Development Bank of Southern Africa Limited

(reconstituted and incorporated in terms of section 2 of the Development Bank of Southern Africa Act, 1997)

Registration number: 1600157FN

JSE company code: DIDBS

LEI code: 25490071AZ4HOFUNIH94

("DBSA" or the "Bank")

AUDITED ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2021

Overview

DBSA is a development finance institution; whose only shareholder is the Government of the Republic of South Africa. This summary of the financial results for the year ended 31 March 2021 (the "results") is published on the JSE Limited ("JSE") Stock Exchange News Service ("SENS") to provide the information to the holders of the Bank's listed debt securities. The results are prepared in accordance with the requirements of International Financial Reporting Standards ("IFRS") and its interpretations as issued by the International Accounting Standards Board ("IASB"), the presentation requirements of IAS 1 and the requirements of sections 27 to 31 of the Companies Act of South Africa (Act No.71 of 2008) ("Companies Act"), these being the relevant and corresponding sections specified in the Development Bank of Southern Africa Act (Act No. 13 of 1997) ("DBSA Act"). The annual financial statements and annual report of the Bank for the year ended 31 March 2021 ("annual financial statements" or "AFS") are available on the DBSA website https://www.dbsa.org/investor-relations

Audit of the annual financial statements

The annual financial statements have been audited by the Bank's auditor, the Auditor-General of South Africa (hereafter referred to as the "AG"). The AG in her audit report, which is available for inspection at the Bank's Registered Office and in the annual financial statements that will be available on the DBSA website, stated that her audit was conducted in accordance with the International Standards on Auditing and has expressed an unqualified audit opinion on the annual financial statements.

Context of the annual financial statements

The year ended 31 March 2021 was largely overshadowed by the global COVID-19 pandemic (the “pandemic”), which resulted in intermittent lockdown measures to contain the spread of the virus. At the height of the pandemic, the great shut down saw some 125 countries instituting some form of lockdown. Many countries were faced with finding a balance between containment of the virus while continuing to support economic growth.

Monetary and fiscal policies remained accommodative in most economies in an attempt to respond to the pandemic. This created a new challenge of significant sovereign debt from the large debts accumulated by countries in their fiscal response to the pandemic. The same holds true for the South African economy. Following a sharp contraction in gross domestic product (“GDP”) growth of 51.7% (seasonally adjusted and annualised) in the second quarter of 2020, the economy recorded two consecutive quarters of economic growth of 67.3% and 5.8% in the third and fourth quarters of 2020, respectively. Socio-economic hardships were exacerbated by job losses and small business shut-downs as a result of the sharp GDP contraction. GDP growth recovered further in the first quarter of 2021 by 4.6%, largely driven by, among others, improvement in the mining, finance, trade and transport and accommodation sectors. From a DBSA point of view, the major impacts of the pandemic were felt in the disruption of the bond market and a significant increase in the credit risk associated with the development loan book, in particular, the exposures to some resource exporting countries.

Despite the impact of the pandemic, DBSA remained focused, in line with its mandate, on pursuing its growth strategy designed to augment disbursements through emphasis on its catalytic role aimed at contributing to sustainable infrastructure development beyond the confines of its own balance sheet. Through this strategy, the Bank aims to crowd in third party funding through de-risking projects through early stage project preparation and structuring and innovative solutioning.

Preparation of the annual financial statements

The annual financial statements have been prepared under the supervision of the Chief Financial Officer, Boitumelo Mosako CA (SA). The directors take full responsibility for the preparation of this announcement and confirm that financial information has been correctly extracted from the underlying audited annual financial statements for inclusion in this announcement.

Basis of preparation

The annual financial statements have been prepared in accordance with the recognition, measurement and disclosure requirements of IFRS, the Public Finance Management Act of South Africa (Act No. 1 of 1999) (“PFMA”), the Companies Act, the DBSA Act and the JSE Debt Listings Requirements. Except for where indicated in the financial statements on website, the accounting policies and practices applied during the financial year ended 31 March 2021 (“current year” or “year under review”) are in all material respects consistent with those applied in the annual financial statements for the financial year ended 31 March 2020 (“prior year”, “last year” or “2020 financial year”).

The annual financial statements are prepared on a historical cost basis except for the following assets and liabilities that are stated at their fair value: derivative financial instruments, financial instruments held at fair value through profit and loss, financial instruments designated at fair value through profit and loss, land and buildings, equity investments, other financial assets, post-retirement medical aid benefit investment, funeral benefits and post-retirement medical aid liabilities. The preparation of the annual financial statements requires management to make judgments, estimates and assumptions that affect the application of the accounting policies and the reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates.

Key impressions of the financial results and activities

Funding and liquidity management

The Bank's liquidity and capital positions remain strong despite the Moody's Investors Service downgrade of the Bank's long-term foreign currency issuer credit rating to a notch below that of the sovereign, and the Bank's long-term national scale issuer rating to Aa3.za, from Aa1.za. Notwithstanding the disruption of the local fixed income market, DBSA has been successful in raising funding from international development finance institutions as well as international and local commercial banks.

The Bank's total debt funding decreased from R61bn as at 31 March 2020 to R59bn as at 31 March 2021. Despite a reduction in debt funding, loan disbursement activities amounted to approximately R13.5bn. Repayments from the loan book reached a record R19bn (comprising principal loan repayments of R11bn and interest repayments of R8bn). The total liquidity position of the Bank substantially increased by R5.5bn, from R3.5bn as at 31 March 2020 to approximately R9bn as at 31 March 2021, representing an increase of 160% in cash and cash equivalents year-on-year.

Capital adequacy

The Bank continues to have strong capital buffers for unexpected events. There was a significant increase in the Bank's equity base amounting to R1.4bn during the current year when compared to last year's increase in the equity base of R504m. The debt-to-equity ratio, including the R20bn callable capital as at 31 March 2021, improved to 101% (31 March 2020: 108%), well below the Bank's regulatory debt-to-equity ratio cap of 250%. The Bank's capital ratio, expressed as a percentage of balance sheet shareholder capital to unweighted total assets, increased to 39% as at 31 March 2021 from approximately 37% as at 31 March 2020. Callable capital refers to shares authorized but not yet issued. The Bank's balance sheet equity position increased by R1.6bn during the current year, from R37.6bn as at 31 March 2020 to R39.2bn as at 31 March 2021.

Loan asset quality and expected credit loss provisions (impairments)

In terms of IFRS 9, the Bank is required to consider forward looking information in the estimation of expected credit losses on the development loan book. In doing so, DBSA is required to make reasonable forward-looking assumptions. However, forecasting under the current environment is complex and expected credit loss provisions have a higher variability potential because of the influence from the ongoing economic recession and recovery prospects.

Despite a marginal improvement in the macro-economic base compared to the prior year, the Bank experienced an increase in expected credit loss provisions amounting to R1.2bn, on the back of marginal deterioration in the overall risk of the loan book and average probability of default of the loan book increasing marginally when compared to the prior year. The Bank increased its expected coverage levels on the loan book from approximately 11% as at 31 March 2020 to approximately 12% as at 31 March 2021. This resulted in the balance sheet provision for expected credit losses (impairment provision) increasing by 12% to R11.4bn (31 March 2020: R10.2bn). However, when compared to the prior year, the expected credit loss provision (impairments) charge in the income statement significantly decreased by 68%, from R3.6bn in the prior year to R1.2bn in the current year.

The IFRS 9 stage 3 net non-performing loan ratio (net non-performing loans to net development loan book) decreased from 2.9% as at 31 March 2020 to 2.6% of the total loan book as at 31 March 2021. The IFRS 9 Stage 3 gross non-performing loan ratio (gross non-performing loans to total gross development loan book) increased from approximately 7.2% as at 31 March 2020 to approximately 7.7% as at 31 March 2021. When compared to the six-month period ended 30 September 2020, the gross non-performing loan ratio decreased from 8% as at 30 September 2020 to 7.7% as at 31 March 2021.

Total assets

The Bank's total asset base remained at the R100bn level as at 31 March 2021 when compared to 31 March 2020, despite loan repayments amounting to a record level of approximately R19bn as this was offset by currency movements of R5bn and new disbursements amounting to R13.5bn for the year. Development loan disbursements decreased by 14%, from R15.6bn in the prior year to R13.5bn in the current year. As at 31 March 2021, the equity investment portfolio decreased by 16%, from R5.9bn in the prior year to R5bn in the current year, as a result of currency movements of approximately R619m, capital repayments of R236m and fair value adjustments of R349m.

Profitability & Efficiency

Despite a challenging environment which has been worsened by the outbreak of the pandemic, net profit for the year increased by 182%, from approximately R504m in the prior year to R1.4bn in the current year. The net profit for year ended 31 March 2021 arose from the core lending activities of the Bank. There was solid growth in net interest income during the current year, amounting to 11% when compared to the prior year. Impairment charges reduced by 68% when compared to the prior year when the Bank had made significant adjustments to accommodate the impact of the pandemic, which resulted in a record impairment charge of R3.6bn in the 2020 financial year. In the current year, impairment charges decreased to R1.2bn. DBSA lends in USD and Euro to fund projects outside South Africa. Consequently, the Bank has a net foreign currency asset position and given the appreciation of the ZAR against the USD and Euro during the year; foreign currency exchange rate losses amounted to R893m compared to foreign currency exchange rate gains of R1.2bn in the prior year when the ZAR weakened against the USD and Euro. The Bank does not fully hedge the foreign currency position and closely monitors and manages its exposure to foreign exchange rate risk through the use of natural hedges and derivative hedging strategies. The Bank remains efficient in managing operational costs and the cost optimization strategy continues to be effective. The total cost-to-income ratio for the year ended 31 March 2021 decreased to 25% (28%: 31 March 2020) and the ratio continues to track in line with our cost optimization strategy.

Development impact performance

DBSA successfully delivered infrastructure to the total value of R26.6bn, of which R8.2bn was infrastructure catalysed. In addition, the Bank achieved R925m in projects prepared and committed and was able to unlock infrastructure within under resourced municipalities amounting to R1.4bn. Projects approved for B-BBEE entities for project preparation funding amounted to R2.1bn.

During the year under review, 6 909 learners benefited from 11 newly built schools and 33 125 learners benefited from 51 refurbished schools. Interventions at municipal level resulted in the successful completion of 13 projects. Overall, R2.4bn of the Bank’s infrastructure spend benefitted B-BBEE companies, of which 39% have women ownership greater than 30%. In absolute numbers, 1 031 small, micro and medium enterprises (“SMMEs”) benefited from the infrastructure that has been delivered to date, of which 80 are women-owned SMMEs. The Bank’s comprehensive response to the pandemic entailed support to the National Disaster Management Centre, the provision of isolation pods, testing kits, mobile toilets, water tankers, energized boreholes, personal protective equipment and much more.

Statement of financial position as at 31 March 2021

in thousands of Rands	2021	2020
Assets		
Cash and cash equivalents at amortised cost	8 978 608	3 458 836
Trade receivables and other assets	296 376	328 069
Investment securities	455 215	1 787 361
Derivative assets held for risk management purposes	750 831	812 053
Other financial assets	42 451	36 152
Development loans held at fair value through profit or loss	16 847	22 413
Equity investments held at fair value through profit or loss	5 007 459	5 993 951
Development bonds at amortised cost	1 279 235	1 288 278
Development loans at amortised cost	82 733 448	86 240 264
Property, equipment and right of use of assets	405 685	417 518
Intangible assets	81 569	80 220
Total assets	**100 047 724**	**100 465 115**
Equity and Liabilities		
Liabilities		
Trade, other payables, and accrued interest on debt funding	739 962	696 324
Repurchase agreements at amortised cost	868 042	587 338
Derivative liabilities held for risk management purposes	127 276	784 835
Liability for funeral and post-employment medical benefits	47 630	42 885
Debt funding designated at fair value through profit or loss	1 513 997	1 505 805
Debt funding held at amortised cost	56 982 792	59 040 495
Provisions and lease liabilities	114 485	229 856
Deferred income	503 086	-
Total liabilities	**60 897 270**	**62 887 538**
Equity		
Share capital	200 000	200 000
Retained income	24 366 254	23 005 253
Permanent government funding	11 692 344	11 692 344
Other reserves	345 917	191 749
Reserve for general loan risk	2 545 939	2 488 231
Total equity	**39 150 454**	**37 577 577**
Total equity and liabilities	**100 047 724**	**100 465 115**

Statement of comprehensive income for the year ended 31 March 2021

in thousands of Rands	2021	2020
Interest income		
Interest income calculated using the effective interest rate	8 161 023	8 019 931
Other interest income	180 080	266 386
Interest expense		
Interest expense calculated using the effective interest rate	(3 335 021)	(3 392 585)
Other interest expense	(114 441)	(470 229)
Net interest income	**4 891 641**	**4 423 503**
Net fee income	187 858	255 513
Net foreign exchange (loss)/gain	(892 773)	1 171 519
Net loss from financial assets and financial liabilities	(354 454)	(529 027)
Investment and other income	57 864	202 617
Other operating (loss)/income	**(1 001 505)**	**1 100 622**
Operating income	**3 890 136**	**5 524 125**
Project preparation expenditure	(37 802)	(41 539)
Development expenditure	(78 240)	(47 192)
Impairment losses	(1 164 724)	(3 632 679)
Personnel expenses	(835 131)	(751 070)
General and administration expenses	(286 813)	(489 738)
Depreciation and amortisation	(32 287)	(29 321)
Profit from operations	**1 455 139**	**532 586**
Grants paid	(32 510)	(28 654)
Profit for the year	**1 422 629**	**503 932**

Statement of other comprehensive income for the year ended 31 March 2021

in thousands of Rands	2021	2020
Profit for the year	**1 422 629**	**503 932**
Items that will not be reclassified to profit or loss		
Loss on revaluation of land and buildings	(5 661)	(15 661)
Movement in own credit risk for funding held at fair value through profit or loss	2 097	(31 794)
Remeasurement of funeral and post-employment medical benefit liabilities	(3 920)	3 450
	(7 484)	**(44 005)**
Items that may be reclassified subsequently to profit or loss		
Unrealised gain/ (loss) on cash flow hedges	344 362	(133 443)
(Gain)/loss on cash flow hedges reclassified to profit or loss	(186 630)	78 839
	157 732	**(54 604)**
Other comprehensive gain/(loss)	**150 248**	**(98 609)**
Total comprehensive income for the year	**1 572 877**	**405 323**

Condensed statement of changes in equity as at 31 March 2021

in thousands of Rands	2021	2020
Balance at beginning of the year	37 577 577	37 172 254
Profit for the year	1 422 629	503 932
Items that will not be reclassified to profit or loss		
Loss on revaluation of land and buildings	(5 661)	(15 661)
Movement in own credit risk for funding held at fair value through profit or loss	2 097	(31 794)
Remeasurement of funeral and post-employment medical benefit liabilities	(3 920)	3 450
Items that may be reclassified subsequently to profit or loss		
Unrealised gain/ (loss) on cash flow hedges	344 362	(133 443)
(Gain)/loss on cash flow hedges reclassified to profit or loss	(186 630)	78 839
Balance at end of the year	**39 150 454**	**37 577 577**

Condensed statement of cash flows for the year ended 31 March 2021

in thousands of Rands	2021	2020
Cash flows from operating activities	4 451 262	3 613 758
Cash flow from development activities	(1 977 432)	(9 016 612)
Cash flow from investing activities	1 331 363	32 637
Cash flow from financing activities	2 352 357	5 838 680
Net increase in cash and cash equivalents	**6 157 550**	**468 463**
Effect of exchange rate movements on cash balances	(637 778)	67 497
Movement in cash and cash equivalents	**5 519 772**	**535 960**
Cash and cash equivalents at the beginning of the year	3 458 836	2 922 876
Cash and cash equivalents at the end of the year	**8 978 608**	**3 458 836**

Events after the reporting period

DBSA appeared before the Standing Committee on Public Finance ("SCOPA") in the South African Parliament on 1 June 2021. Subsequent to the appearance, SCOPA announced that a formal inquiry into DBSA will be instituted to consider the submissions made by Mr. Holomisa and DBSA. DBSA awaits the dates and proposed terms of reference of the SCOPA inquiry. DBSA welcomes the decision taken by SCOPA and is committed to participating and co-operating fully with the SCOPA enquiry. The Bank's position on the matter remains unchanged, being that DBSA strongly refutes all allegations of mismanagement, corruption and maladministration. There were no other adjusting events that occurred after the reporting date other than the impact of the pandemic.

Outlook

Despite the challenging economic environment, DBSA has a strong leadership and management team steering the Bank through the challenging pandemic, whilst following the principles of good corporate governance. The Bank has a resilient balance sheet and continues to play a significant role in infrastructure development through lending and non-lending activities. The Bank's continued success hinges on its ability to grow developmental impact using its own balance sheet and partnering with others. Both domestic and global economic factors are critical to the achievement of the Bank's objectives. The Bank has a healthy pipeline of projects that form a solid springboard for success in the future and will continue to focus on disbursing to infrastructure projects to grow developmental impact in line with its mandate.

17 September 2021

Debt Sponsor

RAND MERCHANT BANK (A division of FirstRand Bank Limited)