Development Bank of Southern Africa

2017 ANNUAL FINANCIAL STATEMENTS

DRIVING INVESTMENT IN INFRASTRUCTURE

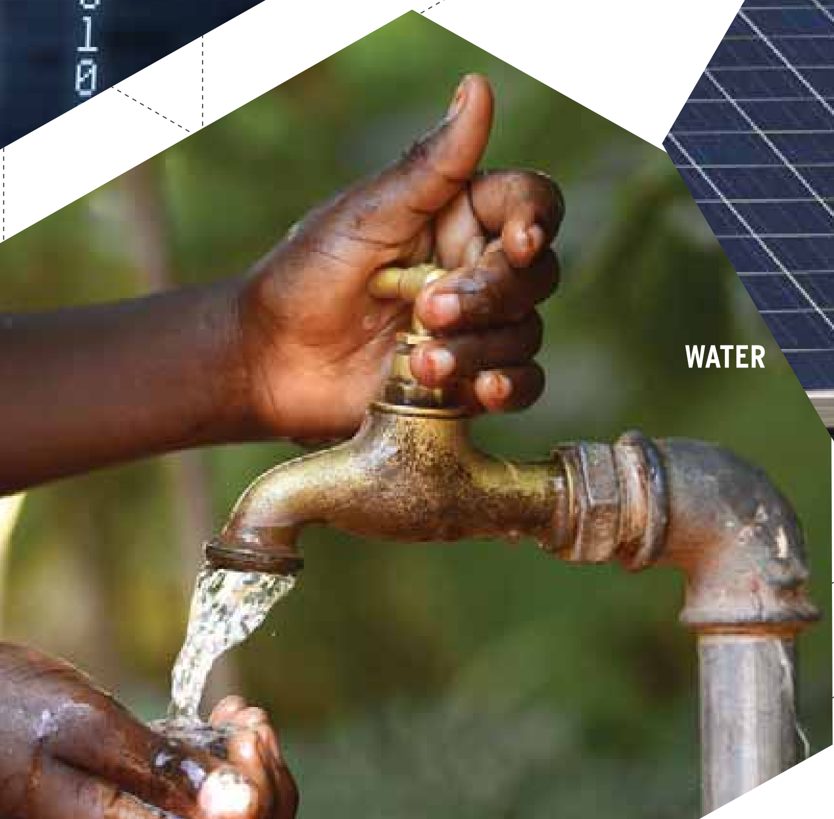
COMMITTED TO DEVELOPING ECONOMIC AND SOCIAL INFRASTRUCTURE IN SOUTH AFRICA AND THE REST OF AFRICA


HOUSING


EDUCATION


ICT

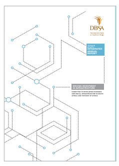

ENERGY


WATER

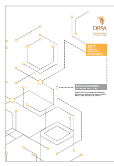
CONTENTS

The reports and statements set out below comprise the Annual Financial Statements presented to the shareholder:

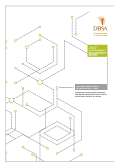
OUR REPORTING SUITE FOR 2017 CONSISTS OF THREE REPORTS



THE 2017 INTEGRATED ANNUAL REPORT, WHICH IS OUR PRIMARY COMMUNICATION WITH OUR STAKEHOLDERS.



THESE 2017 ANNUAL FINANCIAL STATEMENTS, WHICH INCLUDE THE DIRECTORS' REPORT AND THE INDEPENDENT AUDITOR'S REPORT.



THE 2017 SUSTAINABILITY REVIEW, WHICH PROVIDES FURTHER INFORMATION ON OUR SUSTAINABILITY PERFORMANCE.

DIRECTORS' RESPONSIBILITY FOR FINANCIAL REPORTING

FOR THE YEAR ENDED 31 MARCH 2017

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

In preparing the Annual Financial Statements:

- The Development Bank of Southern Africa Act, No 13 of 1997 (Amended Act No 41 of 2014) has been adhered to;
- The Public Finance Management Act, No 1 of 1999 (PFMA) has been adhered to;
- International Financial Reporting Standards have been adhered to; and
- Sections 27 to 31 of the Companies Act of South Africa, No 71 of 2008 being the relevant and corresponding sections of those specified in the 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 Annual Financial Statements and to safeguard, verify and maintain the accountability of the Bank's assets;
- Appropriate accounting policies, supported by reasonable and prudent judgements and estimates, are applied on a consistent and going-concern basis; and
- The Audit and Risk Committee as well as the internal auditors review the financial and internal control systems, accounting policies, reporting and disclosure.

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

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

The Annual Financial Statements that appear on pages 11 to 68 were approved by the Board of Directors on 22 June 2017 and signed on its behalf by:

Phillip Jabulani Moleketi
Chairman of the Board

Patrick Khulekani Dlamini
Chief Executive Officer

Gugu Mtetwa
Chairperson of the Audit and Risk Committee

INDEPENDENT AUDITOR'S REPORT TO THOSE CHARGED WITH GOVERNANCE OF THE DEVELOPMENT BANK OF SOUTHERN AFRICA

FOR THE YEAR ENDED 31 MARCH 2017

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

OPINION

We have audited the financial statements of the Development Bank of Southern Africa set out on pages 7 to 68, which comprise the statement of financial position as at 31 March 2017, and the statement of comprehensive income and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and the notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Development Bank of Southern Africa as at 31 March 2017, 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, No 1 of 1999 (PFMA), Companies Act of South Africa, No 71 of 2008 (Companies Act) and Development Bank of Southern Africa Act, No 13 of 1997 (Amended Act No 41 of 2014) (DBSA Act).

BASIS OF OPINION

We conducted our audit in accordance with the International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *auditor's responsibilities for the audit of the financial statements* section of our report. We are independent of the entity in accordance with the Independent Regulatory Board for Auditors *Code of Professional Conduct for Registered Auditors (IRBA Code)* and other independence requirements applicable to performing audits of financial statements in South Africa. We have fulfilled our other ethical responsibilities in accordance with the IRBA Code and in accordance with other ethical requirements applicable to performing audits in South Africa. The IRBA Code is consistent with the International Ethics Standards Board for Accountants *Code of Ethics for Professional Accountants* (Parts A and B). We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

No.	Key audit matter	Description of key audit matter	How the matter was addressed in the audit
1	Allowance for credit losses on development loans	The allowance for credit losses on the development loans inherently contains a significant amount of estimation uncertainty as significant judgement is required of management regarding inputs into the calculation. Therefore, due to the significance of the management judgements in the allowance for credit losses calculation and the magnitude of development loans, the allowance for credit losses was considered a matter of most significance in our audit. The disclosure associated to the allowance for credit losses on development loans is set out in the following notes: • Note 13 – Development loans • Note 35 – Net impairment loss on financial assets • Note 43 – Risk management	Our audit procedures included considering the appropriateness of the allowance for credit losses in terms of the requirements of International Accounting Standard 39: Financial Instruments (IAS 39). Our audit procedures focused on the significant inputs used by management in their calculation. We obtained an understanding and tested the relevant internal controls over the allowance for credit losses calculations. We assessed the appropriateness of the model and assumptions used that impacted the calculation. We found management's model and assumptions to be reasonable and consistent with our expectations. We recalculated the allowance for credit losses for a sample of development loans utilising the same assumptions used by management and determined management's estimates to be within a reasonable range to our expectations. Where specific impairments have been raised, we considered the impairment indicators, uncertainties and assumptions applied by management for both performing and non-performing loans, and their assessment of the recoverability and supporting collateral. We found management's estimate to be within a reasonable range to our expectations.

INDEPENDENT AUDITOR'S REPORT TO THOSE CHARGED WITH GOVERNANCE OF THE DEVELOPMENT BANK OF SOUTHERN AFRICA CONTINUED

FOR THE YEAR ENDED 31 MARCH 2017

No.	Key audit matter	Description of key audit matter	How the matter was addressed in the audit
2	Valuation of complex financial instruments at fair value	The valuation of complex instruments at fair value, such as investment securities, equity investments (both listed equities and unlisted private equity funds), debt securities and derivatives, require judgement and estimation to determine the appropriate value. Judgement is required to determine the appropriate valuation techniques and to source the relevant and reliable input. Therefore, due to the significant management judgements applied, the valuation of complex instruments at fair value is considered a matter of significance in our audit. The disclosure associated to the complex instruments is set out in the following notes: • Note 7 – Investment securities • Note 8 – Derivative assets and liabilities held for risk management • Note 10 – Equity Investments • Note 11 – Fair value hierarchy disclosures • Note 19 – Debt securities	Our audit procedures included considering the appropriateness of the valuation techniques utilised in terms of the requirements of International Accounting Standard 39: Financial Instruments (IAS 39). We assessed the appropriateness of the valuation model with reference to approaches commonly used. We also assessed the judgements and estimates applied by management against our understanding of current market practice and conditions. We also obtained independently sourced inputs where they were available. We found management's valuation to be within a reasonable range to our expectation. Where valuation inputs are unobservable, we used our valuation expertise to assess the reasonability of the valuation inputs based on supportable and comparable information and conducted a comparison of these to management's valuation inputs. We accepted management's valuation inputs to be within a reasonable range to our expectations.
3	Valuation of financial instruments at amortised cost	The valuation of financial instruments held at amortised cost, such as development loans, development bonds, debt securities and lines of credit, is significant in the audit. Therefore, due to the magnitude of the financial instruments held at amortised cost, the valuation thereof was considered a matter of significance in our audit. The disclosure associated to the complex instruments is set out in the following notes: • Note 12 – Development bonds • Note 13 – Development loans • Note 19 – Debt securities • Note 20 – Lines of credit	Our audit procedures included considering the appropriateness of the subsequent measurement basis utilised is in terms of the requirements of International Accounting Standard 39: Financial Instruments (IAS 39). We assessed contracts entered into for the financial instruments to confirm the appropriate accounting thereof. Interest was recalculated on a sample basis using the effective interested rate. A sample of disbursements and repayments were confirmed to supporting documents and considered for appropriate accounting. Majority of the financial instruments were confirmed with third parties at year-end. Based on the work performed, we consider valuation of financial instruments at amortised cost appropriate.

OTHER INFORMATION

The accounting authority is responsible for the other information. The other information comprises the information included in the published Annual Financial Statements which includes the Director's Report as required by section 27 to 31 of the Companies Act of South Africa, No 71 of 2008 (Companies Act), being the relevant and corresponding sections of those specified in the Development Bank of Southern Africa Act, No 13 of 1997 (Amended Act No 41 of 2014) and the Audit and Risk Committee's Report. The other information does not include the financial statements, the auditor's report thereon and those selected objectives presented in the annual performance report that have been specifically reported on in the auditor's report.

Our opinion on the financial statements and findings on the reported performance information and compliance with legislation do not cover the other information and we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements and the selected objectives presented in the annual performance report, or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF ACCOUNTING AUTHORITY FOR THE FINANCIAL STATEMENTS

The accounting authority is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards, the requirements of the Public Finance Management Act, No 1 of 1999, sections 27 to 31 of the Companies Act, being the relevant and corresponding sections of those specified in the Development Bank of Southern Africa Act (DBSA Act), No 13 of 1997 (Amended Act No 41 of 2014) 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.

In preparing the financial statements, the accounting authority is responsible for assessing the entity's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the accounting authority either intends to liquidate the entity or to cease operations, or has no realistic alternative but to do so.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

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

As part of an audit in accordance with the International Standards on Auditing, we exercise professional judgement and maintain professional scepticism throughout our audit of the financial statements, and the procedures performed on reported performance information for selected objectives and on the Development Bank of Southern Africa's compliance with respect to the selected subject matters.

In addition to our responsibility for the audit of the financial statements as described in the auditor's report, we also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the accounting authority.
- Conclude on the appropriateness of the accounting authority's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on Development Bank of Southern Africa's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements about the material uncertainty or, if such disclosures are inadequate, to modify the opinion on the financial statements. Our conclusions are based on the information available to us at the date of the auditor's report. However, future events or conditions may cause the entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the audit. We remain solely responsible for our audit opinion.

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

We also provide the accounting authority with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and, where applicable, related safeguards.

From the matters communicated with the accounting authority, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

REPORT ON THE AUDIT OF THE ANNUAL PERFORMANCE REPORT

INTRODUCTION AND SCOPE

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

Our procedures address the reported performance information, which must be based on the approved performance planning documents of the entity. We have not evaluated the completeness and appropriateness of the performance indicators established and included in the planning documents. Our procedures also did not extend to any disclosures or assertions relating to planned performance strategies and information relating to future periods that may be included as part of the reported performance information. Accordingly our findings do not extend to these matters.

We evaluated the usefulness and reliability of the reported performance information in accordance with the criteria developed from the performance management and reporting framework, as defined in the general notice, for the following selected objectives presented in the annual performance report of the entity for the year ended 31 March 2017:

Objectives	Pages in the annual performance report
Sustained growth in development impact	8
Maintain financial sustainability	8
Create and maintain a high performance culture	8

INDEPENDENT AUDITOR'S REPORT TO THOSE CHARGED WITH GOVERNANCE OF THE DEVELOPMENT BANK OF SOUTHERN AFRICA CONTINUED

FOR THE YEAR ENDED 31 MARCH 2017

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

We did not identify any material findings on the usefulness and reliability of the reported performance information for the following objectives:

- Sustained growth in development impact
- Maintain financial sustainability
- Create and maintain a high performance culture

REPORT ON THE AUDIT OF COMPLIANCE WITH LEGISLATION

INTRODUCTION AND SCOPE

In accordance with the Public Audit Act of South Africa, No 25 of 2004 and the general notice issued in terms thereof, we have a responsibility to report material findings on the compliance of the entity with specific matters in key legislation. We performed procedures to identify findings but not to gather evidence to express assurance.

We did not find any material findings on compliance with applicable legislation.

INTERNAL CONTROL DEFICIENCIES

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

AUDITOR TENURE

In terms of the IRBA rule published in Government Gazette Number 39475 dated 4 December 2015, we report that Nkonki Inc. has been the auditor of the Development Bank of Southern Africa for five years.

Nkonki Inc.

Nkonki Inc.
Sangeeta Kallen CA(SA)
Executive: Assurance
Registered Auditor

22 June 2017

1 Simba Road
Sunninghill
Johannesburg
2157

DIRECTORS' REPORT
FOR THE YEAR ENDED 31 MARCH 2017

The directors have pleasure in presenting this report on the Annual Financial Statements of the Development Bank of Southern Africa (DBSA) for the year ended 31 March 2017.

1. NATURE OF BUSINESS

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

There have been no material changes to the nature of the company's business from the prior year.

2. CORPORATE GOVERNANCE

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

3. FINANCIAL RESULTS AND ACTIVITIES

The financial results of the Bank are fully disclosed on pages 11 to 68. The key financial indicators for the year under review are:

- Sustainable earnings rose to R3.6 billion (2016: R1.4 billion) on the back of an increase in the net interest income to R3.7 billion (2016: R3.2 billion), an increase in equity gain realised of R655 million (2016: R44 million) and decrease in impairments charge of R339 million (2016: R1.4 billion).
- Cost-to-Income ratio decreased to 18.8% (2016: 28.7%). The decrease is due to the combination of an increase in net interest income and a decrease in operating expenses.
- DBSA achieved a net profit of R2.8 billion (2016: R2.6 billion).
- Development loans, development bonds and equity investments disbursed decreased by 27% to R12.4 billion (2016: R17.1 billion).
- Despite the increase of impairment provision of 10% to R4.2 billion, the quality of loan book remains healthy. This is further contributed by 3.3% of non-performing loans in relation to the entire book.
- Debt-to-equity ratio improved to 158.1% (2016: 177.8%).

Summarised information on the financial performance of the Bank is included in the unaudited financial overview section on pages 74 to 82 of the Integrated Annual Report.

4. HIGH-LEVEL PERFORMANCE OVERVIEW

The DBSA's strategy highlights the importance of achieving development impact while maintaining financial sustainability. The Balanced Scorecard (BSC) methodology is utilised to implement and monitor strategy. To this end, the Board approves the corporate strategic objectives and targets. The table overleaf compares the planned and related actual performance on the high-level corporate strategic objectives for 2017.

The Bank continued to achieve good results for the year under review, meeting more than half of its strategic objectives whilst the targets for the following key performance indicators were not met:

- Disbursements to metro and secondary municipalities: The underperformance was largely attributed to municipalities not coming to the market to seek funding. The ability to convert the approved bridging projects remains a challenge.
- Disbursement to fund social and economic infrastructure: The underperformance was largely attributed to the non-materialisation of various planned infrastructure projects and a strong competition in the market.
- Disbursement to the SADC region (excluding South Africa): Infrastructure development and financing in the region is complex and time-consuming and can take a number of years to reach financial close, thus impacting the ability to disburse. The conversion of approval to disbursements took longer than anticipated. The challenging macro-economic conditions impact the ability to provide cost-effective funding.
- Value of projects prepared and committed by DBSA: The underperformance was mainly as the result of the delay in concluding the Power Purchase Agreements for the IPP programme and delays in procurement of rolling stock for Gautrain Phase 1 extension which will reach financial closure during 2018.
- Value of funds under management: The underperformance was mainly as a result of the delays from government departments in releasing funds of the programmes that the DBSA is managing as per the agreed project schedule.
- Cost-to-income for Infrastructure Delivery Division: The main reason for the underperformance was as a result of expenses remaining high as the Infrastructure Delivery Division struggled to raise sufficient income to cover its costs for the last four months of the financial year.

DIRECTORS' REPORT CONTINUED
FOR THE YEAR ENDED 31 MARCH 2017

PERFORMANCE INFORMATION

Strategic objective	Key performance indicator	Target	Results
Sustained growth in development impact	**Total infrastructure financing**	**R16 400 million**	**R12 403 million**
	South Africa	**R12 800 million**	**R8 683 million**
	Municipalities	**R6 000 million**	**R5 555 million**
	• Metropolitan cities	R4 800 million	R4 476 million
	• Secondary municipalities	R1 000 million	R839 million
	• Under-resourced municipalities	R200 million	R240 million
	Social infrastructure	**R1 200 million**	**R433 million**
	Economic infrastructure	**R5 600 million**	**R2 695 million**
	Outside South Africa	**R3 600 million**	**R3 720 million**
	of which SADC (excluding RSA)	R2 500 million	R1 853 million
	Project preparation		
	• Value of projects prepared and committed	R9 000 million	R585 million
	Value of third party funds catalysed (based on committed) by DBSA		
	• South Africa	R2 000 million	R7 150 million
	• Rest of SADC	R3 600 million	R24 700 million
	Implementation and delivery support programmes		
	• Value of funds under management	R4 200 million	R3 314 million
Integrated infrastructure solutions provider	**Client and partnership satisfaction**	Conduct survey (4 rating out of 5)	Rating of 3.9 out of 5
Maintain financial sustainability	Sustainable earnings	R1 092 million	R3 564 million
	Net interest margin	40.9%	49.8%
	Non-interest income	R250 million	R278 million
Create and maintain a high performance culture	Retention of critical staff members	85%	89%
	Reduction in the DBSA's entropy score	3% improvement from 2015/16 results	5% improvement from 2015/16 results
Continuous improvement of internal systems and processes	Cost-to-income ratio: Financing business	35%	15%
	Cost-to-income ratio: Infrastructure Delivery Division	95%	128%
	Balance sheet capacity: Capital management	Capital management strategy/framework approved	Capital management strategy and framework has been approved
	Innovation	Approval of an innovative concept/product	Four innovative concepts have been approved

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

6. SHARE CAPITAL
Authorised capital amounts to R20.2 billion, which is divided into 2.02 million ordinary shares of R10 000 each. The authority of the Board to increase the share capital (after consultation with the shareholder) is limited to the issued share capital and only the Minister of Finance has authority to adjust the authorised share capital, after consultation with the Board.

7. AUTHORISED CAPITAL
2 020 000 ordinary shares (2016: 2 020 000) at par value of R10 000 each.

8. CALLABLE CAPITAL (AUTHORISED BUT UNISSUED SHARE CAPITAL)
2 000 000 ordinary shares (2016: 2 000 000) at a par value of R10 000 each.

9. ISSUED CAPITAL
20 000 ordinary shares (2016: 20 000) at par value of R10 000 each.

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

11. BORROWING POWERS

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

12. DIRECTORATE AND SECRETARIAT

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

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

Name	Position	Number of terms served (including current term)	Current service contract	
			From	To
Current				
Mr PJ Moleketi	Independent Non-executive Chairperson	3	1 January 2016	31 December 2018
Mr FM Baleni	Independent Non-executive Deputy Chairperson	3	1 January 2016	31 December 2018
Mr PK Dlamini	Chief Executive Officer and Managing Director	Not applicable	1 September 2012	31 August 2017
Dr L Bhengu-Baloyi[2]	Independent Non-executive Director	2	1 August 2014	31 July 2017
Ms M Janse van Rensburg	Independent Non-executive Director	1	1 January 2016	31 December 2018
Ms B Mabuza[2]	Independent Non-executive Director	2	1 August 2014	31 July 2017
Ms D Marole[2]	Independent Non-executive Director	2	1 August 2014	31 July 2017
Mr A Moloto[2]	Independent Non-executive Director	1	1 August 2014	31 July 2017
Ms G Mtetwa[3]	Independent Non-executive Director	1	1 August 2014	31 July 2017
Ms K Naidoo[4]	Chief Financial Officer	Not applicable	1 January 2013	Until such time she ceases to hold the office as CFO
Ms M Nqaleni	Non-executive Director (shareholder representative)	1	1 January 2016	31 December 2018
Ms A Singh[3]	Independent Non-executive Director	1	1 August 2014	31 July 2017
Prof M Swilling[3]	Independent Non-executive Director	1	1 August 2014	31 July 2017
During the year				
Ms T Dingaan[1]	Independent Non-executive Director	3	1 August 2013	31 May 2016

1. *Board term ended with effect from 31 May 2016.*
2. *Board term ended with effect from 31 July 2017.*
3. *Board term renewed with effect from 1 August 2017 until 31 July 2020.*
4. *Resigned with effect from 31 August 2017.*

The details of the directors' interests in related party transactions and directors' emoluments are set out in notes 42 and 45 respectively of the Annual Financial Statements. The governance structure is detailed on page 33 of the Integrated Annual Report.

13. REMUNERATION POLICY

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

14. BUSINESS AND REGISTERED ADDRESS

The Bank's business and registered address details appear on page 71.

DIRECTORS' REPORT CONTINUED
FOR THE YEAR ENDED 31 MARCH 2017

15. TAXATION STATUS

The Bank is exempt from normal taxation in terms of section 10(1)(t)(x) of the Income Tax Act, No 58 of 1962, as amended. The Bank is subject to and complies with all other South African taxes, including employees' tax and value added tax. The DBSA paid VAT amounting to R36.7 million during the 2017 financial period.

16. CHANGES IN ACCOUNTING POLICIES

The accounting policies applied during the year ended 31 March 2017 are in all material respects consistent with those applied in the Annual Financial Statements for the year ended 31 March 2016, as no changes in accounting policies were effected in the 2017 financial year.

17. EVENTS AFTER THE REPORTING PERIOD

The directors are not aware of any matters or circumstances arising since the end of the financial year, which will have a significant effect on the operations of the Bank, the results of the operations or the financial position of the Bank, other than that in note 53 of the Annual Financial Statements on page 68.

18. LITIGATION

The directors are not aware of any litigation against the Bank other than that disclosed under contingent liabilities in note 46 of the Annual Financial Statements on page 65.

19. RELATED PARTY TRANSACTIONS

Details of the DBSA's related party transactions are set out in note 45 of the Annual Financial Statements on page 64.

20. 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. Refer to note 49 of the Annual Financial Statements on page 66.

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

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

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

STATEMENT OF FINANCIAL POSITION
AS AT 31 MARCH 2017

in thousands of rands	Notes	2017	2016
ASSETS			
Cash and cash equivalents	5	**2 299 247**	2 084 565
Trade and other receivables	6	**121 982**	138 533
Investment securities	7	**1 069 085**	1 265 218
Derivative assets held for risk management	8.1	**846 141**	1 163 533
Post-retirement medical benefit investment	9	**45 251**	49 978
Equity investments	10	**5 972 509**	6 278 575
Development bonds	12	**1 290 319**	1 290 296
Development loans	13	**71 505 178**	69 494 954
Property, plant and equipment	14	**415 409**	501 202
Intangible assets	15	**87 958**	79 142
Total Assets		**83 653 079**	82 345 996
EQUITY AND LIABILITIES			
Liabilities			
Trade and other payables	16	**838 591**	894 795
Provisions	17	**126 630**	152 533
Liability for funeral benefits	18.1	**3 226**	3 100
Post-retirement medical benefit liability	18.2	**40 712**	239 289
Debt securities held at fair value through profit or loss	19	**6 336 487**	6 188 780
Debt securities held at amortised cost	19	**30 117 774**	29 082 355
Funding: Lines of credit	20	**14 015 426**	16 371 534
Derivative liabilities held for risk management	8.2	**142 857**	148 551
Total Liabilities		**51 621 703**	53 080 937
Equity			
Share capital	21	**200 000**	200 000
Retained earnings		**17 514 577**	14 544 861
Permanent government funding	22	**11 692 344**	11 692 344
Revaluation reserve on land and buildings	23	**198 322**	269 256
Cash flow hedge reserve	24	**141 680**	123 050
Reserve for general loan risks	25	**2 287 491**	2 436 358
Available-for-sale reserve	26	**(3 038)**	(810)
Total Equity		**32 031 376**	29 265 059
Total Equity and Liabilities		**83 653 079**	82 345 996

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 MARCH 2017

in thousands of rands	Notes	2017	2016
Interest income	27	**7 373 094**	6 541 028
Interest expense	28	**(3 703 760)**	(3 355 429)
Net interest income	28	**3 669 334**	3 185 599
Net fee income	29	**318 266**	275 914
Net foreign exchange (loss)/gain	30	**(618 649)**	1 002 172
Net (loss)/gain from financial assets and financial liabilities	31	**(43 354)**	442 630
Other income	32	**734 090**	134 355
Other income		**390 353**	1 855 071
Operating income		**4 059 687**	5 040 670
Project preparation expenditure	33	**(24 453)**	(14 651)
Development expenditure	34	**(27 181)**	(43 869)
Net impairment on financial assets	35	**(339 449)**	(1 426 159)
Personnel expenses	36	**(603 608)**	(730 937)
Other expenses	37	**(202 180)**	(213 653)
Depreciation and amortisation	38	**(31 249)**	(30 593)
Profit from operations		**2 831 567**	2 580 808
Grants	39	**(10 718)**	(4 129)
Profit for the year		**2 820 849**	2 576 679

STATEMENT OF OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 MARCH 2017

in thousands of rands	Notes	2017	2016
Profit for the year		**2 820 849**	2 576 679
Items that will not be reclassified to profit and loss			
Loss on revaluation of land and buildings	23	**(70 934)**	-
Items that may be reclassified subsequently to profit and loss			
Unrealised gain on cash flow hedges	24	**12 846**	142 063
Gain/(loss) on cash flow hedges reclassified to profit and loss	24	**5 784**	(135 301)
Unrealised loss on available-for-sale financial assets	26	**(2 228)**	(1 067)
		16 402	5 695
Other comprehensive (loss)/income		**(54 532)**	5 695
Total comprehensive income for the year		**2 766 317**	2 582 374

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR 31 MARCH 2017

in thousands of rands	Share capital	Cash flow hedge reserve	Revaluation reserve on land and buildings	Available-for-sale reserve	Permanent government funding	Reserve for general loan risks	Retained earnings	Total equity
Balance at 1 April 2015	200 000	116 288	269 256	257	8 692 344	2 143 975	12 260 565	23 682 685
Government recapitalisation	–	–	–	–	3 000 000	–	–	3 000 000
Profit for the year	–	–	–	–	–	–	2 576 679	2 576 679
Other comprehensive income/(loss)								
Unrealised gain on cash flow hedges	–	142 063	–	–	–	–	–	142 063
Loss on cash flow hedges reclassified to profit and loss	–	(135 301)	–	–	–	–	–	(135 301)
Unrealised loss on available-for-sale-financial assets	–	–	–	(1 067)	–	–	–	(1 067)
Transfer to reserve for general loan risks	–	–	–	–	–	292 383	(292 383)	–
Total changes	–	6 762	–	(1 067)	3 000 000	292 383	2 284 296	5 582 374
Balance at 31 March 2016	200 000	123 050	269 256	(810)	11 692 344	2 436 358	14 544 861	29 265 059
Profit for the year	**–**	**–**	**–**	**–**	**–**	**–**	**2 820 849**	**2 820 849**
Other comprehensive income/(loss)								
Loss on revaluation of land and buildings	**–**	**–**	**(70 934)**	**–**	**–**	**–**	**–**	**(70 934)**
Unrealised gain on cash flow hedges	**–**	**12 846**	**–**	**–**	**–**	**–**	**–**	**12 846**
Gain on cash flow hedges reclassified to profit and loss	**–**	**5 784**	**–**	**–**	**–**	**–**	**–**	**5 784**
Unrealised loss on available-for-sale financial assets	**–**	**–**	**–**	**(2 228)**	**–**	**–**	**–**	**(2 228)**
Transfer from reserve for general loan risks	**–**	**–**	**–**	**–**	**–**	**(148 867)**	**148 867**	**–**
Total changes	**–**	**18 630**	**(70 934)**	**(2 228)**	**–**	**(148 867)**	**2 969 716**	**2 766 317**
Balance at 31 March 2017	**200 000**	**141 680**	**198 322**	**(3 038)**	**11 692 344**	**2 287 491**	**17 514 577**	**32 031 376**
Notes	21	24	23	26	22	25		

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 MARCH 2017

in thousands of rands	Notes	2017	2016
Cash flows from operating activities			
Net profit/(loss) adjusted for non-cash items	40	**459 125**	(137 003)
Interest received		**6 864 688**	6 308 445
Interest paid		**(3 446 294)**	(3 115 067)
Net decrease in working capital	41	**(110 897)**	(31 060)
Net cash generated from operating activities		**3 766 622**	3 025 315
Cash flows used in development activities			
Development loan disbursements	13	**(12 103 967)**	(16 461 393)
Development loan principal repayments		**8 572 092**	5 549 156
Net decrease/(increase) in equity investments		**732 770**	(368 767)
Grants, development expenditure and project preparation expenditure paid		**(35 171)**	(18 781)
Net repayments from national mandates		**2 821**	100 357
Net cash used in development activities		**(2 831 455)**	(11 199 428)
Cash flows from investing activities			
Purchase of property, plant and equipment	14	**(3 987)**	(15 918)
Proceeds from sale of property and equipment		**853**	207
Purchase of intangible assets	15	**(21 493)**	(14 728)
(Decrease)/increase in financial market instruments		**(832 878)**	197 871
Net cash (utilised by)/generated from investing activities		**(857 505)**	167 432
Cash flows from financing activities			
Receipts from National Treasury	22	**-**	3 000 000
Financial market liabilities repaid		**(27 050 711)**	(20 163 956)
Financial market liabilities raised		**27 206 684**	23 249 923
Net cash generated from financing activities		**155 973**	6 085 967
Net increase/(decrease) in cash and cash equivalents		**233 635**	(1 920 714)
Effect of exchange rate movements on cash balances	30	**(18 953)**	103 616
Movement in cash and cash equivalents		**214 682**	(1 817 098)
Cash and cash equivalents at the beginning of the year		**2 084 565**	3 901 663
Cash and cash equivalents at the end of the year	5	**2 299 247**	2 084 565

ACCOUNTING POLICIES

FOR THE YEAR ENDED 31 MARCH 2017

1. STATEMENT OF COMPLIANCE

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

As a PFMA Schedule 2 entity, the Bank is applying IFRS for financial reporting purposes.

1.1 BASIS OF PREPARATION

1.1.1 BASIS OF MEASUREMENT

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

- Land and buildings;
- Post-retirement medical benefit;
- Financial instruments at fair value through profit or loss;
- Available-for-sale financial assets;
- Derivative financial instruments; and
- Non-current assets held-for-sale

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

1.1.2 USE OF ESTIMATES AND JUDGEMENTS

The preparation of Annual 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 judgments in applying accounting policies that have the most significant effect on the amount recognised in the Annual Financial Statements is given in the following notes:

- **Note 1.2.5 – Derivative and hedge accounting:**
  On the date that a derivative contract is designated as a hedging instrument, the Bank designates the derivative as either a hedge of the fair value of a recognised asset or liability or a firm commitment (fair value hedge) or a hedge of a highly probable future cash flow attributable to a recognised asset or liability or a forecast transaction (cash flow hedge). All derivatives are recognised initially at fair value. Subsequent to initial recognition, they are remeasured at fair value, which includes an estimated component relating to credit risk adjustment.

- **Note 1.4.3 and 1.5.3 – Depreciation and amortisation and the useful lives of property and equipment and intangible assets:**
  Depreciation and amortisation is recognised in profit or loss on a straight-line basis over the estimated useful life of each part of an item of property and equipment and intangibles. Land is not depreciated.

- **Notes 7, 10, 13, 14, 18, 19, and 20 – Valuation of financial instruments:**

  Note 7 – Investment securities
  Investment securities are designated at fair value through profit or loss upon initial recognition, when they form part of a group of financial assets managed and evaluated on a fair value basis in accordance with a documented investment strategy.

- **Note 10 – Valuation of equity investments:**
  Equity investments are designated as held-to-maturity if they have fixed or determinable payments and fixed maturities that management has the positive intention and ability to hold to maturity. All other equity investments are designated at fair value through profit and loss which is determined from observable market data in respect of similar financial instruments. Where market observable data is not available, they are estimated based on appropriate assumptions.

- **Note 13 – Measurement of the recoverable amounts and impairment of development loans and bonds:**
  Development loans and bonds are carried at amortised cost. However judgements are applied when determining fair value and assessments of recoverable amounts and impairments calculations.

- **Note 14 – Valuation of land and buildings:**
  Land and buildings measured at fair value less accumulated depreciation and impairment losses, in terms of the revaluation model.

- **Note 18 – Measurement of funeral benefit obligations and post-retirement medical benefit:**
  Obligations for contributions to defined contribution provident fund plans are recognised as an expense in profit or loss when they are due.

- **Note 19 – Debt securities:**
  Debt securities that are designated at fair value through profit or loss consist of bonds which are listed and unlisted.

  Debt securities carried at amortised cost consist of bond issues and money market issuance.

- **Note 20 – Lines of credit:**
  Lines of credit are carried at amortised cost. However judgements are applied when determining fair value disclosures.

  These disclosures supplement the commentary on financial risk management (refer note 43).

1.1.3 PROVISIONS

Provisions are determined based on best available information available to management. Additional disclosure of these estimates of provisions are included in note 17 – Provisions.

1.1.4 LOAN COMMITMENTS

The Bank enters into commitments to lend to its customers subject to certain conditions. Such loan commitments are made either for a fixed period, or are cancellable by the Bank subject to notice conditions. Provision is made for undrawn loan commitments to be provided at below-market interest rates and for similar facilities if it is probable that the facilities will be drawn and results in recognition of an assets at an amount less than the amount advanced.

1.2 FINANCIAL INSTRUMENTS

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. Financial instruments consist of cash and cash equivalents, investment securities, derivatives assets and liabilities, equity investments, development loans and bonds, trade and other receivables, home ownership scheme loans, trade and other payables, funding: debt securities, funding: lines of credit and repurchase agreements:

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

1.2.1 FINANCIAL ASSETS

The Bank classifies its financial assets into the following categories:

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

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

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

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

Financial assets at fair value through profit or loss

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

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

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

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

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

Loans and receivables

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

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

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

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

ACCOUNTING POLICIES CONTINUED

FOR THE YEAR ENDED 31 MARCH 2017

1. STATEMENT OF COMPLIANCE CONTINUED

1.2 FINANCIAL INSTRUMENTS CONTINUED

1.2.1 FINANCIAL ASSETS CONTINUED

Held-to-maturity financial assets

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

Financial assets classified as held-to-maturity include preference shares, debentures and investments in municipal and government bonds.

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

Available-for-sale financial assets

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

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

If the asset is subsequently impaired, the amount recorded in equity is reclassified to statement of profit and loss.

1.2.2 FINANCIAL LIABILITIES

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

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

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit and loss include debt securities and derivatives held for risk management. The Bank has designated financial liabilities at fair value through profit or loss in the following circumstances:

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

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

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

Financial liabilities at amortised cost

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

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

1.2.3 DERIVATIVE FINANCIAL INSTRUMENTS

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

Qualifying derivatives

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

Non-qualifying derivatives

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

1.2.4 DERECOGNITION

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

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

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

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.

Restructured loans

A loan that is restructured is derecognised if the existing agreement is cancelled and a new agreement made on substantially different terms, or if the terms of an existing agreement are modified such that the restructured loan is substantially a different financial asset.

Trade date and settlement date accounting

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

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

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

(a) The recognition of an asset on the day it is received by the entity, and
(b) The de-recognition of an asset and recognition of any gain or loss on disposal on the day that it is delivered by the entity.

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

1.2.5 HEDGE ACCOUNTING

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

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

A hedging relationship exists where:

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

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

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

ACCOUNTING POLICIES CONTINUED

FOR THE YEAR ENDED 31 MARCH 2017

1. STATEMENT OF COMPLIANCE CONTINUED

1.2 FINANCIAL INSTRUMENTS CONTINUED

1.2.5 HEDGE ACCOUNTING CONTINUED

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

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

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

Fair value hedge

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

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

Cash flow hedge

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

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

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

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

Hedge of monetary assets and liabilities

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

1.2.6 REPURCHASE AND RESALE AGREEMENTS

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

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

1.2.7 OFFSETTING OF FINANCIAL INSTRUMENTS

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

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

1.2.8 IMPAIRMENT OF FINANCIAL INSTRUMENTS

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

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

Available-for-sale financial assets

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

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

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

Calculation of recoverable amount

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

Reversals of impairment

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

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

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

Impairment of development loans

Identified impairment

Non-performing loans are impaired for losses identified during periodic evaluations. 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 on the earlier occurrence of either being 90 (ninety) days in arrears or 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.

Unidentified impairment

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

1.2.9 CASH AND CASH EQUIVALENTS

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

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

1.2.10 LOANS TO SHAREHOLDERS, DIRECTORS, MANAGERS AND EMPLOYEES

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

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

ACCOUNTING POLICIES CONTINUED

FOR THE YEAR ENDED 31 MARCH 2017

1. STATEMENT OF COMPLIANCE CONTINUED

1.3 IMPAIRMENT OF NON-FINANCIAL ASSETS

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

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

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

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

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

1.4 PROPERTY, PLANT AND EQUIPMENT

1.4.1 RECOGNITION AND MEASUREMENT

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

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

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

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

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

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

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

1.4.2 SUBSEQUENT COSTS

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

1.4.3 DEPRECIATION

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

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

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

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

1.5 INTANGIBLE ASSETS

1.5.1 RECOGNITION AND MEASUREMENT

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

1.5.2 SUBSEQUENT EXPENDITURE

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

1.5.3 AMORTISATION

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

Item	Estimated useful life
Software	3 – 15 years

1.6 SHARE CAPITAL AND RESERVES

1.6.1 SHARE CAPITAL

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

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

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

1.6.2 PERMANENT GOVERNMENT FUNDING

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

1.6.3 RESERVE FOR GENERAL LOAN RISKS

The general loan risk reserve is maintained based on the latest internal risk rating of borrowers. The reserve is reviewed quarterly. The reserve for each risk category is estimated by calculating each risk category as follows:

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

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

1.6.4 REVALUATION RESERVE ON LAND AND BUILDINGS

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

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

ACCOUNTING POLICIES CONTINUED

FOR THE YEAR ENDED 31 MARCH 2017

1. STATEMENT OF COMPLIANCE CONTINUED

1.7 REVENUE

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

1.7.1 INTEREST

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

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

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

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

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

1.7.2 FEES AND COMMISSION

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

Upfront fees are deferred and recognised over the term of the loan.

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

1.8 FOREIGN CURRENCY TRANSLATIONS

FUNCTIONAL AND PRESENTATION CURRENCY

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

At each statement of financial position date:

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

Items included in the Annual Financial Statements of the Bank are measured using the currency of the primary economic environment in which the entity operates (the “functional currency”). The Bank’s Annual Financial Statements are presented in South African rand, which is the Bank’s functional currency.

1.9 NET INCOME FROM OTHER FINANCIAL INSTRUMENTS AT FAIR VALUE

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

1.10 DETERMINATION OF FAIR VALUES

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

1.10.1 PROPERTY AND EQUIPMENT

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

1.10.2 POST-RETIREMENT MEDICAL BENEFITS INVESTMENT

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

1.10.3 FINANCIAL INSTRUMENTS

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

The fair value of a financial instrument is the price that will be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurable date.

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

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

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

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

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

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

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

EQUITY INVESTMENTS

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

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

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

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

The Bank ensures that these valuation techniques:

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

Equity investments held-to-maturity consist of preference shares and debentures.

1.10.4 INVESTMENT SECURITIES

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

ACCOUNTING POLICIES CONTINUED

FOR THE YEAR ENDED 31 MARCH 2017

1. STATEMENT OF COMPLIANCE CONTINUED

1.10 DETERMINATION OF FAIR VALUES CONTINUED

1.10.5 DERIVATIVES

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

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

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

Interest-bearing loans and borrowings

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

Interest rates used for determining fair value

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

1.11 PROVISIONS, CONTINGENT LIABILITIES AND CONTINGENT ASSETS

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

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

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

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

1.12 FINANCIAL GUARANTEES

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

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

1.13 EMPLOYEE BENEFITS

1.13.1 DEFINED CONTRIBUTION PLAN

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

1.13.2 DEFINED BENEFIT PLAN

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

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan.

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

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

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

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

1.13.3 TERMINATION BENEFITS

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

1.13.4 SHORT-TERM EMPLOYEE BENEFITS

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

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

1.13.5 HOME OWNERSHIP SCHEME

The Bank operated a home ownership scheme in terms of which mortgage bonds were provided to the Bank's employees at reduced interest rates. The loans are measured at amortised cost less any impairment losses.

1.14 CONTINGENT LIABILITIES AND COMMITMENTS

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

1.15 OTHER OPERATING INCOME

Other fee income is recognised as the related services are performed.

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

1.16 EVENTS AFTER THE REPORTING PERIOD

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

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

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

1.17 RELATED PARTIES

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

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

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

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

1.18 LEASES

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

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

OPERATING LEASES – LESSEE

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

ACCOUNTING POLICIES CONTINUED

FOR THE YEAR ENDED 31 MARCH 2017

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 SEGMENTAL REPORTING

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

NOTES TO THE ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2017

1. NEW STANDARDS AND INTERPRETATIONS

The following new standards and annual improvements have been issued by the IASB and are not yet effective.

IFRS 9: Financial Instruments (Applicable for annual periods beginning on or after 1 January 2018).

The Accounting Standards Board finalised IFRS 9 in June 2015. The new standard replaces IAS 39 and is applicable for periods commencing on or after 1 January 2018.

The first year of implementation for the Bank will be for the financial year ending 31 March 2019 with comparatives for the financial year ended 31 March 2018.

The standard has introduced a new expected loss impairment model that will require impairment losses to be recognised on an expected loss basis. This new model will apply to financial assets measured at either amortised cost or fair value through other comprehensive income, as well as certain off-balance sheet exposure.

With the exception of purchased or originated credit impaired financial assets, expected credit losses are required to be measured through a loss allowance at an amount equal to either 12-month expected credit losses or lifetime expected credit losses.

A loss allowance for full lifetime expected credit losses is required for a financial instrument if the credit risk of that financial instrument has increased significantly since initial recognition. For all other financial instruments, expected credit losses are measured at an amount equal to 12-month expected credit losses.

The Bank initiated an IFRS 9 project aimed at ensuring an effective and smooth transition to the new standard. The process involves conducting a gap analysis of the current methodology, processes, systems and credit models to ensure improvements are made to align with IFRS 9.

The significance of IFRS 9 adoption is expected to be on impairments with the transition from incurred loss model to an expected loss model. The definition of significant increase in credit risk is a significant focus area for the Bank in assessing the classification of loans from Stage 1 to Stage 2. Based on preliminary assessments, it is expected that impairments will increase as a result of adoption of IFRS 9 given the long-dated nature of the DBSA loans. The actual quantum has not been reliably estimated given the improvements needed to align the credit models for IFRS 9 compliance.

The change in fair value of financial liabilities that are designated at fair value through profit and loss due to changes in own credit risk will be required to be to be recognised within other comprehensive income.

The impact of this standard on the Bank has not yet been fully determined.

All other standards and interpretations issued but not yet effective were assessed and are not expected to have a material impact on the Bank.

2. SEGMENTAL INFORMATION

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

The following are the Bank's reportable segments:
- South Africa Financing;
- International Financing;
- Infrastructure Delivery division; and
- Treasury.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS CONTINUED
FOR THE YEAR ENDED 31 MARCH 2017

2. SEGMENTAL INFORMATION CONTINUED
OPERATING REPORTABLE SEGMENTS

	South Africa Financing		International Financing	
in thousands of rands	**March 2017**	March 2016	**March 2017**	March 2016
Interest income on development loans	**5 631 636**	4 872 911	**1 279 756**	1 178 603
Interest income on development bonds	**122 001**	122 301	**–**	–
Interest income on investments	**10 268**	6 467	**15 704**	1 161
Total interest income	**5 763 905**	5 001 679	**1 295 460**	1 179 764
Interest expense	**(3 182 602)**	(2 851 417)	**(325 719)**	(312 920)
Net interest income	**2 581 303**	2 150 262	**969 741**	866 844
Non-interest income	**149 406**	113 957	**737 062**	66 804
Net fee income	**94 117**	69 684	**90 299**	35 058
Dividends	**5 855**	12 524	**9 975**	6 271
Other operating income	**49 434**	31 749	**636 788**	25 475
Operating income	**2 730 709**	2 264 219	**1 706 803**	933 648
Expenses	**117 813**	(465 918)	**(649 914)**	(1 166 930)
Operating expenses	**(128 260)**	(138 362)	**(62 982)**	(69 141)
Depreciation and amortisation	**–**	–	**–**	–
Net impairment on financial assets	**246 073**	(327 556)	**(586 932)**	(1 097 789)
Development expenditure[1]	**(27 181)**	(43 869)	**–**	–
Project preparation expenditure	**–**	–	**–**	–
Revaluation of equity investments[2]	**13 981**	(54 963)	**67 482**	308 135
Grants	**–**	–	**–**	–
Sustainable earnings	**2 835 322**	1 699 469	**1 124 371**	74 853
Net foreign exchange (loss)/gain[3]	**–**	–	**–**	–
Net (loss)/gain from financial assets and liabilities[2]	**–**	–	**–**	–
Retained profit/(loss)	**2 835 322**	1 699 469	**1 124 371**	74 853
Capital expenditure	**–**	–	**–**	–
Development loans	**56 459 067**	53 240 145	**15 046 111**	16 254 809
Development bonds	**1 290 319**	1 290 296	**–**	–
Equity investments	**2 967 188**	2 838 140	**3 005 321**	3 440 435
Other assets	**361**	161	**717**	1 201
Total assets	**60 716 935**	57 368 742	**18 052 149**	19 696 445
Total liabilities	**38 229 131**	37 716 257	**9 514 833**	12 533 501
Key ratios by segments				
Cost-to-income (%)	**6**	8	**4**	7
Debt-to-assets ratio (%)	**63**	66	**53**	64
Net interest income (%)	**45**	43	**75**	73
Return on assets (%)	**5**	3	**6**	0.4

** All Other segments include Corporate Services, Risk, CEO, Finance Operations, Strategy and Finance divisions.*
1. Development expenditure relates to loan commitments in support of under-resourced municipalities.
2. Revaluation gains and losses have been split between equity investments and financial instruments for segment reporting purposes.
3. Treasury is responsible for foreign exchange management across the DBSA and as such all foreign exchange gains and losses have been reallocated to Treasury.

Infrastructure Delivery		Treasury		*All other		Total	
March 2017	March 2016	March 2017	March 2016	March 2017	March 2016	March 2017	March 2016
–	–	–	–	–	–	6 911 392	6 051 514
–	–	–	–	–	–	122 001	122 301
–	4	313 729	359 438	–	143	339 701	367 213
–	4	313 729	359 438	–	143	7 373 094	6 541 028
(88)	–	(195 351)	(191 065)	–	(27)	(3 703 760)	(3 355 429)
(88)	4	118 378	168 373	–	116	3 669 334	3 185 599
139 839	194 263	(11 211)	(11 417)	37 260	46 662	1 052 356	410 269
112 535	132 511	(11 211)	(11 417)	32 526	50 078	318 266	275 914
–	–	–	–	–	–	15 830	18 795
27 304	61 752	–	–	4 734	(3 416)	718 260	115 560
139 751	194 267	107 167	156 956	37 260	46 778	4 721 690	3 595 868
(179 294)	(167 385)	(13 255)	(9 877)	(451 836)	(591 232)	(1 176 486)	(2 401 342)
(177 470)	(167 062)	(13 255)	(9 877)	(423 821)	(560 148)	(805 788)	(944 590)
(1 824)	(1 259)	–	–	(29 425)	(29 334)	(31 249)	(30 593)
–	936	–	–	1 410	(1 750)	(339 449)	(1 426 159)
–	–	–	–	–	–	(27 181)	(43 869)
–	–	–	–	(24 453)	(14 651)	(24 453)	(14 651)
–	–	–	–	–	–	81 463	253 172
–	–	–	–	(10 718)	(4 129)	(10 718)	(4 129)
(39 543)	26 882	93 912	147 079	(449 747)	(563 234)	3 564 315	1 385 049
–	–	(618 649)	1 002 172	–	–	(618 649)	1 002 172
–	–	(120 090)	199 017	(4 727)	(9 559)	(124 817)	189 458
(39 543)	26 882	(644 827)	1 348 268	(454 474)	(572 793)	2 820 849	2 576 679
–	770	–	–	26 372	29 876	26 372	30 646
–	–	–	–	–	–	71 505 178	69 494 954
–	–	–	–	–	–	1 290 319	1 290 296
–	–	–	–	–	–	5 972 509	6 278 575
107 200	122 597	4 210 258	4 499 231	566 537	658 981	4 885 073	5 282 171
107 200	122 597	4 210 258	4 499 231	566 537	658 981	83 653 079	82 345 996
91 735	67 590	711 607	122 157	3 074 397	2 641 432	51 621 703	53 080 937
128	87	12	6			19	29
86	55	17	3			62	64
–	–	38	47			50	49
(37)	22	(15)	30			3	3

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3. FINANCIAL ASSETS BY CATEGORY

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

in thousands of rands	Notes	Loans and receivables	Non-financial items	Fair value through profit or loss	Held-to-maturity	Available-for-sale	Total carrying amount	Fair Value
March 2017								
Cash and cash equivalents	5	**2 299 247**	**–**	**–**	**–**	**–**	**2 299 247**	**2 299 247**
Trade and other receivables	6	**61 094**	**60 888**	**–**	**–**	**–**	**121 982**	**121 982**
Investment securities	7	**–**	**–**	**853 322**	**–**	**215 763**	**1 069 085**	**1 069 085**
Derivative assets held for risk management	8.1	**–**	**–**	**846 141**	**–**	**–**	**846 141**	**846 141**
Equity investments	10	**–**	**–**	**5 972 509**	**–**	**–**	**5 972 509**	**5 972 509**
Development loans	13	**71 505 178**	**–**	**–**	**–**	**–**	**71 505 178**	**73 892 596**
Development bonds	12	**–**	**–**	**–**	**1 290 319**	**–**	**1 290 319**	**1 190 131**
		73 865 519	**60 888**	**7 671 972**	**1 290 319**	**215 763**	**83 104 461**	**85 391 691**

in thousands of rands	Level 1 Category	Level 2 Category	Level 3 Category	Total
Investment securities	**1 069 085**	**–**	**–**	**1 069 085**
Derivative assets held for risk management	**–**	**846 141**	**–**	**846 141**
Equity investments	**–**	**5 438 239**	**534 270**	**5 972 509**
	1 069 085	**6 284 380**	**534 270**	**7 887 735**

in thousands of rands	Notes	Loans and receivables	Non-financial items	Fair value through profit or loss	Held-to-maturity	Available-for-sale	Total carrying amount	Fair Value
March 2016								
Cash and cash equivalents	5	2 084 565	–	–	–	–	2 084 565	2 084 565
Trade and other receivables	6	68 057	70 476	–	–	–	138 533	138 533
Investment securities	7	–	–	1 143 541	33 331	88 346	1 265 218	1 299 993
Derivative assets held for risk management	8.1	–	–	1 163 533	–	–	1 163 533	1 163 533
Equity investments	10	–	–	6 278 575	–	–	6 278 575	6 278 575
Development loans	13	69 494 954	–	–	–	–	69 494 954	77 660 023
Development bonds	12	–	–	–	1 290 296	–	1 290 296	1 159 450
		71 647 576	70 476	8 585 649	1 323 627	88 346	81 715 674	89 784 672

in thousands of rands	Level 1 Category	Level 2 Category	Level 3 Category	Total
Investment securities	1 299 906	87	–	1 299 993
Derivative assets held for risk management	–	1 163 533	–	1 163 533
Equity investments	–	5 358 105	920 470	6 278 575
	1 299 906	6 521 725	920 470	8 742 101

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

4. FINANCIAL LIABILITIES BY CATEGORY

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

in thousands of rands	Notes	At amortised cost	Designated at fair value through profit or loss	Total carrying amount	Fair Value
March 2017					
Trade and other payables	16	**838 591**	**–**	**838 591**	**838 591**
Funding: debt securities	19	**30 117 774**	**6 336 487**	**36 454 261**	**37 732 166**
Funding: lines of credit	20	**14 015 426**	**–**	**14 015 426**	**13 708 296**
Derivative liabilities held for risk management	8.2	**–**	**142 857**	**142 857**	**142 857**
		44 971 791	**6 479 344**	**51 451 135**	**52 421 910**

in thousands of rands	Level 1 Category	Level 2 Category	Level 3 Category	Total
Funding: debt securities	**37 732 166**	**–**	**–**	**37 732 166**
Funding: lines of credit	**–**	**13 708 296**	**–**	**13 708 296**
Derivative liabilities held for risk management	**–**	**142 857**	**–**	**142 857**
	37 732 166	**13 851 153**	**–**	**51 583 319**

in thousands of rands	Notes	At amortised cost	Designated at fair value through profit or loss	Total carrying amount	Fair Value
March 2016					
Trade and other payables	16	894 795	–	894 795	894 795
Funding: debt securities	19	29 082 355	6 188 780	35 271 135	36 375 212
Funding: lines of credit	20	16 371 534	–	16 371 534	17 065 034
Derivative liabilities held for risk management	8.2	–	148 551	148 551	148 551
		46 348 684	6 337 331	52 686 015	54 483 592

in thousands of rands	Level 1 Category	Level 2 category	Level 3 Category	Total
Funding: debt securities	36 375 212	–	–	36 375 212
Funding: lines of credit	–	17 065 034	–	17 065 034
Derivative liabilities held for risk management	–	148 551	–	148 551
	36 375 212	17 213 585	–	53 588 797

* *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.*

in thousands of rands	2017	2016
5. CASH AND CASH EQUIVALENTS		
Cash and cash equivalents consist of:		
Call deposits	**2 087 993**	1 818 532
Cash at bank	**211 254**	266 033
	2 299 247	2 084 565

The average interest rate earned on fixed and call deposits detailed above was 7.29% (March 2016: 6.4%). The Bank's exposure to interest rate risk and sensitivity analysis for financial assets and financial liabilities is disclosed in note 43.

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in thousands of rands	2017	2016
6. TRADE AND OTHER RECEIVABLES		
Trade and other receivables	**63 359**	71 170
Less: allowance for credit losses on trade and other receivables	**(2 265)**	(3 113)
	61 094	68 057
VAT	**743**	6 167
Prepayments	**10 627**	13 144
Deposits	**88**	480
Staff loans (current employees)	**37**	21
Subsistence and travel	**331**	1 527
Payroll expenses receivable	**840**	3 900
Home ownership scheme loans	**–**	1 765
Accrued interest (financial market assets)	**48 222**	43 472
Balance at the end of the year	**121 982**	138 533
Allowance for credit losses on trade and other receivables reconciliation		
Balance at the beginning of the year	**(3 113)**	(2 479)
Decrease/(increase) in provision for allowance for credit losses on trade and other receivables (refer to note 35)	**848**	(634)
Balance at the end of the year	**(2 265)**	(3 113)

Staff loans are for current employees and are interest free. The interest that should have been payable on this account would have been R3 438 (March 2016: R2 033) at a rate of 9.25%.

Included in trade and other receivables are:		
African Capacity Building Foundation (ACBF)	**103**	103
African Peer Review Mechanism (APRM)	**–**	585
African World Heritage Fund (AWHF)	**–**	9
Anglo American Capacity Building Programme	**2 786**	641
Cities Project Preparation Facility (CPPF)	**–**	1
Department of Basic Education for Accelerated Infrastructure Schools Programme	**8 769**	15 229
Department of Trade and Industry	**2 121**	3 296
Eastern Cape Department of Education	**1 596**	18 135
Ekurhuleni Metropolitan Municipality	**10 221**	10 335
Elliotdale Rural Human Settlement	**2 199**	5
Ex-employees debtors	**1 991**	2 306
Green Fund	**70**	86
Independent Power Producers (IPP) Office	**5 393**	4 342
Industrial Development Corporation (IDC)	**–**	730
Infrastructure Delivery Improvement Programme (IDIP)	**57**	1 094
Infrastructure Investment Programme for South Africa (IIPSA)	**1**	1
Jobs Fund	**381**	360
KFW HIV/VCT 2 Programme	**576**	1 414
KFW SADC Water Fund	**1 167**	1 366
KwaZulu-Natal Department of Education	**4 626**	375
Land and Agricultural Development Bank	**228**	228
Limpopo Department of Education	**5 480**	–
Limpopo Department of Health	**453**	1 827
Limpopo Department of Public Works	**844**	3 614
Municipal Infrastructure Support Agency (MISA)	**–**	180
National Department of Health	**11 143**	3 655
National Department of Public Works	**733**	–
National Treasury Cities Support Programme (NTCSP)	**605**	186
National Treasury Municipal Capacitation Fund (NTMCF)	**–**	556
Pan African Capacitation Building Platform (PACBP)	**1**	1
Other trade and other receivables	**1 815**	510
Balance at the end of the year	**63 359**	71 170

in thousands of rands	2017	2016
7. INVESTMENT SECURITIES		
Investment securities consist of the following:		
Investment securities designated at fair value through profit or loss		
Government bonds	**47 115**	296 251
Municipal bonds	**643 821**	685 890
Corporate bonds	**162 386**	161 400
	853 322	1 143 541
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	**–**	33 331
Available-for-sale investment securities		
Government bonds	**215 763**	88 264
Money market instruments	**–**	82
	215 763	88 346
Total investment securities	**1 069 085**	1 265 218
8. DERIVATIVE ASSETS AND LIABILITIES HELD FOR RISK MANAGEMENT		
8.1 DERIVATIVE ASSETS HELD FOR RISK MANAGEMENT		
Instrument type:		
Interest rate derivatives	**175 919**	46 550
Foreign exchange derivatives	**670 222**	1 116 983
	846 141	1 163 533
8.2 DERIVATIVE LIABILITIES HELD FOR RISK MANAGEMENT		
Instrument type:		
Interest rate derivatives	**(26 330)**	(29 876)
Foreign exchange derivatives	**(116 527)**	(118 675)
	(142 857)	(148 551)
8.3 NET DERIVATIVES HELD FOR RISK MANAGEMENT		
Fair value hedges	**149 589**	16 674
Cash flow hedges	**116 175**	290 587
Economic hedges	**437 520**	707 721
	703 284	1 014 982

FAIR VALUE HEDGES

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

CASH FLOW HEDGES

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

ECONOMIC HEDGES

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

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	in thousands of rands	2017	2016
9.	**POST-RETIREMENT MEDICAL BENEFITS INVESTMENT**		
	Fair value of plan assets	**45 251**	49 978
	This asset represents the fair value of the Medipref investment that is used to fund the post-retirement medical benefits for eligible employees and pensioners.		
	Post-retirement medical benefits investment		
	Fair value of plan assets		
	Balance at the beginning of the year	**49 978**	59 536
	Income	**2 277**	2 849
	Expenses	**(398)**	(342)
	Contributions paid	**(6 736)**	(11 453)
	Increase/(decrease) in market value	**130**	(612)
	Balance at the end of the year	**45 251**	49 978
10.	**EQUITY INVESTMENTS**		
	Equity investments consist of the following:		
	Equity investments designated at fair value through profit or loss	**5 972 509**	6 278 575
	Equity investments held-to-maturity	**–**	–
		5 972 509	6 278 575
10.1	**EQUITY INVESTMENTS DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS**		
	Cost		
	Balance at the beginning of the year	**5 319 262**	4 860 386
	Acquisitions	**298 964**	625 473
	Capital return	**(1 035 970)**	(166 597)
	Balance at the end of the year	**4 582 256**	5 319 262
	Fair value adjustment		
	Balance at the beginning of the year	**(383 682)**	(682 345)
	Current year fair value adjustment (refer to note 31)	**81 462**	254 856
	Realised capital gain (refer to note 32)	**664 495**	43 807
	Balance at the end of the year	**362 275**	(383 682)
	Foreign exchange adjustments		
	Balance at the beginning of the year	**1 342 995**	822 335
	Unrealised (loss)/gain (refer to note 30)	**(317 849)**	520 768
	Realised gain/(loss) (refer to note 30)	**2 832**	(108)
	Balance at the end of the year	**1 027 978**	1 342 995
	Fair value at the end of the year	**5 972 509**	6 278 575

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 and other discount is applied to direct equity investments. The guidelines provides that marketability and other discount in the range 10% to 30% should be factored into the valuation. Different factors are considered in setting the marketability and other discount and it is possible for the marketability and other discount for a particular instrument to be outside the guideline range.

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

10.2 EQUITY INVESTMENTS HELD-TO-MATURITY

Equity investments held-to-maturity consist of preference shares and debentures. The Bank has not during the current financial year or three preceding financial years, sold or reclassified before maturity, more than an insignificant amount of investments in relation to the total amount of held-to-maturity investments.

in thousands of rands	2017	2016
Balance at the beginning of the year	–	91 685
Amortised interest on effective interest method (refer to note 31)	–	(1 684)
Capital return	–	(90 001)
Balance at the end of the year	**–**	–
10.3 PERIOD SINCE INITIAL INVESTMENT		
1 (one) year but within two years	–	32 520
2 (two) years but within three years	**21 937**	53 711
3 (three) years but within four years	**82 385**	668 511
4 (four) years but within nine years	**5 868 187**	5 503 833
10 (ten) years and older	–	20 000
	5 972 509	6 278 575
10.4 SECTORAL ANALYSIS OF EQUITY INVESTMENTS		
Commercial infrastructure	**2 883 291**	2 957 992
Communication and transport infrastructure	–	290 276
Institutional infrastructure	**1 031 368**	972 505
Residential facilities	**2 057 850**	2 057 802
	5 972 509	6 278 575
10.5 GEOGRAPHICAL ANALYSIS OF EQUITY INVESTMENTS		
South Africa	**2 234 710**	2 241 104
International	**3 737 799**	4 037 471
	5 972 509	6 278 575
US dollar and euro amounts included in the above International equity investments		
US dollar amount included	**174 505**	180 850
Euro amount included	**31 690**	31 444

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FOR THE YEAR ENDED 31 MARCH 2017

11. FAIR VALUE HIERARCHY DISCLOSURES

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

in thousands of rands	Notes	Valuations with reference to observable prices Level 1	Valuations based on observable input Level 2	Valuations based on unobservable input Level 3*	Total
March 2017					
Available-for-sale financial assets					
Investment securities	7	**215 763**	–	–	**215 763**
Financial assets designated at fair value through profit and loss					
Investment securities	7	**853 322**	–	–	**853 322**
Derivatives assets held for risk management	8.1	–	**846 141**	–	**846 141**
Equity investments	10	–	**5 438 239**	**534 270**	**5 972 509**
Total financial assets		**1 069 085**	**6 284 380**	**534 270**	**7 887 735**
Financial liabilities designated at fair value through profit and loss					
Funding: debt securities	19	**6 336 487**	–	–	**6 336 487**
Derivatives liabilities held for risk management	8.2	–	**142 857**	–	**142 857**
Total financial liabilities		**6 336 487**	**142 857**	–	**6 479 344**
March 2016					
Available-for-sale financial assets					
Investment securities	7	**88 264**	**82**	–	**88 346**
Financial assets designated at fair value through profit and loss					
Investment securities	7	**1 143 541**	–	–	**1 143 541**
Derivative assets held for risk management	8.1	–	**1 163 533**	–	**1 163 533**
Equity investments	10	–	**5 358 105**	**920 470**	**6 278 575**
Total financial assets		**1 231 805**	**6 521 720**	**920 470**	**8 673 995**
Financial liabilities designated at fair value through profit and loss					
Funding: debt securities	19	**6 188 780**	–	–	**6 188 780**
Derivative liabilities held for risk management	8.2	–	**148 551**	–	**148 551**
Total financial liabilities		**6 188 780**	**148 551**	–	**6 337 331**

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

Level 1

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

Level 2

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

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

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

Level 3

Valuations are based on unobservable inputs.

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

11.1 EQUITY INVESTMENTS

Valuation methods within level 3 fair value hierarchy are applied appropriately and may produce a fair value measurement that may not be indicative of ultimate realisable value. Movements are all due to fair value adjustments to profit and loss. 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 Annual Financial Statements.

in thousands of rands	2017	2016
Reconciliation of level 3 assets		
Balance at the beginning of year	**920 470**	431 990
(Loss)/gain to profit and loss (refer to note 31)	**(386 200)**	488 480
Balance at the end of the year	**534 270**	920 470

12. DEVELOPMENT BONDS

Development bonds consist of the following:		
Held-to-maturity development bonds		
Municipal bonds	**1 290 319**	1 290 296

12.1 ANALYSIS OF DEVELOPMENT BONDS

Balance at the beginning of the year	**1 290 466**	1 290 608
Movement during the year	**141**	(142)
Gross development bonds	**1 290 607**	1 290 466
Allowance for credit losses on development bonds (refer to note 12.3)	**(288)**	(170)
Balance at the end of the year	**1 290 319**	1 290 296

12.2 MOVEMENTS DURING THE YEAR

Interest accrued (refer to note 27)	**122 001**	122 301
Gross interest repayments	**(121 860)**	(122 443)
	141	(142)

12.3 ALLOWANCE FOR CREDIT LOSSES ON DEVELOPMENT BONDS RECONCILIATION

Balance at the beginning of the year	**170**	218
Increase/(decrease) in allowance for credit losses on development bonds (refer to note 35)	**118**	(48)
Balance at the end of the year	**288**	170

Development bonds are held-to-maturity investments that are measured at amortised cost using the effective interest rate method.

13. DEVELOPMENT LOANS

13.1 ANALYSIS OF DEVELOPMENT LOANS

Balance at the beginning of the year	**73 300 535**	59 669 184
Movements during the year	**2 366 691**	13 631 351
Gross development loans	**75 667 226**	73 300 535
Allowance for credit losses on development loans (refer to note 13.9)	**(4 162 048)**	(3 805 581)
Net development loans at the end of the year	**71 505 178**	69 494 954
Movements during the year		
Loans disbursed – current year	**12 103 967**	16 461 393
Interest accrued – statement of comprehensive income (refer to note 27)	**6 911 392**	6 051 513
Impairment of current year interest (refer to note 13.9)	**46 090**	(204 710)
Development loans written off (refer to note 13.9)	**(28 987)**	(343 998)
Loans waiver (refer to note 13.9)	**(815)**	(69)
Foreign exchange adjustment	**(1 725 536)**	3 028 107
Gross repayments	**(15 159 743)**	(11 486 190)
Fees raised – current year	**220 323**	125 305
	2 366 691	13 631 351

NOTES TO THE ANNUAL FINANCIAL STATEMENTS CONTINUED
FOR THE YEAR ENDED 31 MARCH 2017

	in thousands of rands	2017	2016
13.	**DEVELOPMENT LOANS** CONTINUED		
13.2	**MATURITY ANALYSIS OF DEVELOPMENT LOANS**		
	Due within 1 (one) year	**9 462 225**	9 713 568
	Due after 1 (one) year but within 2 (two) years	**5 059 156**	4 675 135
	Due after 2 (two) years but within 3 (three) years	**5 402 608**	4 833 111
	Due after 3 (three) years but within 4 (four) years	**4 489 097**	4 922 874
	Due after 4 (four) years but within 9 (nine) years	**19 670 764**	19 172 544
	Due after 9 (nine) years but within 14 (fourteen) years	**24 026 534**	19 258 878
	Due after 14 (fourteen years)	**7 556 842**	10 724 425
		75 667 226	73 300 535
13.3	**SECTORAL ANALYSIS**		
	Commercial – fund	**952 236**	997 066
	Commercial – manufacturing	**442 969**	526 478
	Commercial – mining	**281 776**	872 359
	Commercial – tourism	**259 060**	314 292
	Commercial – other	**278 849**	293 217
	Communication and transport infrastructure	**3 706 776**	4 838 342
	Energy – electricity	**43 983 222**	37 405 877
	Energy – non-grid standalone	**374 409**	624 882
	Human resources development	**1 059 283**	876 319
	Institutional infrastructure	**12 165**	13 277
	Residential facilities	**1 377 981**	1 623 442
	Roads and drainage	**13 664 490**	15 362 347
	Sanitation	**1 413 349**	1 315 224
	Social infrastructure	**4 982 853**	5 219 724
	Water	**2 877 808**	3 017 689
		75 667 226	73 300 535
13.4	**GEOGRAPHICAL ANALYSIS**		
	Eastern Cape	**1 992 212**	2 296 640
	Free State	**1 583 484**	1 262 742
	Gauteng	**34 033 622**	32 062 158
	KwaZulu-Natal	**7 131 214**	7 406 822
	Limpopo	**1 022 667**	1 173 175
	Mpumalanga	**1 071 990**	1 243 419
	North West	**913 046**	854 253
	Northern Cape	**7 121 586**	5 671 535
	Western Cape	**3 187 617**	3 140 557
	Multi-regional – South Africa	**–**	849
	Rest of Africa	**17 609 788**	18 188 385
		75 667 226	73 300 535
	Rest of Africa		
	Angola	**2 072 938**	2 997 457
	Congo	**1 369 557**	1 505 153
	Ghana	**1 582 410**	199 046
	Kenya	**304 643**	100 002
	Lesotho	**610 611**	660 006
	Mauritius	**467 714**	518 706
	Mozambique	**510 578**	715 484
	Namibia	**83 917**	150 000
	Swaziland	**217 825**	202 167
	Tanzania	**113 283**	218 855
	Zambia	**7 124 096**	6 464 135
	Zimbabwe	**2 561 248**	2 943 837
	Multi-regional	**590 968**	1 513 537
		17 609 788	18 188 385
	US dollar amounts included in the above Rest of Africa loans	**1 235 465**	1 149 344

in thousands of rands	2017	2016
13.5 CLIENT CLASSIFICATION		
Development finance institutions	**603 934**	847 600
Educational institutions	**974 220**	791 959
Local government	**27 006 956**	24 590 120
National and provincial government	**2 083 032**	2 532 729
Private sector intermediaries	**19 517 229**	18 696 019
Public utilities	**25 481 855**	25 842 108
	75 667 226	73 300 535
13.6 FIXED AND VARIABLE INTEREST RATE LOANS		
Fixed interest rate loans	**41 236 119**	38 470 980
Variable interest rate loans	**34 431 107**	34 829 555
	75 667 226	73 300 535
13.7 NON-PERFORMING LOANS (INCLUDED IN TOTAL DEVELOPMENT LOANS)		
13.7.1 SECTORAL ANALYSIS		
Commercial – manufacturing	**374 644**	449 264
Commercial – mining	**281 776**	269 745
Commercial – tourism	**259 060**	312 967
Commercial – other	**195 269**	194 149
Communication and transport infrastructure	**463 449**	484 934
Energy	**171 196**	286 459
Human resources development	**28 688**	24 217
Institution building	**3 000**	–
Residential facilities	**228 581**	209 026
Roads and drainage	**62 299**	81 759
Sanitation	**29 214**	23 936
Social infrastructure	**206 210**	169 105
Water	**183 570**	201 605
	2 486 956	2 707 166
13.7.2 GEOGRAPHICAL ANALYSIS		
Eastern Cape	**231 272**	216 608
Free State	**83 884**	99 589
Gauteng	**344 391**	564 183
KwaZulu-Natal	**33 699**	32 234
Limpopo	**273 696**	243 531
Mpumalanga	**156 444**	155 511
North West	**238 739**	259 486
Northern Cape	**40 539**	91 529
Western Cape	**70 255**	115 992
Rest of Africa	**1 014 037**	928 503
	2 486 956	2 707 166
Rest of Africa		
Mauritius	**193 749**	–
Mozambique	**183 017**	193 700
Swaziland	**157 354**	138 018
Tanzania	**113 283**	203 045
Zambia	**237 074**	264 498
Zimbabwe	**129 560**	129 242
	1 014 037	928 503
13.7.3 CLIENT CLASSIFICATION ON NON-PERFORMING LOANS		
Educational institutions	**2 798**	1 327
Local government	**341 566**	423 609
National and provincial government	**193 749**	–
Private sector intermediaries	**1 733 156**	2 052 479
Public utilities	**215 687**	229 751
	2 486 956	2 707 166

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FOR THE YEAR ENDED 31 MARCH 2017

in thousands of rands	2017	2016
13. DEVELOPMENT LOANS CONTINUED		
13.8 CLIENT CONCENTRATION OF TOTAL DEVELOPMENT LOANS		
One client as percentage of total loan portfolio (%)	**20.2**	20.9
Seven clients as percentage of total loan portfolio (%)	**54.6**	54.8
13.9 ALLOWANCE FOR CREDIT LOSSES ON DEVELOPMENT LOANS RECONCILIATION		
Balance at the beginning of the year	**3 805 581**	2 928 965
Impairment of current year interest (refer to note 13.1)	**46 090**	(204 710)
Loans written off during the year (refer to note 13.1)	**(28 987)**	(343 998)
Loans waiver (refer to note 13.1)	**(815)**	(69)
Impairment charge (refer to note 35)	**340 179**	1 425 393
Identifiable impairments		
Non-performing book	**(171 456)**	290 493
Performing book	**359 794**	519 171
Unidentifiable impairments		
Model driven – performing book	**151 841**	615 729
Balance at the end of the year	**4 162 048**	3 805 581

14. PROPERTY, PLANT AND EQUIPMENT

	March 2017			2016		
in thousands of rands	Cost/ Valuation	Accumulated depreciation	Carrying value	Cost/ Valuation	Accumulated depreciation	Carrying value
Revalued land	**94 000**	**–**	**94 000**	84 600	–	84 600
Revalued buildings	**334 068**	**(29 568)**	**304 500**	412 439	(25 383)	387 056
Furniture and fittings	**19 851**	**(17 135)**	**2 716**	19 402	(15 358)	4 044
Motor vehicles	**1 448**	**(748)**	**700**	1 448	(625)	823
Office equipment	**14 257**	**(9 654)**	**4 603**	18 040	(13 150)	4 890
Computer equipment	**68 286**	**(59 888)**	**8 398**	66 565	(47 525)	19 040
Leasehold improvements	**770**	**(278)**	**492**	770	(21)	749
Total	**532 680**	**(117 271)**	**415 409**	603 264	(102 062)	501 202

Reconciliation of property, plant and equipment – March 2017

in thousands of rands	Opening balance	Additions	Disposals	Revaluations	Depreciation	Closing balance
Revalued land	**84 600**	**–**	**–**	**9 400**	**–**	**94 000**
Revalued buildings	**387 056**	**1 962**	**–**	**(80 334)**	**(4 184)**	**304 500**
Furniture and fittings	**4 044**	**–**	**–**	**–**	**(1 328)**	**2 716**
Motor vehicles	**823**	**–**	**–**	**–**	**(123)**	**700**
Office equipment	**4 890**	**493**	**(87)**	**–**	**(693)**	**4 603**
Computer equipment	**19 040**	**1 532**	**(187)**	**–**	**(11 987)**	**8 398**
Leasehold improvements	**749**	**–**	**–**	**–**	**(257)**	**492**
	501 202	**3 987**	**(274)**	**(70 934)**	**(18 572)**	**415 409**

Reconciliation of property, plant and equipment – March 2016

in thousands of rands	Opening balance	Additions	Disposals	Depreciation	Closing balance
Revalued land	84 600	–	–	–	84 600
Revalued buildings	384 000	7 140	–	(4 084)	387 056
Furniture and fittings	5 286	138	–	(1 380)	4 044
Motor vehicles	1 022	–	–	(199)	823
Office equipment	4 544	1 053	(4)	(703)	4 890
Computer equipment	23 524	6 817	(93)	(11 208)	19 040
Leasehold improvements	–	770	–	(21)	749
	502 976	15 918	(97)	(17 595)	501 202

VALUATIONS

LAND

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

The land was valued at fair value of R94 million by an independent valuator on 31 March 2017 (2016: R84.6 million, by management). Land is measured at the revalued amount in accordance with the Bank's revaluation policy.

BUILDINGS

The existing buildings were erected in 1987 at a cost of R35.2 million. Improvements of R1.9 million were effected during the 2017 financial year (2016: R7.1 million). The buildings were valued at fair value of R304.5 million by an independent valuator on 31 March 2017 (2016: R387 million by management).

The historical carrying value of the existing buildings is R219.8 million (2016: R218.3 million).

15. INTANGIBLE ASSETS

	March 2017			2016		
in thousands of rands	**Cost/ Valuation**	**Accumulated amortisation**	**Carrying value**	Cost/ Valuation	Accumulated amortisation	Carrying value
Computer software	**176 897**	**(88 939)**	**87 958**	155 404	(76 262)	79 142

Reconciliation of intangible assets – March 2017

in thousands of rands	Opening balance	Additions	Amortisation	Closing balance
Computer software	**79 142**	**21 493**	**(12 677)**	**87 958**

Reconciliation of intangible assets – March 2016

	Opening balance	Additions	Amortisation	Closing balance
Computer software	77 412	14 728	(12 998)	79 142

NOTES TO THE ANNUAL FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 31 MARCH 2017

	in thousands of rands	2017	2016
16.	**TRADE AND OTHER PAYABLES**		
	Trade and other payables	**378 126**	424 670
	Accrued interest (financial market liabilities)	**460 465**	470 125
	Total other payables	**838 591**	894 795
	Included in trade and other payables are amounts due to third party managed funds and mandates comprising of:		
	African World Heritage Fund (AWHF)	**11**	–
	Angola – Facility Agency fees	**1 275**	2 805
	Department of Basic Education for Accelerated Infrastructure Schools	**2 636**	–
	Ekurhuleni Metropolitan Municipality	**270**	–
	Gauteng Cleaner Remedial Fund	**–**	34 820
	Gauteng Schools Programme	**31**	31
	Hospital Revitalisation Programme	**237**	237
	Municipal Financial Improvement Programme (NT MFIP)	**506**	506
	Municipal Infrastructure Support Agency (MISA)	**848**	337
	National Rural Youth Service Corporation (NARYSEC)	**116**	116
	SAM Funding	**1 870**	1 410
	Balance at the end of the year	**7 800**	40 262

Included in trade and other payables is retention and bonus provision as reconciled below

in thousands of rands	Opening balance	Utilised during the year	Reversal of prior year provision	Current year provision	Closing balance
Retention bonuses	**18 914**	**(678)**	**(18 236)**	**–**	**–**
Bonus provision	**166 882**	**(139 687)**	**(27 195)**	**157 562**	**157 562**
	185 796	**(140 365)**	**(45 431)**	**157 562**	**157 562**

17. PROVISIONS

Reconciliation of provisions – March 2017

in thousands of rands	Opening Balance	Current year provision	Utilised during the year	Current year reversals	Closing balance
Developmental expenditure	**64 591**	**27 181**	**(18 480)**	**–**	**73 292**
Restructuring	**38 794**	**–**	**–**	**(38 794)**	**–**
Strategic initiatives	**49 148**	**38 794**	**(34 604)**	**–**	**53 338**
	152 533	**65 975**	**(53 084)**	**(38 794)**	**126 630**

Reconciliation of provisions – March 2016

in thousands of rands	Opening Balance	Current year provision	Utilised during the year	Closing balance
Development expenditure	31 521	45 128	(12 058)	64 591
Restructuring	41 190	–	(2 396)	38 794
Strategic initiatives	50 000	–	(852)	49 148
	122 711	45 128	(15 306)	152 533

Provision for developmental expenditure

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

Provision for strategic initiatives

The provision for strategic initiatives represents costs that are in support of the new strategy that are not associated with the Bank's ongoing activities.

18. EMPLOYEE BENEFITS

18.1 LIABILITY FOR FUNERAL BENEFITS

This benefit covers all current and retired employees of the Bank. In respect of these employees, a gross amount of R33 000 is paid to the family upon the death of an employee or retired employee. The obligation was valued by management on 31 March 2017.

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

in thousands of rands	2017	2016
Balance at the end of the year	**3 100**	3 100
Increase in liability	**126**	–
Balance at the end of the year	**3 226**	3 100

18.2 POST-RETIREMENT MEDICAL BENEFITS

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

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

The investment in Medipref, as specified in note 9, has been set aside to fund this obligation.

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

	2017	2016
Present value of unfunded obligation		
Balance at the beginning of the year	**239 289**	160 412
Interest cost	**17 474**	13 476
Current service cost (includes interest to year-end)	**45**	41
Past service costs	**–**	4 748
Benefits paid	**(11 535)**	(10 399)
(Reversal of actuarial gain)/actuarial gain for the year	**(44 636)**	71 011
Payment to pensioners	**(159 925)**	–
Balance at the end of the year	**40 712**	239 289
The projected unit credit method has been used to determine the actuarial valuation.		
The amount recognised as an expense in the statement of comprehensive income in respect of the defined benefit plan is as follows:		
Interest cost	**17 474**	13 476
Current service cost	**45**	41
Past service costs	**–**	4 748
(Reversal of actuarial gain)/actuarial gain for the year	**(44 636)**	71 011
Total charge for the year (included in personnel expenses in the statement of comprehensive income – refer note 36)	**(27 117)**	89 276
Market value of post-retirement medical benefit investment		
Balance at the beginning of the year	**49 978**	59 536
Income	**2 277**	2 849
Expenses	**(398)**	(342)
Contributions	**(6 736)**	(11 453)
Decrease in market value	**130**	(612)
Balance at the end of the year	**45 251**	49 978
The principal assumptions in determining the post-retirement medical benefits obligation are as follows:		
Discount rate (before taxation (%))	**10.20**	10.60
Medical aid inflation rate (%)	**9.20**	9.70

Sensitivity analysis

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

NOTES TO THE ANNUAL FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 31 MARCH 2017

18. EMPLOYEE BENEFITS CONTINUED

18.2 POST-RETIREMENT MEDICAL BENEFITS CONTINUED

Sensitivity analysis continued

	Central assumption	% point decrease	% point increase
Medical aid inflation rate (%)	9.20	(1.00)	1.00
Accrued liability 31 March 2017 (R'000)	40 712	37 305	44 683
% change		(8.40)	9.80
Current service cost + interest cost 2017/18 (R'000)	4 024	3 668	4 440
% change		(8.80)	10.30
Sensitivity results from previous valuation: Medical aid inflation rate 2016/17 (%)	9.70	(1.00)	1.00
Current service cost + interest cost 2016/17 (R'000)	17 519	15 818	19 518
% change		(9.70)	11.40

in thousands of rands	
The obligation for the four years prior to March 2016 is as follows:	
March 2015	160 412
March 2014	165 051
March 2013	148 421
March 2012	354 880

in thousands of rands	2017	2016
18.3 DEFINED CONTRIBUTION PLAN		
The total amount expensed during the period (including group life assurance and income continuity benefits)	**53 010**	48 805

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 for March 2017 is 611 (March 2016: 452).

19. DEBT SECURITIES

	2017	2016
Classification of debt securities		
Held at fair value through profit or loss	**6 336 487**	6 188 780
Held at amortised cost	**30 117 774**	29 082 355
	36 454 261	35 271 135

R80 billion Domestic Medium-Term Note Programme is currently registered and listed on the JSE Securities Exchange as at 31 March 2017.

Debt securities designated at fair value through profit or loss consists of listed and unlisted DV bonds and private placements. The debt securities held at fair value through profit and loss are assessed based on credit rating reviews by rating agencies for own credit risk adjustment.

Debt securities carried at amortised cost consists of Eurorand bond issues, money market issuance (bridging bonds and short-term commercial paper), medium and long-term fixed rating and floating rate bond.

	2017	2016
Floating rate notes and commercial paper – nominal values		
Floating rate notes – commercial paper	**2 118 000**	4 256 000
Floating rate notes – medium-term notes	**5 828 000**	2 866 000
	7 946 000	7 122 000

The Bank issued several floating commercial paper notes during the financial year under instruments codes DVC. These instruments have a maturity of less than one year.

The Bank also issued several floating medium-term notes under instrument codes DVF. These instruments have a maturity of three to five years.

Floating rate notes and commercial paper are held at amortised cost.

Funding held at fair value through profit or loss represents the hedged funding that forms part of effective qualifying hedge relationships.

	in thousands of rands	2017	2016
20.	**FUNDING: LINES OF CREDIT**		
	Held at amortised cost	**14 015 426**	16 371 534
21.	**SHARE CAPITAL**		
	Authorised		
	2 020 000 ordinary shares (31 March 2016: 2 020 000) at a par value of R10 000 each	**20 200 000**	20 200 000
	Callable capital (authorised but not yet issued)		
	2 000 000 ordinary shares (31 March 2016: 2 000 000) at a par value of R10 000 each	**20 000 000**	20 000 000
	In terms of regulation 18 of the DBSA Act, the directors may issue shares and call upon the shareholders in respect of monies payable under such issue.		
	The Board may, with the approval of the shareholder previously given at a shareholder's meeting, increase the issued share capital of the Bank by the creation and issue of ordinary and preference shares.		
	The DBSA Act was amended in 2014 to increase the authorised share capital to R20.2 billion, divided into 2 020 000 ordinary shares. In terms of section 13(2A) of the amended Act, the Minister may, after consultation with the Board and notice in the Gazette, adjust the amount of the authorised share capital of the Bank and number of ordinary shares.		
	Issued capital		
	20 000 ordinary shares (31 March 2016: 20 000) at a par value of R10 000 each	**200 000**	200 000
	All issued capital is fully paid for.		
22.	**PERMANENT GOVERNMENT FUNDING**		
	Balance at the beginning of the year	**11 692 344**	8 692 344
	Government recapitalisation	**–**	3 000 000
	Balance at the end of the year	**11 692 344**	11 692 344
	This represents capital provided by the South African government and remains part of the permanent capital of the Bank.		
	The last tranche of the capital injection was received in the 2016 year from National Treasury.		
	There are no repayment terms and this funding is interest-free. To date no cash repayments have been made and the full amount initially received is equal to the residual amount and is thus allocated to equity.		
23.	**REVALUATION RESERVE ON LAND AND BUILDINGS**		
	Balance at the beginning of the year	**269 256**	269 256
	Loss on revaluation of land and buildings (refer to note 14)	**(70 934)**	–
	Balance at the end of the year	**198 322**	269 256
	This reserve represents the fair value adjustment recognised on the revaluation of the land and buildings.		
24.	**CASH FLOW HEDGE RESERVE**		
	Balance at the beginning of the year	**123 050**	116 288
	Unrealised gain on cash flow hedges	**12 846**	142 063
	Gain/(loss) on cash flow hedges reclassified to the statement of comprehensive income	**5 784**	(135 301)
	Balance at the end of the year	**141 680**	123 050
	The net gain reclassified to the statement of comprehensive income was included in the net foreign exchange gain line item.		
	Own credit risk adjustment included in the unrealised gain on cash flow hedges line item amounted to R89 million (31 March 2016: R22 million).		
25.	**RESERVE FOR GENERAL LOAN RISKS**		
	Balance at the beginning of the year	**2 436 358**	2 143 975
	Transfer (from)/to general loan reserve	**(148 867)**	292 383
	Balance at the end of the year	**2 287 491**	2 436 358

The reserve is maintained based on the risk grading of the borrowers and movements are recognised directly between the reserve for general loan risk and retained earnings.

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FOR THE YEAR ENDED 31 MARCH 2017

in thousands of rands	2017	2016
26. AVAILABLE-FOR-SALE RESERVE		
Balance at the beginning of the year	**(810)**	257
Change in value of available-for-sale financial assets	**(2 228)**	(1 067)
Balance at the end of the year	**(3 038)**	(810)
The fair value reserve comprises all fair value adjustments for available-for-sale financial market instruments excluding impairment loss.		
27. INTEREST INCOME		
Interest income received on:		
Cash and cash equivalents	**197 981**	192 120
Investment securities	**116 558**	148 811
Held at fair value through profit and loss	**105 791**	127 835
Held-to-maturity	**1 803**	9 556
Available-for-sale	**8 964**	11 420
Home ownership scheme loans	**–**	145
Equity investments	**25 953**	7 628
Development loans (refer to note 13.1)	**6 911 392**	6 051 513
Development bonds (refer to note 12.2)	**122 001**	122 301
Derivative assets held for risk management	**(791)**	18 510
Total interest income	**7 373 094**	6 541 028
27.1 INTEREST INCOME ON DEVELOPMENT LOANS		
Interest income on development loans		
On performing loans	**6 806 013**	5 897 404
On non-performing loans	**105 379**	154 109
	6 911 392	6 051 513
27.2 INTEREST INCOME ON DEVELOPMENT LOANS – CLIENT CLASSIFICATION		
Development finance institutions	**37 051**	43 625
Educational institutions	**87 482**	75 215
Local government	**2 499 311**	2 087 642
National and provincial government	**155 028**	169 294
Private sector intermediaries	**1 840 489**	1 619 011
Public utilities	**2 292 031**	2 056 726
	6 911 392	6 051 513
28. INTEREST EXPENSE		
Interest expense incurred on:		
Bank and other payables	**9 567**	7 137
Funding: debt securities	**3 355 999**	3 211 931
Funding: lines of credit	**395 380**	292 245
Derivative liabilities held for risk management	**(57 186)**	(155 884)
Total interest expense	**3 703 760**	3 355 429
Net interest income	**3 669 334**	3 185 599

Included in interest expense on Funding: debt securities for the year ended 31 March 2017 is R627 million (March 2016: R627 million) relating to debt securities designated held at fair value through profit or loss.

Included in interest expense on Funding: debt securities for the year ended 31 March 2017 is R2.7 billion (2016: R2.8 billion) relating to debt securities held at amortised cost.

in thousands of rands	2017	2016
29. NET FEE INCOME		
Fee income		
Lending fees	**182 991**	103 961
Other non-lending fees	**10 216**	36 699
Management fees	**136 270**	147 545
Total fee income	**329 477**	288 205
Fee expense		
Commitment fees on funding	**7 707**	9 111
Guarantee fees	**3 504**	3 180
Total fee expense	**11 211**	12 291
Net fee income	**318 266**	275 914
Management fees comprises:		
Agence Francaise Developpement PPS Fund	**542**	–
African World Heritage Fund (AWHF)	**1 170**	1 170
Anglo American South Africa	**1 259**	3 880
Cenpower	**157**	125
Cities Project Preparation Facility (CPPF)	**1 125**	1 500
Department of Basic Education for Accelerated Infrastructure Schools Programme	**23 878**	38 222
Department of Rural Development & Land Reform	**–**	464
Department of Trade and Industry	**7 811**	5 254
Dryland Rehabilitation Programme	**–**	2 436
Eastern Cape Department of Education	**4 494**	–
Ekurhuleni Metropolitan Municipality	**28 595**	13 042
Elliotdale Rural Human Settlement	**1 929**	2 206
European Investment Bank (EIB)	**14 968**	28 566
Gauteng Department of Agriculture	**586**	–
Global Environment Facility	**4 588**	6 887
Green Fund	**57**	4 359
Independent Power Producers (IPP) Office	**4 716**	4 663
Infrastructure Delivery Improvement Programme (IDIP)	**148**	1 331
Infrastructure Investment Programme for South Africa (IIPSA)	**877**	877
Itezhi – Tezhi Power Corporation	**–**	259
KFW HIV/VCT 2 Programme	**2 295**	2 216
KFW SADC Water Fund	**427**	672
KwaZulu-Natal Department of Education	**10 876**	328
Limpopo Department of Health	**1 289**	11 489
Limpopo Department of Public Works	**5 653**	6 510
Limpopo Department of Education	**4 807**	–
Maamba Colliers Limited	**–**	152
Municipal Infrastructure Support Agency (MISA)	**8**	37
National Department of Health	**5 728**	9 112
National Department of Public Works	**883**	–
National Treasury Cities Support Programme (NTCSP)	**1 307**	1 470
SADC PPFD	**4 685**	–
Sefako Makgatho University	**1 035**	–
Spatial Development Initiative	**–**	43
Tripartite Trust Account DFID	**234**	275
Zambia Electricity Supply Corporation	**143**	–
	136 270	147 545

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	in thousands of rands	2017	2016
30.	**NET FOREIGN EXCHANGE (LOSS)/GAIN**		
	Unrealised		
	Cash and cash equivalents: (loss)/gain	**(18 953)**	103 616
	Hedging derivatives – funding: (loss)/gain	**(351 273)**	339 586
	Equity investments: (loss)/gain (refer to note 10.1)	**(317 849)**	520 768
	Development loans: (loss)/gain	**(2 732 915)**	1 933 176
	Hedging derivatives – development loans: gain	**14 601**	112 152
	Funding (Lines of Credit): gain/(loss)	**1 730 728**	(2 320 341)
		(1 675 661)	688 957
	Realised		
	Development loans: gain	**1 002 287**	1 092 037
	Equity investments: gain/(loss) (refer to note 10.1)	**2 832**	(108)
	Funding and hedging: gain/(loss)	**51 893**	(778 714)
		1 057 012	313 215
	Net foreign exchange (loss)/gain	**(618 649)**	1 002 172
31.	**NET (LOSS)/GAIN FROM FINANCIAL ASSETS AND FINANCIAL LIABILITIES**		
	Net gain/(loss) on derivatives held for risk management at fair value through profit or loss		
	Interest rate derivatives		
	Unrealised	**135 569**	(226 307)
	Realised	**20 243**	6 741
		155 812	(219 566)
	Foreign exchange derivatives		
	Unrealised	**(61 623)**	12 258
	Realised	**(7 347)**	(6 099)
		(68 970)	6 159
	Investment securities designated at fair value through profit or loss		
	Government bonds – unrealised	**2 289**	(4 292)
	Corporate bonds – unrealised	**2 355**	(9 832)
	Municipal bonds – unrealised	**7 931**	(46 802)
	Corporate, government and municipal bonds – realised	**6 292**	–
		18 867	(60 926)
	Debt securities		
	Designated at fair value through profit or loss – unrealised	**(225 799)**	473 349
	Equity investments		
	Designated at fair value through profit and loss – unrealised (refer to note 10.1)	**81 462**	254 856
	Held-to-maturity unrealised (refer to note 10.2)	**–**	(1 684)
		81 462	253 172
	Other		
	Post-retirement medical benefits investment designated at fair value through profit or loss – unrealised	**(4 726)**	(9 558)
	Total net (loss)/gain from financial assets and liabilities	**(43 354)**	442 630
	The total unrealised (losses)/gains for the year related to level 3 positions held at period end are set below.		
	Equity investments (refer to note 11.1)	**(386 200)**	488 480
32.	**OTHER INCOME**		
	Non-interest income		
	Dividend income	**15 830**	18 795
	Gain on sale of equipment	**578**	90
	Other income	**53 187**	71 663
	Realised capital gain on equity investments (refer to 10.1)	**664 495**	43 807
		734 090	134 355

	in thousands of rands	2017	2016
33.	**PROJECT PREPARATION EXPENDITURE**		
	Expenditure incurred on the planning, project definition, pre-feasibility, feasibility and structuring phase of projects	**24 453**	14 651
34.	**DEVELOPMENT EXPENDITURE**		
	In support of secondary and under-resourced municipalities	**27 181**	43 869
35.	**NET IMPAIRMENT LOSS ON FINANCIAL ASSETS**		
	Impairment of other trade and receivables (refer to note 6)	**(848)**	634
	Impairment on development loans (refer to note 13.9)	**340 179**	1 425 393
	Impairment on housing scheme loans	**–**	180
	Impairment on development bonds (refer to note 12.3)	**118**	(48)
		339 449	1 426 159
36.	**PERSONNEL EXPENSES**		
	Post-retirement medical benefits liability movement (refer note 18.2)	**(27 117)**	89 276
	Personnel expenses	**630 725**	641 661
		603 608	730 937
	Included in other personnel expenses are the following:		
	Directors' emoluments includes the Chief Executive Officer's and Chief Financial Officer's remuneration (refer to note 42)	**20 553**	22 115
	Executive members' remuneration (refer to note 42)	**28 744**	30 442
		49 297	52 557
37.	**OTHER EXPENSES**		
	Auditor's remuneration	**6 567**	6 942
	Technical services	**24 389**	21 571
	Communication costs	**6 914**	6 159
	Information technology costs	**43 131**	49 676
	Legal expenses	**19 308**	6 814
	Public relations activities	**10 094**	12 915
	Subsistence and travel	**36 369**	44 421
	Low value assets	**1 040**	1 341
	Other expenses	**54 368**	63 814
		202 180	213 653
38.	**DEPRECIATION AND AMORTISATION (REFER NOTES 14 AND 15)**		
	Revalued buildings	**4 184**	4 084
	Furniture and fittings	**1 328**	1 380
	Motor vehicles	**123**	199
	Office equipment	**693**	703
	Computer equipment	**11 987**	11 208
	Leasehold improvements	**257**	21
	Intangible assets	**12 677**	12 998
		31 249	30 593

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	in thousands of rands	2017	2016
39.	**GRANTS**		
	African Union Foundation	**948**	–
	African World Heritage Fund (AWHF)	**–**	500
	Association of African Development Finance Institutions	**694**	594
	Citizen Entrepreneurial Development Agency	**162**	–
	Pan African Capacity Building Platform (PACBF)	**6 667**	–
	Scout South Africa	**60**	–
	Social Responsibility Fund	**–**	174
	Southern African Netherlands Chamber of Commerce	**–**	67
	SADC – Development Finance Resource Centre	**1 342**	1 544
	South African Local Government Association (SALGA)	**–**	750
	South African National Defence Force Education Trust	**–**	500
	World Resource Institute	**845**	–
		10 718	4 129
	These grants are discretionary grants.		
40.	**NET PROFIT/(LOSS) ADJUSTED FOR NON-CASH ITEMS**		
	Net profit for the year	**2 820 849**	2 576 679
	Depreciation and amortisation (refer to note 38)	**31 249**	30 593
	Profit on sale of assets (refer to note 32)	**(578)**	(90)
	Grants, development expenditure and project preparation expenditure paid	**62 352**	62 650
	Unrealised loss/(gain) from financial assets and liabilities	**63 496**	(443 028)
	Upfront fees deferred	**32 312**	23 891
	Fees accrued	**(33 384)**	25 628
	Unrealised foreign exchange (loss)/gain (refer to note 30)	**1 675 661**	(688 957)
	Capital gain on equity investments (refer to note 32)	**(664 495)**	(43 807)
	Net impairment loss on financial assets (refer to note 35)	**339 449**	1 426 159
	Change in liability for funeral benefits and post-retirement medical benefit	**(198 452)**	78 878
	Net interest income (refer to note 28)	**(3 669 334)**	(3 185 599)
		459 125	(137 003)
41.	**NET DECREASE IN WORKING CAPITAL**		
	Movements in provisions	**(61 784)**	(14 047)
	Decrease/(increase) in other receivables	**33 235**	(26 998)
	Decrease in home ownership scheme loans	**–**	5 462
	(Decrease)/increase in other payables	**(82 348)**	4 523
		(110 897)	(31 060)

42. SCHEDULE OF DIRECTORS' AND PRESCRIBED OFFICERS' EMOLUMENTS

42.1 EXECUTIVE MEMBERS' REMUNERATION AND PRESCRIBED OFFICERS

	Basic salaries and fees R	Medical aid, group life and provident fund contributions R	Subsistence and travel R	Cell costs R	Bonus R	Total 2017 R	Total 2016 R
Executive Directors							
Mr PK Dlamini	4 744 317	677 724	115 929	–	3 859 158	**9 397 128**	10 070 483
Ms K Naidoo	2 788 869	343 170	118 550	24 000	1 045 850	**4 320 439**	5 237 299
Executive Managers							
Mr PA Currie	2 572 045	316 075	10 510	24 000	1 658 912	**4 581 542**	4 815 899
Mr E Dietrich	2 245 498	521 898	57 469	60 000	1 520 000	**4 404 865**	3 470 163
Mr M Hillary	2 121 998	391 424	10 790	24 000	1 357 959	**3 906 171**	4 199 997
Ms D Mashishi	2 389 643	360 608	27 179	20 000	1 256 113	**4 053 543**	4 291 566
Mr R Shaik	2 196 954	347 943	28 998	60 000	1 203 750	**3 837 645**	3 411 361
Ms S Sibisi	2 204 759	330 137	2 057	44 000	–	**2 580 953**	4 415 080
Mr M Vivekanandan	2 763 211	626 520	88 750	18 000	1 882 560	**5 379 041**	5 837 431
Total	24 027 294	3 915 499	460 232	274 000	13 784 302	**42 461 327**	45 749 279

42.2 REMUNERATION OF NON-EXECUTIVE DIRECTORS AND CO-OPTED MEMBERS OF THE BOARD

	Fees for services as directors R	Subsistence and travel R	**Total 2017 R**	Total 2016 R
Mr PJ Moleketi (Chairman)	997 026	22 919	**1 019 945**	958 568
Mr FM Baleni (Deputy Chairman)	615 069	38 037	**653 106**	651 204
Dr L Bhengu-Baloyi	480 035	–	**480 035**	488 776
Ms T Dingaan[1]	108 029	–	**108 029**	680 520
Mr OA Latiff	–	–	**–**	374 064
Ms B Mabuza	759 110	4 847	**763 957**	500 517
Ms D Marole	684 517	3 071	**687 588**	647 549
Mr A Moloto	597 068	–	**597 068**	583 256
Ms G Mtetwa	895 726	12 930	**908 656**	629 350
Ms A Singh	580 349	3 071	**583 420**	536 372
Prof M Swilling	319 276	–	**319 276**	345 617
Ms M Janse Van Rensburg	714 101	–	**714 101**	117 675
Ms M Vilakazi	–	–	**–**	187 935
Co-opted members				
Prof B Figaji	–	–	**–**	106 348
	6 750 306	84 875	**6 835 181**	6 807 751

1. Ms T Dingaan resigned on 31 May 2016.

43. RISK MANAGEMENT

Market risk is the risk that the Bank's earnings and capital will be adversely affected by movements in the level or volatility of market rates or prices such as interest rates and foreign exchange rates. The overarching objective of market risk management in the Bank is to protect the Bank's net earnings against adverse market movements by containing the innate interest rate and foreign currency risks within acceptable parameters.

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

INTEREST RATE RISK

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

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

The Bank's primary interest rate risk management objective is to protect its net interest income (NII) from adverse fluctuations in market interest rates. To achieve this objective, it is the policy of the Bank to measure and manage its interest rate risk exposure both over the short and long term in order to protect the Bank's earnings stream and ensure its continued financial sustainability. Limits are set both with respect to short-term NII sensitivity using the 12-month cumulative re-pricing gap to total earning assets ratio, and in the longer term, with respect to the portfolio value analysis.

The management of interest rate risk against these limits is supplemented by scenario analysis, which measures the sensitivity of the Bank's NII and market value of equity to extreme interest rate movements. At a minimum, scenarios include hypothetical interest rate shocks both, up and down, of at least 100 basis points.

The re-pricing profile as at financial year-end is encapsulated in the table below. As reflected in the 12-month cumulative re-pricing gap, the Bank is asset sensitive, with an immediate 100 basis points parallel upward or downward shift in the yield curve expected to results in an increase (decrease) in net interest income over the projected 12-month period of approximately R35.97 million (March 2016: R77.8 million).

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43. RISK MANAGEMENT CONTINUED

HEDGING OF INTEREST RATE RISK

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 2017, the Bank had a combined ZAR interest rate and USD interest rate swaps portfolio with a total notional contract amount of R4.85 billion (March 2016: R5.7 billion). The Bank classifies interest rate swaps as fair value hedges and states them at fair value (refer to note 8). The net fair value of these swaps as at 31 March 2017 was R165 million (March 2016: R133 million), comprising assets of R191 million (March 2016: R152 million) and liabilities of R26.3 million (March 2016: R30 million). These amounts are recognised as fair value derivatives.

The table below shows the contractual repricing gap for 31 March 2017:

		Contractual Repricing Gap								
in millions of rands		<1M	1-3M	3-12M	1-2 Yrs	2-3 Yrs	3-4 Yrs	4-5 Yrs	>5 Yrs	Total
Cash and cash equivalents	ZAR	2 132	–	–	–	–	–	–	–	2 132
	USD	166	–	–	–	–	–	–	–	166
Investment: government bonds	ZAR	–	–	–	–	–	–	–	245	245
Development bonds	ZAR	–	–	–	75	–	100	–	1 842	2 017
Development loans	USD	1 604	6 075	6 457	–	–	–	–	943	15 079
	ZAR	4 303	9 962	1 150	438	487	664	3 454	34 050	54 508
Derivative: development loans	ZAR	–	–	–	–	2 000	1 350	500	820	4 670
	USD	–	–	–	–	–	–	–	191	191
	EUR	–	–	–	–	114	–	–	1 825	1 939
Total financial market assets		**8 205**	**16 037**	**7 607**	**513**	**2 601**	**2 114**	**3 954**	**39 916**	**80 947**
CCS: Lines of credit	USD	(15)	(702)	(10)	–	–	–	–	–	(727)
	ZAR	11	(253)	–	–	–	–	–	(608)	(850)
Funding bonds	ZAR	(100)	(8 285)	–	–	(9 228)	–	(897)	(15 079)	(33 589)
Funding: Lines of credit	EUR	–	–	–	–	(114)	–	–	(1 825)	(1 939)
	USD	(6 226)	(458)	(4 089)	–	–	–	–	(770)	(11 543)
	ZAR	–	(410)	(120)	–	–	–	–	–	(530)
Interest rate swaps	ZAR	–	(4 670)	–	–	–	–	–	–	(4 670)
	USD	–	(191)	–	–	–	–	–	–	(191)
Funding: Money market debt	ZAR	(650)	(935)	(1 150)	–	–	–	–	–	(2 735)
Total financial market liabilities		**(6 980)**	**(15 904)**	**(5 369)**	**–**	**(9 342)**	**–**	**(897)**	**(18 282)**	**(56 774)**
Repricing gap		**1 225**	**133**	**2 238**	**513**	**(6 741)**	**2 114**	**3 057**	**21 634**	
Cumulative repricing gap		**1 225**	**1 358**	**3 596**	**4 109**	**(2 632)**	**(518)**	**2 539**	**24 173**	

The table below shows the contractual repricing gap for 31 March 2016

		Contractual Repricing Gap								
in millions of rands		<1M	1-3M	3-12M	1-2 Yrs	2-3 Yrs	3-4 Yrs	4-5 Yrs	>5 Yrs	Total
Cash and cash equivalents	ZAR	1 972	–	–	–	–	–	–	–	1 972
	EUR	1	–	–	–	–	–	–	–	1
	USD	112	–	–	–	–	–	–	–	112
Investment: government bonds	ZAR	–	–	272	–	106	–	–	–	378
Investment: municipal bonds	ZAR	–	–	33	–	75	–	100	1 892	2 100
Development loans	EUR	7	–	–	–	–	–	–	–	7
	USD	2 190	7 110	6 442	–	–	–	–	175	15 917
	ZAR	4 845	11 635	1 033	544	689	634	858	33 332	53 570
Derivative: development loans	EUR	–	–	20	–	–	187	–	2 394	2 601
	USD	–	–	30	–	–	–	–	246	276
	ZAR	–	1 195	–	–	–	3 350	–	–	4 545
Total financial market assets		9 127	19 940	7 830	544	870	4 171	958	38 039	81 479
CCS: Lines of credit	USD	–	(1 136)	(61)	–	–	–	–	–	(1 197)
	ZAR	–	(4 651)	–	–	–	–	–	(853)	(5 504)
Funding bonds	ZAR	–	(8 122)	(292)	–	–	(9 228)	–	(15 755)	(33 397)
Funding: Lines of credit	EUR	–	–	(20)	–	–	(187)	–	(2 394)	(2 601)
	USD	(2 832)	(4 303)	(5 386)	(44)	–	–	–	(576)	(13 141)
	ZAR	–	(488)	(137)	–	–	–	–	–	(625)
Funding: Money market debt	ZAR	–	–	(1 920)	–	–	–	–	–	(1 920)
Total financial market liabilities		(2 832)	(18 700)	(7 816)	(44)	–	(9 415)	–	(19 578)	(58 385)
Repricing gap		6 295	1 240	14	500	870	(5 244)	958	18 461	
Cumulative repricing gap		6 295	7 535	7 549	8 049	8 919	3 675	4 633	23 094	

The above analysis is based on performing assets only. Variable interest rate instruments are included in the maturity bucket in which they re-price. Fixed rate instruments, although not technically subject to re-pricing risk, are included in the maturity bucket in which it matures, due to the assumption that it will be rolled at maturity or that it will be held as cash.

FOREIGN EXCHANGE RISK

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

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

HEDGING OF FOREIGN CURRENCY RISK EXPOSURE

The Bank uses cross currency swaps and forward exchange contracts (FECs) to hedge its foreign currency risk. As at 31 March 2017, the Bank had FECs with a notional amount of R10.9 million (March 2016: R130 million) and cross- currency swaps with a notional amount of R1.56 billion (March 2016: R2.8 billion)

The notional principal amounts indicate the volume of currency hedged liabilities outstanding at the balance sheet date and do not represent the amount at risk. The fair value of derivative financial instruments represents the positive or negative cash flows which would have occurred had the rights and obligations arising from that instrument been closed out in an orderly market at statement of financial position date.

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43. RISK MANAGEMENT CONTINUED

FOREIGN CURRENCY SENSITIVITY ANALYSIS

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

	March 2017		March 2016	
Currency (in thousands of rands)	**EUR**	**USD**	EUR	USD
Cash at bank	**23**	**12 406**	27	882
Loan assets	**264**	**1 123 560**	407	1 077 705
Equity investments	**31 690**	**174 505**	28 560	161 430
Cross-currency swaps	**135 648**	**(52 991)**	154 779	(62 462)
Derivative foreign exchange contracts	**–**	**(1 126)**	–	(9 885)
Liabilities	**(135 658)**	**(860 160)**	(154 779)	(890 057)
	31 967	**396 194**	28 994	277 613

Foreign currency exchange rate (FX) sensitivity analysis

Sensitivity	%	EUR/ZAR	EUR potential impact	USD/ZAR	USD potential impact	FX Sensitivity combined
	(15)	12.1470	(68)	11.4067	(798)	(866)
	(10)	12.8616	(45)	12.0777	(532)	(577)
	(5)	13.5761	(22)	12.7487	(266)	(288)
	–	14.2933	–	13.4197	–	–
	5	15.0052	22	14.0907	266	288
	10	15.7197	45	14.7617	532	577
	15	15.4342	68	15.4327	798	866
Spot exchange rate used	EUR/ZAR	14.2933				
	USD/ZAR	13.4197				

LIQUIDITY RISK

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

In order to shield the Bank against the risk of a liquidity shortfall, the Bank's liquidity risk management policy requires the maintenance of prudential liquidity levels conservatively based on the level of actual disbursements for a rolling 12 months. In addition, in the interest of added prudence, the Bank has adopted the Basel III recommended liquidity risk metrics (the liquidity coverage ratio and the net stable funding ratio as part of the liquidity risk management policy).

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

Total liquidity at 31 March 2017 was R4.56 billion (March 2016: R4.55 billion). This includes cash and cash equivalents of R2.3 billion (March 2016: R2.08 billion), corporate and municipal bonds of R2.02 billion (March 2016: R2.1 billion) and government bonds amounting to R245 million (March 2016: R378 million).

Available Liquidity	**March 2017**	March 2016
High quality liquid assets		
Cash	**2 299 247**	2 084 585
Government bonds	**245 000**	378 000
Other less liquid assets		
SOE bonds	**150 000**	150 000
Municipal bonds	**1 867 000**	1 950 333
Total available liquidity	**4 561 247**	4 562 918

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 2017 was approximately negative R3.02 billion (31 March 2016: negative R3.9 billion).

The table below analyses the contractual liquidity gap for 31 March 2017.

in millions of rands		<1M	1-3M	3-12M	1-2 Yrs	2-3 Yrs	3-4 Yrs	4-5 Yrs	>5 Years	Total
Cash and cash equivalents	ZAR	**2 132**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**2 132**
	USD	**166**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**166**
Investment: government bonds	ZAR	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**245**	**245**
Development bonds	ZAR	**–**	**–**	**–**	**75**	**–**	**100**	**–**	**1 842**	**2 017**
Development loans	USD	**31**	**380**	**1 621**	**2 249**	**2 344**	**2 005**	**1 561**	**4 888**	**15 079**
	ZAR	**27**	**694**	**1 539**	**2 553**	**2 914**	**2 364**	**5 362**	**39 056**	**54 509**
Derivative: Development bonds	EUR	**–**	**74**	**182**	**257**	**234**	**211**	**211**	**770**	**1 939**
Total financial market assets		**2 356**	**1 148**	**3 342**	**5 134**	**5 492**	**4 680**	**7 134**	**46 801**	**76 087**
CCS: Lines of credit	USD	**(15)**	**(54)**	**(64)**	**(108)**	**(108)**	**(108)**	**(108)**	**(162)**	**(727)**
	ZAR	**11**	**(17)**	**(86)**	**(108)**	**(94)**	**(80)**	**(80)**	**(398)**	**(852)**
Funding bonds	ZAR	**–**	**–**	**(2 457)**	**(1 395)**	**(11 816)**	**–**	**(2 842)**	**(15 079)**	**(33 589)**
Funding: Lines of credit	EUR	**–**	**(74)**	**(182)**	**(256)**	**(234)**	**(211)**	**(211)**	**(770)**	**(1 938)**
	USD	**–**	**(421)**	**(3 679)**	**(2 246)**	**(2 234)**	**(823)**	**(448)**	**(1 692)**	**(11 543)**
	ZAR	**–**	**(7)**	**(88)**	**(94)**	**(94)**	**(94)**	**(62)**	**(91)**	**(530)**
Funding: Money market debt	ZAR	**(650)**	**(935)**	**(1 150)**	**–**	**–**	**–**	**–**	**–**	**(2 735)**
Total financial market liabilities		**(654)**	**(1 508)**	**(7 706)**	**(4 207)**	**(14 580)**	**(1 316)**	**(3 751)**	**(18 192)**	**(51 914)**
Liquidity gap		**1 702**	**(360)**	**(4 364)**	**927**	**(9 088)**	**3 364**	**3 383**	**28 609**	
Cumulative liquidity gap		**1 702**	**1 342**	**(3 022)**	**(2 095)**	**(11 183)**	**(7 819)**	**(4 436)**	**24 173**	

Note that the contractual liquidity gap has been adjusted to include the Bank's 2027 zero coupon liability at current book value. This bond contractually matures in 2027 and accrues interest semi-annually toward a maturity value of R7.47 billion.

As per the table above DBSA has a positive cumulative liquidity gap where the contractual inflows exceed outflows across all time buckets. This profile is anticipated due to the nature of the business where the Bank has raised long dated stable funding and generated short-term amortising assets.

There are no behavioural assumptions made on the liquidity gap and all assets and liabilities are disclosed with the underlying contractual maturity as determined by the cash flow profile for each record.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 31 MARCH 2017

43. RISK MANAGEMENT CONTINUED

LIQUIDITY RISK CONTINUED

The table below analyses the contractual liquidity gap for 31 March 2016.

in millions of rands		<1M	1-3M	3-12M	1-2 Yrs	2-3 Yrs	3-4 Yrs	4-5 Yrs	>5 Years	Total
Cash and cash equivalents	ZAR	1 972	–	–	–	–	–	–	–	1 972
	USD	112	–	–	–	–	–	–	–	112
Investment: government bonds	ZAR	–	–	272	–	106	–	–	–	378
Investment: municipal bonds	ZAR	–	–	33	–	75	–	100	1 892	2 100
Development loans	EUR	–	–	1	1	2	2	–	–	6
	USD	485	(776)	1 464	1 977	2 078	2 126	1 760	5 956	15 070
	ZAR	363	2 897	2 320	2 640	2 662	2 710	2 135	38 691	54 418
Derivatives: development bonds	EUR	10	87	224	302	302	275	248	1 153	2 601
	ZAR	–	–	10	5	–	–	–	–	15
Total financial market assets		2 942	2 208	4 324	4 925	5 225	5 113	4 243	47 692	76 672
CCS: Lines of credit	USD	1	(59)	(80)	(129)	(119)	(119)	(119)	(297)	(921)
	ZAR	–	(17)	(91)	(108)	(108)	(94)	(80)	(477)	(975)
Funding bonds	ZAR	–	(2 407)	(4 712)	–	(1 295)	(9 228)	–	(15 755)	(33 397)
Funding: Lines of credit	EUR	(10)	(87)	(224)	(302)	(302)	(275)	(248)	(1 154)	(2 602)
	USD	(59)	(546)	(3 088)	(1 517)	(2 422)	(2 409)	(857)	(2 243)	(13 141)
	ZAR	–	(7)	(88)	(94)	(94)	(94)	(94)	(153)	(624)
Funding: Money market debt	ZAR	–	(1 420)	(500)	–	–	–	–	–	(1 920)
Total financial market liabilities		(68)	(4 543)	(8 783)	(2 150)	(4 340)	(12 219)	(1 398)	(20 079)	(53 580)
Liquidity gap		2 874	(2 335)	(4 459)	2 775	885	(7 106)	2 845	27 613	
Cumulative liquidity gap		2 874	539	(3 920)	(1 145)	(260)	(7 366)	(4 521)	23 092	

Note that the contractual liquidity gap has been adjusted to include the Bank's 2027 zero coupon liability at current book value. This bond contractually matures in 2027 and accrues interest semi-annually toward a maturity value of R7.47 billion.

CREDIT RISK

DEFINITION OF CREDIT RISK

Credit risk is the risk of economic loss should any of the Bank's clients or market counterparties fail to fulfil their contractual obligations. Credit risk is inherent mainly in the Bank's development financing and lending operations as a result of potential counterparty defaults on debt repayments. Credit risk may also arise where the downgrading of a client's rating causes the fair value of the investment in that entity to deteriorate. Credit risk is also manifested as country risk in the event where circumstances arise in a country in which an exposure or counterparty is domiciled, resulting in a reduction of the value of assets. Settlement risk is another form of credit risk, which is the risk of a counterparty failing to deliver cash (securities) due to be delivered at a particular moment in time, following release of the corresponding cash (securities) by the Bank in settlement of a transaction.

MANAGEMENT OF CREDIT RISK

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

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

CREDIT RISK OVERSIGHT, GOVERNANCE AND ASSURANCE

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

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

Credit risk assurance: The quality of credit risk management is assured through the centralised Group Risk Assurance division, responsible for the development of policy, models and standards in support of the efficient and effective management of credit risk. Credit analysts, who report to Financing Operations division, have been deployed as a first line of defence to provide an objective view of the quality of individual credits under consideration. This team also works closely with the frontline to monitor the performance of assets post-approval on an ongoing basis.

CREDIT RISK RATINGS

CREDIT RISK RATINGS, PRICING AND MITIGATION

Obligor credit risk ratings: The Bank is not regulated by the SARB under the Banks Act, but rather by the DBSA Act, and as such is not formally obligated to comply with Basel II Pillar 1 requirements. However, as a leveraged financial institution, prudence requires it to maintain the adequate levels of capital to cover for expected losses. The Bank does comply with Basel standards in the development of risk models as industry best practice rather than for regulatory purposes. The key variables in the Bank's quantitative assessment of expected loss and by implication in setting risk- adjusted pricing are:

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

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

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

COUNTRY RISK RATINGS

Country risk ratings: The Bank has implemented an internal country risk rating model which uses external ratings agency ratings as well as economic data from various sources such as International Monetary Fund and the World Bank. The Country Risk Technical Committee reviews the country ratings on an annual basis or as necessary in accordance with rating schedules or rapid reviews where the risk profile changes materially over a shorter period. The country risk rating methodology considers solvency, liquidity, economic and political issues to risk rate countries and generate probability of default. The model inputs are continuously updated to reflect economic and political changes in individual countries. The Bank's country risk limits are calculated using sovereign risk ratings in conjunction with debt absorption capacity of countries as measured by the gross domestic product. The limits therefore consider the economic strength of countries ensuring that country exposures are related to the degrees of perceived risk as well as the country's debt absorption capacity. Using PD and LGD in the calculation of the risk limits per country, the limits set are also subject to the availability of capital and the number of simultaneous defaults that can be absorbed by that capital. All limits are set in line with the approved risk appetite.

A key element of DBSA's internal risk rating and pricing model is the PD master rating scale as shown overleaf. This scale has been developed to distinguish meaningful differences in the probability of default risk throughout the risk range. The banding estimates are derived from internal data which is based on the performance of the Bank's loan book. The master-scale is comparable and has been approximately benchmarked to rating agencies as well as similar financial institutions.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 31 MARCH 2017

43. RISK MANAGEMENT CONTINUED

CREDIT RISK RATINGS CONTINUED

Rating grade	Mid joint PD (%)	Lower bound PD (%)	Upper bound PD (%)	Mapping to S&P	Mapping to Moody's
MS 1	0.01	-	0.02	AAA	Aaa
MS 2	0.02	0.02	0.03	AA+	Aa1
MS 3	0.03	0.03	0.04	AA	Aa2
MS 4	0.04	0.04	0.05	AA-	Aa3
MS 5	0.05	0.05	0.06	A+	A1
MS 6	0.06	0.06	0.08	A	A2
MS 7	0.10	0.08	0.14	A-	A3
MS 8	0.17	0.14	0.24	BBB	Baa1
MS 9	0.30	0.24	0.40	BBB	Baa2
MS 10	0.50	0.40	0.68	BBB-	Baa3
MS 11	0.85	0.68	1.13	BB+	Ba1
MS 12	1.40	1.13	1.90	BB	Ba2
MS 13	2.40	1.90	3.20	BB-	Ba3
MS 14	4.00	3.20	5.50	B+	B1
MS 15	7.00	5.50	9.50	B	B2
MS 16	12.00	9.50	16.00	B-	B3
MS 17	58.00	16.00	99.99	CCC	Caa etc
Default	100.00	99.99	100.00	Default	D

PRICING OF LOANS

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

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

Further enhancements to the pricing model were carried out in the 2016/17 financial year to improve the output information including measures such as ROE, ROA, RAROC, ROEC and economic profit. This will enable the setting of hurdle rates specific to types of business with different economic return vs developmental return. Further enhancements to the pricing model include products other than loans. The latest version of the pricing model will be implemented in the 2017/18 financial year.

CREDIT RISK MODELS

The credit risk models (PD, LGD, and EAD) for all major portfolios of the DBSA loan book (Municipal, Balance Sheet Lending and Project Finance) were subjected to review and further development during the 2016/17 financial year.

This is required to be carried out on a three-year cycle for governance purposes and approved by the Risk Models Technical Committee which is a sub-committee of the Investment Committee. The review and further development was embarked upon in conjunction with KPMG. Substantial improvements were made to the functional capabilities of the models to cater for possible financial structures and changes in environment.

The new versions of the models are more adaptable and predictive. The models were recalibrated to current performance of the DBSA loan book and larger benchmark portfolios. Future enhancements have been earmarked for consideration of IFRS9 implications. The new versions of the credit risk models were successfully approved by the Technical Committee and implemented. Performance of these models will be tracked as part of the governance requirements.

CREDIT RISK MITIGATION

In addition to pricing for risk, the Bank uses a wide range of instruments to enhance the quality of credit and/or reduce the expected losses in its lending portfolio. The amount and type of credit risk mitigation depends on the asset quality and nature of each transaction. Collateral and guarantees are used by the Bank for credit risk mitigations. The main types of collateral taken comprise mortgage bond over commercial and industrial properties, bonds over plant and equipment, and the underlying moveable assets financed. The Bank also uses various forms of specialised legal agreements like guarantees and similar legal contracts in support of credit extension, where necessary.

CREDIT RISK MONITORING, MEASUREMENT AND REPORTING

The Bank dedicates considerable resources to monitor the quality of credit throughout the life time of assets and measure the exposure and performance of assets across portfolios.

At individual level:

- Performance of credit is monitored and reported in terms of adherence to terms and conditions;
- Credit risk ratings are updated on an annual basis;
- Potential problem loans are identified based on early indications of distress and placed on a credit watch list;
- Non-performing accounts are transferred for independent workout and recovery;
- Financial covenants are an important tool for credit mitigation within the DBSA in monitoring the quality and performance of counterparties; and
- A watch list process is in place where clients that are in stress, or where there are signs of possible future stress due to changing operating environment, are monitored closely and strategies are put in place to minimise the possibility of default.

At portfolio level:

- Limits are established within the Bank's risk appetite to monitor and control the aggregate amount of risk that the Bank is taking on; and
- Overall performance of portfolios is measured and reported on a quarterly basis in terms of standard KPIs.

CREDIT RISK EXPOSURE

MAXIMUM EXPOSURE

The Bank prepares monthly financial results as well as quarterly financial statements. These results are crucial for internal decision making. Consequently, it is imperative that the asset portfolio be comprehensively reviewed and significant risk indicators impacting the valuations and impairments be reflected timeously and adequately in the financial results. As a result, regular reviews are conducted on the loans and equities portfolio. The Back Office team reviews the accounting implications of credit risk and investment specific factors within the portfolio on a monthly basis. This ensures that the effect of the changes reported in the monthly financial results and quarterly financial statements are on a proactive and timely basis.

These reviews are conducted as part of and in complementing the Investment Committee process. The following factors are reviewed: global and local economic factors, observable and unobservable market factors, asset specific factors affecting portfolio impairment levels, fair values and discount rates with the objective of ensuring that risk in the asset portfolio is adequately, fairly and timely reflected in the DBSA's results. The reviews include assessment of the impairment triggers and reversals within the asset portfolio, review of performance of the equity portfolio on a regular basis with the asset managers. In addition the Impairment Working Group and Watch list meetings are held monthly.

	March 2017			March 2016		
in thousands of rands	**Gross amount**	**Allowance for credit losses**	**Carrying amount**	Gross amount	Allowance for credit losses	Carrying amount
(a) Development loans						
Non-performing book						
Municipalities	**341 565**	**168 498**	**173 067**	423 610	225 756	197 854
Other	**2 145 391**	**1 149 163**	**996 228**	2 283 556	1 293 164	990 392
	2 486 956	**1 317 661**	**1 169 295**	2 707 166	1 518 920	1 188 246
Performing book						
Low risk						
Municipal	**16 005 279**	**13 871**	**15 991 408**	17 165 549	18 432	17 147 117
Other	**2 752 658**	**3 847**	**2 748 811**	2 202 931	13 969	2 188 962
Medium risk						
Municipal	**10 326 671**	**19 748**	**10 306 923**	6 582 197	152 606	6 429 591
Other	**28 745 052**	**655 183**	**28 089 869**	33 805 013	628 021	33 176 992
High risk						
Municipal	**333 441**	**21 298**	**312 143**	418 762	40 412	378 350
Other	**15 017 169**	**1 645 759**	**13 371 410**	10 418 916	994 630	9 424 286
	73 180 270	**2 359 706**	**70 820 564**	70 593 368	1 848 070	68 745 298
Total book debt	**75 667 226**	**3 677 367**	**71 989 859**	73 300 534	3 366 990	69 933 544

NOTES TO THE ANNUAL FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 31 MARCH 2017

43. RISK MANAGEMENT CONTINUED

CREDIT RISK EXPOSURE CONTINUED

MAXIMUM EXPOSURE CONTINUED

The following types of collateral are held in respect of the above loans: guarantees, cession of debtors, cession of income streams, mortgages, investments, notarial bonds, sinking fund investments, promissory notes, insurance policies and treaty obligations.

	March 2017			March 2016		
in thousands of rands	**Gross amount**	**Allowance for credit losses**	**Carrying amount**	Gross amount	Allowance for credit losses	Carrying amount
Geographical analysis of development loans						
Non-performing book						
South Africa	**1 472 919**	**805 665**	**667 254**	1 778 663	1 085 773	692 890
Rest of Africa	**1 014 037**	**511 996**	**502 041**	928 503	433 147	495 356
Total	**2 486 956**	**1 317 661**	**1 169 295**	2 707 166	1 518 920	1 188 246
Performing book						
South Africa	**56 584 520**	**482 290**	**56 102 230**	53 333 488	476 380	52 857 108
Rest of Africa	**16 595 750**	**1 877 416**	**14 718 334**	17 259 880	1 371 690	15 888 190
Total	**73 180 270**	**2 359 706**	**70 820 564**	70 593 368	1 848 070	68 745 298
Grand total	**75 667 226**	**3 677 367**	**71 989 859**	73 300 534	3 366 990	69 933 544

Impairment balance sheet (excluding interest in suspense (March 2017: R462.7 million (2016: R438.6 million))

in thousands of rands	**2017**	2016
Identified impairments		
Performing loans	**1 016 229**	656 434
Non-performing loans	**1 317 661**	1 518 920
Total	**2 333 890**	2 175 354
Unidentified impairments		
Model driven	**1 343 477**	1 191 636
Grand total	**3 677 367**	3 366 990

	March 2017			March 2016		
in thousands of rands	**Gross amount**	**Allowance for credit losses**	**Carrying amount**	Gross amount	Allowance for credit losses	Carrying amount
(b) Development bonds						
Performing						
Municipal	**1 290 607**	**288**	**1 290 319**	1 290 466	170	1 290 296

The maximum exposure relating to development bonds is R1.3 billion (March 2016: R1.3 billion).

	in thousands of rands	March 2017 Gross amount	March 2017 Allowance for credit losses	March 2017 Carrying amount	March 2016 Gross amount	March 2016 Allowance for credit losses	March 2016 Carrying amount
(c)	**Other receivables:**						
	Performing book						
	Trade debtors – 90 days and above	**12 350**	**2 265**	**10 085**	8 557	2 942	5 615
	Other debtors: 90 days and above	**356**	**–**	**356**	9 808	–	9 808
		12 706	**2 265**	**10 441**	18 365	2 942	15 423
	Performing book						
	Trade debtor: 30 days	**42 264**	**–**	**42 264**	46 600	–	46 600
	Other debtors: 30 days	**1 558**	**–**	**1 558**	2 867	–	2 867
	Trade debtors: 30 to 60 days	**6 939**	**–**	**6 939**	15 841	–	15 841
	Other debtors: 30 to 60 days	**–**	**–**	**–**	658	–	658
	Trade debtors: 60 to 90 days	**1 806**	**–**	**1 806**	171	171	–
	Other debtors: 60 days – 90 days	**–**	**–**	**–**	27	–	27
		52 567	**–**	**52 567**	66 164	171	65 993
	Staff and study loans	**37**	**–**	**37**	21	–	21
	Municipal deposits	**88**	**–**	**88**	480	–	480
	Prepaid expenses	**10 627**	**–**	**10 627**	13 144	–	13 144
		10 752	**–**	**10 752**	13 645	–	13 645
	Total book debt	**76 025**	**2 265**	**73 760**	98 174	3 113	95 061

	in thousands of rands	2017	2016
(d)	**Commitments (loans signed, but not yet fully disbursed)**		
	Low risk		
	Municipal	**106 002**	90 710
	Other	**1 040 000**	61 500
	Medium risk		
	Municipal	**39 453**	684 743
	Other	**6 869 294**	5 874 376
	High risk		
	Other	**948 316**	716 276
		9 003 065	7 427 605
(e)	**Guarantees**	**172 938**	94 099

	in thousands of rands	March 2017 Total	March 2017 3 months	March 2017 3-6 months	March 2017 6-12 months	March 2017 > 12 months	March 2016 Total	March 2016 3 months	March 2016 3-6 months	March 2016 6-12 months	March 2016 > 12 months
(f)	**Loans that are past due not individually impaired**										
	Overdue amounts	**593 301**	**435 195**	**131 757**	**25 174**	**1 175**	448 306	415 095	9 723	23 488	-
	Not yet due	**11 480 808**					11 159 899				
		12 074 109					11 608 205				

An amount of R239 million was received after the reporting date but before the authorisation of the Annual Financial Statements.

The fair value of collateral held in respect of the above amounted to R223 million (2016: R290 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.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 31 MARCH 2017

43. RISK MANAGEMENT CONTINUED

CREDIT RISK EXPOSURE CONTINUED

MAXIMUM EXPOSURE CONTINUED

	in thousands of rands	2017	2016
(g)	**Financial counterparty exposure**		
	Bonds	**2 023 445**	2 069 136
	Derivatives	**704 341**	1 134 255
	Cash and money markets	**2 299 247**	2 084 565
		5 027 033	5 287 956

CAPITAL MANAGEMENT

The Bank embarked on a project to improve Capital and Balance Sheet Management by aligning the Bank's framework to international best practice. The framework largely borrows from Basel accord in so far as risk quantification and capital allocation are concerned. The solution has been customised to take into account the developmental nature of the Bank. The framework has been developed and the project will now move into the implementation phase. The following key benefits and outcomes are foreseen:

- Improved measurement of portfolio risk that will allow the Bank to allocate capital more effectively to business/projects on an ongoing basis
- Detailed assessment and quantification of credit, operational and market risks.
- Risk capital forecasting.
- Risk capital stress testing.
- Divisional performance reporting (move to risk performance measurement).

The above will ensure efficient utilisation of capital to support the Bank in implementing its strategy and ensuring long-term financial sustainability.

44. NON-CURRENT ASSET HELD-FOR-SALE

During a previous financial year, as a result of calling on its security against a loan in default, the Bank obtained a 100% shareholding in a property investment company with a view to sell. This investment was classified as a non-current asset held-for-sale, as it is the Bank's intention to dispose of the investment within 12 months. The value of the asset at the reporting date is R2 (March 2016: R2).

45. RELATED PARTIES

45.1 RELATED PARTY RELATIONSHIPS

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

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

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

The DBSA has a 100% shareholding in Frandevco.

45.2 TRANSACTIONS WITH RELATED PARTIES

The following is a summary of transactions with related parties during the year and balances due at the end of the year:

45.2.1 NATIONAL PUBLIC ENTITIES

The total book debt of loans extended to national public entities amounts to R15.8 billion (March 2016: R15.9 billion). None of these loans are non-performing.

45.2.2.NATIONAL MANDATES

The net amount advanced to national mandates at year-end amounted to R41 million (March 2016: R44 million).

45.2.3 BRICS

There were no amounts paid to National Treasury for expenses relating to the BRICS programme during the year (March 2016: RNil).

45.2.4 FRANDEVCO

The Bank has 100% shareholding in Frandevco (March 2016: 100%).

There were no transactions with Frandevco during the year (March 2016: RNil).

45.2.5 RELATED PARTY TRANSACTIONS

There were no related party transactions with directors and key management personnel during the year (March 2016: RNil).

in thousands of rands	2017	2016
46. CONTINGENCIES		
46.1 GUARANTEES		
The Bank has approved and issued guarantees on behalf of borrowers amounting to:	**172 938**	94 099
After consideration by management it was decided that these borrowers are unlikely to default and therefore these guarantees were not recognised in the statement of financial position as a liability.		
The book debt to the credit provider is:	**172 938**	94 099
46.2 CONTINGENT LIABILITIES		
The Bank operates in a legal and regulatory environment that exposes it to litigation risks. As a result the Bank is involved in disputes and legal proceedings which arise in the ordinary course of business. The Bank does not expect the ultimate resolution of any of the proceedings to have a significant adverse effect on the financial position of the Bank. These claims cannot be reasonably estimated at this time.		
47. COMMITMENTS		
At the reporting date, the Bank had the following commitments:		
Development loan commitments	**9 003 065**	7 427 605
Development expenditure	**37 644**	82 652
Project preparation expenditure	**91 370**	63 636
Equity investments commitments	**1 214 247**	1 612 185
Capital commitments	**66 200**	113 000
	10 412 526	9 299 078

47.1 DEVELOPMENT LOAN COMMITMENTS

As the disbursement pattern for loans committed but not disbursed is a primary function of individual borrowers' implementation and administrative capacities, this pattern is not quantifiable. Loan commitments are to be financed from funds generated from operations and funds raised from local financial markets and foreign sources.

47.2 DEVELOPMENTAL EXPENDITURE

Developmental expenditure on loan commitments approved but not yet contracted are to be financed from funds generated from operations and available cash resources.

47.3 PROJECT PREPARATION EXPENDITURE

Project preparation expenditure, approved but not yet disbursed, are to be financed from funds generated from operations and available resources.

47.4 EQUITY INVESTMENT COMMITMENTS

Commitment relates to private equity funds approved but not yet disbursed.

47.5 CAPITAL COMMITMENTS

Capital expenditure is in respect of property, plant and equipment and intangible assets authorised, but not contracted for. These commitments will be financed from available cash resources, funds generated from operations and available borrowing capacity. These commitments are expected to be settled in the following financial year.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 31 MARCH 2017

	in thousands of rands	2017	2016
48.	**FINANCE LEASE OBLIGATION**		
	Minimum lease payments due		
	– within one year	**563**	514
	– in second to fifth year inclusive	**508**	1 074
	Total	**1 071**	1 588
	The Bank has entered into commercial lease on property. These leases have an average life of between three and five years with no renewal option or option to acquire the assets at termination date included in the contracts. There are no restrictions placed upon the Bank by entering into these leases.		
49.	**IRREGULAR, FRUITLESS AND WASTEFUL EXPENDITURE**		
	Fruitless and wasteful expenditure	**20**	143
	Irregular expenditure	**929**	–
		949	143
	Details of Fruitless and Wasteful expenditure		
	Missed flights and fee charged on the late cancellation of a disciplinary hearing chaired by an external party	**19**	–
	Interest on late payments	**1**	–
	IT system error – Trade and other receivables	**–**	143
		20	143
	Details of irregular expenditure		
	Supply chain management variation orders	**929**	–
		929	–
	Two (2) incidents of fruitless and wasteful expenditure occurred during the year. One (1) incident is being negotiated with the utility company and no disciplinary action was taken. In the second incident, no disciplinary action was taken because there was no longer a need for disciplinary hearing services chaired by an external party. Three (3) incidents of irregular expenditure occurred during the year under review. Disciplinary action was taken on two (2) incidents and on the third incident no disciplinary action was taken, because the incident resulted from a change in business requirements.		
50.	**FUNDS ADMINISTERED ON BEHALF OF THIRD PARTIES**		
	Balance at the beginning of the year	**746 366**	626 064
	Funds received	**2 321 002**	2 379 670
	Interest, foreign exchange and other movements	**93 439**	149 174
	Funds disbursed	**(2 211 966)**	(2 408 542)
	Balance at the end of the year	**948 841**	746 366

51. THIRD PARTY MANAGED FUNDS COST RECOVERED

in thousands of rands	2017	2016
Third party funds and mandates		
African Peer Review Mechanism (APRM)	**(1)**	3 420
African World Heritage Fund (AWHF)	**5 653**	4 904
Anglo American	**5 355**	6 722
Cities Project Preparation Facility (CPPF)	**5 173**	5 013
Department of Basic Education for Accelerated Infrastructure Schools Programme	**7 446**	6 960
Department of Rural Development & Land Reform	**–**	1 043
Department of Trade and Industry	**–**	3 454
Eastern Cape Department of Education	**–**	15 907
Ekurhuleni Metropolitan Municipality	**747**	13 340
Elliotdale Human Rural Settlement (EHRS)	**52**	917
European Investment Bank (EIB)	**–**	607
Green Fund	**10 589**	15 415
GTAC – IPP Office	**81 982**	59 495
Infrastructure Delivery Improvement Programme (IDIP)	**788**	5 120
Infrastructure Investment Programme for South Africa (IIPSA)	**3 532**	4 122
Investment Climate Facility (Anglo)	**76**	516
KFW/VCT II – HIV Prevention by Voluntary Counselling and Testing Programme	**1 569**	1 742
KFW SADC Water Fund	**2 189**	1 548
Limpopo Department of Health	**–**	873
Limpopo Department of Public Works	**2 114**	3 396
Municipal Infrastructure Support Agency (MISA)	**858**	852
National Department of Health	**9 137**	17 904
National Treasury Cities Support Programme (NTCSP)	**3 532**	3 524
National Treasury – the Power Producer Projects unit (PPP)	**–**	1 090
New Partnership for Africa's Development (NEPAD)	**–**	3 762
Pan African Capacity Building Platform (PACBP)	**3 250**	3 062
Southern African Development Community Secretariat	**–**	24
Spatial Development Initiatives (SDI)	**–**	1 244
Timbuktu Mali	**–**	6
	144 041	185 982
Third party managed funds managed per division		
Financing Operations	**96 105**	81 800
Finance	**8 901**	15 150
Infrastructure Delivery	**33 862**	84 019
South Africa Financing	**5 173**	5 013
	144 041	185 982
Cost recovery for each division		
Corporate Services	**140 569**	168 309
Financing Operations	**307**	2 359
Infrastructure Delivery	**3 165**	15 132
South Africa Financing	**–**	182
	144 041	185 982

NOTES TO THE ANNUAL FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 31 MARCH 2017

52. TAXATION

The Bank is exempt from South African 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. The Bank is registered for VAT, PAYE, SDL and UIF.

53. EVENTS AFTER THE REPORTING PERIOD

APPROVAL OF FINANCIAL STATEMENTS

There were no adjusting events that occurred after the reporting date.

DISPOSAL OF EQUITY INVESTMENT

The Bank anticipates to dispose 50% of one of its equity investments. The exit price will be based on the March 2017 valuation and was approved in May 2017.

CREDIT RATING DOWNGRADE

The DBSA credit rating was downgraded following the sovereign credit downgrade. The short-term risk associated with the downgrade to the DBSA relates to the dollar book and at this point is largely restricted to a non-material incremental cost to the organisation.

54. COMPARATIVE FIGURES

Certain comparative figures have been reclassified.

ABBREVIATIONS AND ACRONYMS

AADFI	Association of African Development Finance Institutions
AFD	Agence Française de Développement
AfDB	African Development Bank
AUCO	Asset and Liability Management Committee
ASIDI	Accelerated Schools Infrastructure Delivery Initiative
B-BBEE	Broad-Based Black Economic Empowerment
BRIC	Brazil, Russia, India and China
BRICS	Brazil, Russia, India, China and South Africa
BSC	Balanced Scorecard
COMESA	Common Market for Eastern and Southern Africa
DBE	Department of Basic Education
DBSA	Development Bank of Southern Africa Limited
DFID	The United Kingdom's Department for International Development
DFRC	Development Finance Resource Centre
DIRCO	Department of International Relations and Cooperation
DTI	Department of Trade and Industry
EAD	Exposure at default
ECOWAS	Economic Community of West African States
EIB	European Investment Bank
EPC	Engineering, procurement and construction
GDP	Gross domestic product
IASB	International Accounting Standards Board
ICAS	Independent Counseling and Advisory Services
ICT	Information and communications technology
IDIP	Infrastructure Delivery Improvement Programme
IFRS	International Financial Reporting Standards
IIPSA	Infrastructure Investment Programme for South Africa
IPP	Independent Power Producers
IRBA	Independent Regulatory Board for Auditors
JICA	Japan International Cooperation Agency
KfW	The German agency Kreditanstalt für Wiederaufbau
LGD	Loss given default
MIG	Municipal Infrastructure Grant
MISA	Municipal Infrastructure Support Agency
MTEF	Medium-Term Economic Framework
NDP	National Development Plan
NEPAD	New Partnership for Africa's Development
NII	Net Interest Income
NSC	North-South Corridor

ABBREVIATIONS AND ACRONYMS CONTINUED

NTCSP	National Treasury Cities Support Programme
PD	Probability of default
PEG	Price Earnings Growth
PFMA	Public Finance Management Act, No 1 of 1999
PICC	Presidential Infrastructure Coordinating Commission
PPP	Public/private partnership
PRASA	Passenger Rail Agency of South Africa
REIPPP	Renewable Energy Independent Power Producers Procurement
SA Inc.	South Africa Incorporated
SADC	Southern African Development Community
SANRAL	South African National Roads Agency Limited
SIP	Strategic integrated project
SMME	Small, medium and micro-enterprise
SOC	State-owned company
UNOPS	United Nations Office for Project Services

FINANCIAL DEFINITIONS

Callable capital	The authorised but as yet unissued share capital of the DBSA
Cost-to-income ratio	Operating expenses, including personnel, other, depreciation and amortisation expenses, as a percentage of income from operations
Income from operations	Net interest income, net fee income and other operating income
Interest cover	Interest income divided by interest expense
Long-term debt/equity ratio	Total liabilities, excluding other payables, provisions and liabilities for funeral benefits, as a percentage of total equity
Debt/equity ratio (including callable capital)	Total liabilities, excluding other payables, provisions and liabilities for funeral benefits, (including callable capital), as a percentage of total equity and callable capital
Net interest margin	Net interest income as a percentage of interest income
Return on average assets	Net profit or loss for the year expressed as a percentage of average total assets
Return on average equity	Net profit or loss for the year expressed as a percentage of average total equity
Sustainable earnings	Profit or loss from operations before grants, net foreign exchange gain/(loss) and net gain/(loss) from financial assets and financial liabilities, including revaluation on equity investments

GENERAL INFORMATION

Registered office	Headway Hill 1258 Lever Road, Midrand, Johannesburg, South Africa
Postal address	PO Box 1234 Halfway House 1685 South Africa
Banker	The Standard Bank of South Africa
Auditor	Nkonki Inc. Registered Auditor
Company registration number	1600157FN
Preparer	The Annual Financial Statements were compiled under the supervision of the Acting Chief Financial Officer, Zodwa Mbele CA (SA)
Telephone Fax Home page	+ 27 11 313 3911 + 27 11 313 3086 www.dbsa.org

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