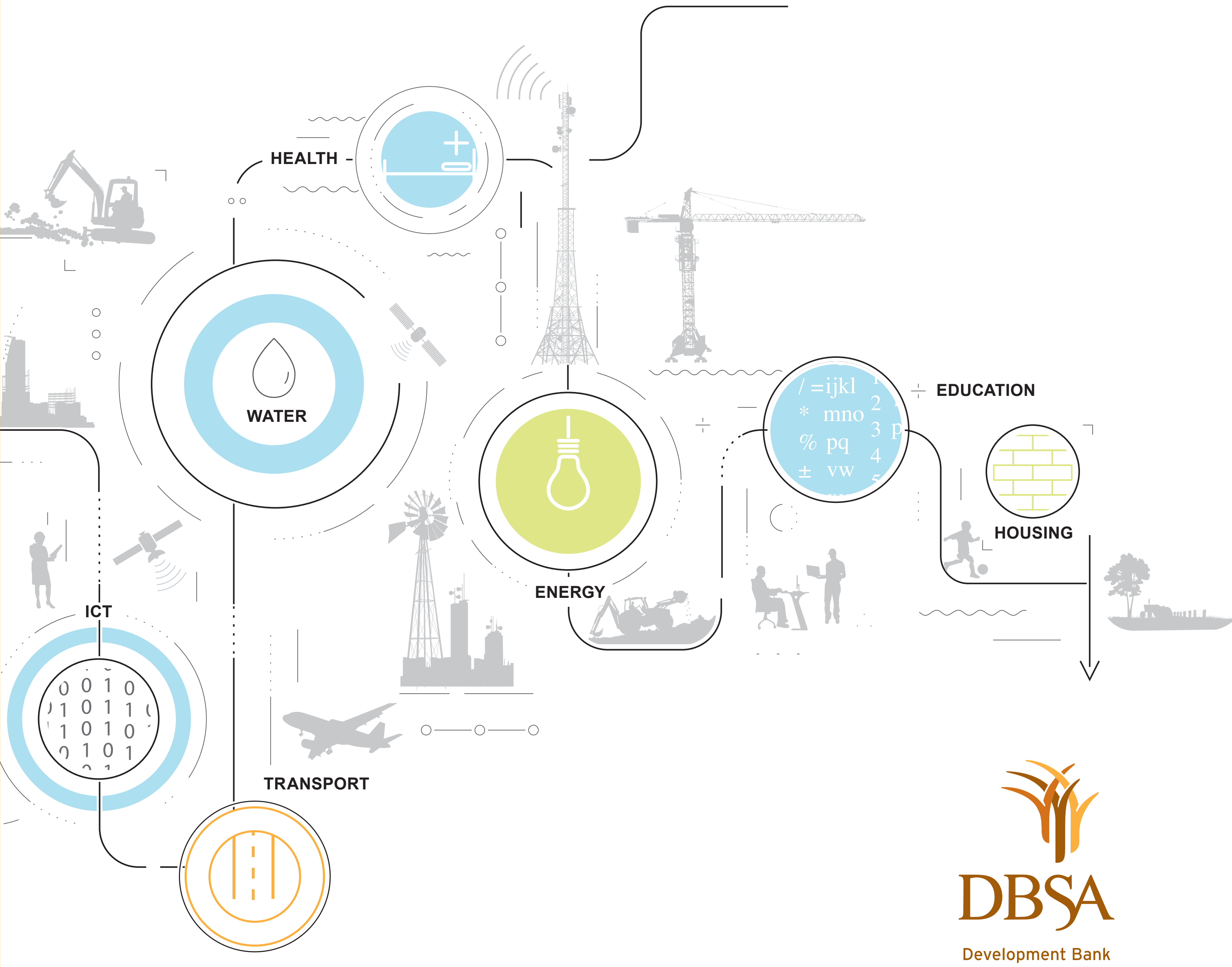
Make change happen

WE CHALLENGE LIMITING CONVENTION TODAY,
TO CREATE LIBERATING CHANGE TOMORROW



DBSA

Development Bank
of Southern Africa

2016 ANNUAL FINANCIAL STATEMENTS

CONTENTS

The reports and statements set out below comprise the annual financial statements presented to the shareholder:

Indicates a website reference where more information can be found.

Indicates a page or note reference of information which can be found elsewhere in this reporting suite.

www.dbsa.org

OUR REPORTING SUITE FOR 2016 CONSISTS OF THREE REPORTS

THE 2016 INTEGRATED ANNUAL REPORT, WHICH IS OUR PRIMARY COMMUNICATION WITH ALL STAKEHOLDERS.

THESE 2016 ANNUAL FINANCIAL STATEMENTS, WHICH INCLUDE THE DIRECTORS' REPORT AND THE INDEPENDENT AUDITOR'S REPORT.

THE 2016 SUSTAINABILITY REVIEW REPORT, WHICH PROVIDES FURTHER INFORMATION ON OUR SUSTAINABILITY PERFORMANCE.

Other enhancements made to our integrated reporting are detailed on page 54 of the Integrated Annual Report.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL REPORTING

FOR THE YEAR ENDED 31 MARCH 2016

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

In preparing the annual financial statements:

- The Development Bank of Southern Africa Act, No 13 of 1997 has been adhered to;
- The Public Finance Management Act (PFMA), No 1 of 1999 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 DBSA'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 DBSA 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 10 to 65 were approved by the Board of Directors on 7 July 2016 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 PARLIAMENT
FOR THE YEAR ENDED 31 MARCH 2016

REPORT ON THE ANNUAL FINANCIAL STATEMENTS

INTRODUCTION
We have audited the annual financial statements of the Development Bank of Southern Africa as set out on pages 10 to 65, which comprise the statement of financial position as at 31 March 2016, the statement of comprehensive income, statement of changes in equity and the statement of cash flows for the year then ended and the notes, comprising a summary of significant accounting policies and other explanatory information.

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

AUDITOR'S RESPONSIBILITY
Our responsibility is to express an opinion on these annual financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the annual financial statements are free from material misstatement.

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

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

OPINION
In our opinion, the annual financial statements present fairly, in all material respects, the financial position of the Development Bank of Southern Africa as at 31 March 2016 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 and section 27 to 31 of the Companies Act.

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

OTHER REPORTS REQUIRED BY THE COMPANIES ACT
As part of our audit of the annual financial statements for the year ended 31 March 2016, we have read the Directors' Report and the Audit and Risk Committee's report for the purpose of identifying whether there are material inconsistencies between these reports and the audited annual financial statements. These reports are the responsibility of the respective preparers. Based on reading these reports we have not identified material inconsistencies between these reports and the audited annual financial statements. However, we have not audited these reports and accordingly do not express an opinion on these reports.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS
In accordance with the Public Audit Act, No 25 of 2004 and the general notice issued in terms thereof, we have a responsibility to report findings on the reported performance information against predetermined objectives for the selected objectives presented in the integrated annual report, non-compliance with legislation and internal control. We performed tests to identify reportable findings as described under each subheading but not to gather evidence to express assurance on these matters. Accordingly, we do not express an opinion or conclusion on these matters.

PREDETERMINED OBJECTIVES
We performed procedures to obtain evidence about the usefulness and reliability of the reported performance information for the following selected objectives presented in the annual performance report of the DBSA for the year ended 31 March 2016:
- Objective 1: Sustained growth in development impact on page 6;
- Objective 2: Integrated infrastructure solutions provider on page 6;
- Objective 3: Maintain financial sustainability on page 6; and
- Objective 4: Provide innovative infrastructure solutions on page 6.

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

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

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

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

ACHIEVEMENT OF PLANNED TARGETS
Refer to the annual performance report on page 6 for information on the achievement of planned targets for the year. This information should be considered in the context of the conclusions expressed on the usefulness and reliability of the reported performance information in page 6 of this report.

INDEPENDENT AUDITOR'S REPORT TO PARLIAMENT CONTINUED
FOR THE YEAR ENDED 31 MARCH 2016

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

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

Nkonki Inc.

Nkonki Inc.
Per Zakhele Nkosi
Partner
Registered Auditor

29 July 2016

1 Simba Road
Sunninghill
Johannesburg
2157

DIRECTORS' REPORT

FOR THE YEAR ENDED 31 MARCH 2016

The Directors have pleasure in presenting this report as part of the annual financial statements of the Development Bank of Southern Africa (DBSA) for the year ended 31 March 2016.

NATURE OF BUSINESS

The DBSA was reconstituted in terms of the Development Bank of Southern Africa Act No 13 of 1997, as amended, as a development finance institution wholly owned by the South African government. The geographic mandate of the DBSA has been extended beyond the Southern African Development Community (SADC) to any country on the African continent and its oceanic islands. The DBSA 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, adviser, partner, implementer and integrator to the benefit of its clients.

CORPORATE GOVERNANCE

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

FINANCIAL RESULTS AND ACTIVITIES

The financial results of the DBSA are fully disclosed on pages 10 to 65. The key financial indicators for the year under review are:

- Operating income rose on the back of an increase in net interest income to R3.2 billion; (2015: R2.3 billion), increase in foreign exchange gains to R1 billion (2015: R490 million) and gains from financial assets and liabilities of R442 million (2015: loss of R300 million);
- Cost-to-income ratio decreased to 28.7% (2015: 34.4%). The decrease is due to the combination of an increase in net interest income and operating expenses;
- The DBSA returned net profit of R2.6 billion (2015: R1.2 billion);
- Development loans, bonds and equity investments disbursed increased by 32% to R17.1 billion (2015: R13.0 billion);
- Provision for loan impairment increased by 30% to R3.8 billion (2015: R2.9 billion). Although the provision for loan impairment increased, the quality of the loan book remains within acceptable parameters with non-performing loans at 3.7% of the total loan book (2015: 5.1%); and
- Debt-to-equity ratio improved to 177.8% (2015: 195.7%).

Summarised information on the financial performance of the DBSA is included in the unaudited financial overview section on pages 43 to 51 of the Integrated Annual Report.

HIGH-LEVEL PERFORMANCE OVERVIEW

The DBSA's strategy highlights the importance of achieving development impact while maintaining financial sustainability. The Balanced Scorecard (BSC) methodology is utilised to implement and monitor strategy. To this end, corporate strategic objectives and targets are developed and approved by the Board of Directors. The table overleaf compares the planned and related actual performance on the high-level corporate strategic objectives for 2016.

The DBSA continued to achieve good results during 2016, meeting most of its strategic objectives whilst the targets for the following key performance indicators were not met:

- Disbursements to secondary and under-resourced 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 rest of 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; and
- Fees generated based on new products launch. Underperformance was mainly due to the complexities in identifying and developing new products in the market in which we operate. The DBSA will continue to actively increase its efforts to maximise non-interest income.

DIRECTORS' REPORT CONTINUED
FOR THE YEAR ENDED 31 MARCH 2016

PERFORMANCE INFORMATION

Strategic objective	Key performance indicator	Target	Results
Sustained growth in development impact **Integrated infrastructure solutions provider**	**Total infrastructure financing**	**R17 800 million**	**R17 085 million**
	South Africa	**R12 800 million**	**R13 610 million**
	Municipalities	**R6 000 million**	**R8 055 million**
	• Metropolitan cities	R4 000 million	R7 452 million
	• Secondary municipalities	R1 500 million	R430 million
	• Under-resourced municipalities	R500 million	R173 million
	Social infrastructure	**R1 200 million**	**R612 million**
	Economic infrastructure	**R5 600 million**	**R4 943 million**
	Outside South Africa	**R5 000 million**	**R3 475 million**
	of which SADC (excluding RSA)	R3 500 million	R3 340 million
	Project preparation • Value of projects prepared	R4 000 million	R7 611 million
	Planning and implementation support to municipalities • Planning: Completion of critical milestones in preparation of funding and infrastructure plans	80% of milestones completed	100% of milestones completed Four masterplans and detailed designs completed against a target of 3
	• Project implementation: Completion of critical milestones for mandated programmes	80% of milestones completed	100% of milestones completed 70 projects completed against a target of 58
	Implementation and delivery support programmes • Total funds under management	R3 170 million	R3 340 million
	• Implementation support to SIP 6, National Integrated Municipal Infrastructure Programme	3 catalytic projects packaged	3 catalytic projects packaged
	Client and partnership satisfaction	Conduct survey (rating out of 5)	Rating of 3.9 out of 5
Maintain financial sustainability	Sustainable earnings	R911 million	R1 385 million
	Net interest margin	40.9%	48.7%
	Return on average equity	3.6%	9.7%
	Non-performing loan book (after specific provisions)	3.3%	1.1%
	Cost-to-income ratio of IDD	95%	87%
Provide innovative infrastructure solutions	New product development (product diversification)	R100 million fees generated based on new products launched	R50 million
	Effectiveness of business intelligence and knowledge management process	Effectiveness of implementation measured through internal survey (rating out of 5)	Rating of 4.1 out of 5
Continuous improvement of internal systems and processes	Cost-to-income ratio (financing related)	35%	25%
Create and maintain high performance culture	Development and retention of key skills	Retain 85% of key skills	95% of key skills retained
	Leadership development programme for top talent	Implement development programme for top talent (80% of milestones completed)	80% completed
	Succession planning programme	80% compliance to succession plan	97% completed
	Implementation of culture change initiative	Conduct staff culture survey	Survey conducted

DIVIDEND

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

SHARE CAPITAL

Authorised capital amounts to R20.2 billion, which is divided into two million and twenty thousand 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.

AUTHORISED CAPITAL

2 020 000 ordinary shares (2015: 2 020 000) at a par value of R10 000 each.

CALLABLE CAPITAL (AUTHORISED BUT UNISSUED SHARE CAPITAL)

2 000 000 ordinary shares (2015: 2 000 000) at a par value of R10 000 each.

ISSUED CAPITAL

20 000 ordinary shares (2015: 20 000) at a par value of R10 000 each.

GOING CONCERN

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

BORROWING POWERS

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

in billions of rand	**2016**	2015
Approved annual borrowing programme	**80.0**	18.0
Debt raised during the year	**23.2**	13.8
Unutilised under the annual borrowing programme	**56.8**	4.2
Closing unutilised borrowing capacity after debt raised during the year	**28.2**	12.9
Total borrowing capacity (excluding callable capital)	**80.0**	58.8
Closing medium to long-term debt, including repurchase agreements and derivative liabilities	**51.8**	45.9

DIRECTORS' REPORT CONTINUED
FOR THE YEAR ENDED 31 MARCH 2016

DIRECTORATE AND SECRETARIAT
Details pertaining to the names of Board members and the Secretariat appear on pages 22 and 23 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 reappointment. The Chief Executive Officer may be appointed for a period not exceeding five years and is eligible for reappointment.

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

Name	Position	Number of terms served (including current term)	Current service contract	
			From	To
Current				
Mr PJ Moleketi[1]	Independent Non-executive Chairperson	3	1 January 2016	31 December 2018
Mr FM Baleni[1]	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	Independent Non-executive Director	2	1 August 2014	31 July 2017
Ms T Dingaan[2]	Independent Non-executive Director	3	1 August 2013	31 May 2016
Ms M Janse van Rensburg[3]	Independent Non-executive Director	1	1 January 2016	31 December 2018
Ms B Mabuza	Independent Non-executive Director	2	1 August 2014	31 July 2017
Ms D Marole	Independent Non-executive Director	2	1 August 2014	31 July 2017
Mr A Moloto	Independent Non-executive Director	1	1 August 2014	31 July 2017
Ms G Mtetwa	Independent Non-executive Director	1	1 August 2014	31 July 2017
Ms K Naidoo	Chief Financial Officer	Not applicable	1 January 2013	Until such time she ceases to hold the office as CFO
Ms M Nqaleni[3]	Non-executive Director (shareholder representative)	1	1 January 2016	31 December 2018
Ms A Sing	Independent Non-executive Director	1	1 August 2014	31 July 2017
Prof M Swilling	Independent Non-executive Director	1	1 August 2014	31 July 2017
During the year				
Mr O Latiff[4]	Independent Non-executive Director	3	1 August 2013	14 September 2015
Ms M Vilakazi[5]	Independent Non-executive Director	2	1 August 2014	22 October 2015

1. *Reappointed*
2. *Resigned post-year-end during May 2016*
3. *Appointed 1 January 2016*
4. *Deceased*
5. *Resigned with effect from 22 October 2015*

The details of the Directors' interests in related party transactions and Directors' emoluments are set out in notes 43 and 47 respectively to of the annual financial statements. The governance structure is detailed on page 21 of the Integrated Annual Report.

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

BUSINESS AND REGISTERED ADDRESS
The DBSA's business and registered address details appear on page 67.

TAXATION STATUS
The DBSA 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 R37.6 million during the 2016 financial period.

CHANGES IN ACCOUNTING POLICIES
The accounting policies applied during the year ended 31 March 2016 are in all material respects consistent with those applied in the annual financial statements for the year ended 31 March 2015, as no changes in accounting policies were effected in the 2016 financial year.

EVENTS AFTER THE REPORTING PERIOD

The Directors are not aware of any matters or circumstances arising since the end of the financial year which will have a significant effect on the operations of the DBSA, the results of its operations, or its financial position, other than that in note 50 of the annual financial statements on page 65.

LITIGATION

The Directors are not aware of any litigation against the DBSA other than that disclosed under contingent liabilities in note 42 of the annual financial statements on page 50.

RELATED PARTY TRANSACTIONS

Details of the DBSA's related party transactions are set out in note 43 of the annual financial statements on page 50.

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 DBSA sustained material losses. Refer to note 53 of the annual financial statements on page 65;

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 DBSA 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; and

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 2016

in thousands of rand	Notes	2016	2015
ASSETS			
Cash and cash equivalents	5	**2 084 565**	3 901 663
Trade and other receivables	6	**138 533**	227 880
Investment securities	7	**1 265 218**	2 009 916
Derivative assets held for risk management	8.1	**1 163 533**	1 036 624
Post-retirement medical benefit investment	9	**49 978**	59 536
Home ownership scheme loans	10	**–**	5 462
Equity investments	11	**6 278 575**	5 092 061
Development bonds	13	**1 290 296**	1 290 390
Development loans	14	**69 494 954**	56 740 219
Property, plant and equipment	15	**501 202**	502 976
Intangible assets	16	**79 142**	77 412
Total assets		**82 345 996**	70 944 139
EQUITY AND LIABILITIES			
Liabilities			
Trade and other payables	17	**894 795**	811 755
Provisions	18	**152 533**	122 711
Liability for funeral benefits	19.1	**3 100**	3 100
Post-retirement medical benefit liability	19.2	**239 289**	160 412
Debt securities held at fair value through profit or loss	20	**6 188 780**	6 837 095
Debt securities held at amortised cost	20	**29 082 355**	26 515 941
Funding: lines of credit	21	**16 371 534**	12 565 895
Derivative liabilities held for risk management	8.2	**148 551**	244 545
Total liabilities		**53 080 937**	47 261 454
Equity			
Share capital	22	**200 000**	200 000
Retained earnings		**14 544 861**	12 260 565
Permanent government funding	23	**11 692 344**	8 692 344
Revaluation reserve on land and buildings	24	**269 256**	269 256
Hedging reserve	25	**123 050**	116 288
Reserve for general loan risks	26	**2 436 358**	2 143 975
Fair value reserve	27	**(810)**	257
Total equity		**29 265 059**	23 682 685
Total equity and liabilities		**82 345 996**	70 944 139

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 MARCH 2016

in thousands of rand	Notes	2016	2015
Interest income	28	**6 541 028**	5 327 312
Interest expense	29	**(3 355 429)**	(3 002 929)
Net interest income	29	**3 185 599**	2 324 383
Net fee income	30	**275 914**	232 928
Net foreign exchange gain	31	**1 002 172**	489 673
Net gain/(loss) from financial assets and financial liabilities	32	**442 630**	(299 832)
Other operating income	33	**134 355**	139 971
Other income		**1 855 071**	562 740
Operating income		**5 040 670**	2 887 123
Project preparation		**(14 651)**	(6 138)
Development expenditure	34	**(43 869)**	(35 015)
Net impairment on financial assets	35	**(1 426 159)**	(743 361)
Personnel expenses	36	**(730 937)**	(607 271)
Other expenses	37	**(213 653)**	(253 175)
Depreciation and amortisation	38	**(30 593)**	(25 108)
Profit from operations		**2 580 808**	1 217 055
Grants	39	**(4 129)**	(2 914)
Profit for the year		**2 576 679**	1 214 141

STATEMENT OF OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 MARCH 2016

in thousands of rand	Notes	2016	2015
Profit for the year		**2 576 679**	1 214 141
Items that will not be reclassified to profit and loss			
Gain on revaluation of land and buildings	24	**–**	15 769
Items that may be reclassified subsequently to profit and loss			
Unrealised gain/(loss) on cash flow hedges	25	**142 063**	(88 253)
(Loss)/gain on cash flow hedges reclassified to profit and loss	25	**(135 301)**	142 583
Unrealised loss on available-for-sale financial assets	27	**(1 067)**	(2 128)
		5 695	52 202
Other comprehensive income		**5 695**	67 971
Total comprehensive income for the year		**2 582 374**	1 282 112

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR 31 MARCH 2016

in thousands of rand	Share capital	Hedging reserve	Revaluation reserve on land and buildings	Fair value reserve	Permanent government funding	Reserve for general loan risks	Retained earnings	Total equity
Balance at 1 April 2014	200 000	61 958	253 487	2 385	6 192 344	1 893 983	11 296 416	19 900 573
Government recapitalisation	–	–	–	–	2 500 000	–	–	2 500 000
Profit for the year	–	–	–	–	–	–	1 214 141	1 214 141
Other comprehensive income/(loss)								
Gain on revaluation of land and buildings	–	–	15 769	–	–	–	–	15 769
Unrealised loss on cash flow hedges	–	(88 253)	–	–	–	–	–	(88 253)
Gain on cash flow hedges reclassified to profit and loss	–	142 583	–	–	–	–	–	142 583
Unrealised loss on available-for-sale financial assets	–	–	–	(2 128)	–	–	–	(2 128)
Transfer to reserve for general loan risks	–	–	–		–	249 992	(249 992)	–
Total changes	–	54 330	15 769	(2 128)	2 500 000	249 992	964 149	3 782 112
Balance at 31 March 2015	200 000	116 288	269 256	257	8 692 344	2 143 975	12 260 565	23 682 685
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**
Notes	22	25	24	27	23	26		

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 MARCH 2016

in thousands of rand	Notes	2016	2015
Cash flows from operating activities			
Net (loss)/profit adjusted for non-cash items	40	**(137 003)**	463 853
Interest received		**6 308 445**	4 959 549
Interest paid		**(3 115 067)**	(2 830 649)
Net (decrease)/increase in working capital	41	**(31 060)**	68 003
Net cash generated from operating activities		**3 025 315**	2 660 756
Cash flows used in development activities			
Development loan disbursements	14	**(16 461 393)**	(11 897 533)
Development loan principal repayments		**5 549 156**	6 644 818
Increase in development bonds		**–**	(502 000)
Net increase in equity investments		**(368 767)**	(495 361)
Grants and development expenditure paid		**(18 781)**	(7 443)
Net repayments/(advances to) from/to national mandates		**100 357**	(140 169)
Net cash used in development activities		**(11 199 428)**	(6 397 688)
Cash flows from investing activities			
Purchase of property, plant and equipment	15	**(15 918)**	(38 712)
Proceeds from sale of property and equipment		**207**	448
Purchase of intangible assets	16	**(14 728)**	(7 045)
Increase/(decrease) in financial market instruments		**197 871**	(684 879)
Net cash generated from/(utilised in) investing activities		**167 432**	(730 188)
Cash flows from financing activities			
Receipts from National Treasury	23	**3 000 000**	2 500 000
Financial market liabilities repaid		**(20 163 956)**	(11 963 371)
Financial market liabilities raised		**23 249 923**	13 662 946
Net cash generated from financing activities		**6 085 967**	4 199 575
Net decrease in cash and cash equivalents		**(1 920 714)**	(267 545)
Effect of exchange rate movements on cash balances	31	**103 616**	33 541
Movement in cash and cash equivalents		**(1 817 098)**	(234 004)
Cash and cash equivalents at the beginning of the year		**3 901 663**	4 135 667
Cash and cash equivalents at the end of the year	5	**2 084 565**	3 901 663

ACCOUNTING POLICIES
FOR THE YEAR ENDED 31 MARCH 2016

1. STATEMENT OF COMPLIANCE

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

As a PFMA Schedule 2 entity, the Bank is applying IFRS for financial reporting purposes. The annual financial statements were approved by the Board of Directors on 7 July 2016.

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 judgements 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, 11, 14, 15, 19, 20, and 21 – Valuation of financial instruments:**
  - **Note 7 – Investment securities**
    Investment securities are designated at fair value through profit or loss upon initial recognition, when they form part of a group of financial assets managed and evaluated on a fair value basis in accordance with a documented investment strategy.
  - **Note 11 – Valuation of equity investments:**
    Equity investments are designated as held-to-maturity if they have fixed or determinable payments and fixed maturities that management has the positive intention and ability to hold to maturity. All other equity investments are designated at fair value through profit and loss, which is determined from observable market data in respect of similar financial instruments. Where market observable data is not available, they are estimated based on appropriate assumptions.
  - **Note 14 – Measurement of the recoverable amounts and impairment of development loans and bonds:**
    Development loans and bonds are carried at amortised cost. However, judgements are applied when determining fair value and assessments of recoverable amounts and impairments calculations.
  - **Note 15 – Valuation of land and buildings:**
    Land and buildings are measured at fair value less accumulated depreciation and impairment losses, in terms of the revaluation model.
  - **Note 19 – Measurement of funeral benefit obligations and post-retirement medical benefit:**
    Obligations for contributions to defined contribution provident fund plans are recognised as an expense in profit or loss when they are due.
  - **Note 20 – Debt securities:**
    Debt securities that are designated at fair value through profit or loss consists of bonds which are listed and unlisted.

    Debt securities carried at amortised cost consists of bond issues and money market issuance.
  - **Note 21 – Lines of credit:**
    Lines of credit are carried at amortised cost. However, judgement is applied when determining fair value disclosures.

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

ACCOUNTING POLICIES CONTINUED
FOR THE YEAR ENDED 31 MARCH 2016

1. STATEMENT OF COMPLIANCE CONTINUED
1.1 BASIS OF PREPARATION CONTINUED
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 18 – 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 asset 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 to note 1.10.3).

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

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

A financial asset is designated 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 at fair value through profit and loss by the Bank are equity investments and investment securities.

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

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

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

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

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 bases 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.

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 includes an estimated component relating to credit risk adjustment. The treatment of changes in their fair value depends on their classification into the following categories:

Qualifying derivatives

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

Non-qualifying derivatives

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

ACCOUNTING POLICIES CONTINUED
FOR THE YEAR ENDED 31 MARCH 2016

1. STATEMENT OF COMPLIANCE CONTINUED
1.2 FINANCIAL INSTRUMENTS CONTINUED
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 is 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) derecognition of an asset that is sold, recognition of any gain or loss on disposal and the recognition of a receivable from the buyer for payment on the trade date. The settlement date is the date that an asset is delivered to or by an entity and settlement date accounting refers to (a) the recognition of an asset on the day it is received by the entity, and (b) the derecognition of an asset and recognition of any gain or loss on disposal on the day that it is delivered by the entity.

Interest does not start to accrue on the asset and corresponding liability from trade date and only starts from settlement date when title passes. The Bank applies settlement date accounting and accounts for any change in the fair value of assets to be received during the period between the trade date and the settlement date in the same way as it accounts for the acquired asset. The change in value between trade date and settlement date is not recognised for assets carried at cost or amortised cost. The change in value is, however, recognised in profit or loss for assets classified as financial assets at fair value through profit or loss, 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 to note 1.10).

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

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

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

Fair value hedge

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

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

Cash flow hedge

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

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

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

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

Hedge of monetary assets and liabilities

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

1.2.6 REPURCHASE AND RESALE AGREEMENTS

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

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

1.2.7 OFFSETTING OF FINANCIAL INSTRUMENTS

Financial assets and financial liabilities are 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 it 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.

ACCOUNTING POLICIES CONTINUED

FOR THE YEAR ENDED 31 MARCH 2016

1. STATEMENT OF COMPLIANCE CONTINUED

1.2 FINANCIAL INSTRUMENTS CONTINUED

1.2.8 IMPAIRMENT OF FINANCIAL INSTRUMENTS CONTINUED

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

1.2.9 CASH AND CASH EQUIVALENTS

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

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

1.2.10 LOANS TO SHAREHOLDERS, DIRECTORS, MANAGERS AND EMPLOYEES

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

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

1.3 IMPAIRMENT OF NON-FINANCIAL ASSETS

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

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

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

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

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

1.4 PROPERTY, PLANT AND EQUIPMENT

1.4.1 RECOGNITION AND MEASUREMENT

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

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

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

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

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

Freehold land and buildings are subsequently carried at fair value, based on periodic valuations performed either by an independent valuator or management. 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 to 10 years
Motor vehicles	4 to 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 to 15 years

1.6 SHARE CAPITAL AND RESERVES

1.6.1 SHARE CAPITAL

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

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

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

ACCOUNTING POLICIES CONTINUED
FOR THE YEAR ENDED 31 MARCH 2016

1. STATEMENT OF COMPLIANCE CONTINUED

1.6 SHARE CAPITAL AND RESERVES CONTINUED

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

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

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

1.6.5 RESERVE FOR GENERAL LOAN RISKS
The general loan risk reserve is maintained based on the latest internal risk rating of borrowers. 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.

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

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

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

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

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

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 rand, 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.

FOREIGN EXCHANGE GAINS AND LOSSES ARISING IN ENTITY ACCOUNTS

The results and financial position of a foreign operation are translated into the functional currency using the following:
- Assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;
- Income and expenses for each statement of comprehensive income item are translated at exchange rates at the dates of the transactions; and
- All resulting exchange differences are recognised as a separate component of equity.

Foreign currency transactions are translated into the functional currency using the spot exchange rates at the date of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions are recognised in the income statement.

Foreign exchange gains and losses resulting from the translation of monetary assets and liabilities denominated in foreign currencies at year-end exchange rates are recognised in the statement of comprehensive income, except when deferred in equity as qualifying cash flow hedges.

Translation differences on non-monetary items, such as financial assets held at fair value through profit or loss, are reported as part of the fair value gain or loss on such instruments. Translation differences on non-monetary items, such as equities classified as available-for-sale financial assets, are included in the fair value reserve in equity.

1.9 NET INCOME FROM OTHER FINANCIAL INSTRUMENTS AT FAIR VALUE

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

1.10 DETERMINATION OF FAIR VALUES

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

1.10.1 PROPERTY AND EQUIPMENT

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

1.10.2 POST-RETIREMENT MEDICAL BENEFITS INVESTMENT

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

1.10.3 FINANCIAL INSTRUMENTS

Some of the Bank's financial instruments are measured at fair value, such as those that are designated by management 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; and
(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.

ACCOUNTING POLICIES CONTINUED

FOR THE YEAR ENDED 31 MARCH 2016

1. STATEMENT OF COMPLIANCE CONTINUED

1.10 DETERMINATION OF FAIR VALUES CONTINUED

1.10.3 FINANCIAL INSTRUMENTS CONTINUED

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.

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.

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 part fund the liability for the post-retirement medical benefit. This investment does not meet the definition of a plan asset and is not offset against the post-retirement obligation.

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

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

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

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

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

ACCOUNTING POLICIES CONTINUED

FOR THE YEAR ENDED 31 MARCH 2016

1. STATEMENT OF COMPLIANCE CONTINUED

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

OPERATING LEASES – LESSEE

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

1.19 NON-CURRENT ASSETS HELD-FOR-SALE

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

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

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

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

1.20 SEGMENTAL REPORTING

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

NOTES TO THE ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2016

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 Standard 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 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 its strategic business units. These business units are managed separately, based on the 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 2016

2. SEGMENTAL INFORMATION CONTINUED

OPERATING REPORTABLE SEGMENTS

	South Africa Financing		International Financing	
in thousands of rand	**March 2016**	March 2015	**March 2016**	March 2015
Interest income on development loans	**4 872 911**	3 983 275	**1 178 603**	823 179
Interest income on development bonds	**122 301**	112 366	**–**	–
Interest income on investments	**6 467**	16 387	**1 161**	56
Total interest income	**5 001 679**	4 112 028	**1 179 764**	823 235
Interest expense	**(2 851 417)**	(2 499 058)	**(312 920)**	(351 912)
Net interest income	**2 150 262**	1 612 970	**866 844**	471 323
Non-interest income	**113 957**	122 429	**66 804**	76 297
Net fee income	**69 684**	99 419	**35 058**	22 669
Dividends	**12 524**	9 731	**6 271**	20 090
Other operating income	**31 749**	13 279	**25 475**	33 538
Operating income	**2 264 219**	1 735 399	**933 648**	547 620
Expenses	**(465 918)**	(409 835)	**(1 166 930)**	(452 099)
Operating expenses	**(138 362)**	(79 923)	**(69 141)**	(36 628)
Depreciation and amortisation	**–**	–	**–**	–
Net impairment on financial assets	**(327 556)**	(329 912)	**(1 097 789)**	(415 471)
Development expenditure[1]	**(43 869)**	(35 015)	**–**	–
Project preparation[2]	**–**	–	**–**	–
Revaluation of equity investments	**(54 963)**	(84 294)	**308 135**	(134 816)
Grants[4]	**–**	–	**–**	–
Sustainable earnings	**1 699 469**	1 206 255	**74 853**	(39 295)
Net foreign exchange gain[3]	**–**	–	**–**	–
Net gain/(loss) from financial assets and liabilities	**–**	–	**–**	–
Profit/(loss) before distributions	**1 699 469**	1 206 255	**74 853**	(39 295)
Grants[4]	**–**	(1 245)	**–**	–
Retained profit/(loss)	**1 699 469**	1 205 010	**74 853**	(39 295)
Capital expenditure	**–**	–	**–**	–
Development loans	**53 240 145**	43 797 290	**16 254 809**	12 942 929
Development bonds	**1 290 296**	1 290 390	**–**	–
Equity investments	**2 838 140**	2 511 798	**3 440 435**	2 580 263
Other assets	**161**	1	**1 201**	611
Total assets	**57 368 742**	47 599 479	**19 696 445**	15 523 803
Total liabilities	**37 716 257**	30 146 463	**12 533 501**	8 935 711
Key rations by segment				
Cost-to-income (%)	**8**	7	**7**	7
Debt-to-equity assets ratio (%)	**66**	64	**64**	58
Net interest income (%)	**43**	39	**73**	57
Return on assets (%)	**3**	3	**0.4**	(0.3)

** All other segments include the 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 segmental reporting purposes.*
3. *Treasury is responsible for foreign exchange management across the bank and as such all foreign exchange gains and losses have been reallocated to Treasury.*
4. *The definition of sustainable earnings during the year changed to include social responsibility and stakeholder relations grants.*

Infrastructure Delivery		Treasury		*All other		Total	
March 2016	March 2015	**March 2016**	March 2015	**March 2016**	March 2015	**March 2016**	March 2015
–	–	–	–	–	–	6 051 514	4 806 454
–	–	–	–	–	–	122 301	112 366
4	1 998	359 438	389 508	143	543	367 213	408 492
4	1 998	359 438	389 508	143	543	6 541 028	5 327 312
–	(1 819)	(191 065)	(150 127)	(27)	(13)	(3 355 429)	(3 002 929)
4	179	168 373	239 381	116	530	3 185 599	2 324 383
194 263	156 095	(11 417)	(5 529)	46 662	23 607	410 269	372 899
132 511	99 059	(11 417)	(5 529)	50 078	17 310	275 914	232 928
–	–	–	–	–	–	18 795	29 821
61 752	57 036	–	–	(3 416)	6 297	115 560	110 150
194 267	156 274	156 956	233 852	46 778	24 137	3 595 868	2 697 282
(167 385)	(139 938)	(9 877)	(13 102)	(591 232)	(613 941)	(2 401 342)	(1 628 915)
(167 062)	(138 913)	(9 877)	(13 102)	(560 148)	(591 880)	(944 590)	(860 446)
(1 259)	(89)	–	–	(29 334)	(25 019)	(30 593)	(25 108)
936	(936)	–	–	(1 750)	2 958	(1 426 159)	(743 361)
–	–	–	–	–	–	(43 869)	(35 015)
–	–	–	–	(14 651)	(6 138)	(14 651)	(6 138)
–	–	–	–	–	–	253 172	(219 110)
–	–	–	–	(4 129)	–	(4 129)	–
26 882	16 336	147 079	220 750	(563 234)	(595 942)	1 385 049	808 104
–	–	1 002 172	489 673	–	–	1 002 172	489 673
–	–	199 017	(77 048)	(9 559)	(3 674)	189 458	(80 722)
26 882	16 336	1 348 268	633 375	(572 793)	(599 616)	2 576 679	1 217 055
–	(169)	–	–	–	(1 500)	–	(2 914)
26 882	16 167	1 348 268	633 375	(572 793)	(601 116)	2 576 679	1 214 141
770	–	–	–	29 876	45 500	30 646	45 500
–	–	–	–	–	–	69 494 954	56 740 219
–	–	–	–	–	–	1 290 296	1 290 390
–	–	–	–	–	–	6 278 575	5 092 061
122 597	234 714	4 499 231	6 919 370	658 981	666 773	5 282 171	7 821 469
122 597	234 714	4 499 231	6 919 370	658 981	666 773	82 345 996	70 944 139
67 590	206 588	122 157	5 896 262	2 641 432	2 076 430	53 080 937	47 261 454
87	89	6	6			29	34
55	88	3	85			64	67
–	–	47	61			49	44
22	7	30	9			3	1.8

NOTES TO THE ANNUAL FINANCIAL STATEMENTS CONTINUED
FOR THE YEAR ENDED 31 MARCH 2016

3. FINANCIAL ASSETS BY CATEGORY

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

in thousands of rand	Notes	Loans and receivables	Non-financial items	Fair value through profit or loss	Held-to-maturity	Available-for-sale	Total carrying amount	Fair value
March 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	11	**–**	**–**	**6 278 575**	**–**	**–**	**6 278 575**	**6 278 575**
Development bonds	13	**–**	**–**	**–**	**1 290 296**	**–**	**1 290 296**	**1 159 450**
Development loans	14	**69 494 954**	**–**	**–**	**–**	**–**	**69 494 954**	**77 660 023**
		71 647 576	**70 476**	**8 585 649**	**1 323 627**	**88 346**	**81 715 674**	**89 784 672**

in thousands of rand	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**

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

in thousands of rand	Level 1 category	Level 2 category	Level 3 category	Total
Investment securities	1 621 660	215 999	–	1 837 659
Derivative assets held for risk management	–	1 036 624	–	1 036 624
Home ownership scheme loans	–	–	5 462	5 462
Equity investments	–	4 660 071	431 990	5 092 061
	1 621 660	5 912 694	437 452	7 971 806

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

4. FINANCIAL LIABILITIES BY CATEGORY

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

in thousands of rand	Notes	At amortised cost	Designated at fair value through profit or loss	Total carrying amount	Fair value
March 2016					
Trade and other payables	17	**894 795**	**–**	**894 795**	**894 795**
Funding: debt securities	20	**29 082 355**	**6 188 780**	**35 271 135**	**36 375 212**
Funding: lines of credit	21	**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 rand	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**

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

in thousands of rand	Level 1 category	Level 2 category	Level 3 category	Total
Funding: debt securities	35 841 306	214 950	–	36 056 256
Funding: lines of credit	–	12 983 321	–	12 983 321
Derivative liabilities held for risk management	–	244 545	–	244 545
	35 841 306	13 442 816	–	49 284 122

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 rand	2016	2015
5. CASH AND CASH EQUIVALENTS		
Cash and cash equivalents consist of:		
Call deposits	**1 818 532**	3 106 023
Cash at bank	**266 033**	795 640
	2 084 565	3 901 663

The average interest rate earned on fixed and call deposits detailed above was 6.4% (March 2015: 5.6%). The Bank's exposure to interest rate risk and sensitivity analysis for financial assets and financial liabilities is disclosed in note 48.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 31 MARCH 2016

in thousands of rand	2016	2015
6. TRADE AND OTHER RECEIVABLES		
Trade and other receivables	**71 170**	166 067
Less: allowance for credit losses on trade and other receivables	**(3 113)**	(2 479)
	68 057	163 588
VAT	**6 167**	855
Prepayments	**13 144**	5 161
Deposits	**480**	1 081
Staff loans (current employees)	**21**	207
Subsistence and travel	**1 527**	449
Payroll expenses receivable	**3 900**	3 933
Home ownership scheme loans	**1 765**	–
Accrued interest income (financial market assets)	**43 472**	52 606
Balance at the end of the year	**138 533**	227 880
Allowance for credit losses on trade and other receivables reconciliation		
Balance at the beginning of the year	**(2 479)**	(6 691)
Bad debts written off during the year	**–**	197
(Increase)/decrease in provision for allowance for credit losses on trade and other receivables (refer to note 35)	**(634)**	4 015
Balance at the end of the year	**(3 113)**	(2 479)

Staff loans are for current employees and are interest free. The interest that should have been payable on this account would have been R2 033 (March 2015: R19 119) at a rate of 9.25%.

Included in trade and other receivables are:	2016	2015
African Capacity Building Foundation (ACBF)	**103**	103
African Peer Review Mechanism (APRM)	**585**	300
African World Heritage Fund (AWHF)	**9**	–
Anglo American Capacity Building Programme	**641**	2 407
Cities Project Preparation Facility (CPPF)	**1**	–
Department of Basic Education for Accelerated Infrastructure Schools Programme	**15 229**	142 595
Department of Rural Development and Land Reform	**–**	10
Department of Trade and Industry	**3 296**	–
Eastern Cape Department of Education	**18 135**	–
Ekurhuleni Metropolitan Municipality	**10 335**	335
Elliotdale Rural Human Settlement	**5**	2 796
Ex-employee debtors	**2 306**	2 086
Greater Kokstad Municipality	**–**	30
Green Fund	**86**	261
Independent Power Producers Office (IPP)	**4 342**	3 984
Industrial Development Corporation (IDC)	**730**	169
Infrastructure Delivery Improvement Programme (IDIP)	**1 094**	134
Infrastructure Investment Programme for South Africa (IIPSA)	**1**	18
Jobs Fund	**360**	471
KFW HIV/VCT 2 Programme	**1 414**	261
KFW SADC Water Fund	**1 366**	647
KwaZulu-Natal Department of Education	**375**	–
Land and Agricultural Development Bank	**228**	170
Limpopo Department of Health	**1 827**	–
Limpopo Department of Public Works	**3 614**	–
Municipal Infrastructure Support Agency (MISA)	**180**	–
National Department of Health	**3 655**	4 160
National Rural Youth Services Corporation (NARYSEC)	**–**	1 139
National Treasury Cities Support Programme (NTCSP)	**186**	1 118
National Treasury Municipal Capacitation Fund (NTMCF)	**556**	556
New Partnership for Africa's Development (NEPAD)	**–**	208
Pan African Capacitation Building Platform (PACBP)	**1**	–
Spatial Development Initiative (SDI)	**–**	545
Other trade and other receivables	**510**	1 564
Balance at the end of the year	**71 170**	166 067

	in thousands of rand	2016	2015
7.	**INVESTMENT SECURITIES**		
	Investment securities consist of the following:		
	Investment securities designated at fair value through profit or loss		
	Government bonds	**296 251**	526 224
	Municipal bonds	**685 890**	832 692
	Corporate bonds	**161 400**	172 466
		1 143 541	1 531 382
	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**	99 992
	Available-for-sale investment securities		
	Government bonds	**88 264**	161 796
	Money market instruments	**82**	216 746
		88 346	378 542
	Total investment securities	**1 265 218**	2 009 916
8.	**DERIVATIVE ASSETS AND LIABILITIES HELD FOR RISK MANAGEMENT**		
8.1	**DERIVATIVE ASSETS HELD FOR RISK MANAGEMENT**		
	Instrument type:		
	Interest rate derivatives	**46 550**	280 268
	Foreign exchange derivatives	**1 116 983**	756 356
		1 163 533	1 036 624
8.2	**DERIVATIVE LIABILITIES HELD FOR RISK MANAGEMENT**		
	Instrument type:		
	Interest rate derivatives	**(29 876)**	(37 287)
	Foreign exchange derivatives	**(118 675)**	(207 258)
		(148 551)	(244 545)
8.3	**NET DERIVATIVES HELD FOR RISK MANAGEMENT**		
	Fair value hedges	**16 674**	242 982
	Cash flow hedges	**290 587**	189 090
	Economic hedges	**707 721**	360 007
		1 014 982	792 079

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.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 31 MARCH 2016

	in thousands of rand	2016	2015
9.	**POST-RETIREMENT MEDICAL BENEFITS INVESTMENT**		
	Fair value of plan assets	**49 978**	59 536
	This asset represents the movement of the Bank's contribution to Medipref Management Limited to fund the post-retirement medical benefits for eligible employees and pensioners.		
	Post-retirement medical benefits investment		
	Fair value of plan assets		
	Balance at the beginning of the year	**59 536**	63 209
	Income	**2 849**	3 233
	Expenses	**(342)**	(701)
	Contributions paid	**(11 453)**	(11 527)
	(Decrease)/increase in market value	**(612)**	5 322
	Balance at the end of the year	**49 978**	59 536
10.	**HOME OWNERSHIP SCHEME LOANS**		
	Current employees	**–**	3 662
	Ex-employees	**–**	1 800
		–	5 462
	The home ownership scheme loans were sold to a third party. A portion of the balance due to the Bank was received before year-end and the balance was received after year-end (refer to note 6).		
11.	**EQUITY INVESTMENTS**		
	Equity investments consist of the following:		
	Equity investments designated at fair value through profit or loss	**6 278 575**	5 000 376
	Equity investments held-to-maturity	**–**	91 685
		6 278 575	5 092 061
11.1	**EQUITY INVESTMENTS DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS**		
	Cost		
	Balance at the beginning of the year	**4 860 386**	4 423 210
	Acquisitions	**625 473**	625 049
	Capital return	**(166 597)**	(187 873)
	Balance at the end of the year	**5 319 262**	4 860 386
	Fair value adjustment and impairment		
	Balance at the beginning of the year	**(682 345)**	(523 001)
	Current year fair value adjustment (refer to note 32)	**254 856**	(204 223)
	Realised capital gain	**43 807**	44 879
	Balance at the end of the year	**(383 682)**	(682 345)
	Foreign exchange adjustments		
	Balance at the beginning of the year	**822 335**	603 667
	Unrealised gain (refer to note 31)	**520 768**	160 475
	Realised (loss)/gain (refer to note 31)	**(108)**	58 193
	Balance at the end of the year	**1 342 995**	822 335
	Fair value at the end of the year	**6 278 575**	5 000 376

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 provide that marketability and other discounts in the range 10% to 30% should be factored into the valuation. Different factors are considered in setting the marketability and other discounts and it is possible for the marketability and other discounts 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.

11.2 EQUITY INVESTMENTS HELD-TO-MATURITY

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

in thousands of rand	**2016**	2015
Held-to-maturity investments at fair value		
Balance at the beginning of the year	**91 685**	106 572
Amortised interest on effective interest method (refer to note 32)	**(1 684)**	(14 887)
Capital return	**(90 001)**	–
Balance at the end of the year	**–**	91 685
11.3 PERIOD SINCE INITIAL INVESTMENT		
1 (one) year	**–**	3 904
1 (one) year but within two years	**32 520**	28 340
2 (two) years but within three years	**53 711**	534 496
3 (three) years but within four years	**668 511**	1 682 094
4 (four) years but within nine years	**5 503 833**	2 730 706
10 years and older	**20 000**	112 521
	6 278 575	5 092 061
11.4 SECTORAL ANALYSIS OF EQUITY INVESTMENTS		
Commercial infrastructure	**2 957 992**	2 379 611
Communication and transport infrastructure	**290 276**	–
Institutional infrastructure	**972 505**	810 948
Residential facilities	**2 057 802**	1 811 502
Social infrastructure	**–**	90 000
	6 278 575	5 092 061
11.5 GEOGRAPHICAL ANALYSIS OF EQUITY INVESTMENTS		
South Africa	**2 241 104**	2 068 895
International	**4 037 471**	3 023 166
	6 278 575	5 092 061
US dollar and euro amounts included in the above International equity investments		
US dollar amount included	**180 850**	161 073
Euro amount included	**31 444**	28 560

NOTES TO THE ANNUAL FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 31 MARCH 2016

12. FAIR VALUE HIERARCHY DISCLOSURES

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

in thousands of rand	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 2016					
Available-for-sale financial assets					
Investment securities	7	**88 264**	**82**	**–**	**88 346**
Financial assets designated at fair value through profit or loss					
Investment securities	7	**1 143 541**	**–**	**–**	**1 143 541**
Derivatives assets held for risk management	8.1	**–**	**1 163 533**	**–**	**1 163 533**
Equity investments	11	**–**	**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 or loss					
Derivatives liabilities held for risk management	8.2	**–**	**148 551**	**–**	**148 551**
Funding: debt securities	20	**6 188 780**	**–**	**–**	**6 188 780**
Total financial liabilities		**6 188 780**	**148 551**	**–**	**6 337 331**
March 2015					
Available-for-sale financial assets					
Investment securities	7	162 543	215 999	–	378 542
Financial assets designated at fair value through profit or loss					
Investment securities	7	1 531 382	–	–	1 531 382
Derivative assets held for risk management	8.1	–	1 036 624	–	1 036 624
Equity investments	11	–	4 660 071	431 990	5 092 061
Total financial assets		1 693 925	5 912 694	431 990	8 038 609
Financial liabilities designated at fair value through profit or loss					
Derivative liabilities held for risk management	8.2	–	244 545	–	244 545
Funding: debt securities	20	6 622 145	214 950	–	6 837 095
Total financial liabilities		6 622 145	459 495	–	7 081 640

* *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; and
- Valuation model using inputs derived from or corroborated by observable market data.

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

Level 3

Valuations are based on unobservable inputs.
Financial instruments valued using discounted cash flow analysis.

This category includes only unlisted equity investments.

12.1 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. The balance as at 31 March 2016 is R920.4 million (2015: R431.9 million), 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.

Reconciliation of Level 3 assets

in thousands of rand	2016	2015
Balance at the beginning of the year	**431 990**	424 849
Gain and loss to profit and loss	**488 480**	7 141
Balance at the end of the year	**920 470**	431 990
13. DEVELOPMENT BONDS		
Development bonds consist of the following:		
Held-to-maturity development bonds		
Municipal bonds	**1 290 296**	1 290 390
13.1 ANALYSIS OF DEVELOPMENT BONDS		
Balance at the beginning of the year	**1 290 608**	772 743
Movement during the year	**(142)**	517 865
Gross development bonds	**1 290 466**	1 290 608
Allowance for credit losses on development bonds (refer to note 13.3)	**(170)**	(218)
Balance at the end of the year	**1 290 296**	1 290 390
13.2 MOVEMENTS DURING THE YEAR		
Bonds issued	**–**	502 000
Interest accrued (refer to note 28)	**122 301**	112 366
Gross interest repayments	**(122 443)**	(96 501)
	(142)	517 865
13.3 ALLOWANCE FOR CREDIT LOSSES ON DEVELOPMENT BONDS RECONCILIATION		
Balance at the beginning of the year	**218**	–
(Decrease)/increase in allowance for credit losses on development bonds (refer to note 35)	**(48)**	218
Balance at the end of the year	**170**	218
Development bonds are held-to-maturity investments that are measured at amortised cost using the effective interest rate method.		
14. DEVELOPMENT LOANS		
14.1 ANALYSIS OF DEVELOPMENT LOANS		
Balance at the beginning of the year	**59 669 184**	52 449 846
Movements during the year	**13 631 351**	7 219 338
Gross development loans	**73 300 535**	59 669 184
Allowance for credit losses on development loans (refer to note 14.9)	**(3 805 581)**	(2 928 965)
Net development loans at the end of the year	**69 494 954**	56 740 219
Movements during the period		
Loans disbursed – current year	**16 461 393**	11 897 533
Interest accrued – statement of comprehensive income (refer to note 28)	**6 051 513**	4 806 454
Interest on acquired loans	**–**	3 684
Impairment of current year interest (refer to note 14.9)	**(204 710)**	24 134
Development loans written off (refer to note 14.9)	**(343 998)**	(214 306)
Foreign exchange adjustment	**3 028 038**	1 746 500
Gross repayments	**(11 486 190)**	(11 233 840)
Fees raised – current year	**125 305**	189 179
	13 631 351	7 219 338

NOTES TO THE ANNUAL FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 31 MARCH 2016

	in thousands of rand	2016	2015
14.	**DEVELOPMENT LOANS** CONTINUED		
14.2	**MATURITY ANALYSIS OF DEVELOPMENT LOANS**		
	Due within 1 (one) year	**9 713 568**	8 024 744
	Due after 1 (one) year but within 2 (two) years	**4 675 135**	4 872 986
	Due after 2 (two) years but within 3 (three) years	**4 833 111**	3 965 629
	Due after 3 (three) years but within 4 (four) years	**4 922 874**	3 858 644
	Due after 4 (four) years but within 9 (nine) years	**19 172 544**	17 363 324
	Due after 9 (nine) years but within 14 (fourteen) years	**19 258 878**	15 974 187
	Due after 14 (fourteen) years	**10 724 425**	5 609 670
		73 300 535	59 669 184
14.3	**SECTORAL ANALYSIS**		
	Commercial – fund	**997 066**	1 100 234
	Commercial – manufacturing	**526 478**	601 785
	Commercial – mining	**872 359**	789 651
	Commercial – tourism	**314 292**	388 403
	Commercial – other	**293 217**	322 250
	Communication and transport infrastructure	**4 838 342**	3 585 116
	Energy – electricity	**37 405 877**	26 318 401
	Energy – non-grid standalone	**624 882**	720 561
	Human resources development	**876 319**	1 127 457
	Institutional infrastructure	**13 277**	17 858
	Residential facilities	**1 623 442**	3 366 516
	Roads and drainage	**15 362 347**	12 851 626
	Sanitation	**1 315 224**	1 558 068
	Social infrastructure	**5 219 724**	3 624 828
	Water	**3 017 689**	3 296 430
		73 300 535	59 669 184
14.4	**GEOGRAPHICAL ANALYSIS**		
	Eastern Cape	**2 296 640**	2 678 560
	Free State	**1 262 742**	909 345
	Gauteng	**32 062 158**	21 812 488
	KwaZulu-Natal	**7 406 822**	7 987 572
	Limpopo	**1 173 175**	1 140 552
	Mpumalanga	**1 243 419**	1 282 972
	North West	**854 253**	950 633
	Northern Cape	**5 671 535**	5 142 732
	Western Cape	**3 140 557**	3 577 835
	Multi-regional – South Africa	**849**	2 543
	Rest of Africa	**18 188 385**	14 183 952
		73 300 535	59 669 184
	Rest of Africa		
	Angola	**2 997 457**	2 842 148
	Congo	**1 505 153**	–
	Democratic Republic of Congo	**–**	101 511
	Lesotho	**660 006**	755 712
	Ghana	**199 046**	–
	Kenya	**100 002**	–
	Mauritius	**518 706**	202 274
	Mozambique	**715 484**	782 423
	Namibia	**150 000**	213 209
	Swaziland	**202 167**	190 359
	Tanzania	**218 855**	232 693
	Zambia	**6 464 135**	4 311 059
	Zimbabwe	**2 943 837**	2 652 796
	Multi-regional	**1 513 537**	1 899 768
		18 188 385	14 183 952
	US dollar amounts included in the above Rest of Africa loans	**1 149 344**	1 042 184

in thousands of rand		2016	2015
14.5	**CLIENT CLASSIFICATION**		
	Development finance institutions	**847 600**	864 999
	Educational institutions	**791 959**	802 159
	Local government	**24 590 120**	18 212 131
	National and provincial government	**2 532 729**	2 122 694
	Private sector intermediaries	**18 696 019**	16 423 409
	Public utilities	**25 842 108**	21 243 792
		73 300 535	59 669 184
14.6	**FIXED AND VARIABLE INTEREST RATE LOANS**		
	Fixed interest rate loans	**38 470 980**	32 796 981
	Variable interest rate loans	**34 829 555**	26 872 203
		73 300 535	59 669 184
14.7	**NON-PERFORMING LOANS (INCLUDED IN TOTAL DEVELOPMENT LOANS)**		
14.7.1	SECTORAL ANALYSIS		
	Commercial – manufacturing	**449 264**	316 303
	Commercial – mining	**269 745**	254 891
	Commercial – tourism	**312 967**	384 486
	Commercial – other	**194 149**	166 551
	Communication and transport infrastructure	**484 934**	881 756
	Energy	**286 459**	225 426
	Human resources development	**24 217**	22 874
	Institution infrastructure	**–**	1 573
	Residential facilities	**209 026**	203 674
	Roads and drainage	**81 759**	109 663
	Sanitation	**23 936**	103 700
	Social infrastructure	**169 105**	226 417
	Water	**201 605**	136 377
		2 707 166	3 033 691
14.7.2	GEOGRAPHICAL ANALYSIS		
	Eastern Cape	**216 608**	313 067
	Free State	**99 589**	137 410
	Gauteng	**564 183**	552 152
	KwaZulu-Natal	**32 234**	71 629
	Limpopo	**243 531**	243 159
	Mpumalanga	**155 511**	145 658
	North West	**259 486**	311 416
	Northern Cape	**91 529**	17 050
	Western Cape	**115 992**	130 366
	Rest of Africa	**928 503**	1 111 784
		2 707 166	3 033 691
	Rest of Africa		
	Democratic Republic Congo	**–**	101 511
	Mozambique	**193 700**	171 345
	Swaziland	**138 018**	122 236
	Tanzania	**203 045**	–
	Zambia	**264 498**	354 168
	Zimbabwe	**129 242**	97 467
	Multi-regional	**–**	265 057
		928 503	1 111 784

NOTES TO THE ANNUAL FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 31 MARCH 2016

	in thousands of rand	2016	2015
14.	**DEVELOPMENT LOANS** CONTINUED		
14.7	NON-PERFORMING LOANS (INCLUDED IN TOTAL DEVELOPMENT LOANS) CONTINUED		
14.7.3	CLIENT CLASSIFICATION ON NON-PERFORMING LOANS		
	Educational institutions	**1 327**	2 245
	Local government	**423 609**	433 917
	Private sector intermediaries	**2 052 479**	2 333 961
	Public utilities	**229 751**	263 568
		2 707 166	3 033 691
14.8	CLIENT CONCENTRATION OF TOTAL DEVELOPMENT LOANS		
	One client as a percentage of the total loan portfolio (%)	**20.9**	19.4
	Seven clients as a percentage of the total loan portfolio (%)	**54.8**	53.6
14.9	ALLOWANCE FOR CREDIT LOSSES ON DEVELOPMENT LOANS RECONCILIATION		
	Balance at the beginning of the year	**2 928 965**	2 373 611
	Impairment of current year interest (refer to note 14.1)	**(204 710)**	24 134
	Loans written off during the year (refer to note 14.1)	**(343 998)**	(214 306)
	Loans waiver	**(69)**	–
	Impairment charge (refer to note 35)	**1 425 393**	745 526
	Identifiable impairments		
	Non-performing book	**290 493**	387 010
	Performing book	**519 171**	137 263
	Unidentifiable impairments		
	Model driven – performing book	**615 729**	221 253
	Balance at the end of the year	**3 805 581**	2 928 965

15. PROPERTY, PLANT AND EQUIPMENT

	2016			2015		
in thousands of rand	**Cost/ valuation**	**Accumulated depreciation**	**Carrying value**	Cost/ valuation	Accumulated depreciation	Carrying value
Revalued land	**84 600**	**–**	**84 600**	84 600	–	84 600
Revalued buildings	**412 439**	**(25 383)**	**387 056**	405 299	(21 299)	384 000
Furniture and fittings	**19 402**	**(15 358)**	**4 044**	18 915	(13 629)	5 286
Motor vehicles	**1 448**	**(625)**	**823**	1 448	(426)	1 022
Office equipment	**18 040**	**(13 150)**	**4 890**	17 149	(12 605)	4 544
Computer equipment	**66 565**	**(47 525)**	**19 040**	59 150	(35 626)	23 524
Leasehold improvements	**770**	**(21)**	**749**	–	–	–
Total	**603 264**	**(102 062)**	**501 202**	586 561	(83 585)	502 976

Reconciliation of property, plant and equipment – March 2016

in thousands of rand	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**

Reconciliation of property, plant and equipment – March 2015

in thousands of rand	Opening balance	Additions	Disposals	Revaluations	Depreciation	Closing balance
Revalued land	60 200	–	–	24 400	–	84 600
Revalued buildings	388 446	8 121	–	(8 630)	(3 937)	384 000
Furniture and fittings	6 790	38	(80)	–	(1 462)	5 286
Motor vehicles	1 089	825	(684)	–	(208)	1 022
Office equipment	4 035	1 315	–	–	(806)	4 544
Computer equipment	1 313	28 413	–	–	(6 202)	23 524
	461 873	38 712	(764)	15 770	(12 615)	502 976

VALUATIONS

LAND

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

The land was valued at fair value of R84.6 million by management on 31 March 2016 (2015: R84.6 million, by an independent valuator). 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 R7.1 million were effected during the year (2015: R8.1 million). The buildings were valued at fair value of R387 million by management on 31 March 2016 (2015: R384 million by an independent valuator).

The historical carrying value of the existing buildings is R218.3 million (2015: R215.2 million).

16. INTANGIBLE ASSETS

	2016			2015		
in thousands of rand	**Cost/ valuation**	**Accumulated amortisation**	**Carrying value**	Cost/ valuation	Accumulated amortisation	Carrying value
Computer software	**155 404**	**(76 262)**	**79 142**	140 676	(63 264)	77 412

Reconciliation of intangible assets – March 2016

in thousands of rand	**Opening balance**	**Additions**	**Amortisation**	**Closing balance**
Computer software	**77 412**	**14 728**	**(12 998)**	**79 142**

Reconciliation of intangible assets – March 2015

in thousands of rand	Opening balance	Additions	Amortisation	Closing balance
Computer software	82 860	7 045	(12 493)	77 412

NOTES TO THE ANNUAL FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 31 MARCH 2016

17. TRADE AND OTHER PAYABLES

in thousands of rand	2016	2015
Trade and other payables	**424 670**	399 372
Accrued interest (financial market liabilities)	**470 125**	412 383
Total other payables	**894 795**	811 755
Included in trade and other payables are amounts due to third party managed funds and mandates comprising:		
African World Heritage Fund (AWHF)	**–**	30
Gauteng Cleaner Remedial Fund	**34 820**	34 820
Gauteng Schools Programme	**31**	31
Department of Rural Development and Land Reform	**–**	9 406
Angola – facility agency fees	**2 805**	444
Health PPP Programme	**–**	1 747
Hospital Revitalisation Programme	**237**	237
Independent Power Producer Project (IPP)	**–**	2 216
National Department of Health: PPP Project	**–**	30
National Rural Youth Service Corporation (NARYSEC)	**116**	–
Municipal Financial Improvement Programme (NT MFIP)	**506**	506
Municipal Infrastructure Support Agency (MISA)	**337**	200
Pan African Capacitation Building Platform (PACBP)	**–**	6
SAM Funding	**1 410**	1 353
Balance at the end of the year	**40 262**	51 026

Included in trade and other payables are retention and bonus provisions as reconciled below

in thousands of rand	Opening balance	Utilised during the year	Reversal Current year	Current year provision	Closing balance
Retention bonuses	**18 720**	**(406)**	**600**	**–**	**18 914**
Bonus provision	**150 000**	**(133 118)**	**–**	**150 000**	**166 882**
	168 720	**(133 524)**	**600**	**150 000**	**185 796**

18. PROVISIONS

Reconciliation of provisions – 2016

in thousands of rand	Opening balance	Current year provision	Utilised during the period	Closing balance
Developmental 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**

Reconciliation of provisions – 2015

in thousands of rand	Opening balance	Current year provision	Utilised during the period	Closing balance
Developmental expenditure	1 579	30 750	(808)	31 521
Restructuring	54 419	–	(13 229)	41 190
Strategic initiatives	–	50 000	–	50 000
	55 998	80 750	(14 037)	122 711

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 restructuring
The provision for restructuring was raised to cover costs relating to the organisational review. The provision for restructuring includes the direct expenditure arising from the restructuring and not costs associated with the Bank's ongoing activities.

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

19. EMPLOYEE BENEFITS

19.1 LIABILITY FOR FUNERAL BENEFITS

This benefit covers all current and retired employees of the Bank. In respect of these employees, a gross amount of R33 000 is paid to the family upon the death of an employee or retired employee. The obligation was valued by management on 31 March 2016.

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

in thousands of rand	2016	2015
Balance at the end of the year	**3 100**	3 100

19.2 POST-RETIREMENT MEDICAL BENEFITS

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

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

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

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

in thousands of rand	2016	2015
Present value of unfunded obligation		
Balance at the beginning of the year	**160 412**	165 051
Interest cost	**13 476**	14 846
Current service cost (includes interest to year-end)	**41**	34
Past service costs	**4 748**	–
Benefits paid	**(10 399)**	(10 239)
Actuarial gain/(loss) for the year	**71 011**	(9 280)
Balance at the end of the year	**239 289**	160 412
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	**13 476**	14 846
Current service cost	**41**	34
Past service costs	**4 748**	–
Actuarial gain/(loss) for the year	**71 011**	(9 280)
Total charge for the year (included in personnel expenses in the statement of comprehensive income – refer to note 36)	**89 276**	5 600
Market value of post-retirement medical benefit investment		
Balance at the beginning of the year	**59 536**	63 209
Income	**2 849**	3 233
Expenses	**(342)**	(701)
Contributions	**(11 453)**	(11 527)
(Decrease)/increase in market value	**(612)**	5 322
Balance at the end of the year	**49 978**	59 536
The principal assumptions in determining the post-retirement medical benefits obligation are as follows:		
Discount rate (before taxation) (%)	**10.60**	8.70
Medical aid inflation rate (%)	**7.00**	7.90

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 2016

19. EMPLOYEE BENEFITS CONTINUED

19.2 POST-RETIREMENT MEDICAL BENEFITS CONTINUED

Sensitivity analysis

	Central assumption		
Medical aid inflation rate (%)	9.70	(1.00)	1.00
Accrued liability 31 March 2016 (R'000)	170 924	154 949	189 699
% change		(9.30)	11.00
Current service cost + interest cost 2016/17 (R'000)	17 519	15 818	19 518
% change		(9.70)	11.40
Sensitivity results from previous valuation: medical aid inflation rate 2015/16 (%)	7.90	(1.00)	1.00
Current service cost + interest cost 2015/16 (R'000)	13 517	12 155	15 219
% change		(10.10)	11.90

in thousands of rand	
The obligation for the four years prior to March 2015 is as follows:	
March 2014	165 051
March 2013	148 421
March 2012	354 880
March 2011	262 788

19.3 DEFINED CONTRIBUTION PLAN

in thousands of rand	2016	2015
The total amount expensed during the period (including group life assurance and income continuity benefits)	**48 805**	43 518

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 2016 is 452 (2015: 453).

20. DEBT SECURITIES

	2016	2015
Classification of debt securities		
Held at fair value through profit or loss	**6 188 780**	6 837 095
Held at amortised cost	**29 082 355**	26 515 941
	35 271 135	33 353 036

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

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

	2016	2015
Unsecured floating rate debt securities nominal values		
Floating rate notes – Commercial paper	**4 256 000**	2 613 000
Floating rate notes – Medium-term notes	**2 866 000**	2 866 000
	7 122 000	5 479 000

Unsecured floating rate notes (DVCs and DVFs)
An R80 billion domestic medium-term note programme is currently registered and listed on the JSE Securities Exchange as at 31 March 2016.

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

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

The Bank has elected to carry these floating rate notes at amortised cost.

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

	in thousands of rand	2016	2015
21.	**FUNDING: LINES OF CREDIT**		
	Held at amortised cost		
	Lines of credit	**16 371 534**	12 565 895
22.	**SHARE CAPITAL**		
	Authorised		
	2 020 000 ordinary shares (2015: 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 (2015: 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.

	in thousands of rand	2016	2015
	Issued capital		
	20 000 ordinary shares (2015: 20 000) at a par value of R10 000 each	**200 000**	200 000
	All issued capital is fully paid for.		
23.	**PERMANENT GOVERNMENT FUNDING**		
	Balance at the beginning of the year	**8 692 344**	6 192 344
	Government recapitalisation	**3 000 000**	2 500 000
	Balance at the end of the year	**11 692 344**	8 692 344

This represents capital provided by the South African government and remains part of the permanent capital of the Bank. National Treasury committed R7.9 billion as a capital injection over a three-year period, which is now fully drawn.

During the financial year, a capital injection of R3 billion was received from National Treasury (31 March 2015: R2.5 billion).

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.

	in thousands of rand	2016	2015
24.	**REVALUATION RESERVE ON LAND AND BUILDINGS**		
	Balance at the beginning of the year	**269 256**	253 487
	Gain on revaluation of land and buildings	**–**	15 769
	Balance at the end of the year	**269 256**	269 256

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

NOTES TO THE ANNUAL FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 31 MARCH 2016

	in thousands of rand	2016	2015
25.	**HEDGING RESERVE**		
	Balance at the beginning of the year	**116 288**	61 958
	Unrealised gain/(loss) on cash flow hedges	**142 063**	(88 253)
	(Loss)/gain on cash flow hedges reclassified to the statement of comprehensive income	**(135 301)**	142 583
	Balance at the end of the year	**123 050**	116 288
	The net gain reclassified to the statement of comprehensive income was included in the net foreign exchange gain line item.		
26.	**RESERVE FOR GENERAL LOAN RISKS**		
	Balance at the beginning of the year	**2 143 975**	1 893 983
	Transfer to general loan reserve	**292 383**	249 992
	Balance at the end of the year	**2 436 358**	2 143 975
	The reserve is maintained based on the risk grading of the borrowers as detailed in accounting policy note 1.6.5 and movements are recognised directly between the reserve for general loan risk and retained earnings.		
27.	**FAIR VALUE RESERVE**		
	Balance at the beginning of the year	**257**	2 385
	Change in value of available-for-sale financial assets	**(1 067)**	(2 128)
	Balance at the end of the year	**(810)**	257
	The fair value reserve comprises all fair value adjustments for available-for-sale financial market instruments excluding impairment loss.		
28.	**INTEREST INCOME**		
	Interest income received on:		
	Cash and cash equivalents	**192 120**	182 005
	Investment securities	**148 811**	182 667
	Held at fair value through profit or loss	**127 835**	153 902
	Held-to-maturity	**9 556**	17 489
	Available-for-sale	**11 420**	11 276
	Derivatives assets	**18 510**	26 890
	Home ownership scheme loans	**145**	543
	Equity investments	**7 628**	16 387
	Development loans (refer to note 14.1)	**6 051 513**	4 806 454
	Development bonds (refer to note 13.2)	**122 301**	112 366
	Total interest income	**6 541 028**	5 327 312
28.1.	**INTEREST INCOME ON DEVELOPMENT LOANS**		
	Interest income on development loans		
	On performing loans	**5 897 404**	4 744 505
	On non-performing loans	**154 109**	61 949
		6 051 513	4 806 454
28.2.	**INTEREST INCOME ON DEVELOPMENT LOANS – CLIENT CLASSIFICATION**		
	Development finance institutions	**43 625**	56 528
	Educational institutions	**75 215**	74 744
	Local government	**2 087 642**	1 652 597
	National and provincial government	**169 294**	136 614
	Private sector intermediaries	**1 619 011**	1 320 425
	Public utilities	**2 056 726**	1 565 546
		6 051 513	4 806 454

in thousands of rand		2016	2015
29.	**INTEREST EXPENSE**		
	Interest expense incurred on:		
	Other payables	**7 137**	6 663
	Funding: debt securities	**3 211 931**	2 928 016
	Funding: lines of credit	**292 245**	245 988
	Derivative liabilities held for risk management	**(155 884)**	(177 738)
	Total interest expense	**3 355 429**	3 002 929
	Net interest income	**3 185 599**	2 324 383

Included in interest expense on funding: debt securities for the year ended 31 March 2016 is R627 million (2015: R653 million) relating to debt securities designated as held at fair value through profit or loss.

Included in interest expense on funding: debt securities for the year ended 31 March 2016 is R2.8 billion (2015: R2.2 billion) relating to debt securities held at amortised cost.

in thousands of rand		2016	2015
30.	**NET FEE INCOME**		
	Fee income		
	Lending fees	**103 961**	124 977
	Other non-lending fees	**36 699**	99
	Management fees	**147 545**	116 592
	Total fee income	**288 205**	241 668
	Fee expense		
	Commitment fees on funding	**9 111**	4 077
	Guarantee fees	**3 180**	4 663
	Total fee expense	**12 291**	8 740
	Net fee income	**275 914**	232 928
	Included in management fees are fees from third party managed funds:		
	Agence Française de Developpement PPS Fund	**–**	70
	African World Heritage Fund (AWHF)	**1 170**	1 114
	Anglo American South Africa	**3 880**	3 345
	Angola Facility Agency	**–**	680
	Cenpower	**125**	–
	Cities Preparation Facility	**1 500**	1 500
	Department of Basic Education for Accelerated Infrastructure Schools Programme	**38 222**	69 666
	Department of Energy – Renewable Energy Market Transformation	**–**	(128)
	Department of Rural Development and Land Reform	**464**	1 319
	Department of Trade and Industry	**5 254**	–
	Department of Water Affairs	**–**	(284)
	Dryland Rehabilitation Programme	**2 436**	22
	Ekurhuleni Metropolitan Municipality	**13 042**	14
	Ellliotdale Rural Human Settlement	**2 206**	6 293
	European Investment Bank (EIB)	**28 566**	–
	Gauteng Health	**–**	(65)
	Green Fund	**4 359**	3 206
	Global Environment Facility	**6 887**	–
	Independent Power Producers Office (IPP)	**4 663**	1 966
	Infrastructure Delivery Improvement Programme (IDIP)	**1 331**	2 770
	Infrastructure Investment Programme for South Africa (IIPSA)	**877**	877
	Itezhi – Tezhi Power Corporation	**259**	–
	Jobs Fund	**–**	3 428
	KFW HIV/VCT 2 Programme	**2 216**	111
	KFW SADC Water Fund	**672**	568
	KwaZulu-Natal Department of Education	**328**	–
	Limpopo Department of Health	**11 489**	11 320
	Limpopo Department of Public Works	**6 510**	–
	Maamba Colliers Limited	**152**	–
	Municipal Financial Improvement Programme (NT MFIP)	**–**	3 500
	Municipal Infrastructure Support Agency (MISA)	**37**	–
	National Department of Health	**9 112**	3 544
	National Rural Youth Services Corporation (NARYSEC)	**–**	28
	National Treasury Cities Support Programme (NTCSP)	**1 470**	493
	Spatial Development Initiative	**43**	905
	Tripartite Trust Account DFID	**275**	330
		147 545	116 592

NOTES TO THE ANNUAL FINANCIAL STATEMENTS CONTINUED
FOR THE YEAR ENDED 31 MARCH 2016

	in thousands of rand	2016	2015
31.	**NET FOREIGN EXCHANGE GAIN**		
	Unrealised		
	Foreign exchange gain: Cash and cash equivalents	**103 616**	33 541
	Foreign exchange gain/(loss): Hedging derivatives – funding	**339 586**	(331 694)
	Foreign exchange gain: Equity investments (refer to note 11.1)	**520 768**	160 475
	Foreign exchange gain: Development loans	**1 933 176**	988 944
	Foreign exchange gain/(loss): Hedging derivatives – development loans	**112 152**	(187 382)
	Foreign exchange loss: Funding (lines of credit)	**(2 320 341)**	(1 140 097)
		688 957	(476 213)
	Realised		
	Foreign exchange gain: Development loans	**1 092 037**	758 995
	Foreign exchange (loss)/gain: Equity investments (refer to note 11.1)	**(108)**	58 193
	Foreign exchange (loss)/gain: Funding and hedging	**(778 714)**	148 698
		313 215	965 886
	Net foreign exchange gain	**1 002 172**	489 673
32.	**NET GAIN/(LOSS) FROM FINANCIAL ASSETS AND FINANCIAL LIABILITIES**		
	Net gain/(loss) on derivatives held for risk management at fair value through profit or loss		
	Interest rate derivatives		
	Unrealised	**(226 307)**	(30 751)
	Realised	**6 741**	4 723
		(219 566)	(26 028)
	Foreign exchange derivatives		
	Unrealised	**12 258**	43 148
	Realised	**(6 099)**	861
		6 159	44 009
	Investment securities designated at fair value through profit or loss		
	Government bonds – unrealised	**(4 292)**	(14 173)
	Government bonds – realised	**–**	13 044
	Corporate bonds – unrealised	**(9 832)**	1 053
	Municipal bonds – unrealised	**(46 802)**	19 583
		(60 926)	19 507
	Debt securities		
	Designated at fair value through profit or loss – unrealised	**473 349**	(114 538)
	Own credit risk adjustment included in the fair value adjustment amounted to R22 million (31 March 2015: R78 million).		
	Equity investments		
	Designated at fair value through profit and loss – unrealised (refer to note 11.1)	**254 856**	(204 223)
	Held-to-maturity – unrealised (refer to note 11.2)	**(1 684)**	(14 887)
		253 172	(219 110)
	Other		
	Post-retirement medical benefits investment designated at fair value through profit or loss – unrealised	**(9 558)**	(3 672)
	Total net gain/(loss) from financial assets and liabilities	**442 630**	(299 832)
	The total unrealised gains/(losses) for the year related to Level 3 positions held at year-end are set below.		
	Equity investments	**488 480**	7 141
33.	**OTHER OPERATING INCOME**		
	Non-interest income		
	Dividend income	**18 795**	29 821
	Gain on sale of equipment	**90**	70
	Other income	**115 470**	110 080
		134 355	139 971

in thousands of rand	2016	2015
34. DEVELOPMENT EXPENDITURE		
Development expenditure to secondary and under-resourced municipalities	**43 869**	35 015
35. NET IMPAIRMENT LOSS ON FINANCIAL ASSETS		
Impairment of other trade and receivables (refer to note 6)	**634**	(4 015)
Impairment on housing scheme loans	**180**	1 632
Impairment on development bonds (refer to note 13.3)	**(48)**	218
Impairment on development loans (refer to note 14.9)	**1 425 393**	745 526
	1 426 159	743 361
36. PERSONNEL EXPENSES		
Post-retirement medical benefits liability movement (refer to note 19.2)	**89 276**	5 600
Personnel expenses	**641 661**	601 671
	730 937	607 271
Included in other personnel expenses are the following:		
Directors' emoluments includes the Chief Executive Officer's remuneration (refer to note 47)	**16 878**	16 142
Executive members' remuneration (refer to note 47)	**35 679**	34 379
	52 557	50 521
37. OTHER EXPENSES		
Auditor's remuneration	**6 942**	6 274
Technical services	**21 571**	29 658
Communication costs	**6 159**	7 733
Information technology costs	**49 676**	39 146
Legal expenses	**6 814**	10 325
Public relations activities	**12 915**	9 372
Subsistence and travel	**44 421**	33 199
Loss on sale of assets	**–**	315
Strategic transformation initiatives	**–**	50 000
Low value assets	**1 341**	2 087
Other expenses	**63 814**	65 066
	213 653	253 175
38. DEPRECIATION AND AMORTISATION (REFER TO NOTES 15 AND 16)		
Revalued buildings	**4 084**	3 937
Furniture and fittings	**1 380**	1 462
Motor vehicles	**199**	208
Office equipment	**703**	806
Computer equipment	**11 208**	6 202
Leasehold improvements	**21**	–
Intangible assets	**12 998**	12 493
	30 593	25 108
39. GRANTS		
African World Heritage Fund	**500**	–
Association of African Development Finance Institutions	**594**	–
Free State Department of Police Road and Transport	**–**	1 244
National Treasury: BRICS	**–**	246
Malawi DFI consulting fees	**–**	597
Presidency National Planning	**–**	365
Training assistance – Vulindlela Academy	**–**	168
Social Responsibility Fund	**174**	294
Southern African Netherlands Chamber of Commerce	**67**	–
SADC – Development Finance Resource Centre	**1 544**	–
South African Local Government Association (SALGA)	**750**	–
South African National Defence Force Education Trust	**500**	–
	4 129	2 914

NOTES TO THE ANNUAL FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 31 MARCH 2016

	in thousands of rand	2016	2015
40.	**NET (LOSS)/PROFIT ADJUSTED FOR NON-CASH ITEMS**		
	Net profit for the year	**2 576 679**	1 214 141
	Depreciation and amortisation	**30 593**	25 108
	Profit on sale of assets	**(90)**	–
	Grants paid, development expenditure and project preparation	**62 650**	44 067
	Unrealised loss from financial assets and liabilities	**(443 028)**	304 248
	Upfront fees deferred	**23 891**	47 379
	Fees accrued (development loans)	**25 628**	(16 763)
	Unrealised foreign exchange gain	**(688 957)**	476 213
	Capital gain on equity investments	**(43 807)**	(44 879)
	Net impairment loss on financial assets	**1 426 159**	743 361
	Change in liability for funeral benefits and post-retirement medical benefit	**78 878**	(4 639)
	Net interest income	**(3 185 599)**	(2 324 383)
		(137 003)	463 853
41.	**NET (DECREASE)/INCREASE IN WORKING CAPITAL**		
	Movements in provision	**(14 047)**	31 699
	Decrease in other receivables	**(26 998)**	43 348
	Decrease in home ownership scheme loans	**5 462**	2 082
	Increase/(decrease) in other payables	**4 523**	(9 126)
		(31 060)	68 003
42.	**CONTINGENCIES**		
42.1	**EMPLOYEE LOANS**		
	Loan balances secured	**–**	103
	The Bank has entered into agreements with financial institutions whereby it stands surety for housing and micro loans of its employees. Repayment terms vary at fair market rates, which are at arm's-length.		
42.2	**GUARANTEES**		
	The Bank has approved and issued guarantees on behalf of borrowers amounting to:	**94 099**	172 625
	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:	**94 099**	172 625

42.3 CONTINGENT LIABILITIES

The Bank operates in a legal and regulatory environment that exposes it to litigation risks. As a result, it 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 its financial position. These claims cannot be reasonably estimated at this time.

43. RELATED PARTIES

43.1 RELATED PARTY RELATIONSHIPS

The DBSA is one of 21 Schedule 2 major public entities in terms of the PFMA and therefore falls within the national sphere of government. As a consequence, the Bank has a significant number of related parties that also fall within the national sphere of government.

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

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

The DBSA has a 100% shareholding in Frandevco.

43.2 TRANSACTIONS WITH RELATED PARTIES

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

43.2.1 NATIONAL PUBLIC ENTITIES

The total book debt of loans extended to national public entities amounts to R15.9 billion (2015: R13.1 billion). None of these loans are non-performing.

43.2.2 NATIONAL MANDATES

The net amount advanced to national mandates at year-end amounted to R44 million (2015: R144.3 million).

43.2.3 BRICS

There were no amounts paid to the National Treasury for expenses relating to the BRICS programme during the year (March 2015: R246 000). The amount is not recoverable from the National Treasury.

43.2.4 FRANDEVCO

The Bank has a 100% shareholding in Frandevco (2015: 100%).

There were no transactions with Frandevco during the year (2015: R Nil).

43.2.5 RELATED PARTY TRANSACTIONS

There were no related party transactions with Directors and key management personnel during the year (2015: Rnil).

	in thousands of rand	2016	2015
44.	**COMMITMENTS**		
	At the reporting date, the Bank had the following commitments:		
	Development loan commitments	**7 427 605**	10 572 339
	Development expenditure	**82 652**	33 754
	Grants	**63 636**	4 371
	Equity investment commitments	**1 612 185**	1 946 909
	Capital commitments	**113 000**	85 000
		9 299 078	12 642 373

44.1 DEVELOPMENT LOAN COMMITMENTS

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

44.2 DEVELOPMENTAL EXPENDITURE

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

44.3 GRANTS

Grant commitments approved but not yet disbursed are to be financed from funds generated from operations and funds raised from local financial markets and foreign sources.

44.4 EQUITY INVESTMENT COMMITMENTS

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

44.5 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.

	in thousands of rand	2016	2015
45.	**FUNDS ADMINISTERED ON BEHALF OF THIRD PARTIES**		
	Balance at the beginning of the year	**626 064**	2 072 450
	Funds received	**2 379 670**	4 975 373
	Interest, foreign exchange and other movements	**149 174**	143 372
	Funds disbursed	**(2 408 542)**	(6 565 131)
	Balance at the end of the year	**746 366**	626 064

46. 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.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 31 MARCH 2016

47. SCHEDULE OF DIRECTORS' AND PRESCRIBED OFFICERS' EMOLUMENTS

47.1 EXECUTIVE MEMBERS' AND PRESCRIBED OFFICERS REMUNERATION

	Basic salaries and fees R	Medical aid, group life and provident fund contribution R	Subsistence and travel R	Cellphone costs R	Bonus R	**Total 2016 R**	Total 2015 R
Chief Executive Officer and Managing Director							
Mr P Dlamini	4 515 771	642 303	126 509	–	4 785 900	**10 070 483**	9 536 810
Executive managers							
Mr PA Currie	2 428 892	317 232	12 271	24 000	2 033 504	**4 815 899**	4 609 943
Mr M Hillary	2 023 492	368 001	6 884	24 000	1 777 620	**4 199 997**	4 090 124
Mr E Dietrich[1]	1 627 081	403 104	20 905	33 000	1 386 073	**3 470 163**	439 147
Ms D Mashishi	2 166 991	316 071	6 884	24 000	1 777 620	**4 291 566**	4 123 113
Mrs K Naidoo	2 659 370	326 816	15 359	24 000	2 211 754	**5 237 299**	4 986 121
Mr T Nchocho	–	–	–	–	–	**–**	4 156 938
Mr R Shaik	2 040 349	366 855	32 557	60 000	911 600	**3 411 361**	4 382 020
Ms S Sibisi	2 186 503	312 850	53 303	60 000	1 802 424	**4 415 080**	4 275 814
Mr M Vivekanandan	2 637 073	590 670	47 688	18 000	2 544 000	**5 837 431**	3 315 436
Total	22 285 522	3 643 902	322 360	267 000	19 230 495	**45 749 279**	43 915 466

1. *Appointed 1 January 2016.*

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

	Fees for services as Directors R	Subsistence and travel R	**Total 2016 R**	Total 2015 R
Mr PJ Moleketi (Chairman)	905 126	53 442	**958 568**	865 868
Mr FM Baleni (Deputy Chairman)	636 701	14 503	**651 204**	595 815
Dr L Bhengu-Baloyi	488 776	–	**488 776**	444 200
Mr A Boraine	–	–	**–**	133 400
Mrs T Dingaan[1]	680 520	–	**680 520**	731 700
Mr OA Latiff[2]	374 064	–	**374 064**	748 808
Ms B Mabuza	496 743	3 774	**500 517**	508 270
Dr C Manning	–	–	**–**	195 904
Ms D Marole	643 997	3 552	**647 549**	532 277
Mr A Moloto	583 256	–	**583 256**	309 650
Ms G Mtetwa	625 576	3 774	**629 350**	256 128
Ms A Sing	532 598	3 774	**536 372**	317 045
Prof M Swilling	345 617	–	**345 617**	207 150
Ms Janse Van Rensburg[3]	117 675	–	**117 675**	–
Ms M Vilakazi[4]	187 269	666	**187 935**	396 948
Co-opted members				
Prof B Figaji	106 348	–	**106 348**	361 600
	6 724 266	83 485	**6 807 751**	6 604 763

1. *Resigned.*
2. *Deceased.*
3. *Appointed 1 January 2016.*
4. *Resigned 22 October 2015.*

48. RISK MANAGEMENT

MARKET RISK

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

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

INTEREST RATE RISK

Interest rate risk refers to the susceptibility of the Bank's financial position to adverse fluctuations in market interest rates. Variations in market interest rates impact on the cash flows and income stream of the Bank through their net effect on interest rate sensitive assets and liabilities. At the same time, movements in interest rates impact 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 ALCO, is charged with managing and containing the Bank's interest rate risk exposures within Board-approved limits. To this end, it 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 its earnings stream and ensure its continued financial sustainability. Limits are set both with respect to short-term NII sensitivity using the 12-month cumulative repricing gap to total earning assets ratio and, in the longer term, with respect to the portfolio value analysis.

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

The re-pricing profile as at financial year-end is encapsulated in the table overleaf. As reflected in the 12-month cumulative repricing 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 or decrease in net interest income over the projected 12-month period of approximately R77.8 million (2015: R55.2 million).

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 2015, the Bank had a combined ZAR interest rate and USD interest rate swaps portfolio with a total notional contract amount of R5.7 billion (2015: R4.8 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 2016 was R133 million (2015: R333 million), comprising assets of R152 million (2015: R370 million) and liabilities of R30 million (2015: R37.3 million). These amounts are recognised as fair value derivatives.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS CONTINUED
FOR THE YEAR ENDED 31 MARCH 2016

48. RISK MANAGEMENT CONTINUED

HEDGING OF INTEREST RATE RISK

The table below shows the contractual repricing gap at 31 March 2016:

		Contractual repricing gap								
in millions of rand		<1m	1-3m	3-12m	1-2 yrs	2-3 yrs	3-4 yrs	4-5 yrs	>5 yrs	Total
Cash and cash equivalents	ZAR	1 972	–	–	–	–	–	–	–	1 972
	EUR	1	–	–	–	–	–	–	–	1
	USD	112	–	–	–	–	–	–	–	112
Money market instruments	ZAR	–	–	–	–	–	–	–	–	–
Investment: government bonds	ZAR	–	–	272	–	106	–	–	–	378
Investment: municipal bonds	ZAR	–	–	33	–	75	–	100	1 892	2 100
Investment: corporate bonds	ZAR	–	–	–	–	–	–	–	–	–
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	EUR	–	–	–	–	–	–	–	–	–
	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)
IRS: funding bonds	ZAR	–	–	–	–	–	–	–	–	–
IRS: lines of credit	USD	–	–	–	–	–	–	–	–	–
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 table below shows the contractual repricing gap at 31 March 2015:

		Contractual repricing gap								
in millions of rand		<1m	1-3m	3-12m	1-2 yrs	2-3 yrs	3-4 yrs	4-5 yrs	>5 yrs	Total
Cash and cash equivalents	ZAR	3 276	–	–	–	–	–	–	–	3 276
	EUR	1	–	–	–	–	–	–	–	1
	USD	625	–	–	–	–	–	–	–	625
Money market instruments	ZAR	50	167	–	–	–	–	–	–	217
Investment: government bonds	ZAR	–	–	272	272	–	106	–	–	650
Investment: municipal bonds	ZAR	–	–	100	100	–	–	–	1 917	2 117
Investment: corporate bonds	ZAR	–	–	–	–	–	75	–	75	150
Development loans	EUR	–	–	–	–	–	–	–	7	7
	USD	–	2 960	7 646	–	67	–	–	596	11 269
	ZAR	3 627	3 697	7 070	274	571	1 029	779	27 122	44 169
Derivative: development loans	USD	(14)	(558)	(336)	(27)	35	–	–	231	(669)
	ZAR	11	656	35	22	11	–	–	(180)	555
Total financial market assets		7 576	6 922	14 787	641	684	1 210	779	29 768	62 367
CCS: Lines of credit	EUR	–	–	73	31	–	–	186	2 005	2 295
	USD	–	–	(780)	–	–	–	–	–	(780)
	ZAR	–	–	(845)	–	–	–	–	(295)	(1 140)
Funding bonds	ZAR	(215)	(1 571)	(1 295)	(1 000)	–	–	(9 228)	(15 025)	(28 334)
Funding: lines of credit	EUR	–	–	(73)	(31)	–	–	(186)	(2 005)	(2 295)
	USD	–	(4 190)	(5 064)	–	(61)	–	–	(231)	(9 546)
	ZAR	–	(565)	(153)	–	–	–	–	–	(718)
IRS: funding bonds	ZAR	–	(2 350)	(2 000)	1 000	–	3 350	–	–	–
IRS: lines of credit	ZAR	–	–	–	–	–	–	–	–	–
Funding: money market debt	USD	–	–	–	–	–	–	–	–	–
	ZAR	–	(2 863)	(1 650)	–	–	–	–	–	(4 513)
Total financial market liabilities		(215)	(11 539)	(11 787)	–	(61)	3 350	(9 228)	(15 551)	(45 031)
Repricing gap		7 361	(4 617)	3 001	641	624	4 560	(8 449)	14 217	
Cumulative repricing gap		7 361	2 744	5 744	6 385	7 008	11 568	3 119	17 336	

The above analysis is based on performing assets only. Variable interest rate instruments are included in the maturity bucket in which they reprice. Fixed rate instruments, although not technically subject to repricing risk, are included in the maturity bucket in which it mature, 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 2016, the Bank had FECs with a notional amount of R130 million (2015: R54 million) and cross-currency swaps with a notional amount of R2.8 billion (2015:R2.35 billion).

The notional principal amounts indicate the volume of currency hedged liabilities outstanding at the reporting 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.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 31 MARCH 2016

48. RISK MANAGEMENT CONTINUED

FOREIGN CURRENCY SENSITIVITY ANALYSIS

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

	2016		2015	
Currency (in thousands)	EUR	USD	EUR	USD
Cash at bank	27	882	66	51 545
Loan assets	407	1 077 705	550	929 396
Equity investments	28 560	161 430	28 553	160 436
Cross-currency swaps	154 779	(62 462)	176 395	(113 911)
Derivative foreign exchange contracts	–	(9 885)	–	(5 643)
Liabilities	(154 779)	(890 057)	(176 399)	(787 205)
	28 994	277 613	29 165	234 618

Foreign currency exchange rate (FX) sensitivity analysis

Sensitivity	%	EUR/ZAR	EUR potential impact	USD/ZAR	USD potential impact	FX sensitivity combined
	(15)	14.2784	(73)	12.5491	(615)	(688)
	(10)	15.1183	(49)	13.2873	(410)	(459)
	(5)	15.9582	(24)	14.0255	(205)	(229)
	–	16.7981	–	14.7637	–	–
	5	17.6380	24	15.5019	205	229
	10	18.4780	49	16.2401	410	459
	15	19.3179	73	16.9783	615	688
Spot exchange rate used	EUR/ZAR	16.7981				
	USD/ZAR	14.7637				

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, its 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 2016 was R4.55 billion (2015: R5.9 billion). This includes cash and cash equivalents of R2.08 billion (2015: R3.9 billion), money market instruments of Rnil (2015: R217 million), corporate and municipal bonds of R2.1 billion (2015: R1.1 billion) and government bonds amounting to R378 million (2015: R688 million).

Available liquidity	2016	2015
High-quality liquid assets		
Cash	2 084 585	3 901 663
T-bills	–	217 400
Government bonds	378 000	694 238
Other less liquid assets		
SOE bonds	150 000	179 403
Municipal bonds	1 950 333	858 179
Total available liquidity	4 562 918	5 850 883

In addition to holding a minimum level of liquidity in the form of cash and near cash equivalents (tradable market securities) as described above, the Bank has at its disposal a variety of funding sources, should the need arise. These include uncommitted credit lines with reputable financial institutions, committed loan facilities with 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 2016 was approximately R3.9 billion (2015: R3.3 billion).

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

In millions of rand		<1m	1-3m	3-12m	1-2 yrs	2-3 yrs	3-4 yrs	4-5	>5 yrs	Total
Cash and cash equivalents	ZAR	**1 972**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**1 972**
	EUR	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
	USD	**112**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**112**
Money market instruments	ZAR	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Investment: government bonds	ZAR	**–**	**–**	**272**	**–**	**106**	**–**	**–**	**–**	**378**
Investment: municipal bonds	ZAR	**–**	**–**	**33**	**–**	**75**	**–**	**100**	**1 892**	**2 100**
Investment: corporate bonds	ZAR	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
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**
Derivative: 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	EUR	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
	USD	**1**	**(59)**	**(80)**	**(129)**	**(119)**	**(119)**	**(119)**	**(297)**	**(921)**
	ZAR	**–**	**(17)**	**(91)**	**(108)**	**(108)**	**(94)**	**(80)**	**(477)**	**(975)**
Derivative liabilities		**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
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.

As per the table above, the 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 2016

48. RISK MANAGEMENT CONTINUED

LIQUIDITY RISK CONTINUED

The table below analyses the contractual liquidity gap at 31 March 2015.

In millions of rand		<1m	1-3m	3-12m	1-2 yrs	2-3 yrs	3-4 yrs	4-5 yrs	>5 yrs	Total
Cash and cash equivalents	ZAR	3 326	–	3 000	–	–	–	–	–	6 326
	EUR	1	–	–	–	–	–	–	–	1
	USD	625	–	–	–	–	–	–	–	625
Money market instruments	ZAR	50	167	–	–	–	–	–	–	217
Investment: government bonds	ZAR	–	–	272	272	–	106	–	–	650
Investment: municipal bonds	ZAR	–	–	167	33	–	–	–	1 917	2 117
Investment: corporate bonds	ZAR	–	–	–	–	–	75	–	75	150
Development loans	EUR	–	–	1	1	1	1	1	–	5
	USD	28	93	1 062	1 668	1 581	1 162	957	4 719	11 270
	ZAR	16	65	2 473	2 903	3 043	2 593	2 368	30 594	44 055
Derivatives: development bonds	USD	(14)	–	(580)	(45)	(31)	–	–	–	(670)
	ZAR	11	–	492	31	21	–	–	–	555
Total financial market assets		4 043	325	6 887	4 863	4 615	3 937	3 326	37 305	65 301
CCS: Lines of credit	EUR	–	10	251	249	254	234	213	1 085	2 296
	USD	–	–	(49)	(98)	(98)	(98)	(98)	(341)	(782)
	ZAR	–	(2)	(150)	(108)	(121)	(108)	(94)	(557)	(1 140)
Funding bonds	ZAR	(215)	–	–	(2 571)	–	(1 295)	(9 228)	(15 025)	(28 334)
Funding: lines of credit	EUR	–	(8)	(224)	(249)	(283)	(234)	(184)	(1 114)	(2 296)
	USD	–	(470)	(2 441)	(1 778)	(1 242)	(767)	(749)	(2 098)	(9 545)
	ZAR	–	(7)	(88)	(94)	(94)	(94)	(94)	(247)	(718)
Funding: money market debt	ZAR	–	(1 745)	(2 768)	–	–	–	–	–	(4 513)
Total financial market liabilities		(215)	(2 222)	(5 469)	(4 649)	(1 584)	(2 362)	(10 234)	(18 297)	(45 032)
Liquidity gap		3 828	(1 897)	1 418	214	3 031	1 575	(6 908)	19 008	
Cumulative liquidity gap		3 828	1 931	3 349	3 563	6 594	8 169	1 261	20 269	

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

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 its oversight duties, sets the tone for the management of risk and defines the level of risk that the Bank is willing to assume, as well as considers the granting of large credits and reviews the overall performance in the management of risk through its sub-committees. 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 policies, models and standards in support of the efficient and effective management of credit risk. Credit analysts, who report to the Financing Operations division, have been deployed as a first line of defence to provide an objective view of the quality of individual credits under construction. This team also works closely with the frontline to monitor the performance of assets post-approval on an ongoing basis.

CREDIT RISK RATINGS

Obligor credit risk ratings: The Bank is not regulated by the South African Reserve Bank 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 regulation purposes. The key variables in the Bank's quantitative assessment of expected loss and, by implication, in setting risk-adjusted pricing are:

- Probability of default (PD), which determines the likelihood that the client will not be able to meet its debt repayments based on creditworthiness;
- Exposure at default (EAD), which calculates the size of exposure and thus potential loss at the point of default; and
- 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 PD. All credit risk ratings are confirmed through the Credit Committee process to ensure consistency and effective challenge. The credit risk ratings 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

The Bank has implemented an internal country risk rating model that uses external ratings, agency ratings as well as economic data from various sources such as International Monetary Fund and 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 methodology considers solvency, liquidity, economic and political issues to risk rate countries and generates PD. 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 degree 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 approved risk appetite.

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

NOTES TO THE ANNUAL FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 31 MARCH 2016

48. RISK MANAGEMENT CONTINUED

COUNTRY 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 was enhanced through the development of a standard pricing model. 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 model has been applied since January 2013 and further improvements will be undertaken during the next financial year.

The Bank has moved to the second version of this model in 2014 with updates to cost structure included. The risk ratings from credit risk models approved by the Investment Committee are used both for 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 will include products other than loans.

CREDIT RISK MITIGATION

In addition to pricing for risk, the Bank uses a wide range of instruments to enhance the quality of credit and/or reduce the expected losses on its lending 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 lifetime of assets and measure the exposure and performance of assets across portfolios.

At individual level:

- Performance of credit is monitored and reported in terms of adherence to terms and conditions;
- Credit risk ratings are updated on an annual basis;
- Potential problem loans are identified based on early indications of distress and placed on a credit watch list;
- Non-performing accounts are transferred for independent workout and recovery;
- 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 it 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 annual 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 annual 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 bank's results. The reviews include assessment of the impairment triggers and reversals within the asset portfolio, review of performance of the equity portfolio on a regular basis with the asset managers. In addition, the impairment working group and watch list meetings are held monthly.

	2016			2015		
in thousands of rand	**Gross amount**	**Allowance for credit losses**	**Carrying amount**	Gross amount	Allowance for credit losses	Carrying amount
(a) Development loans						
Non-performing book						
Municipalities	**423 610**	**225 756**	**197 854**	433 916	188 035	245 881
Other	**2 283 556**	**1 293 164**	**990 392**	2 599 773	1 331 544	1 268 229
	2 707 166	**1 518 920**	**1 188 246**	3 033 689	1 519 579	1 514 110
Performing book						
Low risk						
Municipal	**17 165 549**	**18 432**	**17 147 117**	11 920 098	136 350	11 783 748
Other	**2 202 931**	**13 969**	**2 188 962**	1 781 916	10 483	1 771 433
Medium risk						
Municipal	**6 582 197**	**152 606**	**6 429 591**	5 837 727	4 802	5 832 925
Other	**33 805 013**	**628 021**	**33 176 992**	33 201 335	210 610	32 990 725
High risk						
Municipal	**418 762**	**40 412**	**378 350**	20 389	–	20 389
Other	**10 418 916**	**994 630**	**9 424 286**	3 874 030	350 995	3 523 035
	70 593 368	**1 848 070**	**68 745 298**	56 635 495	713 240	55 922 255
Total book debt	**73 300 534**	**3 366 990**	**69 933 544**	59 669 184	2 232 819	57 436 365

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.

	2016			2015		
in thousands of rand	**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	**1 778 663**	**1 085 773**	**692 890**	1 921 907	892 411	1 029 496
Rest of Africa	**928 503**	**433 147**	**495 356**	1 111 782	627 168	484 614
	2 707 166	**1 518 920**	**1 188 246**	3 033 689	1 519 579	1 514 110
Performing book						
South Africa	**53 333 488**	**476 380**	**52 857 108**	43 563 325	338 217	43 225 108
Rest of Africa	**17 259 880**	**1 371 690**	**15 888 190**	13 072 170	375 023	12 697 147
	70 593 368	**1 848 070**	**68 745 298**	56 635 495	713 240	55 922 255
Total book debt	**73 300 534**	**3 366 990**	**69 933 544**	59 669 184	2 232 819	57 436 365

NOTES TO THE ANNUAL FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 31 MARCH 2016

48. RISK MANAGEMENT CONTINUED

CREDIT RISK EXPOSURE CONTINUED

Impairment balance sheet (excluding interest in suspense 2016: R438.6 million)

in thousands of rand	2016	2015
Identified impairments		
Performing loans	**656 434**	137 264
Non-performing loans	**1 518 920**	1 519 579
Total	**2 175 354**	1 656 843
Unidentified impairments		
Model driven	**1 191 636**	575 976
Total	**3 366 990**	2 232 819

	March 2016			March 2015		
in thousands of rand	Gross amount	Allowance for credit losses	Carrying amount	Gross amount	Allowance for credit losses	Carrying amount
(b) Development bonds						
Performing						
Municipal	**1 290 466**	**170**	**1 290 296**	1 290 608	218	1 290 390

The maximum exposure relating to development bond is R1.3 billion (2015: R1.3 billion).

	March 2016			March 2015		
in thousands of rand	Gross amount	Allowance for credit losses	Carrying amount	Gross amount	Allowance for credit losses	Carrying amount
(c) Other receivables:						
Trade debtors – 90 days and above	**8 557**	**2 942**	**5 615**	9 564	2 479	7 085
Other debtors: 90 days and above	**9 808**	**–**	**9 808**	3 916	–	3 916
	18 365	**2 942**	**15 423**	13 480	2 479	11 001
Performing book						
Trade debtor: 30 days	**46 600**	**–**	**46 600**	30 064	–	30 064
Other debtors: 30 days	**2 867**	**–**	**2 867**	1 962	–	1 962
Trade debtors: 30 to 60 days	**15 841**	**–**	**15 841**	108 774	–	108 774
Other debtors: 30 to 60 days	**658**	**–**	**658**	–	–	–
Trade debtors: 60 to 90 days	**171**	**171**	**–**	16 575	–	16 575
Other debtors: 60 to 90 days	**27**	**–**	**27**	–	–	–
	66 164	**171**	**65 993**	157 375	–	157 375
Staff and study loans	**21**	**–**	**21**	656	–	656
Municipal deposits	**480**	**–**	**480**	1 081	–	1 081
Prepaid expenses	**13 144**	**–**	**13 144**	5 161	–	5 161
	13 645	**–**	**13 645**	6 898	–	6 898
Total book debt	**98 174**	**3 113**	**95 061**	177 753	2 479	175 274

in thousands of rand	2016	2015
(d) Commitments (Loans signed, but not yet fully disbursed)		
Low Risk		
Municipal	**90 710**	496 367
Other	**61 500**	890 000
Medium risk		
Municipal	**684 743**	698 261
Other	**5 874 376**	8 063 319
High risk		
Other	**716 276**	424 392
	7 427 605	10 572 339
(e) Guarantees	**94 099**	172 625

in thousands of rand	2016 Total	2016 < 3 months	2016 3-6 months	2016 6-12 months	2016 > 12 months	2015 Total	2015 < 3 months	2015 3-6 months	2015 6-12 months	2015 > 12 months
(f) Loans that are past due not individually impaired										
Overdue amounts	**448 306**	**415 095**	**9 723**	**23 488**	**–**	166 928	138 179	27 526	1 079	144
Not yet due	**11 159 899**					24 418 550				
	11 608 205					24 585 478				

An amount of R371 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 R290 million (2015: R206 million). For the purposes of calculating this aggregated total, the fair value of each collateral is limited to the carrying value for each individual loan.

The above collaterals consist of guarantees, cession of debtors, mortgages, investments, notarial bonds, sinking fund investments and insurance policies.

in thousands of rand	2016	2015
(g) Financial counterparty exposure		
Bonds	**2 069 136**	1 531 382
Derivatives	**1 134 255**	792 078
Cash and money markets	**2 084 565**	4 118 409
	5 287 956	6 441 869

CAPITAL MANAGEMENT

During the period under review, the Bank complied with its regulatory leverage ratio requirement, as set out in the regulation made under section 17 of the DBSA Act No 13 of 1997.

The Bank's objectives when managing capital are:

- To safeguard the Bank's ability to continue as a going concern, through ensuring a sufficient cushion against unexpected losses, and to provide for an acceptable growth rate in its development finance activities; and
- To maintain an adequate credit rating to ensure the Bank continued access to fund at optimal rates, in support of its mission to provide affordable development finance solutions.

The Bank monitors and manages its capital adequacy within the regulatory leverage constraint and in line with the capital adequacy framework approved by the Board. Whereas the Bank has adopted a self-imposed capital adequacy framework that differentiates between the risks assumed on different asset classes and provides for market and operational risk, the overarching regulatory capital requirement applicable to the institution is derived from the debt-equity maximum of 250%. Implicit in this is a minimum unweighted capital requirement of 28.6%.

The leverage ratio is calculated as total debt divided by shareholders' capital, where total debt comprises total liabilities excluding other creditors (as shown on the statement of financial position). Capital comprises share capital, permanent government funding, retained earnings, and reserves. As at 31 March 2016, the debt-to-equity ratio stood at 177.8% (2015: 195.4%). The capital ratio is calculated as shareholders' capital divided by unweighted assets, where unweighted assets comprise total assets (as shown on the statement of financial position). Shareholders' capital comprises share capital, permanent government funding, retained earnings, general provisions and the fair value reserve. As at 31 March 2016, the capital ratio stood at 35.5% (2015: 33.4%).

The Bank embarked on a project to improve capital and balance sheet management by aligning its framework to international best practice. The framework will largely borrow from Basel accord insofar as risk quantification and capital allocation are concerned. The solution will be customised to take into account the developmental nature of the Bank. Once the project is completed, the following aspects of the Bank will be impacted:

- Strategy and risk appetite;
- Risk quantification and assessment;
- Risk capital forecasting;
- Risk capital stress testing;
- Capital allocation; and
- Divisional performance reporting (move to risk-adjusted performance measurement).

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

NOTES TO THE ANNUAL FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 31 MARCH 2016

49. THIRD PARTY MANAGED FUNDS COST RECOVERED

in thousands of rand	2016	2015
Third party funds and mandates		
Agence Française de Développement Project Preparation and Feasibility Studies Fund	–	175
African Pier Review Mechanism (APRM)	3 420	4 042
African World Heritage Fund (AWHF)	4 904	5 121
Anglo American	6 722	6 738
Cities Project Preparation Facility (CPPF)	5 013	2 570
Department of Basic Education for Accelerated Infrastructure Schools Programme	6 960	4 688
Department of Rural Development and Land Reform	1 043	2 421
Department of Trade and Industry	3 454	–
Department of Water Affairs	–	1
Dryland Rehabilitation Programme	–	4
Eastern Cape Department of Education	15 907	–
Ekurhuleni Metropolitan Municipality	13 340	280
Elliotdale Human Rural Settlement (EHRS)	917	914
European Investment Bank (EIB)	607	–
Gauteng Department of Health	–	816
Green Fund	15 415	14 741
GTAC – IPP Office	59 495	9 562
Infrastructure Delivery Improvement Programme (IDIP)	5 120	3 225
Infrastructure Investment Programme for South Africa (IIPSA)	4 122	2 687
Investment Climate Facility(Anglo)	516	103
Jobs Fund	–	28 800
KFW/VCT II – HIV Prevention by Voluntary Counselling and Testing Programme	1 742	1 310
KFW SADC Water Fund	1 548	–
National Treasury Municipal Financial Improvement Programme (NT MFIP)	–	3 889
Limpopo Department of Health	873	–
Limpopo Department of Public Works	3 396	–
Municipal Infrastructure Support Agency	852	2 011
National Department of Health	17 904	12 760
National Rural Youth Services Corps (NARYSEC)	–	6 568
National Treasury Cities Support Programme (NTCSP)	3 524	7 108
National Treasury Municipal Capacitation Fund (NTMCF)	–	12
National Treasury – The Power Producer Projects Unit (PPP)	1 090	1 454
New Partnership for Africa Development (NEPAD)	3 762	4 365
Pan African Capacity Building Platform (PACBP)	3 062	2 472
Renewable Energy Market Transformation Programme (DME/REMT)	–	2
Southern African Development Community Secretariat	24	–
Spatial Development Initiatives (SDI)	1 244	2 997
Ticket Restoration Programme	–	4
Timbuktu Mali	6	–
Tripartite-Aid-for-Trade Pilot Programme	–	4
	185 982	131 844
Third party managed funds managed per division		
Financing Operations	81 800	59 848
Finance	15 150	21 920
Infrastructure Delivery	84 019	47 507
Financing	5 013	2 569
	185 982	131 844
Cost recovery for each division		
Corporate Services	168 309	120 870
Financing Operations	2 359	582
Finance	–	2 199
Infrastructure Delivery	15 132	7 983
Financing	182	210
	185 982	131 844

50. EVENTS AFTER THE REPORTING PERIOD

APPROVAL OF ANNUAL FINANCIAL STATEMENTS

The annual financial statements were authorised for issue by the Board on 7 July 2016. There were no adjusting events that occurred after the reporting date.

DISPOSAL OF EQUITY INVESTMENT

A project sponsor invoked the buy-out clause insofar that an offer was made to minority shareholders. The offer was accepted during April 2016. The cash was raised in May 2016 in the market through the issuance of shares and regulatory approval is being obtained.

HOME OWNERSHIP SCHEME LOANS

The home ownership scheme loans were sold to a third party. After the financial year-end, the remaining portion of the proceeds from the sale to the third party was received.

51. NON-CURRENT ASSET HELD-FOR-SALE

During a previous financial year, as a result of calling on its security against the loan in default, the Bank obtained a 100% shareholding in a property investment company with a view to selling it. 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 (2015: R2).

in thousands of rand	2016	2015
52. FINANCE LEASE OBLIGATION		
Minimum lease payments due		
– within one year	**514**	630
– in second to fifth year inclusive	**1 074**	–
Total	**1 588**	630

The Bank has entered into commercial leases on certain computer equipment, office equipment and property. These leases have an average life of between three and five years with no renewal option or option to acquire the assets at termination date included in the contracts. There are no restrictions placed upon the Bank by entering into these leases.

in thousands of rand	2016	2015
53. FRUITLESS AND WASTEFUL EXPENDITURE		
Fruitless and wasteful expenditure	**143**	21
Less: Amounts received	**–**	(3)
	143	18
Details of fruitless and wasteful expenditure		
Interest on late payments	**–**	14
Catering order not collected	**–**	7
IT system error – Trade and other receivables	**143**	–
	143	21

No disciplinary steps were taken.

54. COMPARATIVE FIGURES

Certain comparative figures have been reclassified.

ABBREVIATIONS AND ACRONYMS

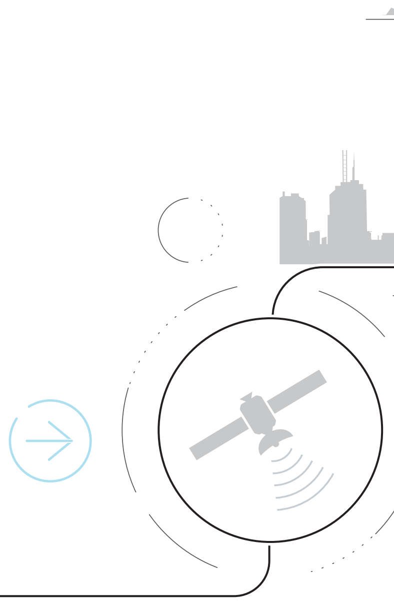
AADFI	Association of African Development Finance Institutions
AFD	Agence Française de Développement
AfDB	African Development Bank
ASIDI	Accelerated Schools Infrastructure Delivery Initiative
B-BBEE	Broad-based black economic empowerment
BRIC	Brazil, Russia, India and China
BRICS	Brazil, Russia, India, China and South Africa
BSC	Balanced Scorecard
COMESA	Common Market for Eastern and Southern Africa
DBE	Department of Basic Education
DBSA	Development Bank of Southern Africa Limited
DFID	The United Kingdom's Department for International Development
DFRC	Development Finance Resource Centre
DIRCO	Department of International Relations and Cooperation
DTI	Department of Trade and Industry
ECOWAS	Economic Community of West African States
EIB	European Investment Bank
EPC	Engineering, procurement and construction
GDP	Gross domestic product
ICAS	Independent Counselling and Advisory Services
ICT	Information and communications technology
IDIP	Infrastructure Delivery Improvement Programme
IFRS	International Financial Reporting Standards
IIPSA	Infrastructure Investment Programme for South Africa
KfW	The German agency Kreditanstalt für Wiederaufbau
JICA	Japan International Cooperation Agency
MIG	Municipal Infrastructure Grant
MTEF	Medium-Term Economic Framework
NDP	National Development Plan
NEPAD	New Partnership for Africa's Development
NSC	North-South Corridor
PFMA	Public Finance Management Act, 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 microenterprise
SOC	State-owned company
UNOPS	United Nations Office for Project Services

FINANCIAL DEFINITIONS

Callable capital	The authorised but as yet unissued share capital of the 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
Long-term 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

Registered office	Headway Hill 1258 Lever Road, Midrand, Johannesburg, South Africa
Postal address	PO Box 1234 Halfway House 1685 South Africa
Telephone Fax Home page	+ 27 11 313 3911 + 27 11 313 3086 www.dbsa.org

NOTES



www.dbsa.org

BUSINESS AND REGISTERED ADDRESS

1258 Lever Road, Headway Hill, Midrand
PO Box 1234, Halfway House, Midrand, Gauteng

Switchboard:	+27 11 313 3911
Reception:	+27 11 313 3500 +27 11 313 3297
Fax:	+27 11 313 3086