2011: R4.8 billion), with a year-end figure of R4.8 billion (2011: R3.8 billion). This includes cash and cash equivalents of R2.11 billion (2011: R1.18 billion), money market instruments of R0.41 billion (2011: R0.37 billion), corporate and municipal bonds of R1.05 billion (2011: R1.02 billion), and government bonds amounting to R1.25 billion (2011: R1.24 billion).

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

The Bank uses cash flow forecasts and cumulative maturity gap analysis to assess and monitor its liquidity requirements and risk levels. A maturity gap profile report forms part of the asset and liability report which is reviewed and analysed by the ALCO on a periodic basis. Calculated on a nominal maturity basis, the 12-month cumulative liquidity gap as at 31 March 2012 was approximately R2.98 billion (31 March 2011: R1.78 billion).

Notes to the annual financial statements *(continued)*

for the year ended 31 March 2012

46. Financial risk management *(continued)*

46.1 Market risk *(continued)*

46.1.3 Liquidity risk

The table below shows the contractual liquidity gap.

		Contractual liquidity gap								
in millions of rand		**< 1 month**	**1 – 3 months**	**3 – 12 months**	**1 – 2 years**	**2 – 3 years**	**3 – 4 years**	**4 – 5 years**	**> 5 years**	**Grand total**
Cash and cash equivalents	ZAR	2 017	–	–	–	–	–	–	–	2 017
	EUR	–	–	–	–	–	–	–	–	–
	USD	96	–	–	–	–	–	–	–	96
Money market instruments	ZAR	50	350	84	–	12	–	–	–	496
Repurchase assets	ZAR	710	–	–	–	–	–	–	–	710
Investment: Government bonds	ZAR	–	–	–	–	–	937	–	206	1 143
Investment: Municipal bonds	ZAR	–	–	–	33	67	167	33	484	784
Investment: Corporate bonds	ZAR	–	–	30	100	–	60	–	150	340
Development loans	EUR	–	–	1	1	1	1	1	4	9
	TZS	–	22	22	44	–	–	–	–	88
	USD	13	11	662	1 167	780	720	648	2 861	6 862
	ZAR	23	172	1 851	3 066	2 624	2 676	2 856	18 880	32 148
Derivatives: Development loans	TZS	–	(22)	(22)	(44)	–	–	–	–	(88)
	USD	(1 225)	(37)	(501)	(166)	(28)	(28)	(28)	(14)	(2 027)
	ZAR	1 229	81	556	274	31	31	31	16	2 249
Total financial market assets		**2 913**	**577**	**2 683**	**4 475**	**3 487**	**4 564**	**3 541**	**22 587**	**44 827**
Cross-currency swaps: Lines of credit	EUR	6	45	86	160	169	172	115	793	1 546
Cross-currency swaps: Lines of credit	USD	–	–	5	5	–	–	–	–	10
Cross-currency swaps: Lines of credit	ZAR	–	(41)	(73)	(136)	(145)	(148)	(90)	(679)	(1 312)
Funding bonds	ZAR	–	–	(2 214)	(1 800)	–	(215)	(1 000)	(19 902)	(25 131)
Funding: Lines of credit	EUR	(6)	(47)	(85)	(160)	(169)	(174)	(115)	(794)	(1 550)
Funding: Lines of credit	USD	–	(75)	(426)	(584)	(633)	(634)	(623)	(1 394)	(4 369)
Funding: Lines of credit	ZAR	–	(7)	(60)	(72)	(94)	(94)	(94)	(530)	(951)
IRS: Funding bonds	ZAR	–	–	–	–	–	–	–	–	–
IRS: Lines of credit	ZAR	–	–	–	–	–	–	–	–	–
Funding: Money market debt	USD	(31)	(19)	(149)	(199)	(199)	(199)	(31)	–	(827)
Funding: Money market debt	ZAR	–	–	(100)	–	–	–	–	–	(100)
Repurchase liability	ZAR	–	–	–	–	–	–	–	–	–
Total financial market liabilities		**(31)**	**(144)**	**(3 016)**	**(2 786)**	**(1 071)**	**(1 292)**	**(1 838)**	**(22 506)**	**(32 684)**
Liquidity gap		**2 882**	**433**	**(333)**	**1 689**	**2 416**	**3 272**	**1 703**	**81**	**12 143**
Cumulative liquidity gap		**2 882**	**3 315**	**2 982**	**4 671**	**7 087**	**10 359**	**12 062**	**12 143**	

These are principal amounts only and therefore exclude interest. Spot exchange rates used: EUR/USD 1.3343 USD/ZAR 7.65 USD/TZS 1 588.0

Note that the contractual liquidity gap has been adjusted to include the Bank's 2027 zero coupon liability at current book value. This bond contractually matures in 2027 and accrues interest semi-annually toward a maturity value of R7.5 billion.

As per the table above DBSA has a positive liquidity gap where the contractual inflows exceed outflows across all time buckets. This profile is anticipated due the nature of the business where the Bank has raised long dated stable funding and generated short-term amortising assets.

There are no behavioural assumptions made on the liquidity gap and all assets and liabilities are disclosed with the underlying contractual maturity as determined by the cash flow profile for each record.

46.2 Credit risk

Credit risk is the risk of suffering financial loss, should any of the Bank's clients or market counterparties fail to fulfil their contractual obligations to the Bank. The credit risk that the Bank faces arises mainly from its development finance loans. However, credit risk may also arise where the downgrading of a client's rating causes the fair value of the Bank's investment in that entity's financial instrument to fall.

- Credit risk may also be manifested as country risk, where difficulties may arise in the SADC country in which an exposure or counterparty is domiciled, thus impeding or reducing the value of assets.
- Settlement risk is another form of credit risk. This is the risk of a counterparty failing to deliver cash (securities) due to be delivered at a particular moment in time, following release of the corresponding cash (securities) by the Bank in settlement of a transaction.

The Bank meets its credit risk management objectives through its framework of control and governance, its measurement, reporting and system of internal ratings, its mechanism for credit risk mitigation and its country risk methodology.

Credit risk control and governance: Committee structure
The Bank has established a number of key committees both at divisional and corporate level to review credit risk management, approve Bank credit policies and resolve all credit-related issues. These are:

- Divisional Credit and Development Impact Committee
- Corporate Credit and Development Impact Committee
- Portfolio Management Monitoring and Review Committee
- Credit Risk Rating Models Technical Committee

Organisational structure
The DBSA has structured the responsibilities of credit risk management such that decisions are taken as close as possible to the business, whilst ensuring robust reviews and challenging of performance. Credit risk analysts are deployed at divisional levels to enable responsible risk-taking and effective risk management. Credit risk assumes a divisionalised structure for the three main business divisions, namely, South Africa Operations, Investment Banking and the International Division. The credit analyst's responsibilities include to:

- Perform credit checks on privately owned companies and the International finance operations as part of the credit review
- Present an objective view of the quality of all credits under consideration and make recommendations to the various Credit Committees
- Monitor credit exposure limits
- Monitor the asset quality of the performing assets on a continuous basis

Application of internal rating
The Bank is not regulated under the Banks Act and as such is not formally obligated to comply with Basel II Pillar 1 requirements. However, as a leveraged financial institution, prudence requires it to maintain the adequate levels of capital. The Bank's approach to credit risk measurement and quantification seeks to align with international best practice. The Bank has uniform guidelines with respect to the estimation of credit risk rating for all its loan transactions.

The key blocks in the Bank's quantitative assessment are:

- Probability of default (PD)
- Exposure in the event of default (EAD)
- Loss given default (LGD)

These parameters, together with expert judgement, are used in a wide range of credit risk measurement and management activities.

- Credit approval: PDs are used to inform credit committee decisions on applications at different credit sanctioning levels.
- Credit grading: The Bank employs a 17-point rating scale of default probabilities, which is in line with both Moody's and Standard and Poor.
- Risk, reward and pricing: PD and LGD metrics are used to assess expected loss and profitability of deals and portfolios in the private sector to allow for risk-adjusted pricing and development impact.
- Risk management information: Group Credit Risk generates risk reports to inform senior management on issues such as portfolio performance and risk appetite.

Notes to the annual financial statements *(continued)*

for the year ended 31 March 2012

46. Financial risk management *(continued)*

46.2 Credit risk *(continued)*

In the Bank's risk terminology, loss given default (LGD) estimates the likely credit economic loss on default claims. The part that is not recovered, the actual loss, together with the economic cost associated with the recovery process is expressed as a percentage of exposure at default (EAD). The Bank calculates an LGD for each type of exposure using LGD models based on historical information and expert opinion. The level of LGD depends principally on: the seniority or subordination of the exposure; the length of time taken for the recovery process and the timing of all associated cash flows; and workout expenses.

Control mechanisms for the internal rating system

The Bank has developed its own internal credit risk rating models for all its major asset classes i.e. municipal, project finance, corporate finance/balance sheet lending and tertiary education. These are bespoke models adopted for the Bank's specialised lending and development impact considerations.

The Bank has established a Credit Risk Rating Models Technical Committee to oversee the development of all credit models. The Committee will safeguard the integrity of the risk rating process by defining and approving credit rating model policies, standards and control environment. The Committee is also responsible for the approval of all model building specifications as well as model implementation.

The models were also subjected to validation and independent reviews before signed off for implementation. The validation exercise demonstrated that the models were fit for purpose and provided accurate estimates. The independent reviews by external auditors ensured that the model development has followed a robust process and that the model design meets internationally accepted standards.

Models are also subjected to performance monitoring and validation on an annual basis. The principal objectives of this are to ensure that assumptions used in model development are still appropriate; that any deficiencies are identified early and remedial action is taken before the decision-making process is affected; and that these models produce the most accurate possible quantitative assessment of the credit risk to which the Bank is exposed, from the level of individual facilities up to the total portfolio.

Calculations of internal ratings

To calculate probability of default (PD), the DBSA assesses the credit quality of borrowers (municipalities and private sector clients) and assigns them an internal risk rating.

A key element of the DBSA's internal risk rating model is the PD master rating scale. This measures borrower risk without the effect of collateral and any credit risk mitigation. 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.

All credit applications are required to carry the borrower PD rating from the DBSA master rating scale. The comprehensive PD rating scale, which is mapped to a default grade and external rating scales, enables the DBSA to rate all borrowers on a single scale. The major benefit is that comparison can be established between the riskiness of borrowers constituting various portfolios.

DBSA PD master rating scale

Rating grade	Midpoint PD (%)	Lower bound PD (%)	Upper bound PD (%)	Mapping to S&P	Mapping to Moody's
MS 1	0.01	0.00	0.02	AAA	Aaa
MS 2	0.02	0.02	0.03	AA+	Aa1
MS 3	0.03	0.03	0.04	AA	Aa2
MS 4	0.04	0.04	0.05	AA-	Aa3
MS 5	0.05	0.05	0.06	A+	A1
MS 6	0.06	0.06	0.08	A	A2
MS 7	0.10	0.08	0.14	A-	A3
MS 8	0.17	0.14	0.24	BBB+	Baa1
MS 9	0.30	0.24	0.40	BBB	Baa2
MS 10	0.50	0.40	0.68	BBB-	Baa3
MS 11	0.85	0.68	1.13	BB+	Ba1
MS 12	1.40	1.13	1.90	BB	Ba2
MS 13	2.40	1.90	3.20	BB-	Ba3
MS 14	4.00	3.20	5.50	B+	B1
MS 15	7.00	5.50	9.50	B	B2
MS 16	12.00	9.50	16.00	B-	B3
MS 17	58.00	16.00	99.99	CCC	Caa etc
Default	100	99.99	100.0	Default	D

The Bank has undertaken an exercise benchmarking its master rating scale with that of other financial institutions, which showed that the Bank's PD banding estimates are directly comparable to those of the other financial institutions. This implies that the Bank's PD banding estimates have sufficient granularity to allow for more effective credit risk pricing.

Reporting

In order to achieve its mandate, the financial sustainability of the Bank is critical. The DBSA therefore dedicates considerable resources to gaining a clear and accurate understanding of credit risk across its portfolios, in order to ensure that its balance sheet accurately reflects the value of the assets in accordance with applicable accounting principles. This process can be summarised in the following broad stages:

- Measuring and quantification of exposures and concentrations
- Monitoring adverse conditions and weakness within the portfolios
- Identifying potential problem loans (credit watchlist)
- Raising provisions for impaired loans
- Writing off assets when the whole or part of a debt is considered irrecoverable

Notes to the annual financial statements *(continued)*

for the year ended 31 March 2012

46. Financial risk management *(continued)*

46.2 Credit risk *(continued)*

Credit risk mitigation

The DBSA uses a wide range of techniques to reduce credit risk on its lending. Collateral and guarantees are used by the Bank for credit risk mitigations. The amount and type of credit risk mitigation depends on the asset quality of each transaction. The collateral policy ensures that credit risk mitigation techniques are used consistently, are acceptable types of mitigation and valued appropriately and regularly, and meet operational management risk requirements for legal, practical and timely enforceability. The Bank ensures that the collateral held is sufficiently liquid, legally effective, enforceable and regularly valued.

The main types of collateral taken are the following: mortgage bonds over commercial and industrial properties, bonds over plant and equipment and the underlying moveable assets financed. The Bank also uses various forms of specialised legal agreements such as guarantees and similar legal contracts in support of credit extension to private sector clients with weaker credits. Financial covenants are also an important tool for credit mitigation within the DBSA.

Country risk

DBSA country risk arises from its lending operations to other SADC countries. The Bank has implemented a reputable methodology of country risk classification, sovereign risk rating and risk pricing. In terms of the DBSA country risk policy, country risk is distinctively different from sovereign risk. While country risk is more generic and takes cognisance of political, economic, legal, tax, security and operational factors to determine the risk profile of individual SADC countries, sovereign risk has a clear credit, financial risk focus. The sovereign risk rating methodology considers solvency, liquidity, economic and political issues to risk-rate countries and generate a probability of default. The model inputs are continuously updated to reflect economic and political changes in individual countries.

The Bank's country risk limits are calculated using sovereign risk ratings in conjunction with debt absorption capacity of countries as measured by the gross domestic product. The limit exposure framework therefore considers the economic strength of the SADC countries, ensuring that country exposures are related to the degrees of perceived risk as well as the country's debt absorption capacity. The exposure framework therefore ensures that the Bank's exposure limits are set on prudential grounds.

Country ratings are reviewed annually as well as when there is a report of a major risk within a SADC country and the limits are adjusted accordingly. In addition, aggregate investment in other SADC countries is limited to one-third of the Bank's maximum total investment portfolio.

Countries designated as higher risk are subject to increased monitoring.

46.2.1 Credit risk exposure

46.2.1.1 Maximum exposure

(a) Development loans:

in thousands of rand		2012			2011		
		Gross amount	Allowance for impairment	Carrying amount	Gross amount	Allowance for impairment	Carrying amount
Non-performing book							
Municipalities		430 251	122 055	308 196	371 295	171 280	200 015
Other		1 595 987	665 738	930 249	1 248 173	525 212	722 961
		2 026 238	787 793	1 238 445	1 619 468	696 492	922 976
Performing book							
Low risk	Municipal	15 654 528	11 547	15 642 981	16 512 095	9 287	16 502 808
	Other	12 381 102	13 423	12 367 679	10 789 793	50 429	10 739 364
Medium risk	Municipal	1 503 704	12 154	1 491 550	662 313	7 579	654 734
	Other	9 004 037	67 223	8 936 814	8 620 820	98 784	8 522 036
High risk	Municipal	–	–	–	–	–	–
	Other	809 886	69 100	740 786	549 360	46 130	503 230
		39 353 257	173 447	39 179 810	37 134 381	212 209	36 922 172
Total book debt		41 379 495	961 240	40 418 255	38 753 849	908 701	37 845 148
Rescheduled loans included in performing book		446 124	24 866	421 258	133 013	3 289	129 724

The following collaterals are held in respect of the above loans: guarantees, cession of debtors, cession of income streams, mortgages, investments, notarial bonds, sinking fund investments, promissory notes, insurance policies and treaty obligations.

Notes to the annual financial statements *(continued)*

for the year ended 31 March 2012

46. Financial risk management *(continued)*

46.2 Credit risk *(continued)*

46.2.1 Credit risk exposure (continued)

46.2.1.1 Maximum exposure (continued)

(b) Other receivables:

in thousands of rand		2012 Gross amount	2012 Allowance for impairment	2012 Carrying amount	2011 Gross amount	2011 Allowance for impairment	2011 Carrying amount
Debtors 90 days and over	Fees and sales invoiced	6 920	813	6 107	9 557	1 399	8 158
	Special programmes/ projects/ miscellaneous	1 141	1 141	–	1 850	1 105	745
		8 061	1 954	6 107	11 407	2 504	8 903
Debtors current to 90 days							
Low risk	Fees and sales invoiced	156 009	–	156 009	26 739	–	26 739
Current – 30 days	Special programmes/ projects/ miscellaneous	1 598	–	1 598	–	–	–
Medium risk	Fees and sales invoiced	23 161	–	23 161	11 002	–	11 002
30 days – 60 days	Special programmes/ projects/ miscellaneous	–	–	–	662	–	662
High risk	Fees and sales invoiced	343	–	343	5 733	–	5 733
60 days – 90 days	Special programmes/ projects/ miscellaneous	61 721	–	61 721	1 850	–	1 850
		242 832	–	242 832	45 986	–	45 986
Staff and study loans		491	–	491	935	–	935
Municipal deposits		1 388	–	1 388	1 651	–	1 651
Prepaid expenses		1 800	–	1 800	691	–	691
		3 679	–	3 679	3 277	–	3 277
Total book debt		254 572	1 954	252 618	60 670	2 504	58 166

(c) Commitments
(Loans signed but not yet fully disbursed)

in thousands of rand		2012	2011
Low risk	Municipal	633 066	1 009 487
	Other	4 446 642	2 016 005
Medium risk	Municipal	473 547	521 691
	Other	2 557 283	2 981 880
High risk	Municipal	152 700	–
	Other	442 937	308 839
Total fixed commitments		8 706 175	6 837 902

(d) Guarantees		252 594	317 051

46. Financial risk management *(continued)*

46.2 Credit risk *(continued)*

46.2.1 Credit risk exposure (continued)

46.2.1.2 Loans that are past due or individually impaired

(a) Loans past due but not individually impaired:

in thousands of rand	2012					2011				
	Total	3 months	3 – 6 months	6 – 12 months	> 12 months	Total	3 months	3 – 6 months	6 – 12 months	>12 months
Overdue amounts	155 850	27 517	50 594	51 547	26 192	378 296	323 042	45 173	10 081	–
Not yet due	6 335 883					11 573 722				
Total	6 491 733					11 952 018				

The fair value of collateral held in respect of the above amounted to R713 million (2011: R944 million).

For the purposes of calculating this aggregated total, the fair value of each collateral is limited to the carrying value for each individual loan.

The above collaterals consist of guarantees, cession of debtors, mortgages, investments, notarial bonds, sinking fund investments and insurance policies.

(b) Individually impaired loans (non-performing book)

in thousands of rand	2012			2011		
	Gross amount	Allowance for impairment	Carrying amount	Gross amount	Allowance for impairment	Carrying amount
0% to 10%	413 338	367 919	45 419	270 167	221 929	48 238
11% to 40%	197 711	139 641	58 070	222 476	142 245	80 231
41% to 60%	343 894	109 861	234 033	643 510	264 659	378 851
61% to 99%	1 071 295	170 372	900 923	483 315	67 659	415 656
	2 026 238	787 793	1 238 445	1 619 468	696 492	922 976

The fair value of collateral held in respect of the above amounted to R592 million (2011: R437 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, insurance policies and promissory notes.

46.2.1.3 Financial counterparty exposure

	Credit exposure	
	2012	2011
Risk category	Utilised amount	Utilised amount
Bonds	1 050 058	1 013 704
Derivatives	1 167 440	1 074 164
Cash and money markets	2 361 232	1 684 532
Repurchase agreements	755	226

Notes to the annual financial statements *(continued)*

for the year ended 31 March 2012

46. Financial risk management *(continued)*

46.3 Capital management

During the period under review, the Bank complied with its regulatory leverage ratio requirement, as set out in the regulation made under section 17 of the Development Bank of Southern Africa Act (No. 13 of 1997).

The Bank's objectives when managing capital are:

- To safeguard the Bank's ability to continue as a going-concern, through ensuring a sufficient cushion against unexpected losses, and to provide for an acceptable growth rate in the Bank's development finance activities
- To maintain an adequate credit rating to ensure the Bank continued access to funds at optimal rates, in support of its mission to provide affordable development finance solutions

The Bank monitors and manages its capital adequacy within the regulatory leverage constraint and in line with the capital adequacy framework approved by the Board. Whereas the Bank has adopted a self-imposed capital adequacy framework that differentiates between the risks assumed on different asset classes and provides for market and operational risk, the overarching regulatory capital requirement applicable to the institution is derived from the debt-equity maximum of 250%. Implicit in this is a minimum unweighted capital requirement of 28.6%.

The leverage ratio is calculated as total debt divided by shareholders' capital, where total debt comprises total liabilities excluding other creditors (as shown on the statement of financial position). Capital comprises share capital, permanent government funding, retained earnings, and reserves. As at 31 March 2012, the debt to equity stood at 193.8% (2011: 161.6%). The capital ratio is calculated as shareholders' capital divided by unweighted assets, where unweighted assets comprise total assets (as shown on the statement of financial position). Shareholders' capital comprises share capital, permanent government funding, retained earnings, general provisions and the fair reserve. As at March 2012, the capital ratio stood at 33.4% (2011: 37.2%).

47. Events after the reporting period

The financial statements were authorised for issue by the Board on 31 July 2012. The following non-adjusting events took place after the reporting date:

47.1 Liability for post-retirement medical benefits

During April 2012, the Minister of Finance approved the proposal to dissolve the liability for post-retirement medical benefits by offering eligible employees a voluntary lump sum transfer into their provident fund, subject to 70% or more eligible employees accepting the offer. The provision for post-retirement medical benefits has been raised as per note 29.1. The estimated effect to the profit for the 2012/13 financial year cannot be made.

47.2 Equity investments

During July 2012, Savannah Consortium disposed of 15 million shares out of 58 million shares in Aquarius Platinum Ltd at a price of R6. Further, the share price declined to R5.20 (R18 at 31 March 2012). The effect is that profit for the year will be reduced by R22 million.

48. Comparative figures

Certain comparative figures have been reclassified for fairer presentation.

Headway Hill, 1258 Lever Road, Midrand, South Africa
PO Box 1234, Halfway House, 1685, South Africa
Telephone: +27 11 313 3911, Fax: +27 11 313 3086

Vision

The vision of the DBSA Development Fund is derived from the DBSA's development agenda and a shared commitment to creating "a prosperous and integrated region, progressively free of poverty and dependency".

DBSA
DEVELOPMENT FUND
ANNUAL REPORT

Contents

The financial year of the DBSA Development Fund is from 1 April to 31 March. Unless otherwise indicated, references to a combined year, for instance 2011/12, are to the financial year ended 31 March 2012.

Abbreviations

AFD	Agence Française de Développement
ASIDI	Accelerated Schools Infrastructure Delivery Initiative
BRICS	Brazil, Russia, India, China and South Africa
BSC	Balanced Scorecard
CESA	Consulting Engineers South Africa
CSIR	Council for Scientific and Industrial Research
DBSA	Development Bank of Southern Africa Ltd
DFID	Department for International Development
DRC	Democratic Republic of Congo
DRDLR	Department of Rural Development and Land Reform
DWA	Department of Water Affairs
ECSA	Engineering Council of South Africa
HIV/Aids	Human immunodeficiency virus/acquired immune deficiency syndrome
ICT	information and communication technology
IDC	Industrial Development Corporation
IDIP	Infrastructure Delivery Improvement Programme
IDP	Integrated Development Plan
iTSCi	ITRI Tin Supply Chain Initiative
KfW	Kreditanstalt für Wiederaufbau
LGSETA	Local Government Sector Education and Training Authority
Market 2	secondary cities
Market 3	under-resourced municipalities
MFIP	Municipal Finance Improvement Programme
MIG	Municipal Infrastructure Grant
MinMEC	Minister and Members of Executive Council
MISA	Municipal Infrastructure Support Agency
NAFCOC	National African Federated Chamber of Commerce
NARYSEC	National Rural Youth Service Corps
NEPAD	New Partnership for Africa's Development
NQF	National Qualifications Framework
PPP	public-private partnership
SABTACO	South African Black Technical and Allied Careers Organisation
SACPLAN	South African Council for Planners
SADC	Southern African Development Community
SADC DFRC	Southern African Development Community Development Finance Resource Centre
SAFCOL	South African Forestry Company Ltd
SAICE	South African Institution of Civil Engineering
SALGA	South African Local Government Association
SAN	South African National Standard
SIDA	Swedish International Development Cooperation Agency
SMME	small, medium and microenterprise

What is the Development Fund about?

Vision

The vision of the DBSA Development Fund is derived from the DBSA's development agenda and a shared commitment to creating "a prosperous and integrated region, progressively free of poverty and dependency".

Mission

The mission of the DBSA Development Fund is to provide a vehicle for the implementation of national and provincial infrastructure projects on behalf of the DBSA. In fulfilling this mission, it will capacitate municipalities, government departments, communities and other development intermediaries for effective service delivery and economic development to improve the quality of life of South Africans.

Products and services

The DBSA Development Fund's strategic interventions in support of government imperatives are articulated through the following services and products:

- **Expertise:** The Fund supports the implementation of signed mandates as per the agreement with the relevant stakeholders. It plays a central role as the hub for implementation and capacity support for national and provincial mandates. The core areas of implementation include: overall strategic management support to the programmes, scoping and planning, contract management, programme cycle management, technical implementation support, monitoring and reporting support, capacity building and systems development support.
- **Agency management services:** The Fund assists and acts on behalf of local and international development and funding partners that do not have the institutional presence or sufficient permanent capacity to implement their development programmes.
- **Grant and leveraged funding:** The Fund provides grants and leverages funding to projects and programmes that build sustainable capacity in people, processes and systems in all spheres of government, communities and other development partners.
- **Development facilitation:** The Fund formulates a shared vision with development partners, through sharing knowledge with and offering development support to partners and stakeholders.

Guiding principles

The Fund pursues the following guiding principles during implementation:

- **Forming strategic alliances:** To provide support in partnership with other stakeholders who have a common interest with the Fund.
- **Focusing on development impact:** To ensure, by measuring and quantifying impact, that programmes or projects improve the quality of life of communities.
- **Sustainability:** To ensure that programmes or projects have a lasting effect on institutions, the environment and the economy, and that they benefit future generations.
- **Empowerment:** To ensure that programmes or projects bring communities into the mainstream economy and that skills are transferred to recipients and beneficiaries.

Business and financial overview

Financial results	Notes	2012 R million	2011 R million	2010 R million	2009 R million
Income					
Grants received from the DBSA	1	**263.0**	257.0	340.9	120.0
Grants received from the National Treasury		–	288.4	319.6	219.3
Expenditure					
Siyenza Manje costs	2	–	412.1	456.6	313.3
Grants		**72.9**	69.8	120.1	101.0
Operating expenditure	3	**200.4**	90.4	86.9	19.5
Funding reserve	4	**13.3**	20.9	10.2	10.1
Grant approvals for the year	5	**22.1**	33.6	109.3	61.8
Grant commitments at year-end		**26.6**	92.4	111.5	97.6

The DBSA Development Fund exceeded its operational targets for 2011/12 and maintained its costs within the approved allocation.

1. *The DBSA transferred an amount of R263 million in line with its commitment to support the strategic objectives of the Development Fund.*
2. *As from 1 April 2011, the Siyenza Manje programme was unbundled, with the finance component being transferred to the National Treasury as the Municipal Finance Improvement Programme (MFIP) and the technical component to the Department of Cooperative Governance and Traditional Affairs as the Municipal Infrastructure Support Agency (MISA).*
3. *Operating expenditure has increased due to the repositioning of the Siyenza Manje programme, which required that 30% of its staff be retained within the Development Fund to capacitate the newly established programmes. The following divisional expenditure is included in operating expenditure:*
   - *Capacity Development and Deployment Division (comprising Agencies, the Vulindlela Academy and the Programme Implementation Unit)*
   - *Rural Development Division*
   - *Community Development Facilitation Division*
   - *Executive Management Office*
4. *To avoid creating a large funding reserve in the Development Fund, the opening funding reserve was first utilised against current year expenditure, before the DBSA transferred adequate funds to cover the balance of the expenditure for the year in terms of the approved budget.*
5. *In line with the Development Fund's new operating model, both grant approvals and grant commitments were lower.*

   Funding of R107.7 million was leveraged from the Municipal Systems Improvement Grant to support the Fund's activities.

Chairman's report

During 2011/12, the DBSA Development Fund continued to support the DBSA as it strove to become a "centre of excellence" for infrastructure delivery. Under the strategic guidance of the Board, the Development Fund restructured and aligned its operations. The Fund will remain the capacity building arm of the DBSA, with an increased focus on its roles as partner, integrator and implementer in the delivery of infrastructure to support national priorities.

The realignment was prompted by the Medium-Term Strategic Framework for 2009–14, in which the South African government identified five priority areas for development, namely, the creation of decent work, the promotion of sustainable livelihoods, education, health and rural development. The DBSA has taken up the challenge of advancing development in these areas, and the Development Fund has realigned its services to support the Bank appropriately. It will provide expertise for designing, managing and executing the DBSA's national mandates. The Fund will also pursue capacity building, skills development, job creation and enterprise development, and roll out the infrastructure Operations and Maintenance programme.

Brian De Lacy Figaji
Chairman of the DBSA Development Fund

The repositioning of the Fund, which was approved by the Board in November 2011 and carried out in the year under review, is depicted below.

As part of the restructuring, the Development Fund has established dedicated project management and implementation capacity in the Vector Office. Focusing on programme design, oversight, procurement, budget management, monitoring and evaluation, the Unit will aim to build the capacity of sector departments to undertake detailed planning and scoping, and to implement and monitor infrastructure effectively. The Unit supported the DBSA on the Accelerated Schools Infrastructure Delivery Initiative (ASIDI), a partnership with the national Department of Basic Education aimed at eradicating inappropriate and unsafe school structures in the Eastern Cape. Detailed planning was completed on 49 schools and the sites handed over to contractors in January 2012. The target is to complete the construction of the schools by the end of the 2012/13 financial year.

The R9 billion Jobs Fund programme entrusted to the DBSA by the Minister of Finance in 2011 is being administered within the Development Fund.

The funding and implementation mandate of the Siyenza Manje programme was reviewed by the Bank, the National Treasury and the Department of Cooperative Governance and Traditional Affairs (CoGTA), and a decision was made to unbundle the programme. The finance component was transferred to the National Treasury as the Municipal Finance Improvement Programme (MFIP), while the technical component was transferred to CoGTA as the Municipal Infrastructure Support Agency (MISA). The Development Fund is managing both MFIP and MISA for the national departments on an agency basis. The transfer of deployees to the new mandate authorities affected the Development Fund's performance when measured against the 2011/12 targets originally set for Siyenza Manje.

Repositioning of the Fund

Development Fund

Key programmes

National and provincial mandates

To provide assistance for infrastructure technical planning, implementation, management and monitoring capability at national and provincial level

Focus areas: Health, Education (ASIDI), NARYSEC initiative of the (DRDLR), Human settlements, DWA.

Municipal capacity building and implementation

To provide capacity building solutions and enhance service delivery in municipalities

Focus areas: Municipal infrastructure MIG/ CAPEX programmes, local government turnaround strategies, grant funding

Operations and maintenance

To develop and implement comprehensive solutions to infrastructure management at national, provincial and local government level

Focus areas: Operations and maintenance pilot municipalities, Artisan Programme, wastewater treatment works, Anglo/DBSA Capacity Building Programme

Jobs Fund

To manage the implementation of the Jobs Fund on behalf of the South African government

Focus areas: Programme management structure for the jobs fund, development of a sustainable and fundable projects pipeline and management systems, policies and procedures.

Enabling programmes

Programme Implementation and Management (PIM)

To provide implementation support services for the national and provincial mandate programmes

Focus areas: Mobilisation of experts/expertise, administration of contracts, project management systems, community facilitation, rural development solutions

Agency Management Services

To provide agency services for funding and management of development programmes for government and development partners

Focus areas: Management of funding of national/provincial mandates, management of donor funding

Vulindlela Academy

To build human, institutional and technical capacity within the public sector institutions through practical short- and long-term accredited training

Focus areas: Human capacity building, institutional capacity building, technical capacity building

Chairman's report *(continued)*

The Fund's Municipal Capacity Building and Implementation programme will continue to support under-resourced municipalities. It will also support the Bank's investment business and work with development partners on various capacity building programmes, such as the priority municipal turnaround programme approved by Cabinet. Another focus will be the rolling out of the Operations and Maintenance programme, which is a crucial part of finding comprehensive solutions to infrastructure development challenges in all three spheres of government.

Through its enabling programmes, namely the Vulindlela Academy, Agency Management Services and the Programme Implementation and Management Unit, the Development Fund will continue to support its key programmes by providing expertise and agency services, offering training and development facilitation, and mobilising funds.

On 15 April 2010 the DBSA signed a cooperation agreement with the China Development Bank (CDB) to implement BRICS initiatives. Together with the CDB, the Fund will provide capacity building support through the Vulindlela Academy, offering training on socio-economic policy and transformation in the energy, roads, transport, water and sanitation sectors. The Academy will also work with the CDB to arrange staff study tours to assess infrastructure capacity needs in China and southern Africa. The institutions have agreed to set up a portal to share lessons in infrastructure planning and development.

Flowing from the repositioning, the Development Fund's mission statement was reviewed to align it with the DBSA's mission, which is to be a centre of excellence for infrastructure development. The Fund is now required "to provide a vehicle for the implementation of national and provincial infrastructure projects on behalf of the DBSA". In fulfilling this mission, the Fund will capacitate government departments, municipalities, communities and other development intermediaries for effective service delivery and economic development "to improve the quality of life of South Africans".

In November 2011, the Board approved the Development Fund's financial sustainability model, which requires it to deliver services on a cost recovery basis for direct and indirect costs. In this regard, the Fund has already developed pricing models for training, implementation support and agency services.

I am sincerely grateful to the Board and management of the Development Fund for their unwavering support, commitment and dedication during the year. Thanks to their efforts, the Development Fund is now in a position to meet the challenge of fast-tracking the implementation of services. I look forward to an exciting year in which we will continue to make a significant difference in the lives of the people of South Africa and the region.

Brian De Lacy Figaji
Chairman of the DBSA Development Fund

Board of Directors

Front row from left to right: Ms Mampiti Matsabu; Dr Lungile Bhengu-Baloyi; Dr Claudia Manning; Ms Busisiwe Mabuza.
Back row from left to right: Mr Tshokolo Petrus Nchocho; Mr Omar Aboobaker Latiff; Dr Paul Kiyingi Kibuuka; Prof Brian De Lacy Figaji; Mr Andrew Boraine.

*Mr Paul Cambo Baloyi**

*Mr Frans Baleni***

* Mr Paul Baloyi resigned 31 March 2012.

** Board member – Mr Frans Baleni was not available at time of taking the photograph

1. PROF. BRIAN DE LACY FIGAJI (67)

Company Director

DBSA Development Fund Director as from: 24 November 2005

Chairman of the DBSA Development Fund as from: 21 February 2006

Academic qualifications:
- DEd, Coventry University, UK (2002)
- DLitt, Hayward, Cal State, USA (2001)
- MEduc (Administration, Planning and Social Policy), Harvard University (1989)
- Diploma in Tertiary Education, University of South Africa (1987)
- Graduate Diploma (Engineering), University of Cape Town (1985)
- BSc (Engineering), University of Cape Town (1972)
- BSc (Science), University of the Western Cape (1969)

Other directorships:
- Bovidae Investments: Non-executive Director
- Cape Lime: Non-executive Director
- Dormell: Chairman of the Board (non-executive)
- I&J Holdings: Chairman of the Board (non-executive)
- Marib Holdings: Chairman of the Board (non-executive)
- Nedbank Ltd: Non-executive Director

2. MR TSHOKOLO PETRUS NCHOCHO (44)

Group Executive: Investment Banking

DBSA staff member as from: 1 February 2002
Group Executive as from: 1 April 2010

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

Other directorships:
- Old Mutual Housing Impact Fund Trustee (DBSA nominee)
- New Africa Mining Fund: Trustee (DBSA nominee)
- Shanduka Value Partners Fund: Trustee (DBSA nominee)
- Africa Agricultural Fund: Advisory Board member
- New Africa Fund II: Member of Investment Committee

3. DR PAUL KIYINGI KIBUUKA (51)

Managing Director: DBSA Development Fund

DBSA Development Fund Managing Director as from: 1 July 2009

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

Other directorships:
- KMK Brick and Tile Manufacturing: Non-executive Director
- Lincoln Consultants Ltd: Non-executive Director
- Mphato Investments: Non-executive Director

4. MR FRANS MSOKOLI BALENI (52)

General Secretary: National Union of Mineworkers

DBSA Development Fund Director as from: 1 January 2010

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

Other directorships:
- Development Bank of Southern Africa Ltd: Deputy Chairman (Non-executive)
- Elijah Barayi Memorial Training Centre: Non-executive Director
- International Federation of Chemical, Energy, Mine and General Workers' Unions: Executive Member
- Mineworkers Investment Trust: Chairman (non-executive)
- Rand Mutual Assurance: Non-executive Director
- University of Johannesburg: Deputy Chairman of the Council (non-executive)

5. DR LUNGILE BHENGU-BALOYI (55)

Founder and Director: Development and Leadership Consulting

DBSA Development Fund Director as from: 24 November 2011

Academic qualifications:
- PhD (Public Administration), University of Durban-Westville (2003)
- LLM (Public Health Law), University of Durban-Westville (2000)
- MA (Social Policy), University of Durban-Westville (2002)
- Advanced University Diploma in Adult Education, University of Natal (1989)
- BSc (Dietetics), Medical University of South Africa (1984)
- Diploma in Nutrition, Medical University of South Africa (1981)

Other directorships:
- African Leadership Initiative Fellow
- AIDS Foundation of South Africa: Chairperson (non-executive)
- Development Bank of Southern Africa Ltd: Non-executive Director
- Kellogg International Leadership Fellow
- KwaZulu-Natal Provincial Planning Commissioner

Board of Directors (continued)

6. MR ANDREW BORAINE (53)

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

DBSA Development Fund Director as from: 1 August 2005

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

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

7. MR OMAR ABOOBAKER LATIFF (58)

Director and Partner: PricewaterhouseCoopers

DBSA Development Fund Director as from: 1 August 2007

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

Other directorships:
- Bellewan (Pty) Ltd: Non-executive Director
- Development Bank of Southern Africa Ltd: Non-executive Director
- Jodya cc: Member
- LMD Africa Chartered Accountants Inc.: Non-executive Director
- LMD Africa Forensics (Pty) Ltd: Non-executive Director
- Omar Aboobaker Latiff Family Trust: Trustee
- PricewaterhouseCoopers Advisory Services (Pty) Ltd: Director
- PricewaterhouseCoopers Incorporated: Director
- PricewaterhouseCoopers Partnership: Partner
- Project Preparation Trust: Trustee

8. MS MAMPITI MATSABU (49)

Executive Director: Savannah Environmental (Pty) Ltd

DBSA Development Fund Director as from: 26 March 2009

Academic qualifications:
- Management Advancement Programme (MAP 47), Wits Business School (2001)
- Diploma in Project Management, School of Project Management, Midrand (1999)
- MSc (Civil Engineering), Drexel University, Philadelphia (1992)
- BSc (Civil Engineering), Howard University, Washington DC (1986)

Other directorships:
- LA Crushers (Pty) Ltd: Chairperson of the Board (non-executive)
- Patlong Investment Holdings (Pty) Ltd: Non-executive Director
- Vox Consulting (Pty) Ltd: Non-executive Director

9. MS BUSISIWE MABUZA (48)

Business Executive

DBSA Development Fund Director as from: 24 November 2011

Academic qualifications:
- BA (Mathematics), City University of New York (1991)
- MBA, Stern School of Business, New York University (1994)

Other directorships:
- Afgri Ltd: Non-executive Director
- CEF (Pty) Ltd: Non-executive Director
- DBSA Development Fund: Non-executive Director
- Forbes Africa: Non-executive Director
- IDC: Non executive director

10. DR CLAUDIA MANNING (45)

Executive Director: ECIAfrica

DBSA Development Fund Director as from: 26 February 2009

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

Other directorships:
- Development Bank of Southern Africa Ltd: Non-executive Director
- Roadcrete Africa (Pty) Ltd: Non-executive Director
- Sangena Investments: Non-executive Director

11. MR PAUL CAMBO BALOYI (56)

Chief Executive Officer: DBSA Development Fund

DBSA Development Fund Chief Executive Officer between: 1 July 2006 and 30 April 2012

Academic qualifications:
- Advanced Management Programme, INSEAD (2006)
- MBA, University of Manchester (2004)
- Senior Executive Programme, Harvard Business School (2001)
- Management Development Programme, University of Stellenbosch (1996)
- Commercial Banking Diploma, Institute of Bankers, Licentiate (1989)

Other directorships:
- African Capacity Building Foundation: Chairman (non-executive)

- Block II Waterford (Pty) Ltd: Executive Director and Shareholder
- Business Ventures: Non-executive Director
- Chrometco Ltd: Non-executive Director
- Development Bank of Southern Africa Ltd: Chief Executive Officer and Managing Director
- Harith Fund Managers (Pty) Ltd: Non-executive Director (DBSA nominee)
- Nulane Investment Holdings (Pty) Ltd: Non-executive Director
- Old Mutual Life Assurance Company (SA) Ltd: Non-executive Director
- Old Mutual Life Holdings (SA) Ltd: Non-executive Director
- Pan-African Investment Fund: Non-executive Director (DBSA nominee)
- Platinum Hi Tech Park Development (Pty) Ltd: Non-executive Director
- TCX Investment Management Company: Non-executive Director (DBSA Nominee)

DEVELOPMENT FUND BOARD MEMBERS DURING THE YEAR UNDER REVIEW

MR KENNETH BROWN (50)

Deputy Director-General: Intergovernmental Relations, National Treasury

DBSA Development Fund Director between: 1 January 2010 and 31 March 2012

MR RICARDO HANSBY (41)

Deputy Director-General: Infrastructure and Economic Development (Department of Cooperative Governance and Traditional Affairs)

DBSA Development Fund Director between: 1 March 2011 and 31 March 2012

MR SIMPHIWE MEHLOMAKHULU (42)

Executive Chairman: Reatile Resources

DBSA Development Fund Director between: 26 March 2009 and 31 March 2012

MR SEERAJ MOHAMED (44)

Director: Corporate Strategy and Industrial Development Research Programme, School of Economic and Business Sciences, University of the Witwatersrand

DBSA Development Fund Director between: 19 May 2009 and 31 March 2012

MR IVAN MZIMELA (50)

Executive Manager: Liberty

DBSA Development Fund Director between: 1 August 2007 and 31 March 2012

DR SIPHO NGUBANE (71)

Medical Doctor

DBSA Development Fund Director: between 26 March 2009 and 31 March 2012

PROF. EDWARD CHARLES WEBSTER (69)

Professor of Sociology, University of the Witwatersrand

DBSA Development Fund Director between: 1 August 2007 and 31 August 2011

MS BATHOBILE SOWAZI

DBSA Corporate Secretariat

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

Managing Director's report

External environment

The weak global economic outlook is posing serious challenges to the South African economy, which is starting to show signs of substantial growth but remains vulnerable to external shocks. A return to sustainable, strong growth will take time and will not be without setbacks. The current economic conditions affected the operations of the DBSA Development Fund during the year under review, and the growing challenges around financial sustainability are evident from reduced revenues. The unbundling of the Siyenza Manje programme, with its two components, financial and technical, being handed over to the National Treasury and the Department of Cooperative Governance and Traditional Affairs (CoGTA) respectively, put a strain on the Fund's finances. In response, the Fund began to seek diversified revenue sources through cost recovery, reviewed its business processes, and explored cost-effective sources of funding.

Shift in focus to position the Fund as an implementer of social infrastructure

The changing political landscape, which manifested in the government's investment in social infrastructure development, required the Fund to review its strategy and improve efficiencies and impact. This allowed the Bank to serve as a leading development organisation supporting infrastructure projects across all spheres of government, with a focus on accelerating planned infrastructure development, supporting job creation, and ensuring the delivery of value-for-money infrastructure.

Paul Kiyingi Kibuuka
Managing Director

The deeper, expanded engagement of the Fund is in the context of the existing roles and responsibilities of the various government and public institutions in the priority sectors. It is also based on the capacity building experience of the Siyenza Manje programme. The changes offered real opportunities for the Fund to reposition itself, not only as a facilitator and integrator but also as an implementer of infrastructure programmes. The growing role of the Fund as an implementer is demonstrated in the larger number of national infrastructure projects in sectors such as education, health and human settlements. In line with the Bank's role as a centre of excellence for infrastructure development, fully integrated support over the lifecycle of projects is considered in the areas of infrastructure planning, project preparation, project management, and implementation and monitoring support to national infrastructure programmes.

Capacity support is aligned with various important government and municipal programmes, such as the Cabinet's 23 Priority Districts Programme, the 360 Degree Programme and the Water and Sanitation Programme.

The 2011 municipal elections provided an opportunity for the Fund to collaborate with the South African Local Government Association (SALGA) and CoGTA on planning and rolling out the national Councillor Induction Programme. This strengthened the Fund's position as an important implementer of capacity building programmes among government partners.

Further aligning of the Fund to stakeholder requirements

Provincial departments are faced with the challenge of slow delivery of social infrastructure because of inadequate planning, ineffective delivery and coordination and poor packaging of projects, which result in high levels of underspending on infrastructure. The Fund is strategically positioned to provide support for development planning and the prioritisation of infrastructure, as well as general institutional support to build capacity in a variety of areas. It is providing support for programme implementation and management to a variety of provincial departments on a cost recovery basis, in terms of various provincial agreements relating to social infrastructure. The Fund's delivery model in this context is to build institutional capacity by establishing Programme Management Support Units in important provincial departments. It provides infrastructure delivery management, covering programme formulation, detail design, procurement, contract management and project management, from concept to completion.

Infrastructure Implementation and Support

This Division oversees the operations of the Municipal Capacity Building and Implementation programme, national and provincial mandates, the Operations and Maintenance programme, the Vulindlela Academy, Agency Management Services, programme implementation and the Pan-African Capacity Building Programme.

Municipal Capacity Building and Implementation programme

The Municipal Capacity Building and Implementation programme of the Fund provides capacity building support to municipalities. In April 2011, the Siyenza Manje programme was unbundled. The finance component was transferred to the National Treasury as the Municipal Finance Improvement Programme (MFIP) and the technical component to CoGTA as the Municipal Infrastructure Support Agency (MISA), in line with the mandates of these authorities. During the year under review, MISA deployees were reduced from 228 to 93. Currently 94 municipalities (65 direct deployments and 37 shared services) and ten provincial departments receive support from this programme.

In 2011/12, total Municipal Infrastructure Grant (MIG) and capital expenditure of R7.2 billion was reported. The Division managed 2244 technical infrastructure projects, which were facilitated by deployees, and 610 projects were completed. The implementation of these infrastructure projects led to the creation of 77 189 temporary employment opportunities, against a target of 48 000. It also provided access to water for 456 560 households, with 145 933 receiving access to basic water supply and 310 627 benefiting from bulk water supply. An estimated 167 466 households gained access to basic sanitation and 288 818 benefited from the upgrading of bulk sanitation. A new bulk water project in Madibeng, which upgraded a water treatment plant, benefited 41 500 households. In addition, a water treatment plant was recently completed in Mamusa, Schweizer-Reneke.

On-the-job capacity building for municipal officials

In support of capacity building objectives regarding the capacitation of municipal officials on the job, the technical and planning deployees trained a total of 799 and 336 officials respectively. In Gauteng alone, 60 officials were trained on both technical and planning matters.

Young Professionals programme

The three-year structured learning programme, the Young Professionals programme, prepared young engineering professionals for registration as technicians, technologists or engineers with the Engineering Council of South Africa (ECSA). This year saw the registration of nine professional engineering technicians in civil engineering with ECSA and nine technician town planners with the South African Council for Planners (SACPLAN). A total of 57 Young Professionals obtained the National Certificate in Municipal Finance (at National Qualifications Framework (NQF) Level 6).

National and provincial mandates

The Fund entered into an agreement with the national Department of Basic Education to help speed up the eradication of mud structures in schools. A total of 49 schools in the Umtata, Libode and Lusikisiki Districts were identified, and construction commenced in January 2012.

Managing Director's report *(continued)*

The Accelerated Schools Infrastructure Delivery Initiative (ASIDI) will benefit over 120 000 learners in 450 improved schools. In the new financial year, the South Africa Operations Division of the DBSA will receive technical support from the Fund to build 91 new schools and refurbish 273 existing schools through the Gauteng Schools Building and Refurbishment Programme.

The Fund also collaborated with the KwaZulu-Natal and Gauteng provincial Departments of Health in the planning, capacity building and implementation of the infrastructure component of the Hospital Revitalisation Programme.

Operations and Maintenance programme

The Operations and Maintenance programme is currently being implemented in 11 municipalities. In the year under review, the Fund trained 54 small, medium and microenterprises (SMMEs) on labour-intensive construction technology and project management at Eden District Municipality. An assessment has been completed at the Bushbuckridge Local Municipality and will be followed by five operations and maintenance plans. In Dipaleseng, two technical experts specialising in water and roads were deployed to provide support to four SMMEs doing maintenance at the Balfour and Greylingstad wastewater treatment works. A further two technical experts specialising in water, sanitation and roads were deployed to provide support to the City of Tshwane.

Water treatment works and wastewater treatment works

In the year under review, the Fund provided technical support to the regional offices of the Department of Water Affairs for the improvement of water and wastewater treatment works in four provinces. A total of 47 visual and non-invasive functionality status quo assessments were completed, as were recommendations to restore the original design capacities and optimise the operation of existing wastewater treatment works in order to comply with the National Water Act, No. 36 of 1998.

Artisan Programme

As at the end of the 2011/12 financial year, the Artisan Programme had taken in 254 section 13 and 154 section 28 apprentices. A total of 62 candidates qualified as artisans (31 section 13 and 31 section 28).

Vulindlela Academy

The Vulindlela Academy is the capacity building, knowledge-sharing and skills transfer arm of the Fund. It offers accredited capacity building and training to intermediaries in the Southern African Development Community (SADC), South African municipalities, government departments, parastatals, public utilities, non-governmental organisations and development finance institutions. The Academy trained 13 019 municipal officials and delegates from other development finance institutions, and capacitated 5981 councillors as part of the national Councillor Induction Programme. This brings to 19 000 the number of external learners who received training from the Academy in the year under review. In addition to the Local Government Resource Centre, the Academy explored newer e-learning platforms, such as the World Bank Global Development and Learning Network and Telematics sites, as important elements in rolling out capacity building and training.

Agency Management Services

The Agency Management Services Unit provides a management service and acts on behalf of local and international development and funding agencies. Its main services include the planning, programming and implementation of development initiatives. In the year under review, the Fund signed nine new Memoranda of Agreement. It currently manages 38 agencies, with a total value of R1.59 billion in funds, under management, including the Renewable Energy Market Transformation for the Department of Energy; the Project Preparation and Feasibility Study Facility, on behalf of Agence Française de Développement (AFD) and the DBSA; the Energy and Environment Partnership Programme for the government of Finland; and Water Demand Management for the Swedish International Development Cooperation Agency (SIDA).

Pan-African Capacity Building Programme

The Pan-African Capacity Building Programme is a partnership between the DBSA, the AFD and the Industrial Development Corporation (IDC). It aims to bridge the training and skills gaps that prevent the continent from meeting its infrastructural development objectives. Its main aim is to set up a partner-driven training and capacity building initiative to enhance the skills of African professionals working towards sustainable infrastructure development on the continent. This programme offers a Masters in Public Infrastructure Management, a two-year course in partnership with the following universities: Pretoria, for South African and SADC students; Makerere, for East African students; and Dakar, for West African students. Over and above the Masters degree, the programme offers various short courses, which reached 201 delegates this year. A study tour was conducted for two delegates from the Rwanda Development Bank, who were exposed to best practices in risk management, with an emphasis on advanced techniques for credit risk management. Two South Sudan executives were trained in the DBSA bids evaluation process, project financial controls, monitoring and evaluation. In addition, 17 delegates from Marseille were trained on public management utilities and 47 delegates in Nigeria on legal documentation for public-private partnerships (PPPs) and concessions.

Executive Masters in Water for All

The year under review saw the first intake of candidates for the Executive Masters in Water for All. Four South

Africans from Johannesburg Water, Bushbuckridge Water and Polokwane Municipality completed their academic training in finance at AgroParisTech in Paris, specialising in water resources management. The DBSA, AgroParisTech and the AFD have already concluded an agreement to offer a Masters in Water and Sanitation.

Community Development Facilitation

This Division supports vulnerable communities with integrated sustainable development through social mobilisation and the delivery of a shared vision; the identification of community priorities that encompass all sectors and dimensions of sustainable development; and the crowding in of strategic partners and resources from the public and private sectors for further development.

In 2011/12, the Division supported 12 sites across the country at various stages of the development cycle, namely: the signing of the Development Charter; the crafting of the Sustainable Development Plan by the local municipality together with other stakeholders; the development of the implementation framework; and the monitoring of the implementation of the Plan. External and internal capacity was used to mobilise community stakeholders to sign 53 Development Charters. In addition, in-principle approval was obtained from Mbhashe Local Municipality for the Elliotdale Sustainable Development Plan, which covers the poorest rural wards in the Eastern Cape province, Wards 17 and 26.

Partnerships with municipalities, community-based organisations, and the public and private sectors allowed the Division to leverage R1.7 billion for implementing programmes and projects identified by the communities. Partners allocated a further R58.9 million for the implementation of the Elliotdale Rural Sustainable Human Settlement Pilot Project (R57.6 million) and the Greater Kokstad Sustainable Development Plan process (R1.3 million). The Division facilitated the completion of five feasibility studies and 16 community strategic projects, the establishment of four cooperatives, and the creation of 1647 jobs. Projects to the value of about R2.7 billion were referred to the investment divisions of the DBSA and other private sector entities.

Rural Development

The strategic objective of this Division is to prepare and implement economic and institutional turnaround strategies, facilitate the implementation of catalytic economic and social infrastructure programmes, and formulate tailormade rural development solutions. The Division has developed appropriate strategies in focus areas that are aligned with the government's strategies on rural development, such as the Comprehensive Rural Development Programme and the National Rural Youth Service Corps (NARYSEC). NARYSEC is an initiative of the Department of Rural Development and Land Reform, which aims to improve opportunities for and the wellbeing of rural youth. The programme will benefit 9000 young people in around 3000 rural wards (there is a maximum enrolment of four young people per ward). The Division's role in NARYSEC is to support and monitor technical training through managing the transfer of technical skills to programme participants.

Jobs Fund

On 7 June 2011, the Minister of Finance officially launched the R9 billion Jobs Fund as announced by the President during the State of the Nation address on 9 February 2011. The DBSA was entrusted with the responsibility of establishing and managing the Jobs Fund on behalf of the government. This Fund supports initiatives that pilot new and scale up existing innovative approaches to employment creation, allowing the youth to acquire skills while being productively employed. To date, the Investment Committee has approved 34 projects, amounting to R1.8 billion in grant funding. Disbursement of grant funding will commence in 2012/13.

Partnering for development

The Fund signed a Memorandum of Understanding with Anglo American South Africa to collaborate on improving capacity and service delivery in municipalities where Anglo American operates and in its labour-sending areas. The objective of the partnership is to determine the capacity needs of municipalities and strengthen the capacity of local government to provide basic services to the company's host communities, and thereby combat growing poverty. Beneficiary municipalities have been identified in five provinces: the Eastern Cape, the Northern Cape, Limpopo, Mpumalanga and North West.

Other partnerships include a cooperation agreement with the China Development Bank for the implementation of initiatives involving Brazil, Russia, India, China and South Africa (BRICS). The role of the development finance institutions is to provide capacity building support through study tours, policy training and showcasing of lessons learnt on infrastructure development.

In order to provide quality services and support, the Fund entered into major strategic partnerships with the Department of Human Settlements, through a funding agreement to build the first 200 units of the Elliotdale Rural Housing Project, worth R16.1 million. The partnership between the Department of Basic Education, ArcelorMittal and the Division explored models for alternative construction methods to eradicate unsafe and unhealthy schools in the Eastern Cape. The Council for Scientific and Industrial Research (CSIR) provisionally approved the identified model.

The Fund also collaborated with various government-owned

Managing Director's report *(continued)*

development agencies. A tripartite agreement was signed with AsgiSA EC and Unilever to explore enterprise development initiatives that support rural development and the procurement needs of Unilever. The Division entered into a Memorandum of Understanding with the Agribusiness Development Agency to support agribusiness development in KwaZulu-Natal. The partnership between the DBSA and the South African Forestry Company (SAFCOL) explored opportunities presented by the DBSA/SAFCOL Value Proposition Model through the Renewable Energy Project Feasibility Study and the Mphephu Community Beekeeping Enterprise Development Project, phase 1. Phase 1 was completed and the planning for phase 2 is led by SAFCOL, taking into consideration the lessons learnt in phase 1.

Various private sector partnerships are designed to take advantage of opportunities and use community resources to enhance entrepreneurial development and create employment. The Division helped to develop a Project Management Framework, which includes standards, guidelines and project lifecycle parameters, for the Agribusiness Development Agency in KwaZulu-Natal. Further work on the Coastal Cashews Nuts projects, under rehabilitation, will be guided by this framework. The Division also collaborated with ArcelorMittal in testing the financial and technical feasibility of construction methods for broader application. In Grabouw, a formal PPP facilitated the identification and procuring of expertise for projects totalling R2 billion.

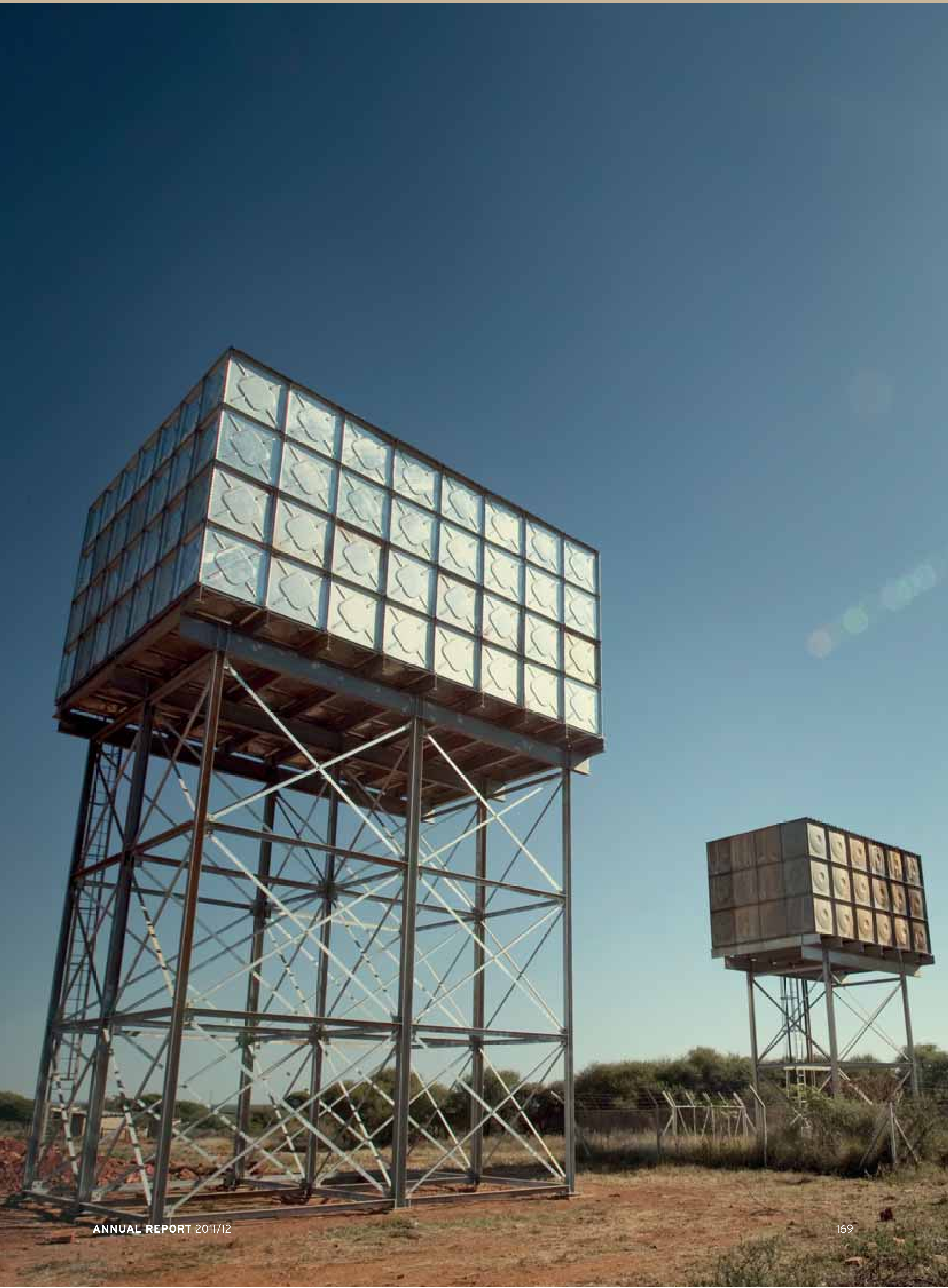
The year ahead

In his State of the Nation address on 9 February 2012 the President announced the government's massive infrastructure development drive, which is structured into five geographically focused programmes and emphasises health, basic education, information and communications technology (ICT), and regional integration. Considering the priorities set by the government, the Fund will continue to support national imperatives and pursue new strategic partnerships to deepen development in South Africa, SADC and sub-Saharan Africa.

Going forward, the Fund will improve its alignment with partners and stakeholders to enhance its impact. This will have to include better infrastructure support for an expanded Market 2 and Market 3 focus (secondary cities and under-resourced municipalities respectively). Capacity constraints at municipalities often hamper efforts to fund priority programmes in Market 2 and 3 municipalities. These municipalities are generally characterised by slow progress in service delivery, weak economic endowments, a high dependence on government transfers, and poor planning and financial management, in addition to other institutional weaknesses rooted in structural or systemic factors such as demarcation and poor political governance. If they are to address this diverse mix of challenges, a number of stakeholders will have to work together to find integrated capacity solutions and achieve greater impact. An expanded focus on Market 2 and 3 will also require the mobilisation of integrated capacity to address weaknesses in governance, technical capacity and access to funding.

My sincere appreciation goes to the Board of the DBSA Development Fund for its continued support and encouragement. I would also like to thank the employees of the Fund for their resilience and persistence in meeting and exceeding the objectives of the Balanced Scorecard.

Paul Kibuuka
Managing Director



Divisional executive management

1. MR DAWIE MOCKE (50)

Chief Operating Officer

DBSA staff member as from:

1 May 2006

Chief Operating Officer of the DBSA Development Fund as from:

1 April 2010

Academic qualifications:

- BCom, Potchefstroom University (1997)

2. MR DUMISA HLATSHWAYO (46)

Chief Investment Officer: Jobs Fund

DBSA staff member and Divisional Executive as from:

1 August 2011

Academic qualifications:

- MBA, University of Potchefstroom (2006)
- CA (SA) (1998)
- Certificate in the Theory of Accounting, University of South Africa (1995)
- BCompt (Hons), University of South Africa (1993)
- BCom, University of Zululand (1989)

Other directorships:

- Central Energy Fund: Non-executive Member of the Audit Committee
- Imisebe Investment Holdings (Pty) Ltd: Non-executive Director
- Mhayise Properties cc: Member
- Road Accident Fund: Non-executive Director and Chairperson of the Audit Committee

3. MR LIZO MAKELE (42)

Divisional Executive: Human Capital

DBSA staff member as from:

1 October 2007

DBSA Divisional Executive as from:

1 May 2010

Academic qualifications:

- MBA, Milpark Business School (2011)
- MDP, University of Manchester (2006)
- Labour Law Diploma, Graduate Institute of Management and Technology (2005)
- BTech (Human Resources Management), Walter Sisulu (2004)
- Industrial Leadership Development Programme, Rhodes University (1998)
- National Diploma in Human Resources Management, Cape Peninsula University of Technology (1996)

4. MR MLULAMI HLOMBE MANJEZI (56)

Divisional Executive: Rural Development

DBSA staff member as from:

6 August 1990

DBSA Divisional Executive as from:

1 July 2008

Academic qualifications:

- Accelerated Directorship Programme (ADP), Institute of Directors (2010)
- Programme for Sustainable Leadership, Cambridge University (2010)
- MBL, University of South Africa (2004)
- Management Development Programme, University of South Africa (1996)
- BCom, University of Fort Hare (1979)

Other directorships:

- Agriculture and Rural Development Institute of Fort Hare: Chairman of the Board (non-executive; DBSA nominee)

5. MR REUBEN MATLALA (38)

Divisional Executive: Infrastructure Implementation and Support[1]

DBSA staff member as from:

1 February 1996

DBSA Divisional Executive as from:

1 July 2009

Academic qualifications:

- BANKSETA International Executive Development Programme, CASS Business School, London (2008)
- Masters in Public and Development Management, University of the Witwatersrand (2000)
- Diploma in Project Management, Damelin (1998)
- Higher Diploma in Development Planning, University of the Witwatersrand (1995)
- Higher Education Diploma, University of the North (1994)
- BA, University of the North (1993)

Other directorships:

- Bolabola Telecommunications (Pty) Ltd: Non-executive Director
- HVC Drilling (Pty) Ltd: Non-executive Director
- Matlala Brothers Properties cc: Member
- Matlala & Mdluli Transport cc: Member
- Mphato Investment (Pty) Ltd: Non-executive Director

[1] The former Capacity Development and Deployment Division was renamed the Infrastructure Implementation and Support Division in November 2011, reflecting the unbundling of the Siyenza Manje programme and repositioning of the Development Fund as an implementer in support of the DBSA.

6. MS VUYELWA MATSILIZA (45)

Divisional Executive: Community Development Facilitation

DBSA staff member and Divisional Executive as from:

1 December 2009

Academic qualifications:

- MBL, University of South Africa (2000)
- BA Hons (Economics) (cum laude), University of the Western Cape (1993)
- BA, University of the Western Cape (1992)

Other directorships:

- AsgiSA EC (Pty) Ltd: Non-executive Director and Member of the Audit Committee (DBSA nominee)

7. MR ZAKEER AHMED MOHAMED NANABHAY (47)

Divisional Executive: Finance (Acting)

DBSA staff member as from:

1 April 1997

DBSA Divisional Executive as from:

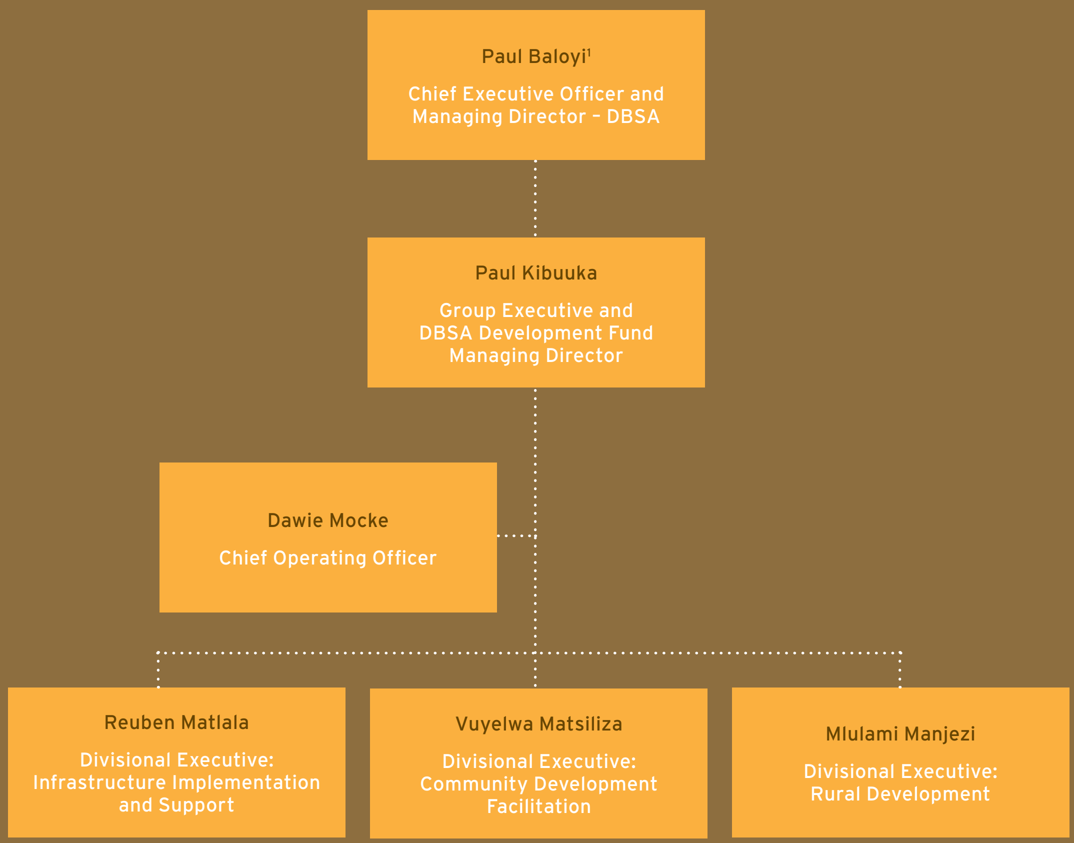
1 February 2012

Academic qualifications:

- CA (SA) (1995)
- BCompt (Hons), University of South Africa (1993)
- BCompt, University of South Africa (1991)

Organisational structure

Organisational structure operational until 30 November 2011



1. Resigned 31 March 2012.

In November 2011, the Board approved a new structure for the Development Fund in response to its strategic repositioning as an implementer in support of the DBSA and the government's infrastructure development priorities. The structure was reviewed to support the key and enabling programmes reflected in the Chairman's report. The operations of the Community Development Facilitation and Rural Development Divisions were mainstreamed into the Fund's operations as part of its value chain. The information in the Annual Report has been aligned to reflect operational performance and achievements based on the new structure, including Community Development Facilitation and Rural Development, until 31 March 2012.

New organisational structure operational from 1 December 2011

Paul Baloyi[1]
Chief Executive Officer and Managing Director – DBSA

Paul Kibuuka
Group Executive and DBSA Development Fund Managing Director

Dawie Mocke
Chief Operating Officer: Enabling Services

Vuyelwa Matsiliza
Divisional Executive: Community Development Facilitation

Mlulami Manjezi
Divisional Executive: Rural Development

Reuben Matlala
Divisional Executive: Infrastructure Implementation and Support

Dumisa Hlatshwayo
Divisional Executive: Jobs Fund

Zakeer Nanabhay
Acting Divisional Executive: DBSA Development Fund Finance

Vacant
Divisional Executive: DBSA Development Fund Risk

Lizo Makele
Divisional Executive: DBSA Development Fund Human Capital

1. *Resigned 31 March 2012.*

Operations overview

Operations

In 2011/12, the operational focus of the DBSA Development Fund was shifted to increase its alignment with strategic government priorities. Notably, the following operational changes were introduced:

- The financial and technical components of the Siyenza Manje programme were unbundled as the MFIP and MISA respectively, and the Fund will manage them on an agency basis for the National Treasury and CoGTA.
- The Jobs Fund was implemented. The Minister of Finance announced in June 2011 that the DBSA had been entrusted with managing the R9 billion fund.
- The Fund's implementation of national and provincial mandates (in education, health and human settlements) demonstrates its growing role as an implementer in infrastructure delivery. In this capacity it aims to support the DBSA in becoming a centre of excellence for infrastructure development.

This shift in operational focus necessitated a review of the operating structure of the Fund, which was considered and approved by the Fund's Board.

Throughout 2011/12, the Fund continued to respond to calls for support from all spheres of government. This report outlines the achievements of the Fund in each of the four Divisions, namely:

- **Infrastructure Implementation and Support:** This Division comprises the Municipal Capacity Building and Implementation programme (formerly Siyenza Manje), the Operations and Maintenance programme, the Vulindlela Academy, the Agency Management Services Unit and Programme Implementation and Management. Its focus is to develop and deploy capacity in the public sector, mainly in low-capacity municipalities. The Division also manages funds and implements programmes on behalf of development partners. The Vector programme coordinates the execution of mandate programmes on a day-to-day basis. Together with specific project management, it involves programme design, oversight, procurement, budget management, monitoring and evaluation, supported by sector planning and programme advisory services, with a focus on the formulation of solutions and the design of programmatic and project interventions. The Vector Delivery Model was designed to allow fast and efficient performance on the new mandated programmes. The Vector office was integrated into the DBSA Development Fund.
- **Community Development Facilitation:** This Division builds capacity within communities to ensure they participate effectively in the formulation of a shared vision of their development. It consists of three units: Sustainable Communities, Project Management and Project Development.
- **Rural Development:** In response to the government's new strategic priority of rural development, in particular Outcome 7, the Fund reviewed its support for local economic development and prepared a rural development strategy that was approved by the Board. In terms of this strategy, the Division now facilitates catalytic infrastructure programmes that improve living standards and socio-economic activity in rural communities, prepares and implements economic and institutional turnaround strategies for rural municipalities, and formulates tailormade rural development solutions. The Division comprises three units: Rural Infrastructure Development, Institutional Turnaround and Rural Development Solutions.
- **Jobs Fund:** The President announced the R9 billion Jobs Fund during the State of the Nation address on 9 February 2011. It 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 partnership with established private and public institutions to create self-sustaining employment opportunities that lead to long-term systemic change in the industry and the economy as a whole, through the provision of an external stimulus in the form of finite, one-off and matched public grant funding.

The following sections present the operational details of the Fund's work during the year under review.

Grant funding

The Development Fund continued to use its grant funding to support the training, capacity building and sustainable development interventions offered by Municipal Capacity Building and Implementation, Vulindlela, Sustainable Communities and Rural Development. In 2011/12, the Fund approved technical assistance grants of R22.1 million for various interventions, made grant disbursements of R55 million (2010/11: R69.8 million), and leveraged R107.7 million through MSIG for its activities. Deployees placed by the Municipal Capacity Building and Implementation programme assisted municipalities in writing quality business plans, developing terms of reference for consultants, monitoring the implementation of grants, and reporting expenditure and progress on implementation to CoGTA.
In the year under review, the Fund developed and reviewed 220 systems, 136 policies and 300 plans.

Infrastructure Implementation and Support

Changes in the political landscape in South Africa have manifested in the government's massive investment in social infrastructure development. The Division reviewed its strategy accordingly, with the aim of improving efficiencies and impact. The deeper, expanded engagement of the Infrastructure Implementation and Support Division is in the context of the existing roles and responsibilities of the various government and public institutions in the identified priority sectors. It is also based on the capacity building experience of the Siyenza Manje programme.

The changes offered real opportunities for the Fund to reposition itself, not only as a facilitator and integrator but also as an implementer of infrastructure programmes. The growing role of the Division as an implementer is demonstrated in the larger number of national infrastructure projects it supports in sectors such as education, health and human settlements. The Fund works to support the Bank in its role as a centre of excellence for infrastructure development. To this end, it considers fully integrated support to national infrastructure programmes over the lifecycle of projects in the areas of infrastructure planning, project preparation, project management, and implementation and monitoring.

Municipal capacity building and implementation

The Municipal Capacity Building and Implementation programme of the Fund provides capacity building support to municipalities. In April 2011, the Siyenza Manje programme was unbundled into the MFIP (transferred to National Treasury) and the MISA (transferred to CoGTA) in line with the mandates of the respective authorities. Support to municipalities during 2011/12 was limited to the technical and planning components only. Deployees continued to facilitate projects funded by the MIG and capital expenditure allocations, which reduced infrastructure backlogs and increased household access to basic services.

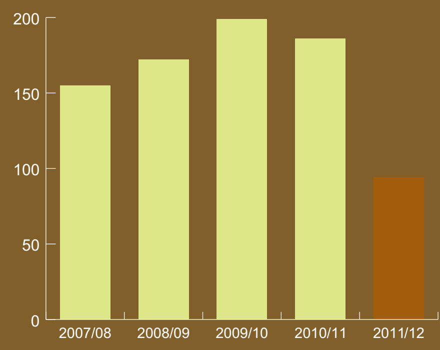
Deployment trends

The number of deployees decreased from 261 (163 engineers, 72 finance experts, and 26 development and town planners) in 2010/11 to 93 (79 engineers and 14 town planners) at the end of March 2012. This reduction can be attributed to resignations and the fact that vacant positions could not be filled owing to the integration of the programme into CoGTA. By the end of 2011/12, the programme was supporting 94 municipalities (58 directly and 36 on a shared-service basis), a 49% decrease from the 186 municipalities supported in 2010/11. The adjacent graphs illustrate deployment trends over the last five years in municipalities supported by the Fund.

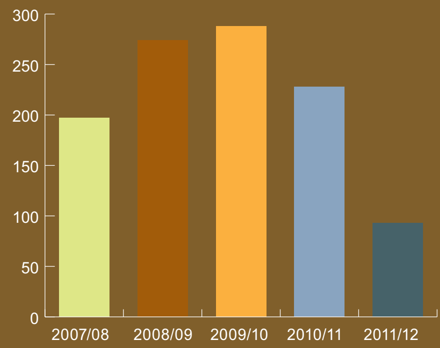
Technical infrastructure projects facilitated

The capacity building deployees facilitated 2244 technical infrastructure projects to the value of R14.3 billion during 2011/12. This 25% decline from the 2984 technical infrastructure projects facilitated in 2010/11 resulted from the reduction in the number of technical experts in municipalities. The technical projects portfolio implemented during 2011/12 consisted of water projects (24%), roads (23%), sanitation (14%), and operations and maintenance (7%). The number of technical infrastructure projects completed by the end of March 2012 was 610, a 45% decrease from the 1114 projects completed in 2010/11.

Number of municipalities supported, 2007/08 to 2011/12



Deployment trends, 2007/08 to 2011/12



Infrastructure projects portfolio, 2011/12

Sanitation	319
Roads	162
Operations and maintenance	141
Other (<5%)	169
Water	538
Water and sanitation	511
Infrastructure	404

Operations overview *(continued)*

Development impact

Deployees facilitated MIG and capital expenditure of R7.2 billion during 2011/12, a decline of 17% from the R8.7 billion in 2010/11.

In line with the government's employment creation priorities, the technical infrastructure projects promoted the use of labour-intensive construction methods and created 77 189 temporary employment opportunities during 2011/12.

A total of 456 560 households benefited from access to water: 145 933 households obtained new access to a basic water supply and 310 627 benefited from an upgraded bulk water supply. New bulk water projects include the Madibeng Water Treatment Plant (benefiting 41 500 households) and two projects in Mamusa, namely the water treatment plant in Schweizer-Reneke (which reached 13 000 households) and the Wentzel Dam upgrade (which reached 20 000 households). An estimated 456 284 households obtained access to sanitation: 167 466 households received access to basic sanitation and 288 818 benefited from upgraded bulk sanitation systems.

The decrease in new households connected to water and sanitation is mainly due to the reduction in the number of deployees, with the resultant negative effect on the number of projects facilitated.

Human skills and institutional development

Despite the high turnover levels in municipalities, deployees continued to undertake on-the-job skills transfer initiatives in 2011/12. Technical and planning deployees capacitated and trained 1135 officials (799 in technical and 336 in planning skills). This was more than initially anticipated, as the shared-services model resulted in more officials being trained.
In the course of institutional capacity building, 656 systems, policies and plans were developed and reviewed.

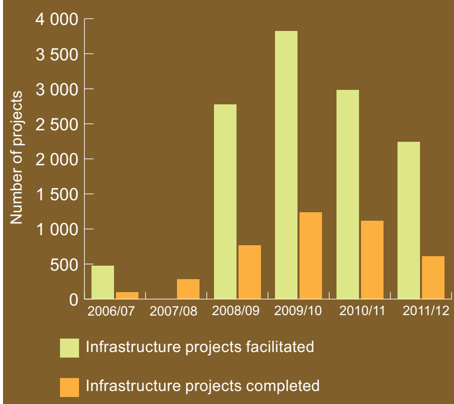
Young Professionals programme

The Young Professionals programme was a three-year structured learning programme. Its three phases involved hands-on, experiential training in scarce skills, such as civil engineering, town planning and finance; training in technical, soft and cognitive skills; and coaching and mentorship by experts and professionals in related fields. The young professionals were deployed to low-capacity municipalities with a shortage of technical skills. Young engineering professionals were prepared for registration as technicians, technologists or engineers with ECSA, while town planners worked towards registration with SACPLAN. The finance young professionals were offered a municipal finance qualification at NQF Level 6.

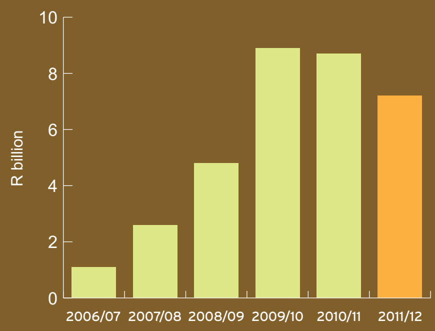
According to the initial programme design, 90 recruits were to be deployed in 30 municipalities. However, the needs of municipalities were such that a higher than anticipated number of young professionals were brought into the programme. Deployment commenced in 2006/07 with 16 technical young professionals and peaked at 160 young professionals in 2008/09.

The first cohort of young professionals submitted their portfolios within the prescribed minimum period of three years in training. Over the course of the programme, there were 52 applications for professional registration in the engineering and town planning field, resulting in the successful registration of 13 young professionals with ECSA and eight with SACPLAN. The finance learnership attained a 100% competence and certification rate: the 57 young professionals who participated in the programme all graduated with a National Certificate in Municipal Finance (NQF 6) in July 2011, becoming the first cohort of young professionals to attain this qualification in South Africa.

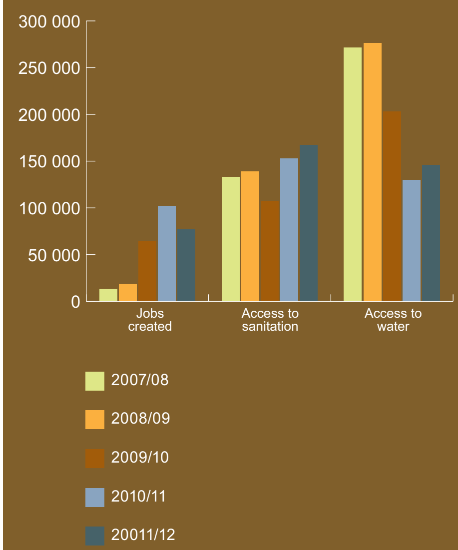
Technical infrastructure projects, 2006/07 to 2011/12



MIG and capital expenditure released, 2006/07 to 2011/12



Development impact on households, 2007/08 to 2011/12



By the end of the programme, 110 young professionals (64 civil engineers, 18 town planners and 28 finance specialists) had been absorbed into full-time employment in municipalities and the private sector. The remainder were absorbed by the National Treasury/Rand Water Technical Support Programme. The Young Professionals programme made a significant contribution towards professionalising the local government sector. The Fund acknowledges all its partners: the host municipalities, the National Treasury, CoGTA, Rand Water, ECSA, SACPLAN, Consulting Engineers South Africa (CESA), the South African Institution of Civil Engineering (SAICE), the South African Black Technical and Allied Careers Organisation (SABTACO), and the mentors and experts who coached the young professionals.

The Fund will keep track of all the programme's graduates and set up a post-internship support mechanism. This will aim to provide networking opportunities; create a platform for the professional sharing of best practice in the different areas of specialisation; and enable career tracking and development so that the Fund can gauge the strategic impact of its programmes beyond the programme lifespan.

Masimong Hostel refurbishment PPP

AT A GLANCE

312
units are scheduled for completion later in 2012

600
job opportunities

152
lower income households to benefit from the housing project

Single-quarter hostel buildings in the Masimong area of Welkom, previously owned by Harmony Gold, were converted into high-quality municipal rental estates earmarked for lower-income residents. This integrated development initiative included the conversion of old hostels and facilities into residential units, an administrative centre, a workshop, a clinic, a general dealer store and pre-school facilities.

This is an unprecedented PPP development involving the Free State provincial government, the Department of Human Settlements, Matjhabeng Local Municipality and Harmony Gold, which donated land and buildings, bridging finance and initial property management for the first two years. The budget for phase 1 of the project was R36 million for the completion of 152 residential units, while a further 312 units are scheduled for completion later in 2012.

Role of the Fund

The Fund deployee managed the provincial Community Residential Unit Grant to ensure that it was utilised efficiently. The Fund's involvement dates back to 2009, when the deployee reviewed the developer's technical, financial and property management proposals for compliance with the policy guidelines and prescriptions of the Community Residential Unit Programme. The provincial government received assistance on scoping the project, managing the costs and formulating a risk plan with mitigation measures. The deployee was also responsible for coordinating the project through participating in steering committee meetings and reporting to the province.

Impact

The project contributed significantly to urban renewal objectives in the area. Phase 1 was completed and provided rental housing to 152 lower-income households (between R800 and R3 500 per month). The project plan facilitated environmental renewal through the use of green technology, including the harvesting of existing building material and solar heating. The project created 600 job opportunities and contributed to the social upliftment of the beneficiaries.

Operations overview (continued)

Prospects for municipal capacity building in 2012/13

Despite the significant progress made in the five years of Siyenza Manje, there are still capacity gaps in the delivery of basic services within municipalities. The experience gained and capacity created in the Fund provide a solid foundation for offering holistic, impact-driven and aligned capacity building solutions.
In 2012/13, municipal capacity building will increasingly be aligned with the capacity needs of defaulting DBSA municipalities. This will support the implementation of South Africa Operations projects and unlock further investment opportunities for the Bank. The Fund will provide support to MISA, as and when requested by CoGTA.

Operations and Maintenance programme

Operations and maintenance municipalities

After conceptualising and piloting the programme successfully, the Fund is implementing a sustainable Operations and Maintenance programme for municipal infrastructure. It aims to provide capacity for municipalities to plan and execute infrastructure maintenance using resources available locally in the municipal environment.
The programme ensures that infrastructure maintenance work is executed using labour-intensive methods, leading to job creation and local enterprise development. It encompasses the Artisan Programme and the refurbishment of wastewater treatment works.

The Operations and Maintenance programme is being implemented in 11 municipalities (four municipalities from 2010/11 and seven sites contracted in 2011/12). The municipalities implementing the programme are: Eden District Municipality, City of Tshwane, and Hessequa, Kannaland, Dipaleseng, Bushbuckridge, Thabazimbi, Ga-Segonyana, Mogalakwena and Gamagara Local Municipalities. They are supported by seven experts on a shared-service basis.

At the Eden District Municipality, the Operations and Maintenance programme is implemented in the Department of Technical Services, where 6900 km of road infrastructure is maintained on behalf of the provincial Department of Transport and Public Works. The road network is spread out over an area of 24 000 km^2 and is maintained by a staff complement of 340.
The 2011/12 allocation for these projects amounted to R83.6 million. The DBSA initiative addresses capacity development of both municipal officials and SMMEs, following a collaborative process to identify gaps in training and construction skills. In January 2012, the Fund provided grant funding of R960 000 to train 54 SMMEs on labour-intensive construction, business management and project management.

During 2011/12, five operations and maintenance plans were developed. As a result of this work, prioritised maintenance projects will be included in the Integrated Development Plans (IDPs) and annual budgets of municipalities. The Fund is assisting municipalities in executing priority operations and maintenance projects as funds become available. The team, in consultation with the municipalities of Eden, Hessequa, Kannaland and Dipaleseng, has recorded 76% expenditure of the operations and maintenance budgets for 2011/12.

Water and wastewater treatment works

The Fund provided technical support to the regional offices of the Department of Water Affairs in three provinces and directly to the Bushbuckridge, Dipaleseng, Hessequa and Kannaland Local Municipalities for the improvement of water and wastewater treatment works.

The Fund conducted status quo assessments on 47 wastewater treatment works during 2011/12. Twenty operations and maintenance plans were developed for the selected wastewater treatment works to prevent further malfunctioning of equipment and minimise downtime. Six design reviews were conducted on new and upgraded water and wastewater treatment works. These aimed to restore the original design capacities and optimise the operation of the wastewater treatment works in order to comply with the final effluent quality limits set in the National Water Act, No. 36 of 1998, and contribute towards the Green Drop certification requirements. On the basis of these reports, the municipalities are able to develop business plans that facilitate their applications for funding the refurbishment works. In 2011/12, the Fund completed a total of 241 technical reports and status quo assessment reports on the functionality of wastewater treatment works.

DBSA and Anglo American South Africa partnership programme

The Fund entered into a partnership with Anglo American South Africa to collaborate on improving the capacity and service delivery of municipalities in which Anglo American has mines or which send labour to the mines.

By the end of the financial year, the Fund had concluded 11 municipal assessments in the Eastern Cape, Limpopo, Mpumalanga, North West and the Northern Cape. Ten status quo reports were finalised and shared with the municipalities. Municipalities may use the information contained in the assessment reports to plan their municipal IDPs and budgets. Further, capacity enhancement plans were developed that prioritised projects to close identified gaps; these enabled Anglo American to focus their capacity building interventions in the municipalities.

Artisan Programme

The Artisan Programme recruits and trains suitable apprentices to a level of competence that qualifies them as artisans, thereby helping to alleviate the national skills shortage. In the year under review, 254 section 13 apprentices and 154 section 28 municipal workers were deployed in 33 municipalities to assist with operations and maintenance work, while undergoing training towards trade certification. During 2011/12, trade certificates were conferred on 62 apprentices, bringing to 103 the number of artisans qualified through this programme to date.

The apprentices deployed to host municipalities for experiential training demonstrated their professional abilities by providing the required operations and maintenance services. Seventeen artisans obtained full-time employment from the host municipalities.

Prospects for the Operations and Maintenance programme in the year ahead

The Operations and Maintenance programme will assist ten municipalities with implementing operations and maintenance initiatives in 2012/13. This support will include the preparation of contract work packages for SMMEs. Municipalities will also receive assistance with compiling appropriate infrastructure asset registers and determining the scope of work and resources required to develop master plans for operating and maintaining their infrastructure.

Mandates programme

In early 2010, the DBSA began to reposition itself as a centre of excellence for infrastructure development. This institutional shift allows it to support infrastructure projects across all spheres of government, with a focus on accelerating planned infrastructure development, encouraging job creation, advancing the green economy, and ensuring the delivery of value-for-money infrastructure.

The deeper, expanded engagement of the Bank is undertaken in the context of the existing roles and responsibilities of the various government and public institutions in the identified priority sectors. It also builds on the experience of the Siyenza Manje programme and, more recently, the DBSA's ability to finance award-winning PPPs in the region. The engagement is shaped by a number of principles that recognise the responsibilities and accountabilities of mandated and lead role players.

In line with these engagement principles, the Bank established a focused programme management structure, the Vector programme, to coordinate the execution of mandate programmes on a day-to-day basis. Together with specific project management, it involves programme design, oversight, procurement, budget management, monitoring and evaluation, supported by sector planning and programme advisory services, with a focus on the formulation of solutions and the design of programmatic and project interventions. The Vector Delivery Model was designed to allow fast and efficient performance on the new mandated programmes. The Vector office was integrated into the DBSA Development Fund.

The Fund assisted national and provincial governments in achieving their objectives. In this regard, it supported the Departments of Education, Health and Human Settlements with the delivery of adequate, safe and good physical infrastructure, utilising the allocated funds. The Fund's delivery model is oriented towards ensuring the implementation of infrastructure that improves service delivery at various levels of government.

Development of policies, systems, processes and procedures

To strengthen its position as a centre of excellence in infrastructure delivery and implementation, the DBSA has developed two critical documents in line with the Infrastructure Delivery Management System. This management system was developed through the Infrastructure Delivery Improvement Programme (IDIP), a capacity building initiative of the South African government, which currently focuses on the health and education sectors. Among other things, it provides a system of supply chain management for the delivery and maintenance of infrastructure. The new documents are:

- **Construction procurement policy:** This policy establishes a construction procurement system, which the DBSA as implementing agent can use in the procurement of goods, services and engineering and construction works for government and other programmes that involve fixed infrastructure, in compliance with the requirements of various Acts.
- **Design and delivery management processes and procedures:** This document establishes an Infrastructure Delivery Management System specifically for the DBSA, comprising processes, procedures and methods for delivering or maintaining infrastructure in a staged, systematic, disciplined, uniform and auditable manner.

Implementation of the ASIDI programme on behalf of the Department of Basic Education

In response to the government's call for better basic education (Outcome 1), the Department of Basic Education and the DBSA entered into a Memorandum of Agreement in 2011/12. The aim is to strengthen the Department's delivery capacity and provide schools infrastructure through the ASIDI programme. The two parties collaborate in the following areas:

- **Establishment of a Programme Support Unit within the Department of Basic Education:** The Fund appointed suitably qualified technical service providers in September 2011 for the establishment of the Programme Support Unit in the Department. The Unit is now fully functional and assists the Department with monitoring and implementing ASIDI. In terms of the agreement, the Unit reports to the Department, while the DBSA provides agency services for the operation of the Unit's contract.
- **Implementation of the Schools Building Programme:** Detailed planning and preparation of the initial 49 schools was completed, and 16 construction companies, approved by the Department, were appointed in January 2012 to build these schools in the Umtata, Libode and Lusikisiki Districts. One school was removed from the list of 50 schools, as the provincial Department of Basic Education had handed the site over to a contractor in November 2011. Construction is in progress at the remaining 49 sites. The construction programme is to be completed by 30 November 2012. By the end of 2011/12, 23 SMMEs had benefited from the construction activities and over 617 temporary

Operations overview (continued)

jobs had been created for local communities.

- **Project planning and preparation for schools infrastructure delivery in 2012/13 and 2013/14:** The terms of reference for the required professional service providers were completed and signed off by the Department. It finalised the list of schools to be built in the 2012/13 financial year, but had not made a formal submission to the DBSA at the time of this Annual Report. Detailed planning and preparation for the next financial year are expected to commence once the list of schools has been received from the Department.

The Fund's role in the implementation of the Health Infrastructure Programme

The national Department of Health requested the DBSA to assist in improving the healthcare system, including its management. The approach was prompted by the pivotal role the DBSA played in the development of the Health Roadmap, an important input to the National Health Strategic Plan and the transformation of the health system. The Department asked the DBSA to establish a Programme Management Support Unit and undertake a rapid assessment of capital projects that are funded through the Hospital Revitalisation Programme.

- **Establishment of the Programme Management Support Unit**

  The strategic intent in establishing the Programme Management Support Unit was threefold:
  - To establish a monitoring system and improve the professional and technical capacity of both the national and the provincial Departments of Health
  - To improve the quality and quantity of spending in the delivery of health infrastructure
  - To ensure that planned activities and projects are realised, as per the Programme Implementation Plan and User Asset Management Plans

  The DBSA established a functional Programme Management Support Unit to support the Infrastructure Unit in the Department, which has been operating since September 2011. In 2011/12, the Programme Management Support Unit, among other initiatives, assisted the Department in the design and planning of health infrastructure projects, ensured the utilisation of allocated budgets, formulated an Accelerated Maintenance Intervention Plan with an implementation roadmap, and managed the progress on construction and other interventions related to identified health infrastructure projects.

- **Capital projects status quo assessment**

  The capital projects status quo assessment is being implemented in two phases. The first phase, initiated as a pilot project, involved the development of the data capture tool, process development and refinement, the capture and processing of data on all hospital revitalisation projects (Hospital Revitalisation Grant), and reporting. This work has been completed. The second phase, to assess all current and planned public health projects in South Africa (including identifying areas where contractual, financial and management interventions are needed to overcome delays in implementation) is now under way. This phase includes an assessment of all health infrastructure projects, regardless of funding stream, including the Hospital Infrastructure Grant, the equitable share and the Hospital Revitalisation Grant. By the end of March 2012, 1081 projects had been assessed.

Support to provincial Departments of Human Settlements

The Fund provided technical support to the provincial Departments of Human Settlements in the Eastern Cape, Free State and Western Cape. Civil engineering and planning experts were deployed to assist with establishing programme management units and with planning, implementing and monitoring various human settlements programmes. During 2011/12, Fund experts supported provinces by facilitating the implementation of R430 million in human settlements projects that benefited 3185 people.

Prospects for 2012/13

During 2012/13, the Fund will undertake national and provincial mandates aimed at supporting the education, health and human settlements departments in achieving their objectives and delivering on important initiatives.

Vulindlela Academy

The DBSA Vulindlela Academy, which is accredited by the Local Government Sector Education and Training Authority (LGSETA), is the capacity building, knowledge-sharing and skills transfer platform of the Bank. It offers accredited capacity building and training to development intermediaries in the southern African region, including municipalities in South Africa, government departments, parastatals, public utilities, non-governmental organisations and development finance institutions. The Academy addresses human and institutional capacity failure by building technical, financial, management, planning and governance skills, which are critical to the improvement of service delivery in South Africa and the region.

Training in priority skills

The Academy seeks to position itself strategically as a centre of excellence for capacity building and training across the SADC region. From 2009/10, the Academy has aimed to increase its training outreach, strengthen and grow existing business, and sign strategic partnerships to deliver on its mandate. It has performed well over the past financial year, within its approved strategy and targets.

During 2011/12, the Academy trained 13 019 officials from municipalities, intermediaries and development finance institutions in the priority skills areas of planning, finance, management and leadership. This represents a significant increase from 2944 learners trained in 2007/08. In addition, 5981 councillors were capacitated as part of the national Councillor

Induction Programme, bringing to 19 000 the number of external learners trained during 2011/12.

The majority of learners were from Gauteng (20%), KwaZulu-Natal (14%), the Western Cape (14%) and Limpopo (13%). The high numbers in Gauteng, KwaZulu-Natal and Limpopo are due to the large number of councillors who attended the national Councillor Induction Programme between June and September 2011.

Training delivery in SADC

During 2011/12, 231 delegates were trained in the SADC region, on programmes such as PPPs, SADC health PPPs, unsolicited bids and training for Chief Financial Officers. These programmes were delivered in collaboration with the SADC Development Finance Resource Centre (DFRC) and funded by the European Union. The collaboration between development finance institutions, through the regional network, continues to grow. Over the years, both the Academy and the SADC DFRC have played an important role in supporting the regional development agenda through capacity building programmes that were neither aligned with unit standards nor accredited. In line with its offering of accredited programmes, the Academy has been approached by the SADC DFRC Board of Trustees to collaborate on the joint accreditation of all SADC training material. The accreditation of these programmes will reside within the Academy. The partners have already identified four core programmes for accreditation: Investment Appraisal, Project Finance, Project Management and Corporate Governance.

Technical training in support of operations and maintenance

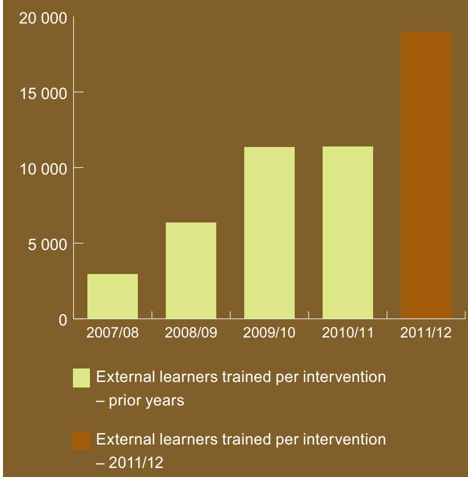
The Academy, in partnership with the Department of Water Affairs and the Western Cape Department of Local Government, rolled out training on water and wastewater treatment works for process controllers and supervisors. This training focuses on operational asset maintenance and management in order to improve Blue Drop and Green Drop compliance. Over 1639 learners were trained via the Telematics services of the University of Stellenbosch.

The Academy helped to train the operations and maintenance function in Eden District Municipality through three training interventions. The Fund also capacitated 51 delegates from construction SMMEs, training them on labour-intensive construction, business management and project management.

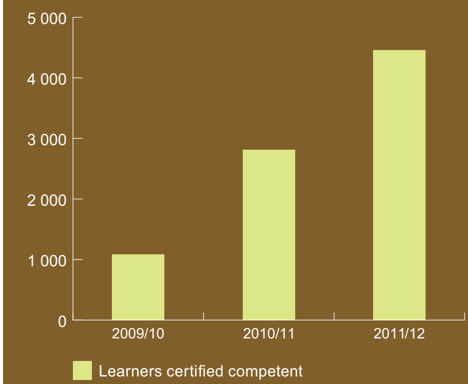
The delegates expressed their gratitude to the DBSA and requested more training, in the form of learnerships on labour-intensive construction. The next phase of this

2012 Technical Young Professional Graduation Ceremony

Vulindlela training outreach coverage, 2007/08 to 2011/12



Competency of Vulindlela Academy learners



Operations overview (continued)

Accelerated Schools Infrastructure Delivery Initiative

AT A GLANCE

49
schools are under construction

617
temporary employment opportunities

12 300
learners will benefit from the building of the first 49 schools

The Department of Basic Education established ASIDI with the aim of eradicating backlogs in school infrastructure in the 2010–14 strategic planning period and beyond, by applying a combination of strategies for immediate and medium-term improvements in infrastructure delivery.

ASIDI has the following primary aims:
- Eliminate the backlogs in school infrastructure
- Upgrade the standard of schools to meet the optimum functionality levels prescribed by the Norms and Standards for Schools Infrastructure
- Eradicate inadequate, unsafe and poor physical infrastructure by using allocated funds properly

Role of the DBSA

Its role in the formulation of the 2008 Education Roadmap and in infrastructure development more broadly has given the DBSA a deep understanding of the urgent need for schools infrastructure. The Bank is therefore perfectly placed to partner with the Department of Basic Education on various initiatives, including the establishment of a Programme Support Unit within the Department, the implementation of the Schools Building Programme, and the planning and preparation for delivering schools infrastructure in 2012/13 and 2013/14.

Development impact

Currently, 49 schools are under construction. Labour-intensive methods allowed the programme to create 617 temporary employment opportunities and benefit 23 SMMEs in 2011/12. Over 12 300 learners will benefit from the building of the first 49 schools.

The DBSA facilitated the establishment of the Programme Support Unit, which has given the Department the resources it needs to fulfil its oversight role in the building programme. The Unit transfers skills to identified personnel in the Department.

While it works with the Department to accelerate the delivery of school infrastructure, the Bank is also sharing knowledge, information and experience through the established joint committees and governance structures.

Lessons learnt

- Proper project design is fundamental to the successful implementation of projects. The rapid pace of the programme, with all 49 projects due for completion within seven months, demands detailed planning and design to minimise the possibility of failure.
- Contract management is crucial. The required resources were contracted timeously so that the construction programme could be planned, managed and monitored effectively. Additional resources were brought in to strengthen internal capacity for programme management. A programme team was also established in Mthatha to oversee the contractors on the ground.
- It is also crucial to manage the different expectations of the stakeholders. In this case, the Fund's community facilitation capacity was used to engage the school communities in the Eastern Cape, reach consensus and ensure buy-in. The beneficiaries were also kept informed as the programme unfolded.

The ASIDI programme has allowed the DBSA to make its strategic corporate role as an implementer and advisor a reality in education.

project will be to conduct an impact assessment as part of the portfolio of evidence assessments.

Impact of Vulindlela training

During 2011/12, 4616 portfolios of evidence were received from municipal officials and assessed by Vulindlela. Of these learners, 4458 were certified competent, a 59% increase from 2010/11, when 2809 learners received competency certification. Generally, it takes a few months after the training for the results to be endorsed by the LGSETA and learners to be issued with certificates of competence.

In an effort to improve assessment efficiencies and effectiveness, learners complete 70% of their portfolios during training. The rest is completed after the training to enable them to include work-based projects as part of their evidence.

The Academy has consistently achieved a 90% client satisfaction rate, which reflects its delivery of quality training as a centre of excellence.

Prospects for the year ahead

In 2012/13, the Academy will focus on management and leadership development for municipal managers. In line with its approved sustainability

National Councillor Induction Programme and post-induction training

AT A GLANCE

647
councillors trained in computer literacy

5981
new councillors successfully inducted

SALGA identified the Vulindlela Academy as its official partner for planning and implementing the national Councillor Induction Programme, including Continuous Councillor Training, during 2011/12.

Councillor induction

The Academy provided programme management support to SALGA and assisted with the implementation of the training nationally. During implementation, all Academy programme managers and training coordinators were deployed across the country to help with the training. A total of 5981 new councillors were successfully inducted.

The topics covered in training included municipal legislation, the functions of the council, important municipal processes, municipal IDPs, local economic development, ICT, municipal finance, performance management, public participation and meeting procedures.

Continuous Councillor Training

After induction, the LGSETA and SALGA conducted a training evaluation and skills audit to assess the education and skills levels of the councillors and mayors, and determine the needs for appropriate further training. The following skills will form part of the Continuous Councillor Training initiative: municipal financial management, land use management, risk management, fraud and corruption, computer literacy, community development, local economic development, integrated development planning, quality management and project management. During 2011/12, Vulindlela trained 647 councillors in computer literacy and the use of the Local Government Resource Centre.

The Academy is represented on the Continuous Councillor Training Steering Committee, together with SALGA and CoGTA. The aim is to produce a draft competence framework for the Continuous Councillor Training, and use the results of the councillor profiles and skills audit to develop programmes for councillors and mayors.

In the interim, CoGTA is conducting an evaluation of existing training material to supplement the NQF 4 qualification developed by the Local Government Leadership Academy. This qualification includes four skills programmes: Emotional Intelligence, Problem Solving and Analytical Thinking, Effective Communication and Communal Knowledge Management.

Operations overview *(continued)*

model, the Academy will also fully implement the cost recovery model in the delivery of training programmes.

Agency Management Services Unit

The DBSA established its Agency Management Services Unit in 2002 in response to the acute lack of capacity to implement and manage development programmes in the country and the SADC region. The Unit supports the Bank's strategic plans of building and maintaining strategic partnerships, enhancing service delivery by the public sector, and designing innovative programmes for implementing priority sector mandates. Its objectives are aligned with, and support and complement, the capacity building initiatives of the DBSA Development Fund.

Funds under management

This year, the Unit attracted 10 new agencies, with R538 million in new funds under management, bringing the total to 38 agencies, with R1.59 billion cumulative funds under management. The effort to clean up the inactive agency account resulted in the closure of ten dormant agencies. The Unit will focus on renegotiating with partners to redirect funds that have been unused for more than two years towards other development initiatives. The graph below illustrates the number of agencies that the Fund has managed on behalf of partners over the past 15 years.

Development impact of agency programmes

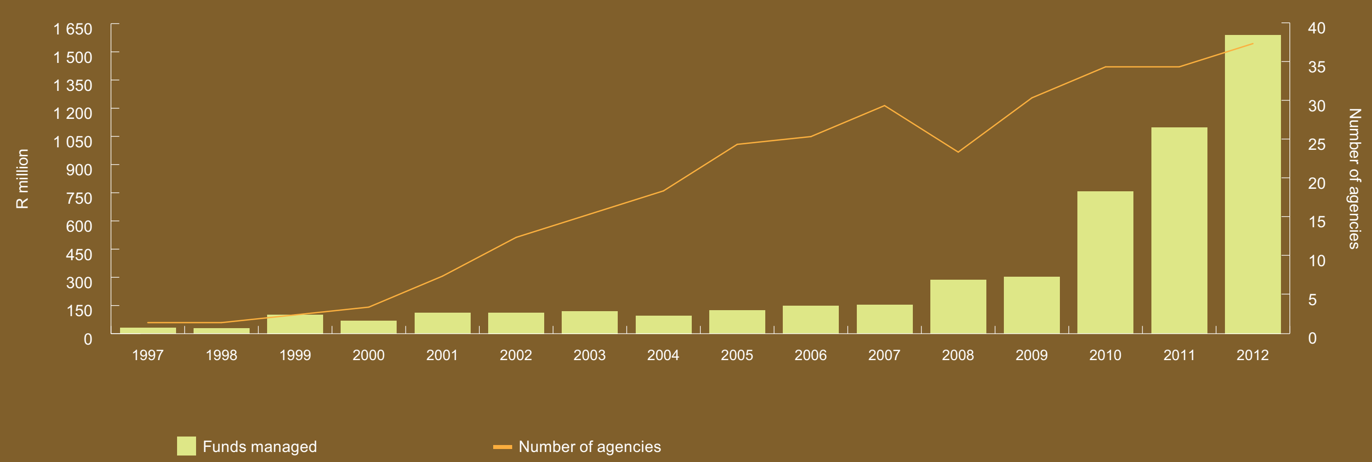
The development programmes managed by the Unit contributed significantly to development in the region, as outlined below.

Infrastructure

In its capacity building role, the Agency Management Services Unit contributed to the delivery of infrastructure expenditure to the value of R29.06 billion in 2011/12. The infrastructure projects and funds under management include the IDIP, the Elliotdale Rural Housing Project, and Voluntary Counselling and Testing projects.

- The **IDIP** is a partnership initiative between the National Treasury, the Department of Health and the Department of Basic Education aimed at assisting the education and health sectors in improving and aligning infrastructure planning and budgeting.
- The **Regional Spatial Development Initiative** falls under the Department of Trade and Industry's International Trade and Economic Development Division and is funded from a three-year rolling budget transfer to the DBSA. In the SADC region, the project is anchored by Export Credit Agency (ECA) agreements signed by the Department and its counterpart ministries in the other countries. Within the host country, spatial development initiatives are assigned to a mandated ministry. The Regional Spatial Development Initiative is then used to support corridor agreements that the host country has signed with neighbouring states. The pipeline initiatives of the project include the Spatial Development Initiatives programmes of Mozambique, Tanzania and the Democratic Republic of Congo (DRC), the Malawi-Tanzania Industrial Development Cluster project (Mtwara Corridor), Lake Natron Soda Ash Project (Tanga Corridor) and Mchuchuma-Mufindi Transmission Line (Mtwara Corridor). The achievements include the following (see page 186):

Agency funds under management, 1996/97 to 2011/12



Vulindlela Academy's collaboration with the Western Cape government and Stellenbosch University on water and wastewater treatment training

AT A GLANCE

58
hours of real-time broadcasts devoted to training

1635
learners trained in water treatment

97%
attendance by the delegates in all centres

The Blue Drop/Green Drop project of the Department of Water Affairs focuses on water quality management by means of a transparent system of reporting by municipalities. Municipalities that comply with legislation and other best practices required by the Department with regard to drinking water or wastewater are awarded Blue Drop or Green Drop status, or both.

Objective

The main objective of the course was to improve the operations, monitoring and asset management of treatment plants. Vulindlela and its partners used the Blue Drop and Green Drop programmes as a guiding framework. Supervisors, technical staff and managers were trained on effective water management and the requirements for achieving Blue Drop and Green Drop status.

Approach

Together with the Department of Local Government of the Western Cape, the national Department of Water Affairs and SALGA, the Academy approached Stellenbosch University's Telematics Services for assistance. The partners proposed to use their integrated technology platform to present a pilot training programme in water and wastewater treatment supervisory management skills, focusing on operational asset management within the Blue Drop/Green Drop framework. The programme consisted of 58 hours of real-time, synchronous broadcasts from the Stellenbosch studio to ten learning centres in the Western Cape (four centres owned by Stellenbosch University and six established by the Academy). The use of the platform gave the trainees virtual mobility, which reduced travel and accommodation costs for all partners.

There was a 97% attendance by the delegates in all ten centres. A total of 1635 learners were trained per intervention across eight modules: technical management; compilation of an operational asset inventory; condition assessment and management schedules; managing operational assets; organising, managing and undertaking quality control on routine inspections for asset maintenance work; compilation of water safety plans; duties of municipal water and waste water treatment; requirements for compliance with the Green Drop and Blue Drop criteria; and the use of operations and maintenance manuals for water and wastewater treatment plants. The Department of Water Affairs held a certification ceremony during the Process Controllers' Open Day on 24 November 2011. The LGSETA is currently verifying competence through the portfolios of evidence submitted by the learners.

Operations overview (continued)

- **Angola:** Two scoping studies have been completed, namely the leveraging trade and investment scoping study on oil and gas sector synergies between South Africa and Angola and the scoping study on "lead" agro-processing, minerals, energy and industrial projects.
- **Namibia:** The Spatial Development Initiative scoping study on the Trans-Caprivi and Trans-Cunene Corridors is nearing completion.
- **DRC:** The scoping update study on the Bas-Congo Development Corridor is ongoing. The setting up of the ITRI Tin Supply Chain Initiative (iTSCi) scheme in North Kivu, South Kivu and Katanga provinces has been signed and the Pact team mobilised.
- **Mozambique:** The programme document for the Southern Spatial Development Initiative Cluster (Maputo, Lubombo and Limpopo) has been completed and the Techobanine Rail/Port options study redirected.
- **Tanzania:** Support to the Mchuchuma-Liganga Integrated Project (Transaction Advisor) has been completed. Work on the National Spatial Development Initiative Strategy and Implementation Framework is ongoing.

  The Programme Implementation Memorandum for the Dar es Salaam Port Upgrade is in the procurement phase. The setting up of the iTSCi Scheme in Rwanda and Burundi (Service Provider Agreement for Pact) has been signed and the Pact team mobilised.
- **Zimbabwe:** The feasibility study for the Harare-Chirundu Toll Road was completed, as was the procurement for the National Railways of Zimbabwe recapitalisation. Procurement commenced for the feasibility study for the Beitbridge-Harare Road and the process to assess the options for funding a new bridge over the Limpopo River has started.
- The **Elliotdale Rural Housing Project** is a partnership between the Eastern Cape Department of Human Settlements and the DBSA. The project will enable 1000 Elliotdale households to decide independently how to spend their allocated housing subsidies (approximately R72 000 each) on permitted improvements to homesteads and settlements. The households are in the Upper Mncwasa and Ntsingizi (Ward 17) and Ngqatyana (Ward 26) areas of Elliotdale. The project facilitated the construction of 200 houses during the first phase. Funds to roll out the second phase (the construction of 800 houses) have been received and preparatory work has commenced.
- The **Voluntary Counselling and Testing programme** is an initiative of the national Department of Health and Kreditanstalt für Wiederaufbau (KfW). Its purpose is to promote the prevention of HIV/Aids and encourage behavioural change in poor communities and urban settlements through improved access to quality voluntary counselling and testing facilities. Phase 1 of the programme was funded to the value of €10 million and has facilitated the establishment of 205 health facilities in the Eastern Cape, KwaZulu-Natal and Mpumalanga since 2006. An agreement has been reached between the Department and KfW to replicate the programme as phase 2 in Limpopo and the Northern Cape.

Water sector

The Water Demand Management programme is targeted at municipalities and water utilities in the SADC region to enhance awareness of water conservation and demand management. In 2011/12, the programme supported 12 initiatives to implement projects that address water leakages and losses, the analysis of water infrastructure needs, and feasibility studies for capital investment in water infrastructure development and maintenance. The projects, which had a total value of R11.5 million, were implemented in South Africa, Zimbabwe, Zambia and Mauritius.

Energy sector

- The **Renewable Energy Market Transformation programme** is funded to the value of US$6 million through the Global Environment Facility Fund of the World Bank and the Department of Energy. It provides support to the South African government in its drive to meet the renewable energy target of 10 000 GWh and offset greenhouse gas emissions by 2013. In 2011/12, the programme assisted the government in developing a strategic framework for the Solar Water Heater programme and established a database of service providers and beneficiary organisations.
- The **Energy and Environment Partnership programme**, funded by the Finnish government, supports the development of the renewable energy sector in East Africa and the SADC region through grant funding for feasibility studies and demonstration projects to prove the sustainability of long-term investments. During 2011/12, the programme supported 46 projects to the value of R50 million in the SADC region. The United Kingdom's Department for International Development (DFID) has joined forces with the Finnish government to expand the programme to the rest of the African continent. DFID will be making a contribution of approximately £27.6 million.

Prospects for agencies in 2012/13

In the year ahead, the Unit will focus on building sustainable relationships to enhance development impact in the priority sectors of the DBSA.

Operations overview *(continued)*

Water Demand Management – Greater Hermanus Water Conservation Project and OR Tambo District Municipality

AT A GLANCE

32%
reduction in per capita peak demand for water

20%
increase in revenue from water sales

96%
level of support from the residents

The Water Demand Management programme aims to entrench a water demand culture in the SADC region, thereby contributing to the goals of regional integration and poverty alleviation through the principles of pro-poor, efficient and sustainable water utilisation. The programme is in line with the SADC Regional Strategic Action Plan on Integrated Water Resources Development and Management. Various water institutions within SADC implemented several projects on water demand management. The Agency Management Services Unit established a Programme Implementation Unit, which took responsibility for in-country launch events for the confirmation of the various management structures of the programme (for publicity and political buy-in). This resulted in the establishment of the country nodes and the confirmation of the international reference group members. The Programme Implementation Unit was charged with the responsibility of conducting formal monitoring and reporting to SIDA and other stakeholders, according to the funding agreement.

The case of Hermanus

The coastal town of Hermanus adopted a 12-point conservation package developed by the National Water Conservation Campaign to avert a projected water security problem in the town. After three years of implementation, there has been remarkable progress:

- A 32% reduction in per capita peak demand for water
- A 20% increase in revenue from water sales
- South Africa's most socially just tariffs
- A 96% level of support from the residents

The case of OR Tambo District Municipality

During 2011/12, a pilot project on water conservation and demand management was established in the OR Tambo District Municipality. The aim was to implement programmes to repair leaks, repair meters, retrofit and install infrastructure, as outlined in the municipality's Water Service Development Plan. The programme provided baseline information for water use in the area. The programme invested heavily in creating awareness, building capacity and improving services. A number of badly damaged pipes were replaced and additional pumps were added at the water treatment works to reduce pump fatigue. While tariff structures were not affected, service delivery and reliability improved significantly. The supply of water was further improved by pressure zoning and the resultant reduction in burst pipes from pressure imbalances. Flow pressures have improved since pressure valves were installed at critical points. Better operations and maintenance has also helped to improve supply. Unaccounted-for water was reduced by approximately 6%. A leak repair programme resulted in the training of plumbers and the purchase of equipment for repairing leaks and other plumbing activities. Cost recovery is constantly improving, as the employment of new people has increased revenue collection efforts.

Human resource constraints persist for meter readings. Furthermore, there is no clear indication whether the revenue collected is invested back into the project. The limited communication between the water services authority and other service providers, such as Eskom, posed a problem during bulk meter installation, which delayed applications for electricity supply.

It is anticipated that the implementation of this project will yield water cost savings, delay the construction of infrastructure, reduce the cost of maintenance and replacement, limit water demand, and protect the environment in the long run.

Pan-African Capacity Building Programme

The Pan-African Capacity Building Programme is a partnership between the DBSA, the AFD and the IDC aimed at making a positive and lasting contribution to the human, institutional and operational capacity of the African continent in the field of project management for infrastructure development. It seeks to improve the quality of professional skills in infrastructure development on the continent. The Programme has three pillars, namely the Masters in Public Infrastructure Management, short courses and the Young Professionals internship programme.

Executive Masters programme

The Executive Masters in Water for All pilot initiative was launched in 2010/11. Four students recruited from Johannesburg Water, Bushbuckridge Water and Polokwane Municipality enrolled at AgroParisTech in September 2010, specialising in water resources management. They graduated in September 2011.

Short courses

The courses of the Pan-African Capacity Building Programme are aimed at addressing critical skills gaps in development finance institutions and government subsidiaries on the continent. During 2011/12, the Programme trained 201 participants on pension fund investment in infrastructure (95 delegates in Nigeria), legal documentation for PPPs and concessions (47 delegates in Nigeria), public management utilities (17 delegates in Marseille) and asset management (38 delegates in Uganda). In addition, two delegates from the Rwanda Development Bank undertook a study tour to the DBSA, where they were exposed to current best practice in risk management, focusing on advanced credit risk management techniques for credit managers. Similarly, two South Sudan executives were trained on the DBSA's bids evaluation process, project financial controls, monitoring and evaluation.

Masters in Public Infrastructure Management

AT A GLANCE

54%
of funding will support the water and sanitation element

46%
of funding will support an integrated Masters in Public Infrastructure Management

91
candidates were selected for participation at inception

The AFD's contribution to the Masters programme (54%) will support the Water and Sanitation element, while the contribution from the DBSA and the IDC (46%) will support an integrated Masters in Public Infrastructure Management. The Masters in Public Infrastructure Management was launched in March 2012 with the selection of 91 candidates for participation.

The Masters in Public Infrastructure Management is a component of the Pan-African Capacity Building Programme, alongside the Young Professionals internship and a range of short courses. Its objective is to develop high-calibre skills for the management and maintenance of public infrastructure to support service delivery on the African continent. The sponsors (the DBSA, the IDC and the AFD) view this initiative as a contribution to the broader African development agenda backed by the New Partnership for Africa's Development (NEPAD).

Block release delivery method	Students from different countries converge in a university for contact lectures and are then released back to their sending organisations to perform assignments.
Study tours	Students from the three delivery centres converge in South Africa to visit service delivery infrastructure facilities and attend guest lecture seminars.
Guest lecture seminars	Exchange of specialist lecturers from the three centres to present a regional perspective lecture to other institutions on an infrastructure-related subject that deepens the learning around the main theme of public infrastructure management.

Programme rationale

The lack of skilled professionals to conceptualise, design and implement integrated infrastructure projects hampers access to development finance. Therefore, building the infrastructure development and management capacity of service delivery institutions on the continent is critical to national efforts to improve services for the people.

Implementation modalities

The initiative is implemented through partner universities in three centres across the region: the University of Pretoria, South Africa, for SADC countries; the University of Makerere, Uganda, for East African countries; and the University of Dakar, Senegal, for West African countries. The programme targets 75 candidates from infrastructure-oriented institutions across Africa. This is to ensure that students undertake dissertations related to the activities of their host institutions, so that they contribute to improving these institutions even during the training period.

Programme launch activities started at the University of Dakar on 20 January 2012, where the University announced that lectures would begin in March 2012. Makerere University launched on 30 March 2012, with academic activities starting in April 2012. The University of Pretoria will commence tuition for the programme in August 2012.

Operations overview *(continued)*

Young Professionals internship

In partnership with the AFD and the IDC, the DBSA selected a group of young professionals to obtain international exposure in medium-sized municipalities in France.
The internship curriculum is aligned to the competency requirements and contributes to the continuous professional development points required by professional bodies.
For the 2011/12 intake, 11 young professionals (nine from South Africa, one from Mali and one from Senegal) were successfully placed in French municipalities for three months.

The Pan-African Capacity Building Programme and the year ahead

In 2012/13, the Programme will continue with the Masters in Public Infrastructure Management and the short courses for professionals from development finance institutions, important sector utilities and government departments across the continent.

Community Development Facilitation Division

The core function of the Community Development Facilitation Division is to build capacity within vulnerable communities to ensure that they participate in the formulation of a shared vision of their development. The intention is for this shared vision to be incorporated into the established structures (e.g. IDPs) and for the resultant projects to be well planned, well structured and fundable.
The Division implements its mandate through the work of the Sustainable Communities programme and the Project Management and Project Development Units, which operate as interdependent functions.

As indicated earlier, the core activities of this Division were mainstreamed into the project cycle of the DBSA Development Fund as from November 2011. In 2011/12, the Division supported 12 sites across the country at various stages of their development cycle, namely: the signing of the Development Charter; the final adoption of the Sustainable Development Plan by the local municipality; the development of the implementation framework; and the monitoring of the implementation of the Plan. These sites include:

- Urban areas: Grabouw, Ba-Phalaborwa, King Sabata Dalindyebo, Diepsloot and Kokstad
- Rural areas: Elliotdale, uMkhanyakude and Greater Taung
- Partnership programmes: Keiskammahoek, SAFCOL Beekeeping Enterprise Expansion phase 2, Eastern Cape Small Town Revitalisation (Ngqushwa Pilot) and ASIDI in the Eastern Cape

The Division handed over some projects to local development agencies, including AsgiSA EC (Keiskammahoek) and the KwaZulu-Natal Agribusiness Development Agency (Coastal Cashews Project). The Division significantly reduced its capacity building support to established sites, such as the King Sabata Dalindyebo, Grabouw, uMkhanyakude and Ba-Phalaborwa Local Municipalities and Diepsloot.

Sustainable Communities Unit

The Development Charter process underpins the Sustainable Communities interventions.
The community and its development partners are mobilised to craft a common development vision and then plan and implement projects together to unlock their social, cultural and economic potential and optimise their development impact. Acknowledging the interdependence of stakeholders in the community is the key to partnerships and synergy in implementation. This initiative enhances the municipal process of developing IDPs and provides a long-term vision and programmes to direct subsequent IDPs. The Development Charter process has been developed and adopted by the Fund and its partners.

The Sustainable Development Plan is compiled with the informed and guided participation of the stakeholders. It gives effect to the principles and vision contained in the Charter and looks at the planning of social, economic and natural resource use and development in a sustainable way and in harmony with each other. Regional economic viability is essential to ensure local economic development, the creation of decent work, and the economic empowerment of communities.

External and internal capacity was used to mobilise community stakeholders to sign 53 Development Charters, as follows:

- A new Sustainable Communities site: Greater Kokstad Local Municipality
- An alternative construction technology project with partners: Mandela Park School in Mthatha
- Two rural development sites: Hlaneki and Dzumeri communities in Greater Giyani
- National mandates: 49 school projects within ASIDI in the Eastern Cape, where the Fund was appointed as the implementing agent by the national Department of Basic Education

In addition, in-principle approval was obtained from Mbhashe Local Municipality for the Elliotdale Sustainable Development Plan, which requires a R200 million investment in linked initiatives in agriculture, construction, small enterprise development and renewable energy development, spread over a period of five years. Such investment is expected to create 10 300 sustainable jobs. In November 2010, the Eastern Cape provincial Department of Human Settlements appointed the DBSA as the implementing agent for the 1000 housing units in the Elliotdale Rural Sustainable Human Settlement Pilot Project, based on the policy of the People's Housing Process. As at 31 March 2012, phase 1 of this pilot project (200 units) was about 80% complete and 89 units had been handed over to beneficiaries. Plans are in place to implement phase 2 (800 units) as a strategic mandate within the Fund, following the transfer of R57.6 million by the Department.

During the year ahead, the Sustainable Communities pilot phase will end, and the approach and expertise will be redeployed in the Infrastructure Implementation and Support Division to give effect to the DBSA's goal of engendering and mainstreaming sustainability.

Project Management Unit

Project management is an important resource in the DBSA's repositioning as a centre of excellence for infrastructure delivery. Immediate demand for expertise to plan the implementation and monitoring of diverse mandates resulted in the deployment of the Project Management Unit's staff to the DBSA and the Sustainable Communities Unit. The Project Management Unit sustained partial support to some Sustainable Communities and partnership sites until the end of the first half of the financial year.

Project Development Unit

The Unit prepares Sustainable Communities and Fund projects for bankability and targets previously disadvantaged communities and the public sector. While operating at a reduced scale from the previous financial year, it structured and referred eight projects to the value of about R700 million to the investment divisions of the DBSA and other financial institutions. During the last quarter of 2011/12, the remaining professional staff were deployed to other parts of the Fund.

Supporting national government priorities in 2011/12

Support to integrated human settlements programmes: The Sustainable Communities programme in Elliotdale is anchored by the implementation of the Elliotdale Rural Sustainable Human Settlement Pilot Project, in partnership with the Eastern Cape Department of Human Settlements, under the People's Housing Process policy. This pilot comprises 1000 housing units and distinguishes itself in that the rural context of the human habitat is taken into consideration. The qualifying Elliotdale community members were presented with a catalogue from which each household chose a preferred housing typology before construction started. Phase 1 (200 units) is almost complete and 89 units were handed over to beneficiaries. In addition, the DBSA facilitated the development and compilation of the Elliotdale Sustainable Development Plan, which enriched the conceptualisation and implementation of the project.

Notably, this project won both the provincial and national Govan Mbeki Housing Award as the best People's Housing Project in the country.

The project was assessed to be unique and innovative, in that it promotes rural housing in the six housing typologies. The typology of houses also embodies human settlements principles by integrating the provision of services and involvement of the community, as well as small-scale contractors.

In the urban context, the Division facilitated the release of R86 million for planning the King Sabata Dalindyebo Informal Settlement Upgrade Programme. The team is engaging various spheres of government to support the integrated human settlement project in the Greater Kokstad Local Municipality.

Support to national education programmes: The Division facilitated the signing of the Development Charter for the Mandela Park School in Mthatha in September 2011, as well as the implementation of the project with ArcelorMittal. It also provided support during the assessment of schools in the Eastern Cape under ASIDI and facilitated the signing of Development Charters for 49 school construction projects within this initiative.

Operations overview *(continued)*

The Development Charter process for Sustainable Communities

AT A GLANCE

The Development Charter has become the foundation of the Sustainable Communities approach and philosophy of the DBSA, since it gives ownership of the development process to the community and the responsible authorities. Often, good plans land on the shelf because of a lack of ownership or because no mechanisms are in place to pursue and oversee their implementation. The Sustainable Communities Unit had to find ways of bridging divisions in communities by building consensus on the objectives, approaches and priorities in relation to development, and by creating a process that would lead to implementation. The notion of a Development Charter was used successfully in the Franschhoek Empowerment and Development Initiative in the late 1990s to bring a divided community together around a development agenda. The essence of a Charter lies in the understanding of a community and its development sponsors that they need to plan and implement together, pursuing the same objectives, to maximise the impact for all stakeholders. Acknowledging the interdependence of stakeholders in the community is the key to partnerships and synergies in implementation. The Charter brings about a realistic, sustainable development plan which acknowledges that government must be based on the needs of the people.

Experience

The DBSA acquired first-hand experience in this field when it funded the **Franschhoek Empowerment and Development Initiative**. This experiment in social democracy led to the signing of the Franschhoek Accord in 1998 and brought about change in a divided, politicised community. In the relatively stable climate since then, many have benefited directly from commercial developments designed to empower and engage the local communities. Cross-subsidisation from the development has also helped to improve housing and living conditions.

Grabouw was one of the pioneering Sustainable Communities sites. In 2010, the Theewaterskloof Municipality's Rooidakke development won the Southern African Housing Foundation's Housing of the Year Award for houses under R120 000. The municipality is in the final stages of adjudicating development proposals from the private sector for projects in Grabouw worth more than R2 billion.

Elliotdale, once characterised as a "forgotten rural community which could not attract interest in a government tender for housing", now hosts a successful example of rural homestead development. The DBSA is the implementing agent.

Mthatha has progressed from its position as a DBSA workout case to being a credible borrower with the Bank. Having demonstrated the will to turn its situation around, among other things by formulating a credible development plan, it is now a Presidential Initiative.

Kokstad is a recent pilot site that obtained buy-in from both national and provincial Departments of Human Settlements and the provincial Department of Cooperative Governance and Traditional Affairs. Experience shows that it is extremely difficult to attract leading professionals in sustainable development planning to remote rural areas, yet the services of a well-qualified team of such professionals were secured to lead the planning process in Kokstad.

The Development Charter concept was introduced to **ASIDI** in October 2011, and by the end of February 2012, the DBSA had facilitated the signing of 49 individual Charters for projects to build schools. This brought agreement and alignment between the national Department of Basic Education, the provincial department, the local municipality, the principal, the school governing body and the tribal authority on the specifics of the school structure, its governance, and the responsibilities of the parents and community members to make the school fully functional, successful and an asset to the community.

The Development Charter is proving to be an effective instrument for placing ownership with the stakeholders and gaining their commitment to work, plan and implement together. It provides a vision to guide planners and a framework and mechanism to measure progress in the journey to development. This is a critical part of the Fund's work, and the approach has now been mainstreamed to cut across all projects and programmes that will be implemented. It will be offered as a discrete product of the Fund.

Support to national rural development programmes:
The Division supported the revitalisation of the Coastal Cashews Project in KwaZulu-Natal, and it was handed over to the KwaZulu-Natal Agribusiness Development Agency for the implementation of the production turnaround plan.
The Agency allocated R1.2 million to this diversified agricultural project, which will begin to implement the new strategy for profitability. Over and above the support to the Division's rural sites, the team undertook development facilitation with external resources to support the Rural Development Division.
As a result, Development Charters were concluded for Hlaneki and Dzumeri in the Greater Giyani Local Municipality (Limpopo).

Strategic partnerships

The Eastern Cape Department of Economic Development and Environmental Affairs: The Division supported the Eastern Cape Model for Rural Communities Support in Small Towns Programme: Ngqushwa Pilot. This initiative strives to revitalise the economies of small towns in the Eastern Cape in partnership with the Department and the local development agencies.
The Development Charter is nearly ready for signing.

AsgiSA EC partnership: The project managers developed and supported the implementation of the AsgiSA EC Project Implementation Framework. The Division handed over the Keiskammahoek phase 3 project to AsgiSA EC and extended the model to other areas in the Eastern Cape. Agricultural expertise from the DBSA facilitated the completion of business plans and successful fundraising to the value of R105 million for the Qamata, Bilatye and Ncora irrigation schemes in Chris Hani District and R420 000 from AsgiSA EC for the development of paprika production plans in Amathole District (Eastern Cape).

KwaZulu-Natal Agribusiness Development Agency partnership:
The Division manages the Fund's Memorandum of Understanding with the Agency. The purpose of the partnership is to support agribusiness development initiatives in the province. The project management team developed a project management framework, which includes standards, guidelines and a project lifecycle process for the Agency. The team also facilitated the handover of the Coastal Cashews Project to the Agency, after its rehabilitation.

SAFCOL partnership: Through this partnership, the Division is exploring opportunities presented by the DBSA/SAFCOL Value Proposition Model. Projects initiated because of this partnership include the Renewable Energy Project Feasibility Study and the Mphephu Community Beekeeping Enterprise Development Project phase 1. Phase 1 was completed and planning for phase 2 is led by SAFCOL, taking into consideration the lessons learnt thus far.

Dreamfields partnership:
The KaMaqhekeza Sports Stadium project provides the community of KaMaqhekeza (Mpumalanga) with a high-quality sports facility to the value of R1.2 million, which will enhance the growth of sports in the area through the active participation of local schools. The DBSA and the KaMaqhekeza Sports Stadium Committee, established under the auspices of the Nkomazi Local Municipality, collaborated to ensure that the project would be implemented successfully.
The project entailed a full upgrade of the existing KaMaqhekeza stadium, which included earthworks, the greening of the facility, and the installation of a borehole and a fully automated irrigation system.
The project was ramped up to benefit at least 22 local schools.
The schools were supplied with soccer kits, benefiting at least 330 pupils.

The Dreamfields project was responsible for the implementation of the project, with the DBSA providing overall project management expertise. Thirteen local people were employed throughout the eight-month implementation period. Through the involvement of the Bank, the Nkomazi Local Municipality has allocated R5 million for further development of the facility. This funding will be used to revamp change rooms, build

Operations overview (continued)

Seloane Public Library in Ba-Phalaborwa

AT A GLANCE

R2 million

went towards the development costs of the facility

R500 000

was allocated to the library to extend human resources

The Seloane Public Library is part of the Seloane Thusong Centre in Ba-Phalaborwa. The facility's development costs, which amounted to R2 million, were funded by the Phalabora Foundation. The community library is a critical service in support of schools that often lack supporting infrastructure, such as laboratories and libraries, and even electricity. Before they had access to a fully functional library, pupils in this area used to travel by bus or taxi to Ba-Phalaborwa to read or gather information for their assignments.

Challenges

The library's rural context posed a unique set of challenges. The library was understaffed and short of books and computer facilities. It closed early in the afternoons and did not open on weekends. As a result the facility was underutilised.

The Fund's intervention

The Fund provided an amount of R500 000 to assist the Library in sourcing additional human resources and extending its operating hours. It will now close at around 18:00 during the week and stay open over weekends. The funding will also be used to acquire appropriate electronic hardware and software, to implement an outreach programme, and to secure whatever resources it needs to operate effectively and improve its impact on the community. The library also receives certain newspapers, an important source of information for community members.

The Fund has secured books for the library from internal staff and from the private sector company McCarthy, who will continue to assist with the selection and procurement of appropriate books in future.
The Ba-Phalaborwa Local Municipality led the implementation of the interventions to improve the library and will continue to play this role in 2012/13.

additional grandstands, upgrade the floodlights, and hire a full-time grounds manager.

Rural Development Division

The Rural Development Division comprises the following Units:

Rural Infrastructure Unit: The primary objective of the Unit is to facilitate the identification and implementation of catalytic infrastructure in rural municipalities.

Rural Development Solutions Unit: The Unit creates tailormade economic development models for selected municipalities and facilitates their implementation, with a view to diversifying economic development in the region.

Institutional Turnaround Unit: The Unit prepares and facilitates the implementation of institutional turnaround strategies and plans for selected municipalities.

The Division aims to integrate development interventions in poor regions and municipalities to catalyse and diversify economic growth through improved infrastructure and service delivery. For 2011/12, it leveraged MIGs to the value of R3.3 billion and supported 44 rural municipalities in identifying and packaging socio-economic infrastructure projects. It developed 58 turnaround strategies, which were approved by municipal councils. Following the Development Fund's strategy review, the activities of the Rural Development Division were mainstreamed into the Fund's project cycle.

Rural Economic Development Initiatives

The Cacadu, Theewaterskloof and Ugu Rural Economic Development Initiative pilot sites, which have been in implementation for about 27 months, are partnerships between the Municipalities, the DBSA and other strategic stakeholders, which aim to identify and unlock economic opportunities to realise the latent economic growth potential of these regions.

Cacadu District Municipality

The primary sectoral focus of the Rural Economic Development Initiative in Cacadu District Municipality is to improve the performance of agriculture-related sectors, including the priority sectors such as renewable energy, land restoration, agrotourism and aquaculture, and to provide secondary support for tourism, education and business development that strengthens regional competitiveness and job creation. The aim is to build a range of multi-stakeholder partnerships and networks at local, regional and provincial level that promote innovation, learning and collaboration.

The Initiative has made considerable progress. By the end of 2011/12, it had identified 50 catalytic development projects, helped to package 35 of these projects, and referred 15 to various financial institutions for finance. If the referred projects are approved, more than R400 million will be invested in the Cacadu District. In addition, more than R14 million was crowded in to co-fund some of the identified projects. All of this was achieved with a Fund commitment of only R7.8 million.

The Eastern Cape Pineapple Beneficiation Project is a good example of the work being done in Cacadu. The Initiative crowded in R1.5 million in funding for this project based in Bathurst. Its primary purpose is the beneficiation of pineapple and traditional waste streams to maximise the income derived from the processing of the fruit. The Eastern Cape pineapple industry nearly closed down entirely in 2007 owing to various factors. However, NNIP (Pty) Ltd, together with the Department of Agriculture, the Eastern Cape Development Corporation and Summerpride Foods (Pty) Ltd, have managed to develop a turnaround strategy. This involves stabilising the core business and also finding ways to beneficiate what were previously deemed waste products. NNIP has successfully developed and commercialised a high-grade dietary fibre product from pineapple processing waste.

NARYSEC Training Support Unit

The educational phase

During this phase, the project will assist NARYSEC management to ensure that participants placed at further education and training colleges receive appropriate training. This will require the monitoring of training courses, students and examination processes to ensure that training is of a high quality and provides value for money.

The planning phase

During this phase, technical on-site training plans and curricula will have to be compiled, sites identified and service level agreements entered into with construction firms, participants allocated to sites, administrative record systems developed, and liaison with the Department of Labour concluded to ensure formal recognition for the training.

The inception phase

During the inception phase, the 6000 (technical portion) candidates will be placed at suitable construction sites, and work and training will commence. This will require close supervision to ensure that all persons report for work and that all site personnel are aware of their responsibilities. Portfolios of training evidence will be compiled during this phase to support the formalisation of skills development for every participant.

Monitoring and evaluation

During this phase, a monitoring and evaluation instrument will be developed that represents the detailed development data of every participant. The instrument will be web-based and compatible with the Department of Higher Education's monitoring system.

The maintenance phase

During this phase, continuous monitoring and mentoring of trainees will take place and the search for and contracting of additional sites will continue.

The close-out phase

This phase entails the management of the exit process. Three exiting options are envisaged, namely the formal apprenticeship route, where participants become enrolled apprentices, leading to qualification as an artisan; the entrepreneurial route, where participants become small contractors who supply their skills to projects and bigger contractors; and the semi-skilled labour route, where participants are employable by contractors as construction workers.

The objective of the programme is to provide skills that will enable participants to become small contractors or employees in their chosen occupations. The training will also be recognised, for those who wish to and can secure employment as apprentices in their trades. The exit strategy will include developing entrepreneurial skills; providing assistance with job searches; supplying records of training; and passing on information about possible contracts to newly formed subcontracting businesses.

Operations overview *(continued)*

Muyexe village water purification

AT A GLANCE

R2.5 million

spent on the design, construction and commissioning of a water purification package plant

approximately

850

households provided with high-quality drinking water

20

temporary job opportunities were created during construction

The village of Muyexe falls within the Greater Giyani Municipality. It is one of the poorest wards in the country and was proclaimed a Comprehensive Rural Development Programme site in August 2009 by the President. The Fund supported Muyexe by conducting institutional and economic assessments. Among other initiatives, it prioritised a solution to the acute water problem in the village. Muyexe relies on groundwater from 33 boreholes sunk by the Department of Water Affairs and the Independent Development Trust. However, only six were operational and the poor quality of the water had an adverse effect on the health and wellbeing of the community. A geochemical description study conducted by the University of Pretoria's Geology Department and the Water Research Commission found that the point of greatest concern was the high nitrate level (35%), while the levels of fluoride, magnesium and chloride also exceeded the recommended limits for drinking water.

The role of the Fund

In line with its Rural Development Strategy, the Fund awarded Mopani District Municipality a technical assistance grant of R2.5 million for the design, construction and commissioning of a water purification package plant. The purpose of the plant was to provide a more reliable, cleaner source of potable water and thus enhance the health and wellbeing of the community. The DBSA was actively involved in planning and implementing the project, providing facilitation, technical expertise and administrative support through the programme manager and a technical deployee. The Municipality co-funded the project, allocating R3.5 million for water reticulation and the installation of the elevated storage tank.

Impact

The project provided approximately 850 households with high-quality water (it complies with the Drinking Water Specification of SANS 241). Community leaders report that the villagers are no longer buying drinking water. Twenty temporary job opportunities were created during construction, and two permanent jobs were created for operators of the package plant. Over 70% of the total project value was awarded to BEE companies.

The same team is integrally involved in the conversion of pineapple leaf fibre to microcrystalline cellulose (a high-value product used in the production of tablets in the pharmaceutical industry) and of pineapple stump juice to bromelain (an anti-arthritic, anti-inflammatory enzyme). Initially, the Rural Economic Development Initiative crowded in funds to support the team's research work, and this led to the successful production, on a laboratory scale, of a premium-quality microcrystalline cellulose. The successful commercialisation of microcrystalline cellulose and bromelain is essential to the long-term viability of the Eastern Cape pineapple industry, at both primary agricultural and agro-processing levels. It is envisaged that this project will create 1000 low- and semi-skilled jobs in an area with an unemployment rate of about 76%.

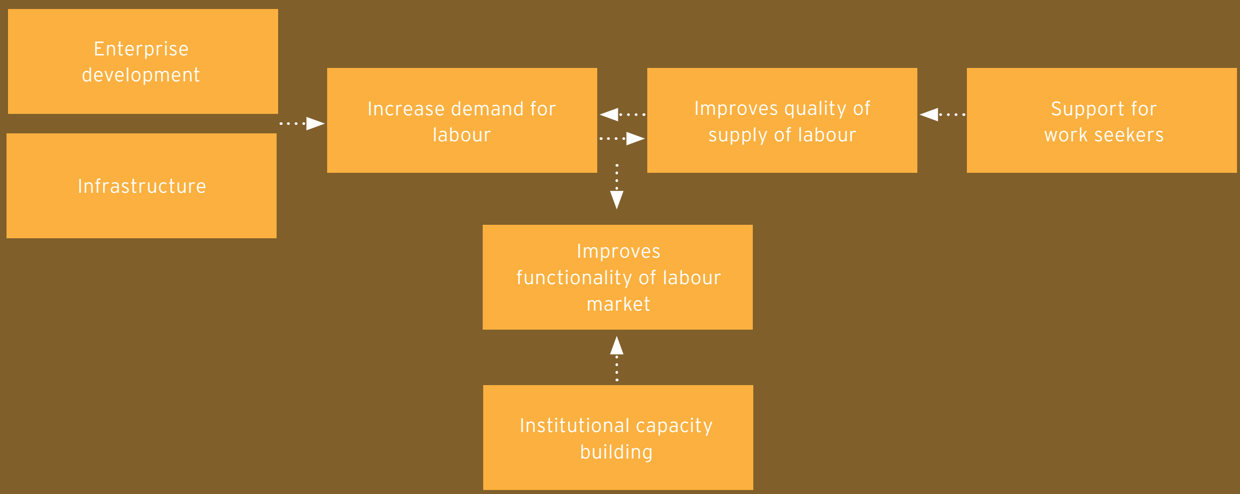
Theewaterskloof

The Theewaterskloof Rural Economic Development Initiative has brought the public, private and community sectors together around the common goal of creating a prosperous region for all who live there.

Phase 1 of the partnership focused on quick-win projects that demonstrated change, built multi-stakeholder relations and leveraged investment. Major achievements from this phase are:

- The identification of more than 40 development projects
- The packaging of projects with a combined value of over

How the Jobs Fund windows help to overcome labour market failures



R110 million, which were referred to various institutions for financial assistance
- The crowding in of more than R90 million for the implementation of various projects
- The creation of 1133 jobs and opportunities for 20 new tourism businesses
- The identification of ten new enterprise opportunities
- The generation of more than R21.5 million in public relations coverage for the region
- The building of a multi-stakeholder platform that harnesses the energy and expertise of economic leaders

This work has unlocked partnerships with Stellenbosch University, the Department of Higher Education, the Programma Uitzending Managers (PUM) mentorship and support programme, and South African Breweries.

One of the initial focus areas was tourism, with the specific aim of ensuring that Theewaterskloof becomes a preferred tourist destination in the region. In this regard, the Initiative has developed a special focus on mountain biking. There are over 25 000 mountain biking enthusiasts in Cape Town and the region has only captured a small share of the market. A task team of bikers is working with the Municipality and the Cape Country Meander to assess how it could capture this market. In the last year, the Municipality has developed almost 300 km of extra track, bringing the total single track to over 500 km, and has also linked all eight towns in the area through a network of dirt roads. It attracted four new events; developed an events policy and media pack for event organisers; leveraged about R500 000 in direct investment in mountain biking infrastructure and a further R20 million in indirect investment (including events and public relations coverage); created at least eight enterprise opportunities for trail builders, crafters, guides, transport companies and service teams; created 73 jobs in the industry value chain; and submitted a Jobs Fund application to the DBSA.

This is one of many examples of how the Rural Economic Development Initiative has unlocked investment and created jobs through a development strategy based on community needs and resources, and focused on value added.

Ugu

The main objective of the Ugu Rural Economic Development Initiative is to prevent a further, more rapid decline of the regional economy, foster spatial integration, and stimulate long-term and sustainable economic growth that will create employment opportunities. The Initiative is conceptualised as a long-term partnership between major role players in the district, which addresses fundamental strategic, institutional and infrastructure weaknesses within the Municipality and provides targeted support to important and strategic industries.

A grant allocation of R7.5 million to the Ugu Rural Economic Development Initiative crowded in more than R328 million. All six of the local municipalities participated in the programme. In addition, the Initiative managed to bring together all the major economic development stakeholders to work collectively to enhance shared growth and sustainable development across the region, by focusing on the timber, furniture, sugar, clothing and textile industries. Phase 1 of the Initiative focused on shared research to highlight the performance and support the needs of these sectors and fill important strategic planning gaps within the local government sphere. These strategic plans have been collated in a coherent, overarching Growth and Development Strategy, which has been adopted by the political leadership as the key strategy informing the district and local municipal IDPs for the next

Operations overview (continued)

five years. The Ugu Rural Economic Development Initiative is strongly supported by Ugu District Municipality and is regarded as its flagship development programme.

One of the main achievements of the Rural Economic Development Initiative was the reopening of the Umzimkulu Sugar Mill. Concerned local sugar industry representatives approached the Ugu District Municipality two years ago, as Illovo was considering the closure of the local mill owing to decreasing sugar supply. The Umzimkulu Mill was indeed closed in early 2011. In collaboration with the local sugar industry, the Municipality undertook a competitiveness study of the industry and the interventions required to turn it around. Following the recommendations that emerged from this study, the Department of Rural Development and Land Reform, Illovo and the Municipality entered into a partnership to revitalise small-grower programmes throughout the area. The Ugu District Municipality is also facilitating an initiative to revitalise the defunct North Pondoland Sugar Scheme in the neighbouring Alfred Nzo District Municipality, which was once a major supplier to the Mill. Illovo demonstrated good faith by reopening the Mill in February 2012, with plans to reach full production over a three-year period.

NARYSEC

Building on the signed Memorandum of Understanding with the Department of Rural Development and Land Reform, the Fund concluded an agreement to act as an implementing agent for NARYSEC. The Fund will assist the Department in ensuring that the technical skills transfer to programme participants is monitored adequately and meets the appropriate technical standards.

As an initial objective, the Department has been tasked with enrolling three youths per rural ward, as well as a fourth disabled person per ward. Given that South Africa has some 3000 rural wards, this process will engage and develop about 9000 young people.

Objectives

The objectives of the NARYSEC programme are as follows:

- To support nation building and community service by constructing lifeskills hubs that can serve as empowerment centres for the youth in rural districts
- To enable rural youth to participate in the Comprehensive Rural Development Programme and thus play a significant role in transforming their communities
- To create a major revolution for socio-economic freedom in the countryside
- To promote a results-oriented national service for rural youth and thereby build patriotism and social cohesion
- To create stable rural communities with viable institutions, sustainable economies and access to social amenities, able to attract and retain skilled and knowledgeable people who will contribute to their growth and development
- To invest in the future by investing in the youth today

The Fund, through the newly established NARYSEC Training Support Unit, will assist NARYSEC in managing the transfer of technical skills to programme participants. The Unit is organised as an agency and based on a 100% cost recovery agreement. The support is structured in six phases, as illustrated on page 195.

Jobs Fund

The President announced the R9 billion Jobs Fund during his State of the Nation address on 10 February 2011. 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 partnership with established private and public institutions to create self-sustaining employment opportunities that lead to long-term systemic change in the industry and the economy as a whole, through the provision of an external stimulus in the form of finite, one-off and matched public grant funding.

The Minister of Finance entrusted the DBSA with the responsibility of establishing and managing the Jobs Fund, which was officially launched on 7 June 2011. The programme will be run over a five-year period, which includes three years for implementation and the disbursement of funds, and a further two years for close-out and evaluation. As the funder, the National Treasury, acting on behalf of the Minister of Finance, will provide oversight, strategic direction and control, and be responsible for high-level coordination of government input into the Jobs Fund.

The Jobs Fund will embrace well-structured partnerships between the public and private sectors to realise the goal of creating jobs. Project proposals will be prioritised in the following four broad funding windows, each with their own predetermined co-funding ratio:

i. **Enterprise development:** This window co-finances innovative business development projects, or enterprise support programmes, with the potential for creating sustainable jobs. The role of the window is to lower the cost and risk barriers that inhibit innovative, private-sector-led models, partnerships, ideas and projects that will directly enhance sustainable job creation.

ii. **Infrastructure investment:** This window involves the co-financing of critical missing infrastructure that either:
   - Creates trading opportunities and enhances access to markets;
   - Enhances the quality and security of work in established trading centres and light business environments for small enterprises; or
   - Makes the difference between employment-linked investment taking place or not.

   The window also lowers the cost and risk barriers (relating to infrastructure) that inhibit innovative enterprise models, partnerships, ideas and projects that will directly enhance sustainable job creation.

iii. **Support for work seekers:** This window provides co-financing support to innovative initiatives and programmes that directly link active work seekers, especially young people, to formal sector opportunities and employment placements.

iv. **Institutional capacity building:** Funding from this window aims to improve the capacity and efficiency of public institutions responsible for facilitating job placement, job creation and the functioning of the labour market.

The Jobs Fund is not expected to seek repayment or financial return on the investments, but will reserve the right to reclaim funds that are not spent for the intended purpose or are misappropriated. The ultimate goal of the Jobs Fund is to identify and learn from effective interventions and programmes that will contribute to accelerated job creation and a better-functioning labour market. The specific goal of the Fund is to provide a mechanism that can identify and fund creative solutions to overcome identified barriers to job creation and active labour markets. In the process, the Fund aims to create 150 000 sustainable jobs over a three-year period. A "sustainable" job in this context means a new, full-time equivalent job that is self-sustaining beyond the lifetime of the initial grant. The Jobs Fund will not provide recurrent financial support or subsidies to the supported projects or programmes.

The Jobs Fund considers, on a competitive basis, co-financing proposals from the private sector, non-governmental organisations, government departments and municipalities, which show economic development potential linked to sustainable job creation. It will not limit investments to specific sectors or geographic regions; however, it will seek to support projects that contribute to addressing identified social and economic objectives. Projects will have to satisfy both eligibility and impact criteria.

Governance

During 2011/12, the Jobs Fund focused on establishing its own processes, policies and procedures, mainstreamed through DBSA infrastructure, with the primary activities being governed by the following three committee structures:

- The Advisory Committee provides strategic guidance and oversight.
- The Investment Committee has the executive and fiduciary responsibility for the funding decisions.
- The Technical Evaluation Committee is responsible for the technical assessment of proposals and recommendations to the Investment Committee.

Operational highlights

In July 2011, the main operational aspects of the Jobs Fund were scoped and completed, including the application capturing system, eligibility assessment tools, and policies and procedures documents. The programme aims to create 150 000 sustainable jobs over a three-year period.

The First Call for Proposals, which was open from 7 June to 31 July 2011, elicited 2651 applications. The enterprise development window attracted most of the applications, at 51%, followed by support for work seekers (23%), infrastructure (17%) and institutional capacity building (9%). These applications were subject to an independent quality assurance review in order to validate the outcome of all proposals. For 2011/12, the Jobs Fund approved a total of R1.8 billion and leveraged an amount of R1.7 billion from the private, public and non-governmental sectors, resulting in a total project amount of R3.5 billion.

In addition, the Jobs Fund implemented an end-to-end web-based management information system, with full automation functionality of the entire Jobs Fund value chain. The system was configured and tested for functionality at the end of February 2012, in preparation for the Second Call for Proposals.

Grant agreement templates were finalised in preparation for contracting and implementation of all approved projects.

Communication and stakeholder engagement

The communications strategy for the Jobs Fund was approved by the Investment Committee in October 2011 and a detailed implementation plan, targeting both internal and external stakeholders, is currently being prepared.

Information sessions were held with various stakeholders, including the Minister and Members of Executive Council (MinMEC) of Economic Development, Standard Bank, the Incentive Consultants Association, the National African Federated Chamber of Commerce (NAFCOC), the KwaZulu-Natal Chamber of Commerce, Western Cape Economic Development, the Association of Social Enterprises Network and the Limpopo Premier's Executive Committee.

A communication and marketing plan was finalised, which aggressively promotes the Fund to the target audiences in an effort to attract applications and proposals of the highest quality. It also strives to forge meaningful partnerships with stakeholders who are critical to the successful execution of the Jobs Fund mandate of sustainable employment creation.

Lessons learnt and process review

The Second Call for Proposals, from 2 April 2012 to 31 May 2012, will give prospective applicants an eight-week period to prepare and submit their applications. Valuable lessons learnt from the First Call for Proposals have resulted in the following refinements in the second round:

- The Fund will engage proactively with important stakeholders to ensure the development of a pipeline of projects with positive job creation results. Stakeholder engagement sessions will be hosted in each of the nine provinces.
- Strategic partnerships are being built in the provinces to ensure the provincial presence of the Fund and outreach to all communities.
- The Jobs Fund application process is fully automated, and all applications are submitted online via the Jobs Fund website.

Operations overview (continued)

The website has been updated to offer applicants more guidance on the eligibility and impact criteria of the Jobs Fund; information on the type of projects the Fund would like to support; guidance on how to complete the application form; information on the assessment process; and targeted timeframes.

Corporate governance

The DBSA Development Fund shares its corporate governance framework with the DBSA, with the exception of its Board of Directors. The Fund's commitment to the principles of good corporate governance accords with that of its controlling entity, the DBSA. Throughout the year, the Fund monitored its progress against the Companies Act, No. 71 of 2008, the King III Report, which came into effect in March 2010, and the Protocol on Corporate Governance in the Public Sector. The operations of the Fund during 2011/12 were in line with the programme approved by the Board for the year.

Organisational repositioning

The constitution of the DBSA Development Fund was revised in November 2011 to realign the Fund's role with the priorities of the shareholder. As noted earlier in this Annual Report, the Fund initiated a number of strategic programmes during the year, including the Jobs Fund, the ASIDI programme, and programmes in health and human settlements. As at the end of the 2011/12 financial year, the Fund comprised the following Divisions: Infrastructure Implementation and Support, Community Development Facilitation, Rural Development, Jobs Fund, Risk, Finance, Human Capital and Enabling Services. The organisational structure of the Fund is depicted on page 173.

Board of Directors

The conduct and business of the DBSA Development Fund Board are governed by the Articles of Association and relevant principles of the Companies Act, No. 71 of 2008. In terms of these Articles, the DBSA appoints all Board members for a term of three years. Upon appointment, Board members enter into a service contract in line with the Companies Act and applicable tenets, which sets out the details of their fiduciary responsibilities. New Board members also attend an induction session aimed at exposing them to the business model of the Fund.

The Development Fund Board was reconstituted during the year, as the terms of a number of independent, non-executive Directors were not renewed. At the DBSA Board Meeting of 23 November 2011, it was resolved that all members of the Fund Board would be appointed from the DBSA pool of Directors, with the exception of the Chairman, Prof. Brian Figaji, and Ms Mampiti Matsabu, who are both independent, non-executive Directors.

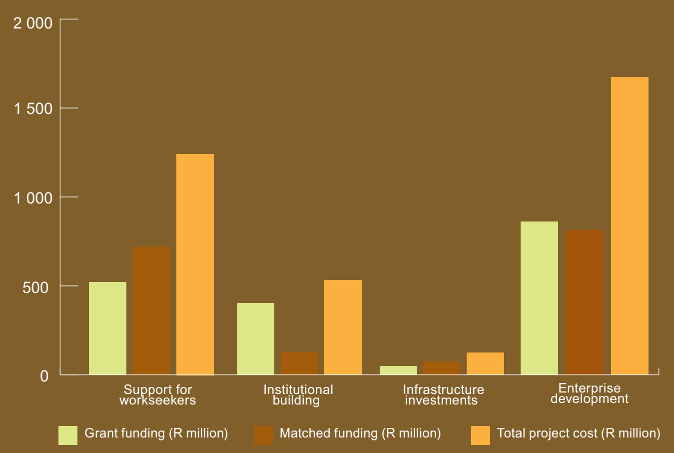
The Board is responsible for approving the Corporate Plan, which was submitted to the National Treasury in February 2011 in accordance with the Public Finance Management Act, No. 1 of 1999. Management ensures that the strategy of the Board is executed and reports periodically on the implementation of the Corporate Plan and other initiatives agreed upon with the Board. The Board monitors the performance of the Fund against the Corporate Plan. In order to facilitate reporting and ensure that the Fund's activities are in line with the strategy of its shareholder, the Chairman of the Fund reports on significant resolutions of the Fund Board at each meeting of the DBSA Board. Important reports of the DBSA Development Fund are also submitted to the DBSA Board for notification.

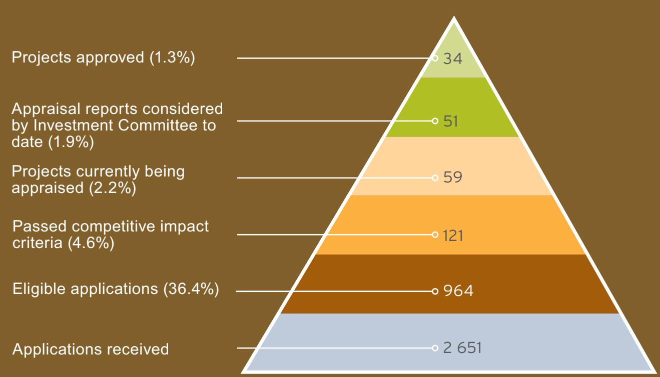
In September 2011, the Board undertook a project oversight visit to Ba-Phalaborwa. This was an opportunity for Board members to verify the development impact of the Fund's programmes and interact with members of the communities who benefit from the services they provide.

Board committees

As noted, the DBSA Development Fund shares its governance structures with the DBSA. Accordingly, the DBSA Development Fund Board directs and controls the operations of the Fund through the Board committees that it shares with the DBSA.

Cumulative approvals, 31 March 2012 (R million)





Corporate Secretary

All Directors have access to the advice and services of the DBSA Corporate Secretary. In terms of the DBSA Act, No. 13 of 1997, the functions of the Corporate Secretary are in line with the provisions of the Companies Act, No. 71 of 2008.

Board composition and record of attendance, 2011/12

Four Board meetings were held during the year and the attendance of individual members is reflected in the table below.

Number of meetings	4
Prof. Brian Figaji (Chairperson)	4
Mr Paul Baloyi[1]	4
Dr Paul Kibuuka	4
Mr Frans Baleni	4
Dr Lungile Bhengu-Baloyi[2]	1
Mr Andrew Boraine	4
Mr Kenneth Brown	0
Mr Ricardo Hansby	4
Mr Omar A Latiff	4
Ms Busisiwe Mabuza[3]	0
Dr Claudia Manning	4
Ms Mampiti Matsabu	4
Mr Simphiwe Mehlomakhulu[2]	2
Mr Seeraj Mohamed	4
Mr Ivan Mzimela	2
Dr Sipho Ngubane	0
Prof. Edward Webster[2]	0

1. *Resigned on 31 March 2012.*
2. *Appointed as a non-executive Director in December 2011.*
3. *Resigned as a non-executive Director in December 2011.*

Human capital

The Fund has always sought to align its human capital strategy with the corporate objectives in order to ensure the sustainability of its business. Various human resources interventions have ensured that the Fund continued to perform well over the years. Such interventions included building organisational capabilities to respond effectively to business growth, and managing change to ensure smooth transitioning to new business environments. Human resources policies, processes and systems are refined continually to ensure that they are consistent and in line with best practice.

Building organisational capabilities

In the year under review, the expansion of the business required that new skills be brought in and existing skills be strengthened and deployed effectively across the organisation. To this end, the following steps were taken:

- A skills audit was conducted to assess the depth and strength of existing capacity.
- The Leadership Development Programme was initiated at executive level and is being cascaded to the middle and junior management levels.
- Individual development needs were solicited from employees with a view to enhancing their skills and enabling them to fulfil their career aspirations.
- Skills were deployed to the new development mandates entrusted to the DBSA by government.

The table overleaf provides an indication of the Fund's investment in enhancing the capabilities of its own human capital. As shown, most training interventions are at the professional level, which is in line with the policy of internal development to support the realisation of succession plans. This also contributes towards meeting employment equity targets, especially at the management and executive levels.

Employment equity and transformation

The Fund operates within the employment equity framework set by the Bank. Designated groups make up 67% of the total staff complement (32% male and 35% female). These figures exclude the learnership programmes.

The South African labour market is short of skills in engineering, planning and finance, and as a result there are large numbers of white males and foreign nationals employed in these areas, skewing the equity figures.

Operations overview (continued)

Restructuring and change

Management embarked on various change management interventions to mitigate the impact of the major changes the Fund has undergone in the past two years. These included the redeployment of staff to newly established or different programmes, staff engagement sessions and training.

Training interventions

	Male					Female					Total
Job category	**African**	**Coloured**	**Indian**	**White**	**Foreign nationals**	**African**	**Coloured**	**Indian**	**White**	**Foreign nationals**	
Executive (Group and Divisional)	3	–	–	–	–	1	–	–	–	–	4
Management	5	–	–	1	1	2	–	–	1	–	10
Professional	53	3	4	28	–	34	1	–	6	–	129
Support	2	1	–	–	1	21	2	–	7	–	34
Total	**63**	**4**	**4**	**29**	**2**	**58**	**3**	–	**14**	–	**177**

Total staff composition

	Male					Female					Total
Job category	**African**	**Coloured**	**Indian**	**White**	**Foreign nationals**	**African**	**Coloured**	**Indian**	**White**	**Foreign nationals**	
Executive (Group and Divisional)	5	–	–	1	–	–	1	–	–	–	7
Management	8	–	–	1	1	6	–	–	1	–	17
Professional	52	4	5	41	30	38	3	–	5	4	182
Support	2	1	–	–	1	21	2	–	7	–	34
Total	**67**	**5**	**5**	**43**	**32**	**66**	**5**	–	**13**	**4**	**240**
Gender representation (%)	32	–	–	18	13	35	–	–	–	2	100

Deployment staff composition

Deployees	**African**	**Coloured**	**Indian**	**White**	**Foreign nationals**	**Total**
Male	23	2	1	30	28	84
Female	3	–	–	1	2	6
Total	**26**	**2**	**1**	**31**	**30**	**90**
By race (%)	29	2	1	35	33	100

Risk management

The DBSA Development Fund manages its risk exposures within the Bank's risk management frameworks. The main objectives are:

- To manage risks effectively and efficiently
- To inculcate a culture of risk management that enhances the Fund's operations

The risk management function allows the Fund to respond in ways that reduce both the likelihood of negative events and the severity of their consequences.

During the year, the effects of the global economic crisis continued to play out. Access to development finance remained tight in most developing countries. While its potential sources of finance were affected, the Fund continued to mobilise DBSA, government and international finance for development. The financial decline eroded confidence in financial systems and institutions around the world and exposed weaknesses in governance systems. However, the well-established, functional governance system of the DBSA Development Fund has weathered these testing times.

The Fund's management was challenged to respond to external risks, in particular to those posed by the state of the South African economy, stakeholder expectations and insufficient external funding. Management prioritised controllable internal risks, such as the risk of non-compliance with internal governance processes, in support of a fundamental shift in the business portfolio away from capacity building towards infrastructure delivery. The Fund has instituted sufficient measures to mitigate these risks.

Development impact

One of the significant developmental risks facing the country is the risk of dysfunctional or less than optimally functioning institutions and municipalities. The Fund worked to lessen this risk through its participation in municipal capacity building and implementation programmes. In addition, the Fund expanded its role as an implementer in order to accelerate delivery and support the DBSA's drive to become a centre of excellence for infrastructure development.

Financial risk or sustainability

The Fund uses a risk management framework that is closely aligned to that of the DBSA Group to mitigate the impact of financial and market risk on its financial sustainability. In order to carry out its mandate, the Fund depends on financing from the DBSA. While the incorporation of infrastructure delivery into its portfolio and the associated management fees have supplemented and diversified the grant income base, the Fund continues to target other potential sources of funding to broaden its funding base. Funding remains a high priority and management has established a specific initiative to mobilise funds from appropriate development funding sources. New mandates and programmes are embarked upon on a full cost recovery basis.

Reputational risk

The risk management framework of the Fund views reputational risk as a consequence of other primary risks. The Fund manages reputational risk by proactively tracking operational and external risks in order to assess the effectiveness of its control framework and introduce additional risk mitigation measures where required. Accordingly, it ensures that staff members are grounded in the Fund's value-based principles.

Stakeholder risk

The Fund operates across the spectrum of stakeholders in many parts of South Africa and the African continent, and engages with stakeholders at all levels. These stakeholders include (but are not limited to) governments and various government departments and ministries, public sector institutions, municipalities, the private sector and communities. The Fund is keenly aware that such interaction requires a variety of skills and competencies. To this end, it works towards a stakeholder management plan that provides ongoing guidance to management and employees on stakeholder management at strategic and operational levels.

Human capital risk

The DBSA Development Fund maintained its focus on human capital risk during the year. Employees who are contracted to the Fund are deployed to work with its stakeholders, mainly in provincial departments, municipalities and communities. Deployees spend extended periods in an external environment, providing specialist services and transferring skills to various recipients. The Fund maintains ongoing communication to protect and build its brand image, and engages in structured performance monitoring. The Human Capital Plan provides flexibility, enabling the Fund to adjust its capacity rapidly to meet operational requirements. The Fund is challenged to retain its pool of black professional skills.

Institutional risk

During this tough economic period, the DBSA has played an important role in creating financial capacity for infrastructure development and investment. It has provided funds where the private financial sector has been unwilling or unable to do so. However, inadequate supplies of certain specialised skills and capacity, among its clients and within the Fund itself, remain a fundamental business risk. This is being mitigated by utilising and imparting skills through the joint efforts of outsourced service providers and various deployment programmes.

The rapid growth of the Fund has brought considerable pressure to bear on its policies, systems, processes and capacity. The Fund has adequate approved policies and established processes and systems to enable it to scale up its capacity within a short time.

Operations overview *(continued)*

Legal and compliance risk

Failure to comply with applicable laws and regulations may have regulatory, financial or reputational consequences for the Fund. Therefore, the Board of the Fund fosters a culture of compliance with relevant laws, not only as a legal requirement but also as a good business practice. In developing its compliance framework, the Fund consulted international best practice and benchmarked against other leading corporate governance frameworks. It engages continually with regulators and assurance providers to ensure compliance with all relevant statutory requirements. The Fund is in the process of aligning its founding documentation with the new Companies Act.

The legal and compliance functions of the DBSA Group provide the Fund with efficient and effective professional services on day-to-day operational matters. The legal and compliance risks are within the norms established by the DBSA Group's enterprise risk function.

Risk outlook

The national mandates taken on by the DBSA Group have significantly increased the risk exposures of the Development Fund, which is acting as the primary implementer. The following risks were identified:

- Increased reputational risk
- Risk concerning lack of capacity to execute and implement
- Risk related to human resources, specifically organisational capability, and talent and skills management

The DBSA Group's risk function has developed an overall programme to strengthen risk management capacity at Group and business levels. This programme includes the integration of risk management into the individual business areas. The aims of the programme include:

- To provide management capacity for conducting risk assessments on specific activities, processes, projects and investments, and thus identify risks and mitigation measures proactively
- To enhance understanding, skills and responsiveness with regard to risk management
- To improve risk management reporting

Given its rapidly evolving strategic thrust, the Development Fund is likely to be exposed to risk more frequently and to face a greater variety of risk categories. The Fund has therefore adopted the risk management integration plan for early implementation in its own sphere of operations. The plan envisages increased support on a day-to-day basis at the operational level to enhance risk management.

DBSA

DEVELOPMENT FUND

ANNUAL FINANCIAL STATEMENTS

Directors' responsibilities for the financial reporting

for the year ended 31 March 2012

The Directors are responsible for overseeing the preparation, integrity and objectivity of financial statements that fairly present the state of affairs of the DBSA Development Fund, its business and its transactions, as well as the financial position of its trade or business presented in this report.

In preparing the financial statements:

- The 2008 Companies Act of South Africa has been adhered to.
- The Public Finance Management Act, No. 1 of 1999, has been adhered to.
- International Financial Reporting Standards have been adhered to.

In order to fulfil this responsibility and to enable the Directors to meet their financial reporting responsibilities:

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

The Audit Committee of the Board of Directors, chaired by an independent non-executive Director, meets periodically with the auditors and management to discuss internal accounting controls, and auditing and financial reporting matters. The external auditors have unrestricted access to the Audit Committee.

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

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

The external auditors are responsible for independently reviewing and reporting on the company's annual financial statements. The annual financial statements have been examined by the company's external auditors and their report is presented on page 210.

The annual financial statements that appear on pages 218 to 229 were approved by the Board of Directors on 27 July 2012 and were signed on its behalf by:

Brian de Lacy Figaji
Chairman of the Board

Tshokolo Petrus Nchocho
Acting Chief Executive Officer

Report of the Audit Committee

for the year ended 31 March 2012

We are pleased to present our report for the financial year ended 31 March 2012.

The Audit Committee members and attendance are reflected on page 58 in the Governance and management overview of the DBSA Annual Report.

Audit Committee responsibility

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

Section 51(1)(a)(ii) of the Public Finance Management Act states the following:

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

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

The effectiveness of internal control

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

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

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

The Audit Committee is satisfied with the content and quality of quarterly reports prepared and issued by the Board of Directors and the DBSA Development Fund during the year under review.

Evaluation of financial statements

The Audit Committee has:

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

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

Albertinah Kekana
Chairperson of the DBSA Audit Committee

Independent auditors' report to Parliament

for the year ended 31 March 2012

Report on the financial statements

Introduction

We have audited the financial statements of the DBSA Development Fund set out on pages 218 to 229, which comprise the statement of financial position as at 31 March 2012, the statement of comprehensive income, statement of changes in funding reserve 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, and the directors' report.

Directors' responsibility for the financial statements

The directors' are 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 and the Companies Act of South Africa, and for such internal control as the directors' determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2001) (PAA), the General Notice 839 of 2011, issued in Government Gazette 34783 of 28 November 2011 thereof and International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the DBSA Development Fund as at 31 March 2012, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Public Finance Management Act and the Companies Act of South Africa.

Report on other legal and regulatory requirements

PAA requirements

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

Predetermined objectives

We performed procedures to obtain evidence about the usefulness and reliability of the information in the annual performance report which forms part of the directors' report as set out on pages 212 to 217 of the annual report.

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

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

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

Compliance with laws and regulations

We performed procedures to obtain evidence that the entity has complied with applicable laws and regulations regarding financial matters, financial management and other related matters.

We did not identify any instances of material non-compliance with specific matters in key applicable laws and regulations as set out in the General Notice issued in terms of the PAA.

Internal control

We considered internal control relevant to our audit of the financial statements, the performance report in the directors' report and compliance with laws and regulations.

We did not identify any deficiencies in internal control which we considered sufficiently significant for inclusion in this report.

SizweNtsalubaGobodo Incorporated
Registered Auditors

Per: L Govender
Chartered Accountant (SA)
Registered Auditor
Director
27 July 2012

SizweNtsalubaGobodo Incorporated Head office
20 Morris Street East
Woodmead
Johannesburg

Directors' report

for the year ended 31 March 2012

The Directors hereby present their report, which forms part of the annual financial statements of the DBSA Development Fund for the year ended 31 March 2012. The report reviews the performance of the divisions within the Development Fund and reflects progress made by the Fund during a year of transition.

The Directors of the Fund subscribe to the principles of good corporate governance. With the exception of its Board, the Fund and the DBSA share governance systems and internal control frameworks as permitted in terms of the Public Finance Management Act. The Fund has adopted the DBSA Group's risk management frameworks. Further details on the Fund's corporate governance structures and practices are provided on page 54 of this Annual Report.

The functions of the Fund and the nature of the business

The DBSA Development Fund was registered on 21 December 2001 as a section 21 company under the Companies Act, No. 61 of 1973. The core business of the Fund is to maximise the impact of development finance by mobilising and deploying technical resources and providing grant funding to address human, institutional and financial constraints to rural and urban development, thereby promoting efficient and effective service delivery and local economic development. The Fund provides the following products and services:

- **Expertise:** The Fund supports the implementation of signed mandates as per the agreement with the relevant stakeholders. It plays a central role as the hub for implementation and capacity support for national mandates. The core areas of implementation include: overall strategic management support to the programmes, scoping and planning, contract management, programme cycle management, technical implementation support, monitoring and reporting support, capacity building and systems development support.
- **Agency management services:** The Fund assists and acts on behalf of local and international development and funding agencies that do not have the institutional presence or sufficient permanent capacity to implement their development programmes.
- **Grant and leveraged funding:** The Fund provides grants and leveraged funding to projects and programmes that build sustainable capacity in people, processes and systems in all spheres of government, communities and other development partners.
- **Development facilitation:** The Fund formulates a shared vision with development partners, through sharing knowledge with and offering development support to partners and stakeholders.

Supporting implementation by providing expertise

Historically, the DBSA Development Fund provided hands-on support primarily to municipalities but also to selected service delivery departments through initiatives such as the Siyenza Manje programme. This flagship intervention assisted local government with implementing infrastructure projects, as part of the national drive to accelerate the delivery of basic services to communities by deploying skilled expertise to municipalities.

During 2011/12, however, the DBSA, the National Treasury and the Department of Cooperative Governance and Traditional Affairs (CoGTA) reviewed the funding and implementation of Siyenza Manje. It was agreed to unbundle the programme, with the financial component being transferred to the National Treasury as the Municipal Finance Improvement Programme (MFIP) and the technical component transferred to CoGTA as the Municipal Infrastructure Support Agency (MISA). The DBSA Development Fund manages MFIP and MISA on an agency basis on behalf of the two government departments. The transfer of deployees to the constitutional mandate authorities had an impact on the Fund's performance against the targets originally set for the year.

Agency Management Services

The Agency Management Services Unit offers agency services in support of bilateral and multilateral government funding agencies and other stakeholders working to advance the delivery of development initiatives. Its objectives are aligned with and complement the capacity building initiatives of the Development Fund. The Unit attracted ten new agencies in 2011/12 and now has R1.59 billion cumulative funds under management.

Grant and leveraged funding to projects and programmes

During the year under review, the Fund continued to provide under-resourced and distressed municipalities with technical assistance grant funding support. Such support included improving service delivery through the development of critical municipal systems, plans, policies and procedures; conducting project feasibility studies; and facilitating community-based sustainable development plans and community Development Charters. The Fund also actively leveraged funding from development partners to deepen development impact by replicating and expanding existing projects and programmes.

In 2011/12, the Fund leveraged R1.8 billion and mobilised R137 million from various development partners. Both grant approvals and commitments decreased in line with the Fund's new operating model. Disbursements for the year amounted to R55 million (2010/11: R48.04 million).

Development facilitation

In close collaboration with the DBSA and other stakeholders, the Fund continued to provide capacity building support, development knowledge, technical support and expertise to municipalities and service delivery organisations for the implementation of technical and non-technical projects.

The process of development facilitation channels resources directly to communities, empowering them to engage in equal partnership with government, civil society and business during the formulation of their development agenda and to access the resources needed for its implementation. The development facilitation process has been mainstreamed into the value chain of the Development Fund, leading to the development of Social Compacts and Development Charters for the Accelerated Schools Infrastructure Delivery Initiative (ASIDI).

High-level performance overview

The Fund operates on a three-year business cycle for corporate strategy and business planning. It uses the Balanced Scorecard (BSC) methodology to set objectives and targets under the strategic guidance of the Board. The strategic objectives for 2011/12 were set in terms of high-level targets for the different divisions of the Fund. The Board approved the 2011/12 objectives and the BSC was used as the basis for the performance management of the entire staff. Each division also had its own BSC, which determined its share of the composite objectives. The management of the divisions was measured against these objectives.

In addition to the key initiatives originally contracted in the BSC, the Fund implemented the Jobs Fund and the ASIDI programme on behalf of the DBSA.

The Jobs Fund was established and operationalised by the Bank's Programme Management Unit in collaboration with National Treasury. The required institutional framework was set up, including governance structures to enable administrative and technical support, Board oversight and reporting to Cabinet.

The First Call for Proposals, which was open from 7 June to 31 July 2011, elicited 2651 applications. The enterprise development window attracted most of the applications (51%), followed by support for work seekers (23%), infrastructure (17%) and institutional capacity building (9%). These applications were subject to an independent quality assurance review in order to validate the outcome of all proposals. For 2011/12, the Jobs Fund approved a total of R1.8 billion in grant funding for 34 projects and leveraged an amount of R1.7 billion from the private, public and non-governmental sectors, resulting in a total project amount of R3.5 billion. It is estimated that the 34 approved projects will create 186 138 sustainable jobs.

The Second Call for Proposals was open from 2 April to 31 May 2012. Valuable lessons learnt during the first round were applied to refine the application process during the second round.

In response to government's call for improved basic education (outcome 1), the Department of Basic Education and the DBSA collaborated on the following initiatives in terms of a signed Memorandum of Agreement:

- Establishment of a Programme Support Unit within the Department of Basic Education: In September 2011, the Development Fund appointed suitably qualified professional service providers to establish the Programme Support Unit in the Department of Basic Education. The Unit is fully functional and assists the Department with implementing and monitoring ASIDI.

Directors' report *(continued)*

for the year ended 31 March 2012

- Implementation of the schools building programme: Detailed planning was completed for the construction of 50 schools in the Umtata, Libode and Lusikisiki districts, and in January 2012 the Department approved 16 construction companies to perform this work. One school was subsequently removed from the list, as the provincial Department of Education had handed the site over to a contractor in November 2011, and the construction of the remaining 49 schools is expected to be completed by the end of August 2012.
- Project planning and preparation for schools infrastructure delivery in 2012/13 and 2013/14: The terms of reference for the required professional service providers were completed and signed off by the Department. It finalised the list of schools to be built in the 2012/13 financial year, but had not made a formal submission to the DBSA at the time of this Annual Report. Detailed planning and preparation for the next financial year are expected to commence once the list of schools has been received from the Department.

The Directors are pleased to report that the Development Fund achieved most of its strategic objectives for 2011/12, as outlined in the table below.

High-level performance, 2011/12: Balanced Scorecard perspectives

Development impact

Key performance indicator	Target	Results
Municipal Infrastructure Grant (MIG)/Capital expenditure	R8 billion	R7.2 billion
Number of households benefiting from water projects	300 000	456 560
Number of households benefiting from sanitation projects	250 000	456 284
Number of temporary jobs facilitated	48 000	79 017
Number of external learners trained by intervention offered	12 000	19 000
Number of learners certified competent	3 000	4 458
Value of infrastructure delivered through Agencies Unit	R120 million	R29.06 billion
Number of municipalities implementing operations and maintenance programmes	10	11
Number of operations and maintenance plans developed and implemented	24	25
Number of SMMEs benefiting from operations and maintenance	30	54
Number of sites exited	3	5
Number of development models/interventions replicated with partners	5	5
Number of rural municipalities supported	55	44
Facilitation of MIGs for front-loading	R1 billion	R1.45 billion
Effective compliance with Agencies Programme lifecycle	90%	88%
Percentage of municipalities with improved audit opinions	60%	0%[1]

Sustainability

Key performance indicator	Target	Results
Funding leveraged or crowded in	R82 million	R1.8 billion
Funding mobilised from external sources to support Development Fund activities	R68.5 million	R137 million

1. *During the period under review the financial expenses of the Siyenza Manje programme were transferred to National Treasury. As a result, this target was no longer applicable.*

Environmental report

The DBSA Development Fund pays particular attention to the environmental impact of its operations. Although it does not set separate objectives for environmental impact, the Fund's appraisal framework includes a module on the environmental impact of all its projects.

Social report

Capacity building support

In the Medium-Term Strategic Framework for 2009-14, the South African government identified five priority areas, namely, the creation of decent work, the promotion of sustainable livelihoods, education, health and rural development. In response to the challenges posed by government in this regard, the Development Fund realigned its services and expanded its programmes, and in the year under review it provided expertise for designing, managing and executing the DBSA's national mandates. The Fund will also pursue capacity building, skills development, job creation and enterprise development, and roll out the infrastructure Operations and Maintenance programme.

The Development Fund's Municipal Capacity Building and Implementation programme provided capacity building support of various kinds to municipalities on behalf of MISA, the newly established support agency in CoGTA.

Demand for training through the Vulindlela Academy remained positive; during the year, 13 019 external learners, including 5981 councillors, were trained in the priority skills areas of planning, finance, management and leadership. Based on portfolios of evidence, 4458 learners were certified competent. SALGA identified the Vulindlela Academy as its official partner for planning and rolling out the national Councillor Induction Programme, including continuous councillor training. In the course of the year, the Academy managed to extend its training to all the provinces of South Africa and to various SADC countries.

Innovation

The Fund constantly seeks to develop innovative programmes for addressing the capacity needs of all spheres of government. Building on the lessons learnt through the Siyenza Manje programme, the Fund designed the Vector Delivery Model to allow fast and efficient performance on the new mandated programmes. A design and delivery management process was developed that includes methods and procedures for delivering infrastructure in a staged, systematic, disciplined, uniform and auditable manner. A construction procurement policy was also finalised to guide the establishment of a construction procurement system. In its role as an implementing agent, the DBSA will use this system to procure goods and services for government and other programmes that involve infrastructure, in compliance with the legislative requirements.

Human resources and employment equity

The Fund has always sought to align its human capital strategy with the corporate objectives in order to ensure the sustainability of its business. Various human resources interventions have ensured that the Fund continued to perform well over the years. Such interventions included building organisational capabilities to respond effectively to business growth, and managing change to ensure smooth transitioning to new business environments. Human resources policies, processes and systems are refined continually to ensure that they are consistent and in line with best practice.

Building organisational capabilities

In the year under review, the expansion of the business required that new skills be brought in and existing skills be strengthened and deployed effectively across the organisation. To this end, the following steps were taken:

- A skills audit was conducted to assess the depth and strength of existing capacity.
- The Leadership Development Programme was initiated at executive level and is being cascaded to the middle and junior management levels.
- Individual development needs were solicited from employees with a view to enhancing their skills and enabling them to fulfil their career aspirations.
- Skills were deployed to the new development mandates entrusted to the DBSA by government.

Restructuring and change

To mitigate the impact of the major changes the Fund has undergone in the past two years, management initiated various change management interventions, including the redeployment of staff to new programmes, engagement sessions and training.

Directors' report *(continued)*

for the year ended 31 March 2012

Financial report

The DBSA established the Development Fund specifically to maximise the provision of development assistance and finance to under-capacitated communities with high levels of poverty and service delivery backlogs. To date, the Bank has provided the Fund with a total of R1.613 billion for its capacity building and development initiatives.

The financial results of the Fund are fully disclosed on pages 218 to 229. The financial highlights for the year under review are:

- An amount of R263 million was transferred by the DBSA in line with its commitment to supporting the strategic objectives of the Development Fund.
- As from 1 April 2011, the Siyenza Manje programme was unbundled, with the finance component being transferred to the National Treasury's Municipal Finance Improvement Programme (MFIP) and the technical component to CoGTA's Municipal Infrastructure Support Agency (MISA).
- Operating expenditure increased due to the repositioning of the Siyenza Manje programme, as 30% of the programme's staff were retained within the Development Fund to capacitate the newly established programmes. Operating expenditure includes the expenditure of the Capacity Development and Deployment Division (Agencies, the Vulindlela Academy and the Programme Implementation Unit), the Rural Development Division, Community Facilitation Division and the Executive Management office.
- To avoid creating a large funding reserve in the Development Fund, the opening funding reserve was first utilised against current year expenditure, before the DBSA transferred adequate funds to cover the balance of the expenditure for the year in terms of the approved budget.
- An amount of R107.7 million was leveraged from the Municipal Systems Improvement Grant to support the Fund's activities.

Cost recovery

In November 2011, the Board approved the Development Fund's financial sustainability model, which requires it to deliver services on a cost recovery basis for direct and indirect costs. In this regard, the Fund has already developed pricing models for training, implementation support and agency services.

Directorate

Details pertaining to the Board members appear on page 58 of this Annual Report.

Name	Position	From	To
Prof. B Figaji	Non-executive Director Chairman	24 November 2005 21 February 2006	Active
Mr P Baloyi	Chief Executive Officer	1 July 2006	31 March 2012
Dr P Kibuuka	Managing Director	1 July 2009	Active
Mr F Baleni	Non-executive Director	1 January 2010	Active
Dr L Bhengu-Baloyi	Non-executive Director	23 November 2011	Active
Mr A Boraine	Non-executive Director	1 August 2005	Active
Mr K Brown	Non-executive Director	1 January 2010	31 March 2012
Mr R Hansby	Non-executive Director	1 April 2011	31 March 2012
Mr OA Latiff	Non-executive Director	1 August 2007	Active
Ms B Mabuza	Non-executive Director	23 November 2011	Active
Dr C Manning	Non-executive Director	26 February 2009	Active
Ms M Matsabu	Non-executive Director	26 March 2009	Active
Mr S Mehlomakhulu	Non-executive Director	26 March 2009	31 December 2011
Mr S Mohamed	Non-executive Director	19 May 2009	31 March 2012
Mr I Mzimela	Non-executive Director	1 August 2007	31 March 2012
Dr S Ngubane	Non-executive Director	26 March 2009	31 March 2012
Prof. E Webster	Non-executive Director	1 August 2007	31 August 2011

The details of the Directors' emoluments are set out in note 9 of the financial statements.

Business and registered address

The Fund's business and registered address details appear on page 229.

Events after the reporting period

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

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

1. Particulars of material losses through criminal conduct and any irregular expenditure and fruitless and wasteful expenditure that occurred during the year: there were no instances where the Fund sustained material losses.
2. Particulars of any criminal or disciplinary steps taken as a consequence of such losses or irregular expenditure or fruitless and wasteful expenditure: there were no instances where the Fund sustained material losses.
3. Particulars of any losses recovered or written off: no losses were recovered or written off other than in the ordinary course of business, none of which was material.
4. Particulars of any financial assistance received from the state and commitments made by the state on behalf of the Fund: no financial assistance was received from the state. However, some agency programmes are funded by the state.

Statement of financial position

as at 31 March 2012

in rands	Notes	2012	2011
Assets			
Current assets			
Accounts receivable	1	**40 870 834**	83 592 307
Cash and cash equivalents	2	**69 114 937**	121 690 439
		109 985 771	205 282 746
Funds and liabilities			
Funds			
Funding reserve		**13 309 029**	20 854 565
Liabilities			
Current liabilities			
Accounts payable	3	**36 141 960**	95 905 511
Deferred income	4	**60 534 782**	88 522 670
Total funds and liabilities		**109 985 771**	205 282 746

Statement of comprehensive income

for the year ended 31 March 2012

in rands	Notes	2012	2011
Gross funding			
National Treasury contribution recognised	4 and 8	–	288 435 465
Development Bank of Southern Africa funding		**263 000 000**	257 000 000
		263 000 000	545 435 465
Other income			
Sundry income	5	**2 545 277**	37 129 135
Interest received	6	**255 294**	329 350
		2 800 571	37 458 485
Operating expenses and grants			
General and administration expenses	7.1	**(71 215 357)**	(214 375 319)
Grants	7.2	**(72 934 891)**	(69 799 221)
Personnel expenses	7.3	**(129 195 859)**	(288 040 186)
		(273 346 107)	(572 214 726)
(Deficit)/surplus for the year		**(7 545 536)**	10 679 224
Transfer from/(to) funding reserve		**7 545 536**	(10 679 224)
		–	–

Statement of changes in funding reserve

for the year ended 31 March 2012

in rands	Total funds
Balance at 01 April 2010	10 175 341
Surplus transferred to funding reserve	10 679 224
Balance at 01 April 2011	20 854 565
Deficit transferred from funding reserve	(7 545 536)
Balance at 31 March 2012	**13 309 029**

Statement of cash flows

for the year ended 31 March 2012

in rands	Notes	2012	2011
Cash flows from operating activities			
Cash receipts		**308 266 750**	526 118 028
Cash payments		**(364 803 988)**	(568 854 078)
Cash used in operations	10	**(56 537 238)**	(42 736 050)
Interest income		**255 294**	329 350
Interest received included in deferred income		**3 706 442**	3 189 437
Net cash from operating activities		**(52 575 502)**	(39 217 263)
Cash and cash equivalents movement for the year		**(52 575 502)**	(39 217 263)
Cash and cash equivalents at beginning of the year		**121 690 439**	160 907 702
Cash and cash equivalents at end of the year	2	**69 114 937**	121 690 439

Accounting policies

for the year ended 31 March 2012

1. Presentation of annual financial statements

The annual financial statements have been prepared in accordance with International Financial Reporting Standards, and the Public Finance Management Act and Companies Act of South Africa. The annual financial statements have been prepared on the historical cost basis, and incorporate the principal accounting policies set out below.

These accounting policies are consistent with the previous period.

1.1 Basis of preparation

The preparation of annual financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

1.2 Financial instruments

Initial recognition and measurement

The company classifies financial instruments, or their component parts, on initial recognition as a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual arrangement.

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

Accounts receivable

Trade and other receivables are classified as loans and receivables and are stated at amortised cost.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. These are initially and subsequently recorded at fair value.

Accounts payable

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

Provisions

A provision is recognised in the statement of financial position when the Fund has a present legal or constructive obligation as a result of a past event, from which it is probable that an outflow of economic benefits will occur, and where a reliable estimate can be made of the amount of the obligations.

1.3 Grants received

Grants received from the Development Bank of Southern Africa Limited (DBSA) are recorded as income when the grant has been received and approved by the Board of Directors of the DBSA. Costs relating to these grants are charged to expenses. Grants received from National Treasury are recognised to the extent that they have been expended on Siyenza Manje; any unexpended funds received are recognised as deferred income in the statement of financial position.

1.4 Grants disbursed

Grants disbursed consist of amounts disbursed to beneficiaries. Only those projects that have been approved and implemented by the Fund are charged to grants disbursed.

Notes to the annual financial statements

for the year ended 31 March 2012

in rands	2012	2011
1. Accounts receivable		
Advances to deployees	**97 698**	860 191
Development Bank of Southern Africa Limited	**23 073 573**	52 060 754
Interest receivable – current account	**14 045**	32 394
Interest receivable – included in deferred income	**234 145**	232 397
South African Revenue Services (VAT)	**12 419 397**	15 971 523
Trade receivables	**5 031 976**	14 435 048
	40 870 834	83 592 307
2. Cash and cash equivalents		
Cash and cash equivalents consist of:		
Bank balances	**15 308 487**	4 127 739
Call account	**53 806 450**	117 562 700
	69 114 937	121 690 439
3. Accounts payable		
Bonus provision	**7 246 753**	34 572 189
Development Bank of Southern Africa Limited	**6 644 409**	7 833 444
Leave pay provision	**5 022 839**	14 017 688
Trade payables	**17 227 954**	39 482 190
	36 141 960	95 905 511
4. Deferred income		
National Treasury		
Opening balance	**83 583 438**	86 344 801
Funds received from National Treasury	**–**	282 595 000
Plus: interest on bank call account	**3 600 150**	3 079 102
Reversal of portion over-recognised	**4 762 104**	–
Funds returned to National Treasury for other projects	**(40 000 000)**	–
Less: National Treasury portion recognised	**–**	(288 435 465)
	51 945 692	83 583 438
Industrial Development Corporation		
Opening balance	**1 988 836**	1 878 501
Plus: Interest on bank call account	**106 292**	110 335
	2 095 128	1 988 836
Other deferred income		
Deferred income – Department of Local Government, Western Cape	**–**	308 796
Deferred income – Department of Water Affairs	**–**	300 000
Deferred income – Local Government SETA	**–**	2 341 600
Deferred income – Netherlands	**473 692**	–
Deferred income – Vulindlela Academy	**6 020 270**	–
	6 493 962	2 950 396
Total deferred income	**60 534 782**	88 522 670

Notes to the annual financial statements (continued)

for the year ended 31 March 2012

in rands	Notes	2012	2011
5. Other income			
Artisan training – SETA		**(4 884 000)**	18 360 000
MFMA training – KfW		**–**	6 556 227
MFMA training – Recovery		**7 423 527**	10 566 032
Prior years additional VAT refund received		**–**	1 592 878
Sundry income		**5 750**	53 998
		2 545 277	37 129 135
6. Interest received			
Bank		**255 294**	329 350
7. Operating expenses and grants			
7.1 General and administration costs			
Administration costs		**12 670 856**	22 861 298
Audit fees		**358 587**	343 004
Communication costs		**2 834 825**	4 227 584
Management fees		**3 290 205**	15 867 302
Professional service providers		**6 452 718**	108 828 279
Subsistence and travel		**31 001 729**	49 184 772
Training		**14 606 437**	13 063 080
		71 215 357	214 375 319
7.2 Grants			
Grants for capacity building		**55 093 390**	48 035 985
Grants for Vulindlela Academy		**17 841 501**	21 763 236
		72 934 891	69 799 221
7.3 Personnel expenses			
Remuneration – Executive and Non-executive Directors' emoluments	9	**3 410 470**	4 587 113
Remuneration – staff and deployees		**125 785 389**	283 453 073
		129 195 859	288 040 186
8. Technical deployment costs included in the operating expenses above are as follows:			
Administration costs		**–**	13 674 487
Communication costs		**–**	3 252 335
Professional service providers		**–**	103 834 526
Remuneration		**–**	240 113 042
Subsistence and travel		**–**	39 008 384
Training		**–**	12 167 889
		–	412 050 663
Siyenza Manje costs are shared as follows:			
Development Bank of Southern Africa – 30%		**–**	123 615 198
National Treasury – 70%		**–**	288 435 465
		–	412 050 663

9. Directors' emoluments

Executive

2012	Basic salaries	Medical aid, group life and provident fund contribution	Other allowances and benefits	Performance bonus	Total
Dr Paul Kibuuka	**1 170 405**	**335 553**	**174 000**	**–**	**1 679 958**

2011	Basic salaries	Medical aid, group life and provident fund contribution	Other allowances and benefits	Performance bonus	Total
Dr Paul Kibuuka	1 074 711	300 781	156 383	1 000 000	2 531 875

Non-executive

2012	Retainer fees	Attendance fees	Other fees	Subsistence and travel	Total
Mr FM Baleni	**56 194**	**75 000**	**–**	**1 775**	**132 969**
Dr L Bhengu-Baloyi[1]	**18 731**	**13 000**	**10 000**	**–**	**41 731**
Mr A Boraine	**56 194**	**75 000**	**–**	**–**	**131 194**
Mr K Brown[2]	**–**	**–**	**–**	**–**	**–**
Mrs T Dingaan[3]	**–**	**39 000**	**–**	**–**	**39 000**
Prof. BD Figaji	**360 000**	**127 000**	**–**	**–**	**487 000**
Mr R Hansby[4]	**–**	**–**	**–**	**–**	**–**
Mr OA Latiff	**56 194**	**52 000**	**–**	**–**	**108 194**
Ms BA Mabuza[1]	**18 731**	**–**	**–**	**–**	**18 731**
Dr C Manning	**136 194**	**101 000**	**–**	**1 050**	**238 244**
Ms M Matsabu	**56 194**	**101 000**	**–**	**1 050**	**158 244**
Mr S Mehlomakhulu[5]	**42 146**	**26 000**	**–**	**–**	**68 146**
Mr S Mohamed	**56 194**	**75 000**	**–**	**840**	**132 034**
Mr I Mzimela	**56 194**	**13 000**	**–**	**210**	**69 404**
Dr S Ngubane	**56 194**	**13 000**	**–**	**210**	**69 404**
Prof. EC Webster[6]	**23 007**	**13 000**	**–**	**210**	**36 217**
	992 167	**723 000**	**10 000**	**5 345**	**1 730 512**

1. *Appointed as non-executive Directors on 23 November 2011.*
2. *Representative of National Treasury; does not receive emoluments.*
3. *Not a Director, but a member of the Risk Committee.*
4. *Representative of Department of Cooperative Governance and Traditional Affairs; does not receive emoluments.*
5. *Resigned on 14 December 2011.*
6. *Resigned on 29 August 2011.*

2011	Retainer fees	Attendance fees	Subsistence and travel	Total
Mr E Africa	–	–	–	–
Mr FM Baleni	56 195	52 000	525	108 720
Mr A Boraine	46 194	91 000	–	137 194
Mr K Brown	–	–	–	–
Mrs T Dingaan	65 000	–	–	65 000
Prof. BD Figaji	480 000	234 000	–	714 000
Mr OA Latiff	23 414	13 000	–	36 414
Dr C Manning	176 194	78 000	1 260	255 454
Ms M Matsabu	56 194	130 000	2 286	188 480
Mr S Mehlomakhulu	56 194	65 000	–	121 194
Mr S Mohamed	56 194	39 000	630	95 824
Mr J Moleketi	32 780	–	–	32 780
Mr I Mzimela	56 194	39 000	630	95 824
Dr S Ngubane	56 194	52 000	420	108 614
Prof. EC Webster	56 194	39 000	546	95 740
	1 216 941	832 000	6 297	2 055 238

Notes to the annual financial statements (continued)

for the year ended 31 March 2012

10. Cash used in operations

in rands	2012	2011
(Deficit)/surplus for the year	**(7 545 536)**	10 679 224
Adjustments for:		
Interest received	**(255 294)**	(329 350)
Interest received included in deferred income	**(3 706 442)**	(3 189 437)
Changes in working capital:		
Accounts receivable	**42 721 473**	(53 556 503)
Accounts payable	**(59 763 551)**	3 360 648
Deferred income	**(27 987 888)**	299 368
	(56 537 238)	(42 736 050)

11. Approvals and commitments

	2012	2011
Grant approvals for the period	**22 120 738**	33 646 000
Total outstanding grant commitments at the end of the period	**26 608 927**	92 418 000
Contractual commitments entered into with the Siyenza Manje programme		
Due in one year	–	166 810 000
Thereafter	–	21 369 000
	–	188 179 000

12. Taxation

The DBSA Development Fund is exempt from Income Tax in terms of section 10(1)(cN) of the Income Tax Act, No. 58 of 1962.

13. Related parties

	2012	2011
Related party transactions		
Management fees paid to:		
Development Bank of Southern Africa	**3 290 205**	15 867 302
Grant received from:		
Development Bank of Southern Africa	**263 000 000**	257 000 000
Related party balances		
Amounts included in accounts receivable regarding related parties		
Development Bank of Southern Africa	**23 073 573**	52 060 754
Amounts included in accounts payable regarding related parties		
Development Bank of Southern Africa	**6 644 409**	7 833 444

The Development Bank of Southern Africa has undertaken to underwrite the commitments of the DBSA Development Fund to the extent that is not covered by external funders.

14. Risk management

In seeking to become a centre of excellence for infrastructure delivery, the DBSA Development Fund manages its risk exposures within the DBSA's risk management frameworks. It has two main objectives, namely:

- To ensure that it can manage risks effectively and efficiently
- To inculcate a culture and process of risk management to enhance the operations of the Fund

The risk management function enables the Fund to respond in a way that reduces both the likelihood of prioritised negative events and the severity of the consequences.

During the year, the effects of the global economic crisis continued to play out. Access to development finance remained tight in most developing countries. While the potential sources of finance for the Fund were equally affected, the Fund continued to mobilise DBSA, government and international finance for development. The financial decline eroded confidence in financial systems and institutions worldwide and exposed weaknesses in governance systems. The established and functional governance system of the DBSA Development Fund has, however, withstood these testing times.

The management of the Fund was challenged to respond to external risks, among which the state of the South African economy, stakeholder expectations and insufficient external funding were significant. The management of the Fund prioritised internal controllable risks, such as the risk of non-compliance with internal governance processes, in support of a fundamental shift in the business portfolio away from capacity building towards infrastructure delivery. The Fund has instituted sufficient measures to mitigate these risks.

Development impact

One of the significant developmental risks facing the country is the risk of dysfunctional or less than optimally functioning institutions and/or municipalities. The Fund worked to mitigate this risk through municipal capacity building and implementation programmes. In addition, the Fund expanded its implementer role with respect to accelerated infrastructure delivery in support of the DBSA becoming a centre of excellence for infrastructure.

Financial risk or sustainability

The Fund uses a risk management framework that is closely aligned to that of the DBSA Group to mitigate the impact of financial and market risk on its financial sustainability. It depends on funding by the DBSA for the ongoing execution of its mandate. The inclusion of infrastructure delivery in its portfolio supplemented and diversified the grant income base with management fees. However, the Fund continues to target other potential sources of funding as it pursues cost recovery to broaden its funding base. Funding for the DBSA Development Fund remains a high priority and management has established a specific initiative to mobilise funds from appropriate development funding sources. At present, new mandates and programmes are embarked upon on a full cost recovery basis.

Reputational risk

The risk management framework of the Fund views reputational risk as a consequence of other primary risks. The Fund manages reputational risk by proactively tracking operational and external risks in order to assess the effectiveness of its control framework and introduce additional risk mitigation measures where required. Accordingly, it ensures that staff are grounded in the Fund's value-based principles.

Notes to the annual financial statements *(continued)*

for the year ended 31 March 2012

14. Risk management *(continued)*

Stakeholder risk

The Fund operates across the spectrum of stakeholders in many areas of the African continent and South Africa, and engages with stakeholders at all levels. These stakeholders include (but are not limited to) government and various government departments and ministries, public sector institutions, municipalities, the private sector and communities. The Fund is keenly aware that such interaction requires a variety of skills and competencies. To this end, it works towards a stakeholder management plan that provides ongoing guidance to management and employees on stakeholder management at strategic and operational levels.

Human capital risk

The DBSA Development Fund continued its particular focus on human capital risk during the year. Employees who are contracted to the Fund are deployed to stakeholders of the Fund. These employees worked largely within provincial departments, municipalities and communities. Deployees spend extended periods in an external environment, providing specialist services and transferring skills to various recipients. The Fund maintains ongoing communication to build and maintain its brand image, and engages in structured performance monitoring. The Human Capital Plan allows flexibility, enabling the Fund to adjust its capacity rapidly to meet operational requirements. The Fund is challenged to retain its pool of black professional skills.

Institutional risk

During this tough economic period, the DBSA has played an important role in creating financial capacity for infrastructure development and investment. It has provided funds where the private financial sector has been unwilling or unable to do so. However, inadequate supplies of certain specialised skills and capacity, among its clients and within the Fund itself, remain a fundamental business risk. This is being mitigated by utilising and imparting skills through the joint efforts of outsourced service providers and various deployment programmes.

The rapid growth of the Fund has brought considerable pressure to bear on its policies, systems, processes and capacity. The Fund has adequate approved policies and established processes and systems to enable it to scale up its capacity within a short time.

Legal and compliance risk

Failure to comply with applicable laws and regulations may have regulatory, financial or reputational consequences for the Fund. Therefore, the Board of the Fund fosters a culture of compliance with relevant laws, not only as a legal requirement but also as a good business practice. In developing its compliance framework, the Fund consulted international best practice and benchmarked against other leading corporate governance frameworks. It maintains continuous engagement with regulators and assurance providers to ensure compliance with all relevant statutory requirements. The Fund is in the process of aligning its founding documentation with the new Companies Act.

The legal and compliance functions of the DBSA Group provide the Fund with efficient and effective professional services on day-to-day operational matters. The legal and compliance risks are within the norms established by the DBSA Group's enterprise risk function.

Risk outlook

The Fund faces significantly increased exposures from the national mandates that the DBSA Group has taken on, in which the Fund is acting as the primary implementer. The following risks were identified:

- Increased reputational exposure
- Capacity (or lack thereof) to execute and implement
- Human resources: organisational capability and talent and skills management

The DBSA Group risk function has developed an overall programme for strengthening risk management capacity at group and business levels. This programme includes the integration of risk management into the individual business areas (risk management integration). The programme will include the following functions:

- Providing risk management capacity and capability for conducting risk assessments on specific activities, processes, key projects and investments, so that risks and mitigation measures may be identified proactively
- Facilitating further improvement in levels of understanding, knowledge, skills and responsiveness in relation to risk management
- Improving risk management reporting

Given its rapidly evolving strategic thrust, the Fund has recognised the increasing frequency and variety of risk categories that will be faced. It has therefore adopted the risk management integration plan for early implementation in its own sphere of operations. The plan envisages increased support on a day-to-day basis at the operational level in pursuance of enhanced risk management.

Headway Hill, 1258 Lever Road, Midrand, South Africa
PO Box 1234, Halfway House, 1685, South Africa
Telephone: +27 11 313 3911, Fax: +27 11 313 3086

SUSTAINABILITY REPORT

Contents

Chief Executive Officer's statement

We are proud to present the DBSA's sustainability report for the year ended 31 March 2012. This report enhances the DBSA Annual Report, which covers our financial performance, the governance framework, risk management systems and ethical codes. This second sustainability report shows how we continue to work towards embedding sustainability in everything we do. We view this report as more than just an annual progress report documenting our commitment to and regional responsibility for sustainable business practices – it is also an invitation to all our stakeholders to enter into a dialogue with us on these matters.

Enhancing the sustainable development of the economic, social and ecological environment is one of the foundational principles of the DBSA. The Bank has a long tradition of environmentally and socially responsible action, based on our mandate from the South African government. We clearly demonstrate our commitment to sustainable development by the extensive range of existing initiatives in this regard. We continue to advance ecological, social and economic responsibility, and sustainability forms a fundamental part of our regional mandate to support the economy and society of South Africa and our partner countries in addressing challenges related to sustainable development.

To ensure that our sustainability practices are of real benefit to society in general, we have embraced the following vision:

The DBSA aims to meet the needs of our clients and the community in a sustainable manner, for the benefit of society and without compromising the quality of life of future generations.

Tshokolo Petrus Nchocho

DBSA Acting Chief Executive Officer and Managing Director

Sustainability is the responsibility of everyone at the DBSA, and determines how we go about our daily activities. To help us achieve our vision, we developed a Sustainability Roadmap that goes beyond corporate responsibility and is articulated in the way we conduct our business.

The DBSA's sustainability mission statement is highlighted in our Sustainability Roadmap. At its core is our mandate to promote economic development and growth, human resources development and institutional capacity building in the region by supporting sustainable development projects and programmes, focusing on infrastructure and leveraging the private sector.

Given our mission and values, social responsibility is an inherent part of the DBSA's business activities and our sustainability mission expresses the essence of what we would like to accomplish.

To achieve our sustainability vision, we strive to improve the economic, social and environmental conditions of our main stakeholders. We aim to:

- Provide our clients with compelling reasons to deal with the DBSA as a development finance institution of choice
- Provide our people with good reasons why they should invest their working lives at the DBSA
- Give communities sound reasons why they should trust and engage with the DBSA
- Assure the government that the DBSA can deliver on its promises
- Give our investors sound reasons why they should invest in the DBSA

Sustainability then is as much a gauge of business performance as are traditional financial matters, such as margins, assets and product offerings. Together they present exciting business opportunities that will stand the Bank in good stead for future growth.

Our focus during the past reporting period was to ensure that sustainability is entrenched in all we do, and thereby ensure that it is at the heart of our business activities. Our achievements in this regard are highlighted below.

The general economic outlook for South Africa includes slow growth amid weak business confidence and high levels of unemployment, which hinder economic activity. Despite this, the business environment remains broadly attractive and South Africa has maintained its status as regional economic powerhouse. Robust state institutions promoting political and economic stability have been fundamental in attracting foreign investment.

However, the economic recovery in South Africa faces numerous challenges, including a strong currency, infrastructure backlogs, the high incidence of poverty, significant structural unemployment, skill shortages and institutional capacity constraints, as well as cyclical income limitations in the public sector.

In view of the many changes in global capital markets in recent times, the nature and role of development finance have had to adapt constantly in order to address restrictions on public finance, the narrowing classification and range of public goods and services, and the declining direct involvement of the government in the market through, for example, escalating privatisation. The boundaries between public finance and private commercial finance have become vague, challenging the scope, nature and role of development finance institutions in a fast-changing macroeconomic environment. In this environment, development finance institutions face substantial challenges, with pressures building in various areas, including portfolios, practices, balance sheets and operations, as well as among clients, communities, funders, investors and employees.

Our funding products contribute to implementing the government's sustainability strategy, which focuses on generational equality, social cohesion, quality of life and global responsibility. We also aim to address the high expectations of our stakeholders.

Chief Executive Officer's statement *(continued)*

Sustainability highlights

Our commitment to sustainable business practices stems from our guiding values. We developed a comprehensive sustainability strategy encompassing environmental and social objectives, which applies to all areas of the DBSA. The strategic Roadmap helps to verify that the projects we finance in the region do not present any unacceptable environmental or social risks. After the initial development of the Sustainability Roadmap, we engaged colleagues from across the Bank to ensure that our Roadmap was relevant, comprehensive and consistent with existing business practices. By engaging all relevant divisional representatives, we inspired a sense of ownership of sustainability matters among those responsible for daily operations and ultimately began to embed a sustainability-orientated mindset throughout our business.

Our conduct is informed by a number of local and international initiatives, including the Government's Code of Good Practice for Broad-Based Black Economic Empowerment, the King III Report on Corporate Governance, and the latest Global Reporting Initiative (GRI) reporting framework. While considering each of these fully, our focus throughout remains on what it takes to be a leading, sustainable development finance institution. The Sustainability Roadmap identifies 11 main sustainability objectives and 30 unique sustainability factors considered significant to the Bank. It is expected to evolve over time as we continue to refine the factors and incorporate the Roadmap into our overarching business systems to ensure that sustainability is embedded in all we do.

Other sustainability highlights during the year include our participation in the COP17 of the UNFCCC, held in Durban during December 2011. As a development finance institution, the DBSA acknowledges the risks related to climate change and recognises the opportunity to transition to a more environmentally sustainable development path, leading to a greener economy and society. The Bank also hosted two side events at the conference, focusing on financial challenges in low-income housing for a low-carbon and climate-resilient future and the role of development finance institutions in international climate finance architecture.

Closer to home, the DBSA GreenStars initiative was launched to encourage staff to become involved in various internal efforts to reduce energy and water consumption on the campus and increase recycling.

The DBSA partnered with the Department of Environmental Affairs on a green funding mechanism that will creatively address the need for a range of green and climate financing instruments and facilitate relations with similar global funds.

In our efforts to establish the DBSA as an employer of choice, we carried out an employee value proposition survey to ascertain how we could add value by aligning people, performance, information and work, balancing the rewards and benefits received by employees with their performance in the workplace. The results of the survey have already begun to inform human capital policies and practices and will continue to do so in future.

The diversity of our operations and business model has served us well, and this is likely to continue. The approach we have developed to create a sustainable DBSA in the long run builds on these strengths and gives us the freedom to operate within an overarching framework.

Delivering on our mandate and turning our Sustainability Roadmap into reality will help to ensure a more prosperous South Africa and region. Our long-term prospects are ultimately closely connected to the requirements of all our stakeholders. We therefore invite those with an interest in our operations to comment on this sustainability report and present their views on how we can work together to address the challenges and opportunities of the future.

Tshokolo Petrus Nchocho
DBSA Acting Chief Executive Officer and Managing Director

Analysis of the DBSA's sustainability strategy

The DBSA has identified the impacts on sustainability discussed below as material, given their effect on specific groups of our main stakeholders. Challenges and opportunities are prioritised and managed, based on the probability of their occurrence and the magnitude of the estimated impact.

Significant impact	Stakeholders affected	Performance during period
Direct impact – operational footprint		
Green economy	Investors and lenders, clients, government, communities	The DBSA recognises the need for the financial services sector to adapt and develop products and services that will promote the principles of sustainable development and assist with the transition to a green economy. Through our collaborative partnership model, the DBSA and its partners can work on targeted programmes to design and implement critical interventions. Focusing on a positive, sustainable and climate-resilient development impact, the Bank is co-developing a comprehensive suite of financing mechanisms to support the national government's climate response and associated policies. The concepts under development include the integration of energy efficiency into low-income housing, disaster responses and rehabilitation, scaled-up greening of infrastructure, resource mobilisation for a national Green Fund, and the creation of sustainable green jobs. The DBSA (as implementing agent) and the Department of Environmental Affairs entered into an agreement to establish a Green Fund, commencing in 2012/13 with an initial capitalisation of R800 million. The Green Fund aims to provide catalytic finance to facilitate investment in green initiatives for poverty reduction and job creation, which would not have been implemented without fiscal support. The objectives of the Green Fund are to: • Support programmes and projects that deliver a high and positive environmental and development impact • Complement the applicant's existing resources with technical, grant and/or loan assistance • Assist with the associated knowledge management and attract resources to support South Africa's climate change response through the development of a green economy • Contribute towards the national development priorities of creating jobs, alleviating poverty and reducing inequality, while ensuring long-term environmental sustainability A work session for stakeholder engagement in climate change adaptation was held in Knysna. It aimed to strengthen the adaptive capacity of municipalities by identifying how they can plan municipal infrastructure more robustly to withstand extreme weather events (related to climate variability) and maintain green infrastructure.
Green employee engagement	Employees, communities	The DBSA involves its staff in sustainability initiatives in an effort to achieve environmental and social goals, as well as improve recruitment, retention and long-term sustainability. Throughout the year, employees were invited to join several GreenStars initiatives aimed at improving sustainability performance. These initiatives included the DBSA Clean-Up Day; tree planting on the DBSA campus and at the Noordwyk Secondary School as part of National Arbour Week; supporting National Recycling Day; and educating employees about the conservation of wildlife on the DBSA campus.

Analysis of the DBSA's sustainability strategy *(continued)*

Significant impact	Stakeholders affected	Performance during period
Direct impact – operational footprint (continued)		
Stakeholder engagement	Investors and lenders, clients, employees, government, communities	The DBSA's sustainability report and Annual Report are increasingly incorporating GRI reporting and integrated reporting principles. The Bank engages continually with stakeholders regarding our robust risk management activities and environmentally conscious operations. The Bank is finalising policy and procedures that articulate how it engages stakeholders. These include principles to improve this engagement as well as specific guidelines grounded in the organisation's mandate, vision and values.
Talent management and organisational capacity building	Employees	Human capital is a key enabler within the Bank, and it is therefore crucial to create an environment that optimises the engagement, deployment and leveraging of this resource. In order to develop and maintain such an environment, the Bank needs to strike a balance between: • Designing and implementing human capital solutions to ensure that the business is effectively capacitated to meet demanding commitments; and • Maintaining efficient human capital processes and integrated information systems to enhance decision-making and ensure effective governance. In 2011/12, the Bank focused primarily on building existing competencies, extending future competencies, and laying the foundation for effective process management that will contribute to long-term sustainable development.
Ensuring appropriate business model	Investors and lenders, clients	Increased competition from the private sector in terms of market prices has resulted in the DBSA losing certain tenders. The challenge is to find the appropriate structure to position the Bank effectively for growth, in line with its new growth strategy. The Bank is addressing this challenge by proactively offering a package of products rather than reactively tendering for business. A pricing committee was established to review and offer guidance on pricing in relation to individual projects.
Data management software	Investors and lenders, clients, employees, government, communities	Like most corporations, the DBSA faces a growing challenge to communicate policies and actions in a global framework that extends beyond conventional commercial aspirations and seeks to align the interests of broader stakeholder communities with traditional financial prosperity. A sound sustainability strategy and implementation path will ensure that the DBSA delivers on commercially integrated business plans that are embraced by the main stakeholders. To this end, the Bank implemented a sustainability management system that integrates sustainability data with other core business systems. This achieves two purposes: it helps the Bank to understand its own operations better, including cause-and-effect relationships between different systems, and it prepares the Bank to meet growing demands for integrated financial sustainability from regulators and other stakeholders.

Significant impact	Stakeholders affected	Performance during period
Direct impact – operational footprint (continued)		
Energy, waste and water management	Employees, communities	The material risks associated with more frequent or severe droughts and floods will be among the most significant effects of climate change. The DBSA is investing in internal energy, waste and water management to minimise consumption and reduce costs. Internally, the Bank strives to reduce its water, paper and electricity consumption in the buildings on its campus. It has installed solar geysers for water heating, timer circuits to control air conditioning, and energy-efficient light bulbs. The introduction of motion sensors reduced energy consumption considerably. The Bank's off-grid visitor's entrance building uses solar panels to generate electricity and meets the latest green building standards. The Bank is implementing a waste management programme that includes the separation of office waste. A second phase aims at processing the Bank's bio-waste via bio-digesters, which will reduce the landfill waste generated by the DBSA campus. The methane gas produced by the bio-digesters will be used in the Bank's canteen for cooking.
Indirect emissions management	Clients, employees, communities	Corporate sustainability efforts have traditionally focused on an organisation's direct impacts, such as the footprint of company-owned buildings and vehicles. However, there is an increasing focus on managing indirect "scope 3" impacts as well, which relate to the sustainability of corporate supply chains, business travel, waste and procurement. The DBSA is collaborating with its suppliers to promote environmental responsibility regarding business travel, cleaning products, and so on. The eventual aim is to integrate information about the entire value chain into its sustainability reporting systems to achieve greater visibility across the lifecycle of its products. Many of the Bank's suppliers are committed to reducing or minimising their impact on the environment, and have undertaken specific sustainability initiatives during the reporting period.
Indirect impact – products and services		
Return on investment in sustainability initiatives	Clients, communities	Demonstrating the return on investment in sustainability initiatives can be difficult if the challenges, opportunities and successes are not adequately tracked, monitored and communicated. The DBSA is continually improving its performance in these areas. The Bank focuses on the water and sanitation, energy, transport, health and education sectors, where it aims to support the South African government's R800 billion infrastructure programme. In the context of these priority sectors, the DBSA has integrated and piloted several climate-resilient technologies, focusing on scalable, catalytic and "breakthrough" infrastructure projects. While the DBSA officially launched its Climate Change Strategy in December 2010, emphasising the need for differentiated sectoral responses, the organisation has in fact applied such differentiated responses in its development interventions since inception. The Bank seeks to integrate environmental and climate considerations directly into its development interventions, while meeting the national development priorities of poverty alleviation, economic growth, job creation and improved livelihoods. Sustainability measures, including but not limited to improvements in quality of life, training and skills transfer, job creation and the number of households benefiting from basic services, are assessed during project appraisal and monitored throughout the life of the project.

Analysis of the DBSA's sustainability strategy (continued)

Significant impact	Stakeholders affected	Performance during period
Indirect impact – products and services (continued)		
Current operating environment	Investors and lenders, clients, government	The DBSA's current operating environment is characterised by heightened portfolio risk, growing liquidity challenges, and increasingly fragile borrowers. The impact of the global financial crisis continues to pose a challenge for the banking industry, in view of the higher global capital requirements. These have resulted in the DBSA's cost of funding remaining high, which in turn puts strain on profitability. The challenge has been compounded by the slowdown in economic growth, which has a direct impact on the DBSA in terms of the number of projects coming through to bankability as well as the rate of disbursement. The DBSA is also required to play a counter-cyclical lending role, and this affects the institution's financial sustainability as it involves higher-risk funding.
Balancing financial risk and development risk management	Investors and lenders, clients, government, communities	The DBSA is required to be self-sustaining and must obtain funding without the help of government guarantees, and it therefore has to manage its credit ratings carefully and maintain prudent risk management policies and procedures. This may increase development risk, however, meaning that the Bank prioritises its financial activities above its development agenda, as a result of which certain segments of the market are unserved. The DBSA's support to prioritised market segments, such as municipalities, is not restricted to lending and concessional lending, as certain clients do not have the absorptive capacity to take up lending. However, this does not preclude the Bank from intervening in these market segments by offering other services. These include the training of municipal councillors and officials through the Vulindlela Academy; technical assistance grants to facilitate feasibility studies and project development through the Bank's operating divisions; capacity building grants through the DBSA Development Fund to enhance revenue collection and develop new revenue streams; and the hosting of Internet and payroll facilities for under-capacitated municipalities through the Local Government Resource Centre/LGNet. Where internal funds are not available to fund activities or lending is not feasible because the client does not have the absorptive capacity, opportunities for mobilising existing external funding for these purposes are pursued, particularly through MIG lending or international specific-purpose funds.
Risk exposure relating to the loan book	Investors and lenders, clients	The DBSA is affected by the volatility and pace of movements in the interest rate and the foreign exchange rate; market anomalies in the medium- and long-term swap and government bond market; and the escalation in impairments aligned with the growth in the loan book, as well as the probability of large clients defaulting. Various risk processes and committees with representatives from Group Risk Assurance, Finance and Treasury are in place to evaluate, monitor and manage these risks: • The Asset and Liability Management Committee monitors and responds to market risk, such as interest rate risk, foreign exchange risk and basis risk, supported by the Treasury Division on a daily operational level. • The Portfolio Management Review Committee monitors and responds to credit risk and non-performing clients, supported by Portfolio Management Units on a daily operational level. • Monthly financial projections are made for the current financial year in order to monitor and respond to market movements, impairments and other financial considerations. Longer-term financial projections are made to test the impact of the strategic direction, market and other movements on the long-term sustainability of the Bank, and on that basis to develop supporting long-term financial strategies.

Significant impact	Stakeholders affected	Performance during period
Indirect impact – products and services		
Water management	Communities	As effective water management becomes more important, the DBSA is increasingly focusing on water as a key sustainability issue. This includes access to water, water management and water in the supply chain. Research confirms that South Africa and the southern African region are facing significant changes in the water regime. South African weather patterns are variable, following a cycle between droughts and sudden excessive rains. Scarcity in rural areas and rapidly growing demand in urban centres are placing undue stress on water supply systems. The DBSA has gained comprehensive experience in the water and sanitation sector through targeted programmes and the development of infrastructure projects together with its partners. These programmes addressed water and sanitation concerns and provided demand-side management solutions to build the capacity of the population to adapt to water scarcity. Programmes and projects supported include the following: • The SADC Water Demand Management Programme mainstreamed and promoted water demand management in all aspects of integrated water resource management at regional, national and basin levels. • The Mooi-Mgeni Transfer Scheme will secure the water supply for the Greater Durban area and thus improve climate resilience. This programme is supported jointly with three European development finance partners. • Ikusasa Water's desalination plant in the Western Cape is generating drinking water from sea water to augment municipal supply. This project was supported in partnership with the University of Stellenbosch. • The Nelspruit Water and Sanitation Concession provided access to water and sanitation for the local population. A Memorandum of Agreement between the Department of Water Affairs and the DBSA was signed during 2011, in terms of which the Bank will provide technical support on water loss management, the operation and maintenance of water services infrastructure, and the turnaround of the Water Trading Entity. A 10-year investment plan for the water sector is being developed. This will be expanded in due course to include the regulation of water quality and capacity building initiatives.
Public-private collaboration	Investors and lenders, clients, government, communities	Public-private partnerships (PPPs) and collaborative initiatives are often the best way to overcome obstacles to sustainability. During the year under review, the DBSA collaborated with the private sector on the following initiatives: • Health PPPs: Thus far, six new hospitals have been identified for construction under the Health PPP Flagship Projects in Gauteng, Limpopo, the Eastern Cape and KwaZulu-Natal. Capital expenditure is estimated at R47 billion. • Independent power producers: The partnership between the DBSA, the National Treasury and the Department of Energy is gaining significant traction with the finalisation of the power purchase agreement process and the Renewable Energy Feed-In Tariff programme stipulating South Africa's future energy mix. Under this programme, 3725 MW of renewable energy will be procured from independent power producers. Through its project development activities, the DBSA is working closely with the main stakeholders in government to create a stable enabling environment for the implementation and support of independent power projects. Under this programme, the Bank will offer a suitable funding solution.

Sustainability targets affecting the DBSA's financial stakeholders

Description of sustainability trends, risks and opportunities	Short-term target	Performance against target	Medium-term target
Working with clients to achieve sustainability aspirations	Include sustainability analysis in reviews of project risk and opportunity.	The sustainability factors assessed during project appraisal include improvement in the social and economic quality of life, the level of skills transfer, the impact on local environmental quality, total employment created as a result of the project, the number of households benefiting from basic services, and the contribution to GDP.	• Attract international support and contribute to the design of the global Green Climate Fund.
	Integrate new green approach to add value to existing environmental projects.	The DBSA's approach to and implementation of environmental appraisals are outlined in a set of procedures. These ensure that environmental appraisals are undertaken consistently and in a manner that supports and enhances the Bank's decision-making processes for sustainable socio-economic development in the region.	• Identify opportunities in projects to maximise the environmental benefits by promoting sustainable development. • Identify measures to prevent, minimise, mitigate or compensate for the environmental risks or impacts associated with projects.
	Identify relevant, sustainable solutions that can be achieved within projects.	The Bank strived to apply the environmental appraisal module transparently and consistently in all the programmes and projects it supported. The Bank also made it possible to identify the environmental concerns arising from proposed programmes and projects early, and to consider them in a systematic and structured way.	• Agree on project-specific sustainability deliverables with all clients. • Assist management with decision-making on the environmental and climatic risks identified and evaluated. • Assist borrowers with building their environmental capacity.

Description of sustainability trends, risks and opportunities	Short-term target	Performance against target	Medium-term target
Promoting market opportunities for sustainability	Promote awareness among clients of our capabilities and accomplishments with regard to sustainability. Develop new sustainable financial products and services.	The DBSA demonstrated its commitment to sustainable development to its main stakeholders at various high-profile events, notably the COP17 of the UNFCCC and the Knowledge Week on Greening Infrastructure Programmes in South Africa. Refer to page 246 for more detail.	Obtain formal feedback from stakeholders on sustainability performance.
Enhancing the application of environmental and social performance standards	–	–	Assess the appropriateness of the DBSA's environmental, social and governance performance standards, and whether DBSA clients could use the performance standards of the International Finance Corporation to manage environmental and social risks.
Enhancing economic performance	Provide a basic indication of how we created wealth for our stakeholders. Maintain level 3 BBBEE rating.	Refer to page 250. Level 2 BBBEE rating achieved.	Maintain level 2 BBBEE rating.
Partnering with our supply chain to deliver sustainable solutions	Carry out sustainability reviews as part of our supplier assessment process and act on risks and opportunities.	The DBSA is collaborating with its suppliers to emphasise matters of sustainability. The eventual aim is to integrate information about the entire value chain into its reporting systems, and thus achieve greater visibility across the lifecycle of its products.	Include agreement on mutual sustainability aspirations in criteria for the selection of preferred suppliers. Work with preferred suppliers to understand and manage sustainability risks and opportunities.

Governance, commitments and engagements

Governance mechanisms

The following governance mechanisms are in place to identify and manage important sustainability risks and opportunities:

- The comprehensive project appraisal process ensures appropriate institutional checks and balances throughout the life of a project. Each appraisal commences with a risk assessment, including strategic, legal, environmental and reputational risks, to ensure that the Bank's intervention is sustainable and the intended development objectives are achieved. The main risks to be monitored (e.g. institutional, financial and regulatory risks, and skills shortages) are highlighted. Appropriate fiduciary oversight procedures have been established to guide the appraisal process and ensure the quality and monitoring of follow-up actions during implementation. All projects approved by the DBSA are reviewed at least once a year and more frequently where necessary.
- A documented Code of Ethics defines ethical standards to be upheld, including protecting agency assets. The Code describes disciplinary and enforcement actions for violations, and provides for appropriate flexibility in how it is applied in local environments.
- The Audit and Risk Committee oversees financial management. The terms of reference for this Committee include clearly defined roles for management, internal auditors, the Board of Directors and other staff, as well as fiscal and fiduciary accountability for the control environment, risk assessment, internal control activities, monitoring and procedures for information sharing.

Commitments to external initiatives

The DBSA views the following memberships as strategic:

Institute	Benefits/remarks
African Venture Capital Association (AVCA)	The DBSA has a private equity funds portfolio of approximately R2 billion, about half of which is committed to funds that operate outside South Africa, in keeping with the Bank's regional and NEPAD mandates. AVCA is the only industry association representing the interests of important stakeholders in African private equity. Members of the Association range from fund managers to international development finance institutions. The organisation provides a forum for learning, networking and knowledge management.
World Economic Forum	It is important for leaders of development finance institutions, such as the Chairperson of the DBSA, to participate in this global economic and finance platform, where eminent decision-makers come together.
NEPAD Business Foundation (NBF)	The NBF is a private sector initiative to promote and facilitate NEPAD ideals and interactions in the private sector. It is an important partner of the DBSA, which is tasked with promoting NEPAD ideals in the region. The NBF allows the Bank to interact with the private sector on NEPAD-related issues.
SADC Development Finance Resource Centre (DFRC)	Together with the IDC, the DBSA is one of the main supporters of the SADC DFRC, a resource centre for development finance, which provides significant support to the network of development finance institutions in SADC.
Association of African Development Finance Institutions (AADFI)	The AADFI focuses on providing African bankers and finance officers with information and training in the techniques of banking and finance, as well as policy development advice. The Association is a strategy network and resource base for the DBSA's interactions with other development finance institutions on the African continent.
United Nations Environment Programme Finance Initiative (UNEP FI)	The DBSA is a signatory to the UNEP FI. Through the Initiative's platform, the Bank engaged in a number of side events hosted at the COP17 in Durban in December 2011.

Stakeholder engagement

In all its activities, the DBSA works to maintain an open dialogue with its stakeholders. We believe that dialogue with stakeholders is a fundamental source of information for responsible corporate governance and that it provides a vital impetus for the effective execution of our mandate.

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

Stakeholders and why we engage	How we engage	What we engage about
Investors and lenders To create an informed perception and a positive investment environment	Meetings with analysts and investors Announcement of results Group website Annual reports	Financial performance Market trends and issues Future prospects
Clients To understand our clients' needs and enhance our development impact	Client and market surveys Marketing campaigns Social media Sponsorship	Brand perception and expectations
Employees To enhance employees' engagement and commitment and align their work with the corporate strategy	Unit meetings Training and development needs analysis Results presentations Performance reviews Internal media Whistle-blower's hotline	People development and training Health and safety performance Wellness programmes Remuneration and benefits Transformation and employment equity Financial performance Code of conduct Strategic matters
National and local government Legislative requirements National priorities	Regular communication with: • National Treasury • Department of Cooperative Governance and Traditional Affairs • Standing Committee on Finance • Select Committee on Finance	Compliance requirements Skills development and training Employment equity
Community Social responsibility expectations Brand building opportunities	Corporate social investment initiatives	Communication on investment in socio-economic development and performance evaluation

Governance, commitments and engagements (continued)

Stakeholder engagement highlights

Engagement event	Date	Place	Approach/ type	Stakeholders	Topics
COP17 of the UNFCCC	28 November to 9 December 2011	Durban	Conference	Investors and lenders, clients, national and local government, community	Climate change as a critical development issue. The DBSA's critical role in catalysing climate change interventions. Green infrastructure within the climate change context involves the provision of engineering and social infrastructure and services that are climate resilient, as well as investment in environmental infrastructure (natural resource management).
COP17 side event: Meeting the financing challenge in low-income housing for a low-carbon and climate-resilient future: Sustainable Settlements Facility	5 December 2011	Durban	Seminar	Investors and lenders, clients, national and local government, community	The DBSA and South South North (SSN) are collaborating on an innovative financing facility, the Sustainable Settlements Facility, which aims at bridging the financial gap to equip new low-income housing in line with South Africa's requirements for energy efficiency. The side event was hosted to introduce the concept of the Sustainable Settlements Facility. Investors, project developers, financiers, bankers, policy-makers and non-governmental organisations attended the event to provide technical input on the programme development, financing and institutionalisation of the Facility. The event included a respondent panel of important stakeholders from the energy-efficient building and low-income housing sectors.
COP17 side event: Why development finance institutions have a role to play in the international climate finance architecture	4 December 2011	Durban	Seminar	Investors and lenders, clients, national and local government, community	This side event was a collaboration between the DBSA and the AFD. Its purpose was to take forward some of the issues highlighted in the submission to the Transitional Committee of the Green Climate Fund (made in September 2011) and additional issues discussed at the climate finance workshop for development finance institutions held in Johannesburg in August 2011. The aim of these discussions was to move towards an action plan that better articulates the role of development finance institutions in the global climate finance architecture for greater development impact. The side event was attended by representatives from development finance institutions (such as the Latin American Development Bank, the Japan International Cooperation Agency, the Inter-American Development Bank and the African Development Bank) and other partner institutions (such as the World Resources Institute, the United Nations Development Programme, the United Nations Environment Programme, the Global Environment Fund, KfW and others). The workshop enabled development finance institutions and their partners to engage on their role within the emerging climate finance architecture.

Stakeholder engagement highlights

Engagement event	Date	Place	Approach/ type	Stakeholders	Topics
Launch of DBSA GreenStars initiative:	June 2011	Midrand	Internal newsletter	Employees	This initiative encouraged staff to become involved in internal efforts to reduce energy and water consumption on the campus, while increasing recycling.
• DBSA Clean-Up Day	September 2011	Noordwyk, Midrand	Staff volunteering	Employees	This involved the cleaning of Lever Road from the DBSA staff entrance to the traffic lights at the intersection with Rietspruit Road, Midrand.
• National Arbour Week tree-planting ceremony	September 2011	DBSA campus, Midrand	Staff volunteering	Employees	The Bank has made significant strides in turning its campus into a carbon-neutral and "green" environment. The start of Arbour Week was celebrated by planting a number of jacket plums (Tree of the Year 2011).
• Tree-planting ceremony at Noordwyk Secondary School	28 September 2011	Noordwyk, Midrand	Staff volunteering	Employees, community	Staff planted the donated trees at the school.
• National Recycling Day: "Plastics don't litter – people do"	16 September 2011	Noordwyk, Midrand	Staff volunteering	Employees	Staff members were encouraged to support National Recycling Day by "bringing and recycling" their home solid waste on campus.
• Recycling	3 February 2012	DBSA campus, Midrand	Staff volunteering	Employees	Employees were encouraged to help achieve the Bank's annual target of recycling 10 tons of waste.
• Wildlife rescue at the DBSA	17 February 2012	DBSA campus, Midrand	Staff volunteering	Employees	Due to urban sprawl and encroachment in the Midrand area, there have been a number of incidents where animals and birds on site had to be rescued and rehabilitated. The DBSA has made arrangements to care for injured wildlife.
The DBSA partners with the Department of Environmental Affairs on a green funding mechanism	November 2011	Midrand	Internal electronic newsletter	Employees, clients, national and local government	This initiative aims to support South Africa in developing a funding mechanism that will creatively address the need for a range of green and climate financing instruments, and to facilitate relations with similar global funds.
Knowledge Week: Greening Infrastructure Programmes in South Africa	12 to 14 October 2011	Vulindlela Academy, DBSA campus	Conference	Investors and lenders, clients, national and local government	Knowledge Week provided a platform for development practitioners to share knowledge, interact and debate this topical development issue. This year's gathering was structured to contribute to the conceptualisation of the greening of infrastructure, where much effort has already been focused, and to reach consensus on critical next steps towards implementation. Among the topics discussed were the need for better integration of sustainability, resilience and ecological infrastructure into infrastructure planning and delivery, lower environmental impacts, and increased resource efficiency and social inclusivity.

Governance, commitments and engagements *(continued)*

Engagement event	Date	Place	Approach/ type	Stakeholders	Topics
Green jobs: An estimate of the direct employment potential of a greening South African economy	2011	Gauteng	Research report	Investors and lenders, clients, national and local government, community	The primary purpose of this report is to provide a segmented view of the net direct job creation anticipated to emerge in the formal economy across a wide range of technologies and activities that may be classified as green or as contributing to the greening of the economy. It is hoped that the report, supplemented by related information, both international and domestic, will also help a broad spectrum of stakeholders to embrace a green economic revolution and contribute to the debate on prioritisation and strategic planning.
Environmental Community of Practice	Quarterly	Midrand	Meetings	Employees, clients, communities	The Environmental Community of Practice is the Bank's platform for sharing environmental knowledge and information. It is where all the main stakeholders in the environmental field within the Bank come together to discuss issues and challenges and find ways of overcoming them. It is also the main platform where the Bank's environmental risk management, procedures, policies and strategies are formulated, reviewed and implemented.
Environmental Newsletter Portal	Updated regularly	Midrand	Electronic newsletter	Employees	The Environmental Network is aimed at DBSA colleagues who wish to share highly relevant and selected information on environmental policy, legislation and best practice. It also provides news on forthcoming training, conferences and events.
Local Government Resource Centre	Monthly	Midrand	Electronic newsletter	Clients, national and local government, community	One of the aims of the LGRC is to promote and support low-carbon municipalities. It campaigns for a clean environment and for buying local to boost the economy. The Bank believes that municipalities must educate communities on climate change. A climate change policy has been approved.

Engagement event	Date	Place	Approach/ type	Stakeholders	Topics
Employee wellbeing: Your health during this festive season	6 December 2011	Midrand	Internal email	Employees	The email provided tips on health and safety during the holiday season.
***eDigest:* Climate change**	21 November 2011	Midrand	Electronic newsletter	Investors and lenders, clients, employees, community	The *eDigest* offers various perspectives on the impact of climate change on infrastructure and related topics.
Employee Wellness Portal	Launched October 2011	Midrand	Intranet	Employees	The Employee Wellness Portal provides employees with educational information on matters related to wellness, with the aim of encouraging and empowering them to pursue a more balanced and healthy lifestyle.
Discovery Wellness Day	1 September 2011	DBSA campus, Midrand	Interactive session	Employees	Vitality Check tests were provided to employees.
Employee Value Proposition results presentation	23 August 2011	DBSA campus, Midrand	Presentation	Employees	The Employee Value Proposition survey undertaken earlier in the year revealed that the top five preferences for DBSA staff are future career opportunities, development opportunities, compensation, recognition and respect.
Workplace Skills Plan and Implementation Report 2010/11	23 June 2011	DBSA campus, Midrand	Internal email	Employees	The Bank is mandated in terms of the Skills Development Act to report on training completed and planned for a specified reporting period. It completed the Workplace Skills Plan and the Implementation Report, as required. An email was sent to staff to give them an opportunity to review the reports and direct queries or feedback to the Skills Development Facilitator.

2012 performance

OBJECTIVES

- Work with clients to achieve sustainability aspirations.
- Promote market opportunities for sustainable development.

Economic performance

in thousands of rands	2011/12
Economic performance	
Interest income	3 982 396
Sustainable earnings	676 892
Profit/(loss) for the year	(370 823)
Total assets	52 337 248
Net cash generated from operating activities	805 191

Work with clients to achieve sustainability aspirations

The DBSA is mandated to promote sustainable development. It recognises that the integrated and sustainable management of the environment, now and in the future, is the basis of sustainable development in all areas of human activity. To ensure that its commitment to sustainable management is an integral part of the Bank's activities, an environmental appraisal is done on all the programmes and projects it supports. The environmental appraisal procedures enable the early identification and the systematic and structured consideration of environmental concerns that may arise in the Bank's proposed programmes and projects. This, in turn, enables the Bank to direct its funding towards projects that are environmentally sound and in line with its mandate, policies and legal responsibilities.

The DBSA is committed to creating value for all stakeholders. Equally, it acknowledges that sustainability includes balancing the interests of all stakeholders. Direct economic value created for stakeholders is reflected in the value added statement below, and should be read in conjunction with the development impact overview on page 25 of this Annual Report. The value added statement is intended to provide a broad and concise understanding of how the Bank augments its economic impacts on relevant stakeholders.

The DBSA strives to create value for local suppliers through its preferential procurement practices, benefiting communities in South Africa and the region. The DBSA is a level 2 contributor and achieved a total score of 94.61 out of 100 consisting of the following pillars:

BEE score per element	Weighting	DBSA score
Management and Control	15	16,00
Employment Equity	15	14,45
Skills Development	20	14,33
Preferential Procurement	20	19,82
Enterprise Development	15	15,00
Socio-economic Development	15	15,00
Total	**100**	**94,61**

Market presence

The specific sectors in which the DBSA operates within the southern Africa region include: entrepreneurial, manufacturing, mining, tourism, communication, education, energy, agriculture, residential facilities, development funds, roads and drainage, sanitation, community facilities, health, water and transportation. Client segments include: municipalities, utilities, technikons and universities, development corporations, private companies, infrastructural state-owned enterprises, and national and provincial departments.

The Bank creates value by:

- Providing finance to develop infrastructure, consisting of fixed and floating rate loans in rand, US dollar and euro, as well as equity investments
- Facilitating service delivery
- Creating jobs (through labour intensification and public works)
- Developing and facilitating entrepreneurship
- Providing education, training, advisory and management services
- Developing infrastructure
- Developing policies and programmes for specific sectors
- Supporting research and innovation
- Taking a lead in catalysing development
- Developing policy at the macro and global levels
- Encouraging international and regional cooperation
- Promoting good governance
- Furthering scientific research and technological development
- Promoting human rights

The Bank is active throughout the SADC region, where it finances infrastructure projects and stimulates the growth sectors driving the economic development of these nations.

Indirect economic impacts

The DBSA's indirect economic activity affects a wide range of stakeholders. Indirect impacts, while harder to quantify, include:

- Improving the quality of life, both social and economic
- Supporting small, medium and microenterprises
- Supporting training and skills transfer
- Making a positive impact on indigenous people and cultural, heritage and historical features
- Improving the quality of local environments
- Encouraging better use of natural resources
- Promoting sustainable development
- Building the capacity of municipalities and other bodies to operate and maintain created assets
- Targeting the youth
- Supporting the strategic and practical needs of women
- Creating jobs
- Channelling income to the poor during and after the construction of infrastructure
- Enabling households to benefit from the provision of basic services
- Contributing to GDP

The DBSA's corporate social responsibility investments also create indirect value. The Bank supports a number of initiatives designed to bring previously disadvantaged people into the formal South African economy.

Promote market opportunities for sustainable development

Customer health and safety

Health and safety matters relating to projects and programmes supported by the DBSA remain an important aspect of the Bank's product offering.

Policies for the fair design and sale of financial products and services

The DBSA regards sustainable development as a fundamental aspect of sound business management. It appreciates that sustainable development is an institutional commitment and a primary aspect of its quest for good corporate citizenship and sound business practices. The Bank further subscribes to a precautionary approach to environmental and social matters, seeking to anticipate and prevent possible negative impacts on the environment and society. It continually strives to adapt and develop products and services that will promote the principles of sustainable development in order to create a level playing field and significantly accelerate the mainstreaming of environmental and social risk management. This will result in diminished capital flows to unsustainable projects and activities, while flows to sustainably managed projects and ideas will be enhanced.

By expanding the scope of environmental and social risk management to the development of financial products and services, the flow of capital would further be channelled towards those instruments with a strong potential for underpinning sustainable development, while those likely to be counterproductive to the goals of sustainable development could be identified and managed accordingly.

Marketing communications

The Bank's marketing and advertising conform to applicable laws and standards. All such activities have to comply with principals' standards and corporate identities. These are detailed and comprehensively monitored by the DBSA's corporate communications division on a continuous basis.

The DBSA focuses on the development needs of its stakeholders. We are a caring organisation, working to create hope and advance the economic development of the people of South Africa and the African continent. Our four corporate values are very important to us and we seek to live them through our development interventions.

2012 performance *(continued)*

These values are ubuntu (human respect and interconnectedness), professionalism, a passion for development, and knowledge sharing.

Our development achievements, as shown in our Annual Reports, reflect an empathetic and development-centred business committed to improving society at large and attending to the development challenges faced by the poorest of the poor in our market. The DBSA's work is constantly addressing market failure, institutional failure, and knowledge and capacity gaps among our clients and partners. Our approach is to formulate workable solutions to development challenges, and apply these in conjunction with our partners, clients and stakeholders.

As the DBSA seeks to provide development finance support through innovative funding, it requires creative marketing to position itself as a partner to both public and private investors, especially in the development of infrastructure. The Bank positions itself as a vibrant, highly adaptable and responsive development financier, advisor, partner, implementer and integrator.

The Bank's marketing stance is predicated on, and informed and guided by, the constant search for effective solutions to the development challenges and national mandates outlined by the government. The marketing approach is also informed by the belief that our long-term success depends on our ability to leverage existing resources and demonstrate effective support and concrete delivery to the shareholder. In addition, the Bank provides corporate social investment support to deserving entities, and arranges grant funding for local municipalities as part of its development mandate.

It is the responsibility of the DBSA's Communications, Marketing and Public Affairs Cluster to develop, manage and implement a responsible marketing strategy. The Cluster has developed a communications and marketing strategy that is informed by the organisation's business mandate. This strategy promotes the Bank as a leading infrastructure development organisation that furthers collaboration among fellow development finance institutions and other partners in the market. Our marketing stance encourages responsible competitive positioning of development solutions through financing and capacity building.

Customer privacy

Client privacy is respected. All matters are dealt with confidentially, with disclosure made only if required, and then with the client's permission.

2012 performance *(continued)*

OBJECTIVES

- Engage our people in sustainability.
- Partner with our supply chain to deliver sustainable solutions.
- Improve the quality of life of communities and individuals.

Social performance

Engage our people in sustainability

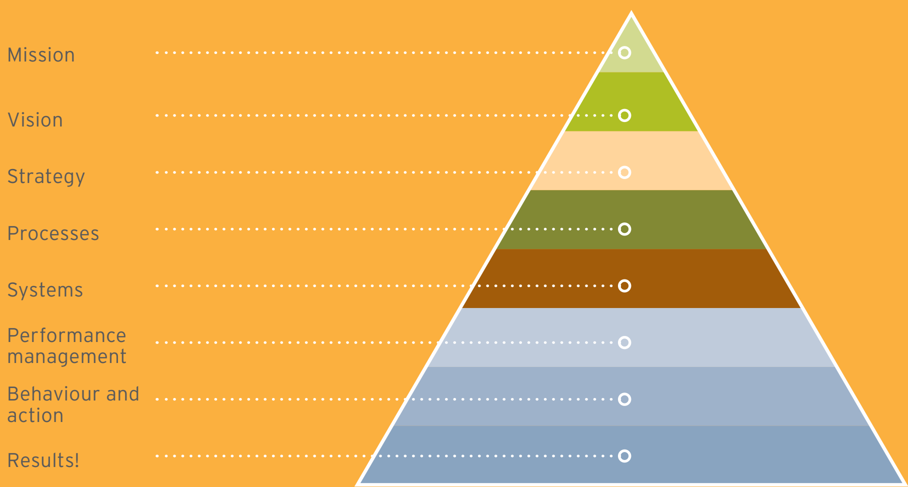
Employment

The DBSA's corporate strategy adopts an aggressive and proactive stance to broadening and deepening development impact in order to support the government in accelerating service delivery, job creation, integrated spatial development and regional integration. For the Bank, infrastructure development is not just about bricks and mortar; it is about the quality of life and productivity of people, and it aims to increase their opportunities, expand their choices, and help them build better lives. It is not simply about physical infrastructure and related management systems; it is also about restoring human dignity and enabling people to improve their standard of living.

In order to achieve the overall strategy of the organisation, it is necessary to align individual performance contracts with unit/divisional and organisational business plans. This can be summarised as follows:

- Linking the efforts of individual employees to the DBSA's mission and objectives helps both the employee and the organisation understand how each job contributes to the Bank's work.
- The success of the DBSA's performance management system lies in the ability to equip employees with the skills and tools they need to take charge of their work responsibilities, development and future.
- When performance expectations are articulated clearly, employees know what they need to do to be successful on the job.

Strategic organisational alignment



Cascading of:	Organisational Scorecard
	Divisional Scorecard
	Unit Scorecard
	Individual Performance Plans

- The use of objectives, standards, performance dimensions and other measures focuses effort. It helps the unit or division to achieve their goals and provides a solid rationale for eliminating work that is no longer adding value.

The Human Capital Division developed a consolidated employment policy that informs and regulates the management of people within the Bank. The policy outlines employee benefits, general working conditions, and learning and development. 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 accommodate a flexible working environment. Decisions on human capital policies are informed by a structured consultation process via internal committees. These include the Human Capital Management Committee, on which employees from the various business units are represented, and the Employment Equity and Skills Development Committee.

The management of human capital is a line function. However, the Human Capital Division plays an important role in facilitating compliance, introducing process efficiency to ensure faster turnaround times, and acting as advisor to the business. Monitoring is therefore a dual function of management and Human Capital. The Human Capital Division provides quarterly progress reports at a divisional level to the relevant Group Executives, and reports on progress in relation to key initiatives through the various committee structures within the organisation.

The DBSA is firmly committed to the development of its staff members. All employees are encouraged to take ownership of their developmental journey. The Bank ensures that everyone has access to quality learning offerings in line with their roles and responsibilities within the Bank.

The Bank has traditionally regarded learning as a mechanism to enrich human capability in relation to performance; however, learning is now being looked at more holistically to encompass career planning, succession management and skills projections into the future.

The learning function is committed to recording, verifying and ensuring compliance with both the spirit and the letter of skills development legislation. It has submitted both an Annual Training Plan and a Workplace Skills Plan for the last four years. The Bank has been successful in obtaining additional funding to address critical skills shortages in relation to development finance, HIV/Aids, and leadership and management development.

The learning function has been growing exponentially and now aims to obtain accreditation as a delivery partner in terms of the Education Training Quality Assurance (ETQA) process. The Bank recognises the importance of operational procedures governing quality assurance of learning and development interventions in order to comply with the standards of the South African Qualifications Authority (SAQA).

In terms of the SAQA Act, all providers of training programmes must be accredited through an ETQA body to ensure that they provide quality learning and development interventions. To implement successful internal training interventions, learnerships and skills programmes within the legislative framework, the organisation therefore needs to be accredited as a provider.

Accreditation will ensure that all learners enrolled for accredited training courses provided by the Bank comply with the required standards for learning programmes and assessment activities. Learners will also be assured that the learning and assessment are of a high standard, and that the credits and qualifications they achieve are recognised nationally and, in some cases, internationally.

Accreditation will provide the DBSA with a valuable tool for marketing its services to potential clients, learners, employees and employers with a competitive advantage.

Training and education

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

However, talent management should not be seen at a purely theoretical level; practical implementation must be emphasised. To this end, in support of the policy changes and frameworks, two important toolkits were developed, one to assess the skills base within the organisation and the other to support line managers in the succession management process. The former has been rolled out in two phases, first, to identify skills in relation to the Bank's changing mandates, and second, to assess the skills required for the success of each division within the organisation. Phase one has been completed, and phase two is due to be finalised at the end of the next financial year. The results from these two reviews will allow the Bank to make important decisions about the mobility, placement and development of talent across the organisation.

The succession toolkit is a recent development and has been piloted in the Human Capital and the Group Risk Assurance Divisions. Initial results are promising, with feedback and lessons learnt being incorporated into the design. The results of the succession management process will ensure that critical positions within the Bank have a succession pool, and will also provide information on the depth of this pool. Results will be further validated and successors assessed in order to put in place

2012 performance (continued)

targeted development plans that close identified succession gaps.

Supported by a focused development strategy, aligned policies and easy-to-use toolkits, talent management within the DBSA is rapidly moving from the abstract to on-the-ground execution. This will ensure a more thorough understanding of the available talent within the organisation and support associated decisions on the deployment, management and development of talent.

The Bank builds the capacity of its entire staff by improving their skill levels in the following main areas:

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

Specialised offerings are developed according to the changing business landscape, and all staff members are encouraged to keep their skills relevant and up to date in relation to the market. At a corporate level, the Bank sponsors two interventions per staff member. At a divisional budget level, staff have access to two interventions, whether conferences, seminars or workshops.

The Bank is committed to the development of staff across all levels. Every year, it shows considerable improvement in the delivery of learning and in budget utilisation to ensure that more of its staff members have appropriate skills.

Labour-management relations

Collective labour relations are constructively managed in terms of the principle of freedom of association. Employees may associate (or not) with representative organisations and trade unions. Trade unions that are sufficiently representative of employees are recognised at appropriate operational levels, and operations covered by industry agreements participate in relevant industry forums. There are no operations where the rights to exercise freedom of association and collective bargaining are at significant risk.

Employee representatives, including trade unions, worker committees, health and safety committees and industry bodies, are openly engaged at appropriate levels in the organisation. Currently, there is no recognised trade union at the DBSA.

Occupational health and safety

Occupational health and safety standards are covered by prevailing legislation. The DBSA's operations conform to the principles of the International Labour Organisation's Guidelines on Occupational Health and Safety. Occupational health and safety concerns are the direct responsibility of the Chief Executive Officer. Formal health and safety committees with management and worker representatives cover all staff.

Diversity and equal opportunity

The DBSA has identified empowerment and transformation as a strategic focus area and central to its success. The Bank appreciates the competitive advantage inherent in a diverse workforce and is committed to an employee profile that reflects the demographics of the country in which it operates.

Central tenets of the Bank's approach to equality include:

- No unfair discrimination on the grounds of gender, race, religion, disability or sexual preference
- Proactive pursuit of programmes and initiatives to achieve its equality objectives
- Compliance with local legislation

Race, gender and disability are addressed in employment equity, transformation and empowerment targets in South Africa, in line with legislation. The DBSA adheres to the Department of Trade and Industry's BBBEE scorecard and achieved a level 2 rating.

Total DBSA workforce[1] by employment type, gender and designated group

	Indian		African		Coloured		White		Total		Total
Employees	F	M	F	M	F	M	F	M	F	M	F + M
Management	7	8	17	31	0	3	7	13	31	55	86
Non-managerial	16	17	207	165	21	11	84	94	328	287	615
Total	**23**	**25**	**224**	**196**	**21**	**14**	**91**	**107**	**359**	**342**	**701**
%	3	4	32	28	3	2	13	15	51	49	100

1. Includes fixed term contracts.

Equal remuneration for women and men

Remuneration and employee benefits are attractive, well structured and competitive, and are aligned with legislation.

Remuneration practices are reviewed regularly and the Bank is committed to removing unfair discrimination in pay scales. Pay differentials are disclosed in terms of employment equity legislation. A review of executive and management remuneration indicates a small variance of 6.96% in favour of males. This is linked to tenure and role and does not reflect entrenched discrimination. Male and female income levels are continually reviewed and any possible unfair anomalies are addressed.

The DBSA utilises the Hay Grading System, which can be correlated with all recognised grading systems within the marketplace. Positions are evaluated and graded in terms of the 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. Compensation is awarded to individuals in relation to their contribution. Gender and race are not taken into consideration.

Partner with our supply chain to deliver sustainable solutions

Corporate sustainability efforts have traditionally focused on an organisation's direct impacts, such as the footprint of company-owned buildings and vehicles. However, there is an increasing focus on managing indirect "scope 3" impacts as well, which relate to the sustainability of corporate supply chains, business travel, waste and procurement.

The DBSA is collaborating with its suppliers to promote environmental responsibility regarding business travel, cleaning products, and so on. The eventual aim is to integrate information about the entire value chain into its sustainability reporting systems to achieve greater visibility across the lifecycle of its products. Many of the Bank's suppliers are committed to reducing or minimising their impact on the environment, and have undertaken specific sustainability initiatives during the reporting period.

The DBSA is updating its procurement policy to allocate specific points for a demonstrated commitment to reducing or minimising the negative impact of products and services on the environment.

Improve 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 local communities is therefore substantial. The Bank supports the employment of local people and continually interacts with local stakeholders, as appropriate. Given the nature of its operations, such interaction typically relates to development matters and any possible negative impacts of projects.

The Bank contributes to the socio-economic development of the region directly through employment and paying local taxes and levies, through its socio-economic development programme, and through the DBSA Development Fund.

Corruption

The DBSA has a zero tolerance approach to dishonest, corrupt and illegal conduct. This is central to its Code of Ethics and is reflected in policies and practices that prohibit corrupt behaviour. Risks are investigated and appropriate measures taken before investing in areas where such practices may be more prevalent.

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 conduct.

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.

Induction and other staff training programmes address expected behaviour in terms of the Bank's ethics, codes, policies and procedures. Ongoing communication through employee handbooks, letters of appointment, management briefings and structured unit forum meetings reinforces our commitment to our values and expected behaviour. All new employees participate in induction training and orientation.

A whistle-blower's hotline, administered independently of the DBSA, allows the Bank to obtain reports of suspected unethical, corrupt or fraudulent activity. The DBSA's Whistle-Blowing Policy is in line with South Africa's Protected Disclosures Act, No. 26 of 2000. It ensures the confidentiality and anonymity, as requested, of whistle-blowers and others making disclosures.

To ensure that conflicts of interest are avoided, staff members are required to make a formal declaration of any direct or indirect interests in contracts or businesses. Executive management is also required to disclose conflicts of interest and gifts received.

Local communities

To assess and manage the impacts of operations on communities, the DBSA developed the Development Impact System during the past financial year, with the objective of measuring actual development against anticipated results. It is due to be rolled out in the next financial year.

The Development Impact System is fully integrated with the SAP system, as well as with other tools and systems of the Bank, such as the SAM. It therefore offers a one-stop electronic information platform across the Bank's various operating divisions. It enables secure access to data and information specific to projects registered on SAP, from which reports can be generated and analysed for management information purposes. The system will furthermore provide a baseline for assessing the sustainability and impact of interventions beyond implementation, as development targets are established in advance.

Dedicated operations evaluation specialists have been allocated to the different operating divisions of the DBSA to provide advisory support in populating the system with data. Operations evaluation administrators will assist with quality control and change management, to the benefit of the operating divisions. The system has been sponsored and project managed by ICT Business Solutions and is fully supported by the IT Helpdesk.

Once the Development Impact System is operational, all new Bank projects will be loaded on to it and Development Impact Reports will be generated electronically. All future Completion Reports will also be captured directly on to the system by the operating divisions, thus

2012 performance (continued)

enabling the comparative reporting of development results.

Public policy

Although only in its infancy, the 21st century has already presented the world with apparently intractable challenges. Choices need to be made, from the global down to the local level, to ensure a common sustainable future. New geopolitical alignments are forming to drive a transformative agenda addressing these challenges. One such grouping is that constituted by Brazil, Russia, India, China and South Africa (BRICS).

The DBSA's profile was significantly enhanced when it was announced that it would be the bank representing South Africa in the BRICS multi-country arrangements. If it is to justify the stature suggested by this international role, however, the Bank will have to demonstrate great resolve in meeting its sustainable development commitments across the widest possible range of dimensions. Whereas its mandate was previously focused on South Africa and southern Africa, the Bank now has a multilateral, continental and intercontinental remit and needs to provide sound advice to decision-makers in all these contexts.

During the initial stages of the DBSA's engagement with BRICS, the Development Planning Division has undertaken significant research and policy analysis for the South African BRICS forum. This work has informed South Africa's position and influenced the emerging arrangements on issues such as trade and governance, which are central to the long-term sustainability of the country, the region and the continent.

Transformation is central to achieving the vision of a democratic developmental state in South Africa. To this end, the DBSA has continued to support the different arms of the state, particularly the legislative and executive branches. In the legislative sphere, the Bank has done critical work for the Office of the Speaker in the House of Assembly. In the executive sphere, important work has been done for the Presidency, the Planning Commission, the Department of Performance Monitoring and Evaluation, and other national departments.

The work for the Office of the Speaker focused on the establishment of a Parliamentary Budget Office and included undertaking comparative research on best practice and motivating a preferred model. This model has been accepted and will now be implemented with ongoing support from the DBSA. The establishment of the Budget Office will enable Parliament to interrogate the strategic deployment of resources by the government, exercise its oversight role more efficiently, and monitor more effectively whether budgetary expenditure achieves the national developmental goals. In short, it should enhance the development impact of the Budget and ultimately the long-term sustainability of the economy.

Support to national departments has involved a range of initiatives to enhance government's overall delivery performance. A crucial element was the preparation of the Integrated Infrastructure Plan 2022, which guides the DBSA's engagement with the Presidential Infrastructure Coordinating Commission and the National Planning Commission. This report reviews infrastructure delivery in seven areas of the public sector, both economic and social. It analyses institutional, budgetary and political factors that affect the provision of infrastructure in the public sector and presents a framework of good practices for integrated infrastructure delivery.

Recognising that development finance institutions can and should play a critical transformative role, the DBSA took the lead in reinvigorating the DFI Forum, with a view to creating greater coherence among the institutions. The DFI Forum met with the National Planning Commission, and this important meeting produced a commitment to a closer, more constructive working relationship on the implementation of the National Development Plan.

The DBSA facilitated a similar engagement with the Presidential Review Committee on State-Owned Enterprises. In this regard, the Bank's Development Planning Division provided an issue paper on Governance of the development finance system and a policy brief on Improving the effectiveness of the development finance system.

If we are to move towards a sustainable future, we need to measure performance adequately and make appropriate changes to plans and practices. To this end, the Development Planning Division has supported the Department of Performance Monitoring and Evaluation in the Presidency on some crucial initiatives to actuate the performance agreements signed between the President and the various Ministers. The initiatives relate to the following outcomes, among others:

- Outcome 6: The preparation of a report on the State of South Africa's economic infrastructure. This report will be published jointly by the DBSA and the Presidency, and will be used to shape the policy discourse on integrated infrastructure delivery.
- Outcome 9: Assistance with rolling out the Performance Assessment Tool to municipalities. This tool, which includes jointly developed indicators, is used to assess the "health" of municipalities. The provincial Department of Cooperative Governance is now implementing the tool in a pilot phase in KwaZulu-Natal, with support from the national Department and the Department of Performance Monitoring and Evaluation.

These initiatives should lead to improved delivery and greater sustainability, by enhancing strategic understanding and consistency, and by providing better information, systems and monitoring.

The DBSA has also engaged directly with several sector departments.

The engagements with the Departments of Health, Education, Transport, Water, and Trade and Industry, among others, were guided by Memoranda of Agreement. Although each of these initiatives is unique, they have some things in common. Importantly, the Bank is offering a seamless service, ranging from the provision of inputs for improving sector knowledge and understanding (and thus programme and project preparation) to the configuration of appropriate financing and institutional solutions.

The DBSA's Development Planning Division has also reviewed the various channels and platforms it uses to engage in debate and open up wider communication on infrastructure policy issues. In this regard, the following are important:

- The annual Knowledge Week allows the main stakeholders to debate crucial issues and, importantly, to offer advice and guidance appropriate to the relevant department.
- The Infrastructure Dialogues hosted in partnership with the Presidency, the South African Cities Network and the National Business Initiative provide a platform for structured debate on pertinent infrastructure policy issues.
- The Development Southern Africa journal publishes refereed articles on developmental issues.
- The *eDigest*, a popular electronic publication, raises awareness and provides a space for debate on infrastructure policy and practice.

Anti-competitive behaviour

The DBSA does not condone anti-competitive behaviour.

Compliance

The DBSA seeks to create sustainable value for all its stakeholders and establish itself as the leader in infrastructure development. The Bank is committed to responsible business conduct and best practices. All its organisational activities are guided by an ethical governance framework and a commitment to legal compliance. The Bank upholds the principle expressed in the King III Code that good governance combines both regulatory requirements and voluntary standards of excellence.

Human rights indicators

Investment and procurement practices

The DBSA regards the advancement and protection of human rights as imperative. Respect for human rights is central to the institution's legitimacy and is dealt with in its Code of Ethics.

Non-discrimination

The fundamental principle of avoiding unfair discrimination is entrenched in the Bank's Code of Ethics. Processes have been established to ensure that any instances of unethical behaviour can be reported and addressed.

Freedom of association and collective bargaining

Collective labour relations are constructively managed in terms of the principle of freedom of association. Employees may associate (or not) with representative organisations and trade unions. Trade unions that are sufficiently representative of employees are recognised at appropriate operational levels, and operations covered by industry agreements participate in relevant industry forums.

There are no operations where the rights to exercise freedom of association and collective bargaining are at significant risk. Currently, there is no recognised trade union at the DBSA.

Child labour

The DBSA is opposed to the exploitation of children by means of child labour and this practice is contrary to the Bank's Code of Ethics and values. The Bank is not aware of any use of child labour in its supply chain nor has it identified any suppliers at risk. The Bank requires its supply chain to conform to its values and evidence to the contrary would result in appropriate action.

Prevention of forced and compulsory labour

The DBSA does not use forced and compulsory labour, which is contrary to the Bank's Code of Ethics and values. The Bank is not aware of any use of forced and compulsory labour in its supply chain nor has it identified any suppliers at risk. The Bank requires its supply chain to conform to its values and evidence to the contrary would result in appropriate action.

Security practices

The DBSA has outsourced its security arrangements to a legitimate supplier, which belongs to the relevant industry associations. As with all other suppliers, the service provider is expected to comply with the Bank's ethics and values, and with the law. DBSA employees who are responsible for security are trained in relevant practices and procedures.

Indigenous rights

The DBSA respects the rights of indigenous people as considered in the GRI definition. The Bank is not aware of any abuse of indigenous people's rights in its supply chain. The Bank requires its supply chain to conform to its values and evidence to the contrary would result in appropriate action.

Assessment

Although no specific record is currently kept of investment agreements that include human rights clauses, all such agreements are required to comply with legislation and fulfil the standards of our ethics, codes and policies, including those to which the Bank is a signatory. All agreements specifically include clauses covering employees. For any significant investment, the Bank conducts comprehensive due diligence processes, and these cover human rights issues.

A similar approach applies to suppliers and contractors. The contracts of those that do not comply are reviewed and the relationship ultimately terminated if shortcomings cannot be overcome.

Remediation

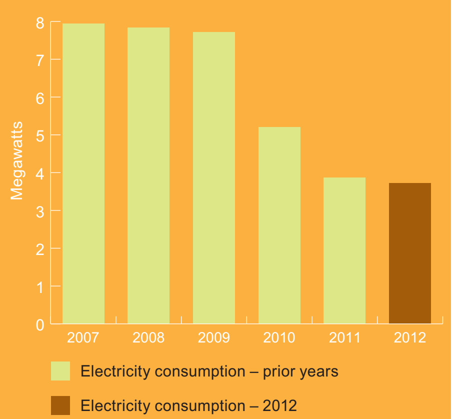
The DBSA has not needed to make reparations for any human rights violations. Should such cases occur, we would comply with the law and act in accordance with any directive issued.

2012 performance (continued)

OBJECTIVES

- Reduce our emissions of greenhouse gases and adapt to the impacts of climate change.
- Reduce the waste we generate.
- Assess and reduce our use of water.
- Source responsibly and select materials for lower environmental impact.
- Protect and enhance ecological resources.

Direct energy consumption by primary source



Environmental performance

The DBSA's strategic intent is to develop product offerings to capitalise on emerging sustainable business opportunities, realise cost savings through energy efficiency and other sustainable business practices, and enhance the Bank's reputation as a leader in sustainable infrastructure development. The Bank constantly pursues best practice in environmental management, including energy and water efficiency, recycling and waste reduction. We also form business relations with clients, partners and suppliers who maintain equally high environmental standards.

Reduce our emissions of greenhouse gases and adapt to the impacts of climate change

As a responsible corporate citizen, aligned with global imperatives, the Bank has set an aspirational target to improve its non-renewable energy efficiency by 10% in the short to medium term. Benefits include mitigating rapidly rising costs, particularly electricity costs in South Africa, organisational resilience and a reduction in greenhouse gas emissions.

These objectives are entrenched in the Bank's strategic planning processes and operations. The Bank focuses on reducing energy consumption, mainly in the form of electricity. A range of initiatives have been implemented in this regard, including timers on light switches, circuits to control air conditioning, solar geysers for water heating, and the construction of new energy-efficient office buildings on the campus.

The conservation initiatives implemented during the year resulted in the following energy savings:

- Consumption decrease of 3.88% compared to prior year
- Cost increase of 23.1% compared to prior year (would have been 28.0% without consumption saving)
- Consumption at 57.1% of average over last five years

Reduce the waste we generate

The Bank reduces its emissions indirectly by consuming less electricity. In line with our aspirational improvement target for non-renewable energy efficiency, the Group has set an aspirational 10% improvement target for greenhouse gas emissions in the short to medium term. This is entrenched in the Bank's sustainability strategy.

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

Effluents emanate mainly from routine cleaning and maintenance of the campus. All effluent is cleaned of pollutants and clean water is discharged into municipal reticulation systems. Waste material is disposed of through legitimate contractors at certified waste disposal facilities.

The Bank does not generate significant volumes of waste. All waste is monitored by type, volume, disposal method and destination. The Bank is committed to reporting all waste by weight to ensure consistency and comparability.

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

Paper recycling and smart printing programme

Good progress is being made on the programme for recycling printer paper, which was introduced in July 2011. The target for 2012 was to recycle 25% of paper used.

	2012	2011
Paper used during the period (tons)	**51.0**	54.3
Paper recycled during the year (tons)	**10.5**	8.2
Percentage recycled (%)	**20.6**	15.1

Solid waste recycling programme

Target for the year	Recycle minimum of 10 tons of solid waste during the 2012 reporting period
2012 outcome	8719 kg recycled solid waste
	87% of target
Target for the next financial year	Recycle minimum of 10 tons of solid waste during the 2013 reporting period

Assess and reduce our use of water

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

The Bank recognises that water is an increasingly scarce and critical global resource. Although its operations are not particularly water-intensive, the Bank is committed to more efficient water use by reducing consumption on the campus. It also supports various projects on enhancing the capacity of the population to adapt to water scarcity, as well as water management solutions.

2012 performance (continued)

Water conservation programme

Water-wise initiatives include the following:

- Uprooting alien vegetation
- Planting only indigenous trees
- Installing dry urinals in the men's bathrooms
- Providing staff with tips on water conservation at the office and at home

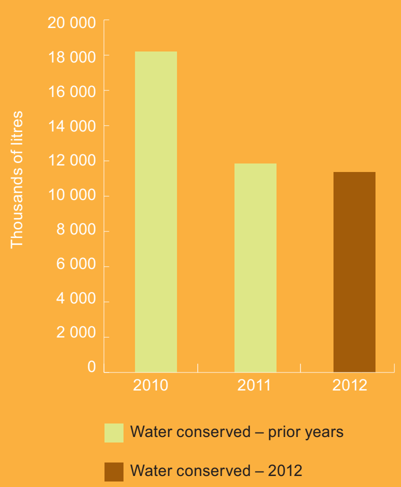
Source responsibly and select materials for lower environmental impact

The DBSA has undertaken to embed sustainability across the organisation as part of everything it does. To this end, service providers are encouraged to use high-quality, sustainable and cost-effective methods when supplying products and services to the Bank.

Protect and enhance ecological resources

The DBSA offices are located in an environmentally sensitive area. The Bank has therefore implemented a programme to protect ecological resources and habitats on its campus. In addition, it includes mandatory ecological assessments, the implementation of mitigation measures, and monitoring in its projects.

Water conservation programme



Products and services

The DBSA recognises the environmental impact of its financing and other activities. In accordance with its corporate values, it is committed to providing financing and capacity building products and services that promote environmental stewardship. The DBSA includes sustainability analyses in its reviews of project risk and opportunity, and while assisting clients with their sustainability goals during project appraisal seeks to embed the Bank's environmental programme and action plan on climate change.

Compliance

As stated in the Bank's Code of Ethics, we strive to conduct our activities as a responsible corporate citizen.

Transport

Aside from emissions caused by air travel and business vehicle trips, the Bank recognises the potential for accidents during transportation and therefore encourages and supports safety initiatives in this regard.

Report parameters

All data in this report was collected and reported with the help of our Sustainability Performance Management System, in combination with other non-automated methods. The data was received from different sources:

- The emissions and other environmental data was collected and analysed with the help of the Sustainability Performance Management System.
- All financial data was collected and reported with the help of the SAP ERP Financials, according to the International Financial Reporting Standards.
- Shared services data is collected and maintained by the SAP ERP Human Capital Management solution.
- The full-time or permanent employee headcount is defined as employees whose contract of employment does not have an expiry or end date. Full-time employees work 160 normal working hours per month. Part-time employees work less than 160 hours per month and are not permanently employed by the DBSA. Their contracts usually have an expiry or end date. Fixed-term contractors are employees who are appointed for a fixed period. Their contracts have a start and end date. They typically work for 160 hours per month. Temporary workers are employed through an agency to fill a temporarily vacant position.
- The DBSA's BBBEE figures are verified externally by the National Empowerment Rating Agency, which issues a certificate that is valid for one year from the date of issuance. The calculations are based on actual figures and never include estimates. The verification is based on the following assumptions:
  - The employment equity figures are set when the verification is performed; therefore, changes during the year are not taken into account.
  - For the procurement pillar and other monetary pillars, a 12-month period is used. In the DBSA's case, the financial year is used to perform calculations and determine the score.
- All environmental numbers are based on the metric system.
- Our subject matter experts, who have responsibilities for their area of expertise, are involved in providing and reviewing data and content for this report.

GRI content index

Based on its own assessment, the DBSA has followed the B application level of the GRI guidelines.

Profile disclosure	Description	Reported	Cross-reference/Direct answer
1.	**Strategy and analysis**		
1.1	Statement from the most senior decision-maker of the organisation	Fully	Refer to page 234
1.2	Description of key impacts, risks and opportunities	Fully	Refer to page 237
2.	**Organisational profile**		
2.1	Name of the organisation	Fully	Development Bank of Southern Africa
2.2	Primary brands, products and/or services	Fully	Refer to page 1
2.3	Operational structure	Fully	Refer to page 16
2.4	Location of organisation's headquarters	Fully	The DBSA operates from its offices in Midrand, Gauteng.
2.5	Countries where the organisation operates	Fully	The Bank is active in all SADC countries, where it finances infrastructure projects and stimulates the growth sectors driving the economic development of these nations. Refer to page 45
2.6	Nature of ownership and legal form	Fully	The DBSA is constituted in terms of the Development Bank of Southern Africa Act, No. 13 of 1997, supplemented by Regulations made by the Minister of Finance. The Bank is exempt from the Companies Act, 1973, and is not subject to the Banks Act, 1990, except for those provisions that the Minister may apply or modify as s/he deems fit by notice in the *Government Gazette*.
2.7	Markets served	Fully	Refer to pages 33, 38, 45
2.8	Scale of the reporting organisation	Fully	Refer to page 4 and to Directors' report on pages 84 to 89
2.9	Significant changes during the reporting period regarding size, structure or ownership	Fully	There were no significant changes regarding size, structure or ownership, including location or changes in operations, such as facility openings, closings and expansions, during the year under review.
2.10	Awards received in the reporting period	Fully	No awards were received during the reporting period.
3.	**Report parameters**		
3.1	Reporting period for information provided	Fully	This report relates to the financial year starting on 1 April 2011 and ending on 31 March 2012.
3.2	Date of most recent previous report	Fully	31 March 2011
3.3	Reporting cycle	Fully	Annual
3.4	Contact point for questions regarding the report or its contents	Fully	Feedback on this report is welcomed. The Office of the Group Chief Financial Officer may be contacted in this regard.
3.5	Process for defining report content	Fully	Information included in this sustainability report covers topics and indicators reflecting the DBSA's significant economic, environmental and social impacts that could substantively influence the assessment and decisions of important stakeholders. Material sustainability matters were further prioritised, based on the main sustainability interests raised by stakeholders and on key organisational values (refer to pages 237 to 241). The DBSA's main stakeholders are defined as entities or individuals who can reasonably be expected to be significantly affected by the Bank's activities, products or services, and whose actions can reasonably be expected to affect the ability of the DBSA to implement its strategies successfully and achieve its objectives.

Profile disclosure	Description	Reported	Cross-reference/Direct answer
3.6	Boundary of the report	Fully	The report covers the activities of the DBSA and the DBSA Development Fund.
3.7	Any specific limitations on the scope or boundary of the report	Fully	There were no specific limitations on the scope or boundary of the report.
3.8	Basis for reporting that can significantly affect comparability of the report	Fully	The DBSA Development Fund is included in the boundary of this sustainability report because it generates substantial sustainability impacts and because the DBSA exercises significant influence over its financial and operating policies and practices.
3.9	Data measurement techniques and the bases of calculations	Fully	Refer to page 236
3.10	The effect of and reason for any restatements of information provided in earlier reports	Fully	No information included in previous reports was restated in this report.
3.11	Significant changes from previous reporting periods	Fully	There were no significant changes from previous reporting periods in the scope, boundary or measurement methods applied in the report.
3.12	Table identifying the location of the standard disclosures in the report	Fully	Refer to page 264
3.13	Policy and current practice with regard to seeking external assurance for the report	Fully	This report is not externally assured. We are in the process of implementing internal sustainability management processes and protocols in order to be fully in line with the GRI. Data is audited internally before publication.
4.	**Governance, commitments and engagement**		
4.1	Governance structure of the organisation	Fully	Refer to page 55
4.2	Indicate whether the Chair of the highest governance body is also an executive officer	Fully	The Chairman of the Board of Directors is a non-executive officer.
4.3	The number of members of the highest governance body that are independent and/or non-executive members	Fully	Refer to page 55
4.4	Mechanisms for shareholders and employees to provide recommendations or direction to the highest governance body	Fully	Refer to page 55 for shareholder representation and page 60 for staff engagement.
4.5	Linkage between compensation for members of the highest governance body and the organisation's performance	Fully	Refer to pages 57 and 89
4.6	Processes in place to ensure conflicts of interest are avoided	Fully	Refer to page 57
4.7	Qualifications of Board of Directors for guiding the organisation's strategy on economic, environmental and social topics	Fully	Refer to pages 9 and 55

GRI content index *(continued)*

Profile disclosure	Description	Reported	Cross-reference/Direct answer
4.8	Statements of mission or values, codes of conduct	Fully	The DBSA's sustainability vision is to meet the needs of our clients and the community in a sustainable manner, for the benefit of society and without compromising the quality of life of future generations. The sustainability mission expresses the essence of what we would like to accomplish. In pursuit of our sustainability vision, we strive to improve the economic, social and environmental conditions of our main stakeholders; to provide our clients with compelling reasons why the DBSA should be the development finance institution of choice; to give our people good reasons why they should invest their working lives at the DBSA; to provide communities with sound reasons why they should trust and engage with the DBSA; to assure the government that the DBSA can deliver on its promises; and to give our investors sound reasons why they should invest in the DBSA.
4.9	Procedures of the highest governance body for overseeing the organisation's economic, environmental and social performance	Fully	Refer to page 55
4.10	Processes for evaluating the performance of the Board of Directors	Fully	Refer to the Directors' report on pages 84 to 89
4.11	Addressing precautionary approach	Fully	Although our environmental and social principles are based on the sense of social responsibility at the heart of the DBSA's mandate, we have not formally adopted the precautionary approach or principle. For more detail on the DBSA's risk management, refer to the Risk management overview on page 48 of the Annual Report.
4.12	Participation in externally developed initiatives	Fully	The DBSA is aligned with and supports all the relevant environmental legislation in South Africa and in the SADC region that is applicable to its projects. The Bank is aligned with the principles of the International Finance Corporation and relies on the World Bank standards in the event that such standards are required. The DBSA subscribes to the Corporate Governance Development Framework for integrating corporate governance into investment operations as well as the AADFI Prudential Standards Guidelines and Rating Systems.
4.13	Memberships in associations	Fully	Refer to page 244
4.14	List of stakeholder groups engaged by the organisation	Fully	Refer to page 245
4.15	Basis for identification and selection of stakeholders with whom to engage	Fully	Refer to page 245
4.16	Approaches to stakeholder engagement	Fully	Refer to page 245
4.17	Key topics and concerns that have been raised through stakeholder engagement	Fully	Refer to page 245

Profile disclosure	Description	Reported	Cross-reference/Direct answer
DMA PS	**Disclosure on management approach: Products and services**		
FS1	Policies with specific environmental and social components applied to business lines	Partially	All DBSA projects undergo a comprehensive appraisal to assess risks, including strategic, legal, environmental, social and reputational risks, to ensure that the Bank's intervention is sustainable and the intended development objectives are achieved.
FS3	Processes for monitoring clients' implementation of and compliance with environmental and social requirements included in agreements or transactions	Partially	All projects have identified milestones that are traced for progress. Each lending division has dedicated portfolio management teams responsible for establishing a monitoring plan for each project, based on risks assessed at appraisal. They regularly follow up on milestones, covenants and other requirements against the plan.
DMA EC	**Disclosure on management approach: Economic**		
Aspects	Economic performance	Fully	Refer to page 250
	Market presence	Fully	Refer to page 251
	Indirect economic impacts	Fully	Refer to page 251
DMA EN	**Disclosure on management approach: Environmental**		
Aspects	Materials	Fully	Refer to page 262
	Energy	Fully	Refer to page 260
	Water	Fully	Refer to page 261
	Biodiversity	Fully	Refer to page 262
	Emissions, effluents and waste	Fully	Refer to page 260
	Products and services	Fully	Refer to page 262
	Compliance	Fully	Refer to page 262
	Transport	Fully	Refer to page 262
	Overall	Fully	Refer to page 262
DMA LA	**Disclosure on management approach: Labour**		
Aspects	Employment	Fully	Refer to page 254
	Labour-management relations	Fully	Refer to page 256
	Occupational health and safety	Fully	Refer to page 256
	Training and education	Fully	Refer to page 255
	Diversity and equal opportunity	Fully	Refer to page 256
	Equal remuneration for women and men	Fully	Refer to page 256
DMA HR	**Disclosure on management approach: Human rights**		
Aspects	Investment and procurement practices	Fully	Refer to page 259
	Non-discrimination	Fully	Refer to page 259
	Freedom of association and collective bargaining	Fully	Refer to page 259
	Child labour	Fully	Refer to page 259
	Prevention of forced and compulsory labour	Fully	Refer to page 259
	Security practices	Fully	Refer to page 259
	Indigenous rights	Fully	Refer to page 259

GRI content index *(continued)*

Profile disclosure	Description	Reported	Cross-reference/Direct answer
	Assessment	Fully	Refer to page 259
	Remediation	Fully	Refer to page 259
DMA SO	**Disclosure on management approach: Society**		
Aspects	Local communities	Fully	Refer to page 257
	Corruption	Fully	Refer to page 257
	Public policy	Fully	Refer to page 258
	Anti-competitive behaviour	Fully	Refer to page 259
	Compliance	Fully	Refer to page 259
DMA PR	**Disclosure on management approach: Product responsibility**		
Aspects	Customer health and safety	Fully	Refer to page 251
	Product and service labelling	Not	Not applicable
FS15	Policies for the fair design and sale of financial products and services	Fully	Refer to page 251
	Marketing communications	Fully	Refer to page 251
	Customer privacy	Fully	Refer to page 252
Performance indicators			
	Economic		
EC1	Direct economic value generated and distributed	Fully	Refer to page 250
EC6	Policy, practices and proportion of spending on locally based suppliers	Fully	Refer to page 250
EC7	Procedures for local hiring of senior management	Fully	The DBSA is committed to equal and fair employment opportunities for all. It is equally committed to creating an environment that generates opportunities for advancement, redresses past imbalances and improves the conditions of individuals and groups who have been previously disadvantaged on the grounds of race, gender and disability. In promoting organisational policies and practices that are fair and equitable, the DBSA affirms its commitment to complying with the spirit of the Employment Equity Act to the strategic benefit of the Bank.
EC8	Development and impact of infrastructure investments and services	Fully	Refer to page 25
	Environmental		
EN1	Materials used by weight or volume	Fully	Refer to page 261
EN3	Direct energy consumption by primary source	Partially	Refer to page 260
EN5	Energy saved due to conservation and efficiency improvements	Fully	Refer to page 260
EN7	Initiatives to reduce indirect energy consumption (internal)	Fully	Refer to page 260
EN8	Total water withdrawal by source	Fully	Refer to page 261

Profile disclosure	Description	Reported	Cross-reference/Direct answer
EN11	Location and size of land managed in, or adjacent to, sensitive areas (internal)	Fully	The DBSA is situated in Midrand, west of the N1 Highway between Samrand Road and Olifantsfontein Road (R562). The site is classified as Egoli Granite Grassland and is considered sensitive, with Archaean granite and gneiss of the Halfway House Granite at the core of the Johannesburg Dome supporting leached, shallow, coarsely grained, sandy soil poor in nutrients. The 24 ha (246 125 m^2) site consists mainly of open natural grassland, dominated by Hyparrhenia hirta grass surrounded by development and roads. The vegetation type of this site is Egoli Granite Grassland of the Mesic Highveld Grassland Bioregion with Hyparrhenia the dominant species. This grassland falls within a strongly seasonal summer rainfall region, which has very dry winters with frequent frosts. The site is relatively small and ecologically isolated and has 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 vary 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.
EN13	Habitats protected or restored	Fully	Areas of the DBSA campus are ecologically sensitive and are consequently protected. The Bank also strives to minimise the negative environmental impact of the projects and programmes it supports.
EN18	Initiatives to reduce greenhouse gas emissions and reductions achieved	Partially	Refer to page 260
EN22	Total weight of waste by type and disposal method	Fully	Refer to page 261
EN26	Initiatives to mitigate environmental impacts of products and services	Partially	Refer to page 262
	Social: Labour practices and decent work		
LA2	Employee turnover (internal)	Partially	Refer to page 60
LA11	Programmes for skills management and lifelong learning (internal)	Partially	Refer to page 255
LA12	Regular performance and career development reviews (internal)	Fully	All DBSA employees receive regular performance and career development reviews.
LA13	Composition of governance bodies and employees according to gender, age, etc. (internal)	Partially	Refer to page 256
LA14	Salary levels of men to women (internal)	Partially	Refer to page 256

GRI content index *(continued)*

Profile disclosure	Description	Reported	Cross-reference/Direct answer
	Social: Human rights		
HR4	Total number of incidents of discrimination and corrective actions taken (internal)	Fully	No incidents of discrimination were reported during the period under review.
HR5	Actions taken to secure freedom of association	Fully	No violations were identified.
HR6	Measures taken to prevent child labour	Fully	No violations were identified.
HR7	Measures taken to contribute to the elimination of forced or compulsory labour	Fully	No violations were identified.
HR9	Violation of rights of indigenous people and actions taken	Fully	No violations were identified.
HR10	Operations that have been subject to human rights reviews	Fully	None
HR11	Grievances related to human rights filed, addressed and resolved	Fully	None
	Social: Society		
SO1 (FSSS)	Policy to assess and manage the impacts of operations on communities	Fully	Refer to page 257
SO5	Public policy positions and participation in public policy development	Fully	Refer to page 258
	Social: Product responsibility		
PR6	Programmes for adherence to laws, standards, and voluntary codes related to marketing communications, including advertising, promotion and sponsorships	Fully	Refer to page 251

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HKLM

Headway Hill, 1258 Lever Road,
Midrand, South Africa
PO Box 1234, Halfway House,
1685, South Africa

Telephone: +27 11 313 3911
Fax: +27 11 313 3086

www.dbsa.org