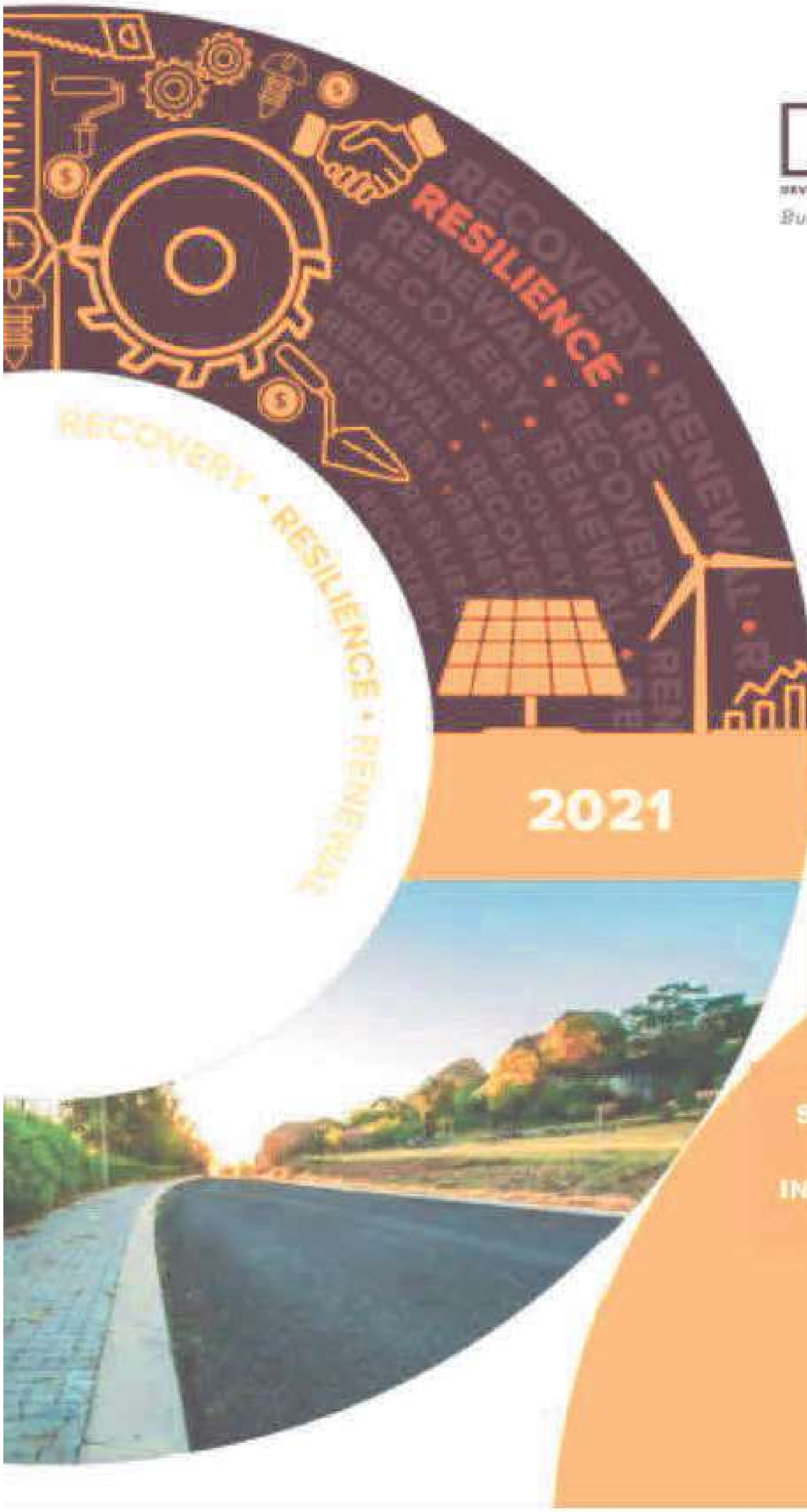

DBSA

DEVELOPMENT BANK OF SOUTHERN AFRICA

Building Africa's Prosperity

SEPTEMBER 2021 CONDENSED INTERIM FINANCIAL STATEMENTS

DEVELOPMENT BANK OF SOUTHERN AFRICA

The reports and statements set out below comprise the condensed interim financial statements.

Contents	**Page**

CHIEF EXECUTIVE OFFICER AND CHIEF FINANCIAL OFFICER RESPONSIBILITY STATEMENT
FOR THE PERIOD ENDED 30 SEPTEMBER 2021

The executive directors, whose names are stated below, hereby confirm that:

a) The Condensed Interim Financial Statements set out on pages 4 to 58, fairly present in all material respects the financial position, financial performance and cash flows of the Bank in terms of IFRS and the presentation requirements of IAS 34: Interim Financial Reporting;
b) No material facts have been omitted or untrue statements furnished that would make the Condensed Interim Financial Statements false or misleading;
c) Internal financial controls have been put in place to ensure that material information relating to the Bank has been provided to effectively prepare the Condensed Interim Financial Statements; and
d) The internal financial controls are adequate and effective and can be relied upon in compiling the Condensed Interim Financial Statements.

Patrick Khulekani Dlamini
Chief Executive Officer

Boitumelo Mosako
Chief Financial Officer

DIRECTORS' RESPONSIBILITY FOR FINANCIAL REPORTING
FOR THE PERIOD ENDED 30 SEPTEMBER 2021

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

In preparing the Condensed Interim Financial Statements, the following has been adhered to:
» The Development Bank of Southern Africa Act, No. 13 of 1997 (Amended Act No. 41 of 2014) (DBSA Act);
» International Financial Reporting Standards and the presentation requirements of IAS 34: Interim Financial Reporting;
» 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 DBSA Act; and
» JSE Limited Debt Listings Requirements.

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 Interim Financial Statements and to safeguard, verify and maintain the accountability of the Bank's assets;
» Appropriate accounting policies, supported by reasonable and prudent judgements and estimates, are applied on a consistent and going- concern basis;
» The Audit and Risk Committee reviews the financial and internal control systems, accounting policies and disclosures; and
» Internal Audit reviews the financial and accounting controls during the period.

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 interim period under review.

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

The Condensed Interim Financial Statements that appear on pages 5 to 58 were approved by the Board of Directors on 25 November 2021 and are signed on its behalf by:

Professor M Swilling	Patrick Khulekani Dlamini	Martie Janse Van Rensburg
Chairman of the Board	**Chief Executive Officer**	**Chairman of the Audit and Risk Committee**

in thousands of rands	Notes	30 September 2021 Reviewed	March 2021 Audited
Assets			
Cash and cash equivalents at amortised cost		6 667 999	8 978 608
Trade receivables and other assets		275 328	296 376
Investment securities		451 101	455 215
Derivative assets held for risk management purposes		395 912	750 831
Other financial assets		41 796	42 451
Development loans held at fair value through profit or loss	5	17 236	16 847
Equity investments held at fair value through profit or loss	6	5 127 088	5 007 459
Development bonds at amortised cost	8	1 230 311	1 279 235
Development loans at amortised cost	9	85 676 767	82 733 448
Property, equipment and right of use of assets		429 853	405 685
Intangible assets		67 468	81 569
Total assets		**100 380 859**	**100 047 724**
Equity and liabilities			
Liabilities			
Trade, other payables and accrued interest on debt funding	10	725 383	739 962
Repurchase agreements at amortised cost	12	1 380 109	868 042
Derivative liabilities held for risk management purposes		136 747	127 276
Liability for funeral and post-employment medical benefits		47 630	47 630
Debt funding designated at fair value through profit or loss	13	1 498 803	1 513 997
Debt funding held at amortised cost	14	54 635 748	56 982 792
Provisions and lease liabilities	11	113 182	114 485
Deferred income	15	509 757	503 086
Total liabilities		**59 047 359**	**60 897 270**
Equity			
Share capital		200 000	200 000
Retained income		26 581 755	24 366 254
Permanent government funding		11 692 344	11 692 344
Other reserves		294 378	345 917
Reserve for general loan risk		2 565 023	2 545 939
Total equity		**41 333 500**	**39 150 454**
Total equity and liabilities		**100 380 859**	**100 047 724**

DEVELOPMENT BANK OF SOUTHERN AFRICA
CONDENSED STATEMENT OF COMPREHENSIVE INCOME
FOR THE PERIOD ENDED 30 SEPTEMBER 2021

in thousands of rands	Notes	30 September 2021 6 Months Reviewed	30 September 2020 6 Months Reviewed
Interest income			
Interest income calculated using the effective interest rate	16	4 360 292	3 992 046
Other interest income	16	91 418	88 981
Interest expense			
Interest expense calculated using the effective interest rate	17	(1 505 245)	(1 789 442)
Other interest expense	17	(62 590)	(58 573)
Net interest income		**2 883 875**	**2 233 012**
Net fee income	18	139 565	14 061
Net foreign exchange gain/(loss)		179 087	(353 879)
Net gain/(loss) from financial assets and financial liabilities		67 606	(450 188)
Investment and other income		36 511	42 114
Other operating income/(loss)		**422 769**	**(747 892)**
Operating income		**3 306 644**	**1 485 120**
Project preparation expenditure		(30 459)	(23 261)
Development expenditure		(30 149)	(15 015)
Impairment losses	19	(394 667)	(269 309)
Personnel expenses		(450 015)	(433 729)
General and administration expenses		(138 868)	(120 865)
Depreciation and amortisation		(18 261)	(16 094)
Profit from operations		**2 244 225**	606 847
Grants paid		(9 640)	(13 124)
Profit for the period		**2 234 585**	**593 723**

DEVELOPMENT BANK OF SOUTHERN AFRICA
CONDENSED STATEMENT OF OTHER COMPREHENSIVE INCOME
FOR THE PERIOD ENDED 30 SEPTEMBER 2021

in thousands of rands	30 September 2021 6 Months Reviewed	30 September 2020 6 Months Reviewed
Profit for the period	**2 234 585**	**593 723**
Items that will not be reclassified to profit or loss		
Movements in own credit risk for funding held at FVTPL	**(4 643)**	**2 362**
Items that may be reclassified subsequently to profit or loss		
Unrealised (loss)/gain on cash flow hedges	**(83 679)**	370 766
Loss/(gain) on cash flow hedges reclassified to profit or loss	**36 783**	(214 657)
	(46 896)	**156 109**
Other comprehensive (loss)/gain	**(51 539)**	**158 471**
Total comprehensive income for the period	**2 183 046**	**752 194**

DEVELOPMENT BANK OF SOUTHERN AFRICA
CONDENSED STATEMENT OF CHANGES IN EQUITY
FOR THE PERIOD ENDED 30 SEPTEMBER 2021

in thousands of rands	Share capital	Permanent government funding	Reserve for for general loan risk	Other reserves: Revaluation reserve on land and buildings	Other reserves: Cash flow hedge reserve	Other reserves: Own credit risk reserve	Total of other reserves	Retained income	Total equity
Balance as at 1 April 2020 (audited)	**200 000**	**11 692 344**	**2 488 231**	**188 095**	**(28 686)**	**32 340**	**191 749**	**23 005 253**	**37 577 577**
Net profit for the period							-	593 723	593 723
Other comprehensive income/(loss)							-		-
Movements in own credit risk for funding held at FVTPL						2 362	2 362		2 362
Unrealised gain on cash flow hedges					370 766		370 766		370 766
Gain on cash flow hedges reclassified to profit or loss					(214 657)		(214 657)		(214 657)
Transfer to general loan risk reserve			2 513				-	(2 513)	-
Total changes	**-**	**-**	**2 513**	**-**	**156 109**	**2 362**	**158 471**	**591 210**	**752 194**
Balance as at 30 September 2020 - reviewed	**200 000**	**11 692 344**	**2 490 744**	**188 095**	**127 423**	**34 702**	**350 220**	**23 596 463**	**38 329 771**
Net profit for the period							-	828 906	828 906
Other comprehensive income/(loss)							-		-
Loss on revaluation of land and buildings				(5 661)			(5 661)		(5 661)
Movements in own credit risk for funding held at FVTPL						(265)	(265)		(265)
Remeasurement of funeral and post employment benefit liabilities							-	(3 920)	(3 920)
Unrealised loss on cash flow hedges					(26 404)		(26 404)		(26 404)
Loss on cash flow hedges reclassified to profit or loss					28 027		28 027		28 027
Transfer to general loan risk reserve			55 195				-	(55 195)	-
Total changes	**-**	**-**	**55 195**	**(5 661)**	**1 623**	**(265)**	**(4 303)**	**769 791**	**820 683**
Balance as at 31 March 2021 (audited)	**200 000**	**11 692 344**	**2 545 939**	**182 434**	**129 046**	**34 437**	**345 917**	**24 366 254**	**39 150 454**
Net profit for the period								2 234 585	2 234 585
Other comprehensive income/(loss)									-
Movements in own credit risk for funding held at FVTPL						(4 643)	(4 643)		(4 643)
Unrealised (loss)/gain on cash flow hedges					(83 679)		(83 679)		(83 679)
Loss on cash flow hedges reclassified to profit or loss					36 783		36 783		36 783
Transfer to general loan risk reserve			19 084				-	(19 084)	-
Total changes	-	-	19 084	-	(46 896)	(4 643)	(51 539)	2 215 501	2 183 046
Balance as at 30 September 2021 reviewed	200 000	11 692 344	2 565 023	182 434	82 150	29 794	294 378	26 581 755	41 333 500

DEVELOPMENT BANK OF SOUTHERN AFRICA
CONDENSED STATEMENT OF CASH FLOWS
FOR THE PERIOD ENDED 30 SEPTEMBER 2021

in thousands of rands	Note	30 September 2021 6 Months Reviewed	30 September 2020 6 Months Reviewed
Cash flows from operating activities			
Net profit adjusted for non-cash items and items separately disclosed	20	(24 688)	(415 305)
Interest received		4 077 661	4 544 512
Interest paid		(1 365 405)	(1 552 990)
Dividends received		5 473	2 237
Net cash generated from operating activities		**2 693 041**	**2 578 454**
Cash flows from development activities			
Development loan disbursements		(6 937 460)	(9 136 556)
Development loan principal repayments		4 481 495	7 162 179
Equity investments disbursements		(111 366)	(45 542)
Equity investments repayments		81 167	142 763
Grants, development and project preparation expenditure paid		(40 099)	(36 385)
Decrease in deferred income		(340)	-
Net repayments from/(advances to) national mandates		8 588	(8 912)
Net cash used in development activities		**(2 518 015)**	**(1 922 453)**
Net cash generated from operating and development activities		**175 026**	**656 001**
Cash flows from investing activities			
Purchase of property and equipment		(30 727)	(3 961)
Disposal of property and equipment		-	644
Purchase of intangible assets		(2 449)	(4 506)
Disposal of financial market instruments		6 664	698 015
Net cash (utilised by)/generated from investing activities		**(26 512)**	**690 192**
Cash flows from financing activities			
Gross financial market liabilities repaid	12&14	(6 142 616)	(11 757 926)
Gross financial market liabilities raised	12&14	3 737 219	15 627 280
Net cash (utilised by)/generated from financing activities		**(2 405 397)**	**3 869 354**
Net (decrease)/increase in cash and cash equivalents		**(2 256 883)**	**5 215 547**
Effect of exchange rate movements on cash balances		(53 726)	(166 251)
Movement in cash and cash equivalents		**(2 310 609)**	**5 049 296**
Cash and cash equivalents at the beginning of the year		8 978 608	3 458 836
Cash and cash equivalents at the end of the period		**6 667 999**	**8 508 132**

1. Statement of compliance

The reviewed Condensed Interim Financial Statements for the period have been prepared in compliance with International Accounting Standard 34: Interim Financial Reporting, sections 27 to 31 of the Companies Act of South Africa (Act No 71 of 2008) being the relevant and corresponding sections specified in the DBSA Act and JSE Debt Listings Requirements. The reviewed Condensed Interim Financial Statements do not include all disclosures that would otherwise be required in a complete set of financial statements and should be read in conjunction with the 2021 annual financial statements. The first half year results for 2021/22 financial period have not been audited, but have been independently reviewed by the Bank's external auditors. The AG has expressed an unmodified review conclusion on the condensed interim financial statements for the period ended 30 September 2021.

2. Basis of preparation

The Condensed Interim Financial Statements are separate financial statements prepared on the historical cost basis, except for the following items which were measured at fair value:
» Development loans, investment securities and other financial assets held at fair value through profit or loss;
» Debt funding designated at fair value through profit or loss;
» Derivative financial instruments;
» Equity investments;
» Land and buildings;
» Post-retirement medical aid benefit investment and
» Funeral benefit and post-retirement medical aid liabilities.

Accounting policies adopted and methods of computation are consistent with those applied to the annual financial statements at 31 March 2021. The preparation of the Condensed Interim Financial Statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and 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.

3. Significant accounting judgements, estimates and assumptions

The preparation of the Condensed Interim Financial Statements in accordance with IFRS requires the use of certain critical accounting estimates and assumptions. It also requires management to exercise its judgement in the process of applying the Bank's accounting policies. The notes to the financial statements set out areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the Bank. These policies have been consistently applied to all the years presented, unless otherwise stated.

The application of the Bank's accounting policies requires the use of judgements, estimates and assumptions. If different assumptions or estimates were applied, the resulting values would change, impacting the net assets and income of the Bank.

Assumptions made at each reporting date are based on best estimates at that date. Although the Bank has internal control systems in place to ensure that estimates are reliably measured, actual amounts may differ from those estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

3. 1 Judgements

The following are the critical judgements, apart from those involving estimations (which are dealt with separately below), that the directors have made in the process of applying the Bank's accounting policies and that have the most significant effect on the amounts recognised in Condensed Interim Financial Statements:

(a) Business model assessment

Classification and measurement of financial assets depends on the results of the solely payments of principal and interest (SPPI) and the business model test. The Bank determines the business model at a level that reflects how groups of financial assets are managed together to achieve a particular business objective. This assessment includes judgement reflecting all relevant evidence including how the performance of the assets is evaluated and their performance measured, the risks that affect the performance of the assets and how these are managed and how the managers of the assets are compensated. The Bank monitors financial assets measured at amortised cost or fair value through profit or loss that are derecognised prior to their maturity to understand the history for their disposal and whether the reasons are consistent with the objective of the business for which the asset was held. Monitoring is part of the Bank's continuous assessment of whether the business model for which the remaining financial assets are held continues to be appropriate and if it is not appropriate whether there has been a change in business model and so a prospective change to the classification of those assets.

(b) Models and assumptions used

The Bank uses various models and assumptions in measuring fair value of assets as well as in estimating expected credit losses. Judgement is applied in identifying the most appropriate model for each type of asset, as well as for determining the assumptions used in these models, including assumptions that relate to key drivers of credit risk.

3.2 Assumptions and estimation

(a) Going concern

The Bank's management has made an assessment of its ability to continue as a going concern based on forecast information and is satisfied that it has the resources to continue in business for the foreseeable future. Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon the Bank's ability to continue as a going concern. Therefore, the financial statements continue to be prepared on the going concern basis.

The Condensed Interim Financial Statements have been prepared using appropriate accounting policies, supported by reasonable judgements and estimates. The Bank has reasonable belief that there are adequate resources to continue as a going concern for the foreseeable future, based on forecasts and available cash resources. The Bank has assessed the impact of COVID-19 on the Bank's ability to continue as a going concern. The Bank has concluded that there are no material uncertainties that could cast significant doubt over its ability to continue as a going concern.

As at interim, the scale and duration of this pandemic remains uncertain but is expected to further impact our business. The main risk that resulted from the current uncertainties regarding COVID-19 includes volatility of impairments, pricing pressures and impact on the Bank's profitability. Notwithstanding the disruption of the local fixed income market, the DBSA has been successful in raising funding from international development finance institutions as well as international and local commercial banks and concluded private placements.

(b) Measurement of expected credit losses (ECL)

Key assumptions in determining the impairment of financial assets:
» Assessment of whether credit risk on the financial asset has increased significantly since initial recognition and incorporation of forward-looking information in the measurement of ECL;
» Forward-looking economic expectations are included in the ECL where adjustments are made based on the Bank's macroeconomic outlook such as specific event risk and have been taken into account in ECL estimates; and
» Establishing relative scenario weightings of forward-looking information (best, base and worst) for inclusion in the ECL calculation.

(c) Valuation of equity investments

Equity investments are held at fair value through profit or loss. Fair value is determined from observable market data in respect of similar financial instruments. Where market data is not observable, they are estimated based on appropriate assumptions. In addition, adjustments were made relating to risk premium within the equity exposures to ensure that all risks within the portfolio are considered in the determination of fair values. In the determination of fair value adjustment, the Bank complied with the approved valuation policy in terms of the applicable discount rates.

(d) Debt securities

Debt securities that are designated at fair value through profit or loss consist of bonds which are listed. At initial recognition of the debt securities, the fair value is estimated to be the purchase price. Fair values of debt securities are estimated using market observable prices from the Johannesburg Stock Exchange (JSE). In determining the changes in fair value of debt securities designated at fair value through profit or loss that is due to changes in the Bank's own credit risk, judgement is used in determining which portion of the change in spread is due to credit risk.

Debt securities held at amortised cost consists of bonds, floating notes, commercial paper and bridging bonds. At initial recognition of the debt securities, the fair value is estimated to be the purchase price less transaction costs.

(e) Investment securities

Fair value of investment securities is estimated using market observable prices from the JSE.

(f) Derivative and hedge accounting

In measuring the fair value of the derivatives the Bank takes into account credit value adjustments (CVA) and debit value adjustments (DVA). CVA and DVA include adjustments for the credit risk of the derivative counterparty (CVA) as well as the Bank's own credit risk (DVA). During the year under review, the Bank enhanced the CVA/DVA valuation model to align with best practice principles aligned with the Basel standard approaches. The old model was based on current market method where the market value to the derivative is adjusted for an add-on factor based on nominal and time left to maturity counterparty credit risk based on credit default swaps or negotiable certificates of deposit (NCD) spreads and calculations were calculated at an individual deal level. This methodology was too simplistic and was enhanced to capture exposure at default by derivative type (swap, options and forwards) better than current mark to market method and aggregate deals by counterparty. The new methodology captures the exposure at default and capital charges using Basel 3 standardised approach for counterparty credit risk model and capital charge is used as a proxy for CVA/DVA and this methodology is appropriate for small banks with relatively smaller derivative portfolios.

(g) Loan commitments

To the extent that the amount of the ECL on loan commitment exceeds the carrying amount of the associated financial asset recognised in the statement of financial position, the amount of the credit losses is presented as a provision.

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.

(h) Loan restructures

The Bank may modify/restructure the terms of loans as a result of commercial renegotiations or distressed loans. Restructuring policies and practices are based on indicators or criteria, which in the judgement of management, indicate that payment will most likely continue. These policies are reviewed continuously.

(i) Fair value

When measuring fair value, the Bank uses the assumptions that market participants would use when pricing the asset or the liability under current market conditions, including assumptions about risk. The Bank uses a fair value hierarchy that categorises assets and liabilities into three levels. The different levels are based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement. Where relevant inputs are not observable, inputs are developed to reflect the assumptions that market participants would use when determining an appropriate price for the asset or liability.

(j) Write-offs

The Bank applies significant judgements for write-offs. In the ordinary course of lending business, loans can be distressed and stage 3 loans/non-performing loans (NPL) loans are managed by the Business Support and Recovery unit. The recovery process for the DBSA as a development finance institution (DFI) can be long and varies depending on each loan's circumstances, and in all cases the DBSA seeks to maximise recovery of the loan. The long process coupled with a higher default interest that is associated with NPLs results in some loans' contractual carrying amounts increasing substantially and some loans reaching in duplum. There are cases where the recovery process reaches a point where costs of the recovery process exceed benefit with no reasonable prospect of further recoveries; and at that point, the Bank writes off loans. The approvals for write-offs follows a strict Bank's governance process and write-offs are approved by the Board and Audit and Risk Committee.

3.3 COVID-19 impact

The COVID-19 pandemic continues to have an ever-evolving pervasive, devastating impact on the global economy with no region or sector remaining unaffected by its socio-economic fallout. The pandemic has resulted in significant changes in government actions and express volatility in key economic indicators.

National governments across the world imposed mobility restrictions in a bid to curtail the spread of the COVID-19 pandemic, resulting in businesses having to limit or suspend operations. In South Africa, the most stringent mobility restrictions ("hard lockdown" or Level 5) were first imposed at the end of the first quarter of 2020 and gradually eased through the second quarter of 2020 before being brought to its least stringent level (Level 1) in the latter part of the third quarter of 2020. Following a resurgence in infection rates in the fourth quarter of 2020, the country reverted back to Level 3 lockdown in an attempt to curtail the second wave, before reverting to adjusted Level 1 in the first quarter of 2021.During the second quarter of 2021, the country was hit by a third wave of the pandemic and country moved to adjusted alert level 4 of lockdown. After four months of grappling with a third wave of the pandemic, on Thursday 30 September 2021 the country moved into level one lockdown. As such, the measures implemented by governments to preserve life have severely and adversely impacted a wide range of industries. Due to the resulting global economic downturn, a significant increase in volatility of the financial and commodities markets worldwide has been noted.

Given the unprecedented nature of the pandemic, it is not yet possible to accurately predict either the extent or duration of its impact. While the specific areas of judgement detailed in note 1 of the accounting policies did not change, due to the dynamic and evolving nature of COVID-19, the Bank's limited recent experience of the economic and financial impact of the pandemic has resulted in additional judgement, within certain identified areas, which in turn resulted in changes to the estimates and assumptions that have been applied in the measurement of some of the Bank's assets and liabilities from the prior period.

Accounting for the following items within the statements of financial position and comprehensive income has been significantly impacted by the complexity and uncertainty resulting from the fallout from the COVID-19 pandemic:
» Development loans held at fair value through profit or loss;
» Equity investments held at fair value through profit or loss;
» Development bonds at amortised cost;
» Development loans at amortised cost;
» Debt funding at fair value through profit or loss and
» Impairment losses.

3.3.1 Impairment of financial instruments (Expected Credit Loss estimation)

Incorporating forward-looking information

Forward-looking information, including a detailed explanation of the scenarios and related probabilities considered in deriving the Bank's forward-looking assumptions for the purposes of its expected credit loss determination, is provided in note 21. Taking into consideration the wide range of possible scenarios and macroeconomic outcomes, and the relative uncertainty of the social and economic consequences of COVID-19, these scenarios represent reasonable and supportable forward-looking views as at the reporting date.

Significant increase in credit risk

The Bank has not applied an overall blanket approach to the impact of COVID-19 (which assumes that the pandemic is itself a significant increase in credit risk (SICR) trigger that will result in the entire portfolio of loans moving into their next respective staging bucket. The Bank has continued to apply a client and facility-based risk assessment approach which is aligned to the existing credit risk management policy. Where clients have approached the Bank for relief, as noted below, this has been factored into SICR assessments performed at the reporting period end date.

3.3.2 COVID-19 related debt relief

Due to COVID-19 and its impact on the economy, a few of the Bank's customers experienced liquidity challenges. The Bank did not provide blanket relief to its customers, however, where applications for relief were received these were evaluated within the appropriate governance framework. In order to assist customers, the Bank has considered individual debt relief applications received as follows:
» Applications received under the international multilateral relief programmes (such as the G20 Debt Service Suspension Initiative or DSSI) where the restructure of existing exposures have not altered the present value of estimated future cash flows; and
» Bilateral debt relief applications where bespoke debt relief measures were considered on a client-by-client basis.

3.3.3 Fair value measurement

The valuation techniques for fair value measurement of financial assets have been assessed by the appropriate committees to determine and analyse the impact that the market volatility introduced by COVID-19 has had on the fair value measurements of these instruments.

When assessing the fair value measurement of financial instruments for this period, the valuations take into consideration inputs that are reflective of benchmarked market participant input as opposed to Bank-specific inputs. The appropriateness of the inputs to valuations, which include the use of correlations, price earnings multiples and proportionate ownership discounts, was also considered. Changes in valuation inputs have also been considered in terms of the impact they have on the classification of exposures in the fair value hierarchy, transfers within the fair value hierarchy and the level 3 sensitivity analysis that may be required if applicable.

3.3.4 Post-model adjustments

As noted above, COVID-19 has had a profound impact on global economic activity and output. At the current time, significant uncertainty remains as to the probable shape of the future economic path and recovery. As mentioned above, to determine the forward-looking impact, from an IFRS 9 perspective, the Bank defined three possible future macroeconomic scenarios in defining its forecasts, being the Base, Best and Worst-case scenarios and attributed weightings to these three scenarios.

The outcome of the COVID-19 pandemic and its correlation to the Bank's defined scenarios is unpredictable and this makes determining the potential outcomes complex and subjective. This uncertainty has a significant impact on the output derived from the Bank's financial models used to determine credit risk exposures. The Bank's credit models were designed to be effective during periods of relative economic stability, such that the use of high-frequency economic indicators would not result in express volatility in the estimation of ECL. Fiscal responses to the pandemic have resulted in express volatility in certain key economic indicators used in the Bank's forecasting and modelling processes, necessitating the application of post-model adjustments.

As the COVID-19 pandemic and its effects continue to evolve, it is difficult to predict the full extent of the impact. Considering this uncertainty and volatility, and the fact that the pandemic has impacted clients across all geographies, sectors and client segments, management adjustments have been applied, in addition to ECL model outputs, to provide a more appropriate assessment of the Bank's risk profile. These adjustments give due consideration to factors including but not limited to:
» geographical or regional risk concentrations;
» large exposure or single name risk concentrations; and
» industry and/or sector risk factors.

4. Financial Instruments

Financial assets and financial liabilities are recognised in the Bank's statement of financial position when the Bank becomes a party to the contractual provisions of the instrument. Recognised financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at FVTPL) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognised immediately in profit or loss.

If the transaction price differs from fair value at initial recognition, the Bank will account for such difference as follows:
» If fair value is evidenced by a quoted price in an active market for an identical asset or liability or based on a valuation technique that uses only data from observable markets, then the difference is recognised in profit or loss on initial recognition (i.e. day 1 profit or loss); and
» In all other cases, the fair value will be adjusted to bring it in line with the transaction price (i.e. day 1 profit or loss will be deferred by including it in the initial carrying amount of the asset or liability).

After initial recognition, the deferred gain or loss will be released to profit or loss on a rational basis, only to the extent that it arises from a change in a factor (including time) that market participants would take into account when pricing the asset or liability.

Financial instruments consist of cash and cash equivalents, investment securities, derivatives assets and liabilities, equity investments, development loans and bonds, trade and other receivables, trade and other payables, debt securities, funding lines of credit, repurchase agreements and other financial assets.

4.1 Financial assets

4.1.1. Initial recognition

All financial assets are recognised and derecognised on a trade date where the purchase or sale of a financial asset is under a contract whose terms require delivery of the financial asset within the timeframe established by the market concerned, and are initially measured at fair value, plus transaction costs, except for those financial assets classified as at FVTPL. Transaction costs directly attributable to the acquisition of financial assets classified as at FVTPL are recognised immediately in profit or loss.

4.1.2. Classification and subsequent measurement

On initial recognition, the Bank classifies its financial assets into one of the following measurement categories at:
» Amortised cost; and
» Fair value through profit or loss (FVTPL).

The classification depends on the Bank's business model for managing financial assets and the characteristics of contractual cash flows of the financial assets.

Portfolio – Group of assets	Business model	Classification and measurement	Characteristics of cashflows
Cash and cash equivalents at amortised cost	To hold to collect contractual cash flows	Amortised cost	Cashflows that are solely principal and interest
Investment securities – listed bonds	Held primarily for sale to manage liquidity needs	Fair value through profit or loss	Cashflows that are solely principal and interest
Investment securities – segregated funds	Held primarily for sale to manage liquidity needs	Fair value through profit or loss	Cashflows that are not solely principal and interest
Development bonds at amortised cost	To collect contractual cash flows	Amortised cost	Cashflows that are solely principal and interest
Development loans at amortised cost	To collect contractual cash flows	Amortised cost	Cashflows that are solely principal and interest
Development loans at fair value through profit or loss	To collect contractual cash flows	Fair value through profit or loss	Cashflows that are not solely payment of principal and interest on the principal amounts outstanding
Trade receivables and other assets	To collect contractual cash flows	Amortised cost	Cashflows that are solely principal and interest
Other financial assets	To collect contractual cash flows	Fair value through profit or loss	Cashflows that are not solely payment of principal and interest on the principal
Derivative assets held for risk management purposes	Derivative asset held for risk management purposes	Fair value through profit or loss	Cashflows that are not solely payment of principal and interest on the principal amounts outstanding

(a) Financial assets held at amortised cost

A debt instrument that meets both of the following conditions (other than those designated at fair value through profit or loss):
» Held within a business model whose objective is to hold the debt instrument (financial asset) in order to collect contractual cash flows; and
» The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

These financial assets are subsequently measured at amortised cost using the effective interest rate method. The financial assets at amortised cost include the following:
» Development loans;
» Development bonds;
» Cash and cash equivalents; and
» Trade receivables and other assets.

(b) Financial assets held at fair value through profit or loss

The classification of financial instruments at initial recognition depends on the characteristics of contractual cash flows and the business model for managing the instrument.

(i) Financial assets at FVTPL are:

The Bank may, at initial recognition, irrevocably designate a financial asset as measured at fair value through profit or loss if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases.

These assets are measured at fair value, with any gains/losses arising on remeasurement recognised in profit or loss. These assets consist of development loans, other financial assets, equity investments, investment securities and derivatives.

(ii) Investment in equity instruments

The Bank does not hold equity investments for trading and did not elect to designate the equity investments at fair value through other comprehensive income. The equity investments are held at fair value through profit or loss. Financial assets held at fair value through profit or loss are measured at fair value, with any gains/losses arising on remeasurement recognised in profit or loss.

4.1.3 Modification of financial assets

The DBSA as a development finance institution, considers unique facts and circumstances applicable for each borrower in assessing the terms and conditions of restructures that result in loan modifications. The Bank's primary objective in restructures is to ensure outstanding debt is recovered and therefore considers entity-specific qualitative and quantitative factors. The negotiation of the terms and conditions of loan restructures is aimed at ensuring that the outstanding debt is recovered in a manner optimal for both borrower and lender, and in some cases these may result in modifications which are net present value neutral. For financial assets measured at amortised cost, whether newly originated or resulting from substantial modifications, fair value at initial recognition is equal to the principal debt amount (proxy to fair value) which is the fair representation of transaction price, plus or minus any applicable transaction costs.

When either the contractual terms or cash flows of a financial asset are altered, the Bank considers whether a modification has occurred. In accordance with the Bank's policy, a modification is defined as;
» any observable change(s) to the salient features of the agreement between the Bank and its counterparty;
» where such change(s) alter the value or timing of the contractual cash flows;
» where such change(s) alter the nature of the all or part of the whole agreement;
» where such changes do not result from the existing contractual terms, i.e. any explicit changes or alterations made by the contracting parties; and
» such changes arise after the fact, i.e. which were not contemplated or anticipated in the original agreement.

In accordance with the Bank's policy, a modification results in derecognition when the modified financial asset is substantially different to the existing financial asset. To determine if the modified terms are substantially different from the original contractual terms, the Bank considers the following:
» Quantitative assessment: The net present value of the modified cash flows under the new terms, discounted at the original effective interest rate is at least 10% different from the carrying amount of the existing financial asset.
» Qualitative assessment: A significant change in the terms and conditions that is so fundamental that immediate derecognition is required with no additional quantitative analysis (e.g. new debt having a different currency to the old debt, equity instrument embedded in the new debt, etc.) which per IFRS 9 is applicable to financial assets.

As part of the above assessments the Bank also considers the following factors:
» Change in counterparty
» Change in security provisions
» Changes to source of funds or credit base
» Debt consolidation
» Changes to financial and/or non-financial covenants
» Changes in jurisdiction of governing law
» Introduction of significant new terms, e.g. the addition of a profit share/equity-based returns
» Change in obligor or legal counterparty
» Change in collateral or guarantees
» Change in facility currency
» Change in product type, i.e. term loan to revolving facility
» Changes resulting in financial instrument reclassification
» Changes in representations required to be made by the borrower
» Change in credit rating of facility
» Previous restructures on the facility in question
» Concentration risk
» Indicators of actual or potential financial distress of borrower

Where interim debt relief is granted to borrowers (either as part of national or international debt relief initiatives or on a bilateral basis), the Bank also considers the effect and intent of such relief in making an assessment as to whether a substantial modification has occurred. In addition to the factors noted above, the Bank considers whether the relief granted is an interim measure aimed at alleviating short term liquidity pressure(s) on its counterparties as part of the overall extended formal restructuring negotiations. This is the case in “stepped” or “phased” restructuring exercises, which may be achieved in more than one distinct phases over an extended period of time.

As such, the Bank considers whether the modification of cash flows merely represents an attempt to recover the original outstanding debt in the most optimal manner for both lender and borrower, or whether there is an indication that the restructured debt distinctly differs from the original loan in that a fundamental alteration of the Bank’s risks and rewards have occurred. In evaluating the modified cash flows against the aforementioned criteria, the Bank considers the following:
» Whether the modification involves a holistic re-evaluation of the credit risk and credit worthiness of the borrower; and/or
» Whether the modification requires that the facility is repriced to current market levels to reflect the lending risk associated.

The judgement(s) applied are client specific and will vary from client to client with certain factors holding a higher priority than others depending on various elements. As such, in the case of a judgemental overlay, no two evaluations are expected to be identical.

In the case where the financial asset is derecognised, the loss allowance for ECL is remeasured at the date of derecognition to determine the net carrying amount of the asset at that date. The difference between this revised carrying amount and the fair value of the new financial asset with the new terms will lead to a gain or loss on derecognition. The Bank derecognises a financial asset, such as development loans, when the terms and conditions have been renegotiated to the extent that, substantially, it becomes a new loan, with the difference recognised as a derecognition gain or loss, to the extent that an impairment loss has not already been recorded. The Bank treats the date of the modification as the date of initial recognition of the new financial asset when applying the ECL requirements to the new financial asset. Accordingly, the Bank classifies the
new financial asset as stage 1 and measures the ECL allowance at an amount equal to 12-month ECL until such time as a trigger event necessitates a SICR assessment. If the replacement financial asset has been recognised as originated-credit impaired, the Bank recognises an ECL allowance equal to lifetime ECL from the date of initial recognition.

If the modification does not result in terms that are substantially different, the modification does not result in derecognition. Based on the change in cash flows discounted at the original effective interest rate (EIR), the Bank records a modification gain or loss, to the extent that an impairment loss has not already been recorded.

4.2 Financial liabilities

4.2.1. Initial recognition

At initial recognition of the debt securities, the fair value is estimated to be the purchase price less transaction costs. A financial liability is a contractual obligation to deliver cash or another financial asset or to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the Bank or a contract that will or may be settled in the Bank's own equity instruments and is a non-derivative contract for which the Bank is or may be obliged to deliver a variable number of its own equity instruments, or a derivative contract over own equity that will or may be settled other than by the exchange of a fixed amount of cash (or another financial asset) for a fixed number of the Bank's own equity instruments.

4.2.2. Classification and subsequent measurement

The Bank accounts for its financial liabilities either as:
» held at fair value through profit or loss; or
» held at amortised cost.

The Bank initially recognises financial liabilities on the date at which they are originated (interest does not start to accrue on the asset and corresponding liability until the settlement date when title passes). The origination date for regular way purchases are recognised on the trade date at which the Bank commits to the purchase. All other financial liabilities (including liabilities designated at fair value through profit or loss) are initially recognised on the trade date on which the Bank becomes a party to the contractual provisions of the instrument. A financial liability is measured initially at fair value less transaction costs that are directly attributable to its issue.

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

The classification of financial liabilities is detailed below:

Portfolio – Group of liabilities	Objective of portfolio	Classification and measurement
Debt funding designated at fair value through profit or loss	Forms part of the asset- liability management purpose	Fair value through profit or loss
Debt funding held at amortised cost	Forms part of the asset- liability management purpose	Held at amortised cost
Trade, other payables and accrued interest on debt funding	Sundry creditors- Normal accruals for day to day operational expenses, accrued interest raised on financial market liabilities and amounts due to third party managed funds	Held at amortised cost
Derivative liabilities held for risk management purposes	Derivative liabilities held for risk management	Fair value through profit or loss
Repurchased agreements at amortised cost	Forms part of the asset- liability management purpose	Held at amortised cost

(a) Financial liabilities at fair value through profit or loss

Financial liabilities at FVTPL include debt securities and derivatives held for risk management. The Bank has designated financial liabilities at FVTPL 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.

(b) Financial liabilities held at amortised cost

Financial liabilities at amortised cost include loans and borrowings, trade and other payables. All other financial liabilities not designated at FVTPL are classified 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 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.

(c) Changes in fair value of liabilities due to changes in the Bank's own credit risk

Changes in fair value of liabilities due to changes in the Bank's own credit risk is recognised in OCI. However, for non-derivative financial liabilities that are designated as at FVTPL, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is recognised in OCI, unless the recognition of the effects of changes in the liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. The remaining amount of change in the fair value of liability is recognised in profit or loss.

Changes in fair value attributable to a financial liability's credit risk that are recognised in OCI are not subsequently reclassified to profit or loss; instead, they are transferred to retained earnings upon derecognition of the financial liability.

In making the determination of whether recognising changes in the liability's credit risk in OCI will create or enlarge an accounting mismatch in profit or loss, the Bank assesses whether it expects that the effects of changes in the liability's credit risk will be offset in profit or loss by a change in the fair value of another financial instrument measured at FVTPL. This determination is made at initial recognition.

(d) Derivative financial instruments

The Bank enters into a variety of derivative financial instruments which are held to manage its exposure to interest rate risk and foreign exchange rate risk. Derivatives held include foreign exchange forward contracts, interest rate swaps, cross currency swaps, currency options, options and forward rate agreements.

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each balance sheet date. The resulting gain/loss is recognised in profit or loss immediately unless the derivative is designated effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

A derivative with a positive fair value is recognised as a financial asset whereas a derivative with a negative fair value is recognised as a financial liability.

In measuring the fair value of the derivatives, the Bank takes into account credit-value adjustment (CVA) and debit-value adjustment (DVA). CVA and DVA includes adjustment for the credit risk of the derivative counterparty (credit-value adjustment) as well as the Bank's own credit risk (debit-value adjustment). Collateral is taken into account in calculating the CVA/DVA, if any.

4.3 Impairment of financial instruments

The Bank recognises ECL on the following instruments:
» Financial assets held at amortised costs;
» Financial guarantees issued; and
» Fixed loan commitments issued.

(i) Expected credit losses

For the measurement of ECL, the Bank applies a three-stage approach to measuring ECL on debt instruments accounted for at amortised cost, financial guarantees and loan commitments.

(a) Three stages

Assets migrate through the following three stages based on the change in credit quality since initial recognition:

Stage 1: 12-months ECL

For exposures where there has not been a significant increase in credit risk since initial recognition and that are not credit impaired upon origination, the ECL associate for these financial assets is based on a 12-month ECL.

Stage 2: Lifetime ECL - not credit impaired

For credit exposures where there has been a significant increase in credit risk since initial recognition but that are not credit impaired, a lifetime ECL is recognised.

Stage 3: Lifetime ECL - credit impaired

At each reporting date, the Bank assesses whether financial assets carried at amortised cost are credit impaired. A financial asset is 'credit impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. By definition a financial asset is classified as a stage 3 when the counterparty has defaulted. Financial assets that are more than 90 (ninety) days in arrears are classified as non-performing thus credit impaired. Further, the Bank uses stringent measures on loans with monthly repayments. When two consecutive payments have been missed or exposure in arrears equals to two monthly repayments, the exposure is transferred to stage 3.

A financial asset that is credit impaired that has been renegotiated due to a deterioration in the borrower's condition, and results in the derecognition of the financial asset and recognition of a new financial asset is usually considered to be credit impaired at origination unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment.

A financial asset is credit impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred.

Evidence that a financial asset is credit impaired includes observable data about the following events:
» Significant financial difficulty of the issuer or the borrower;
» A breach of contract, such as a default or past due event after considering the Bank exception rules;
» The lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;
» It is becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
» The disappearance of an active market for that financial asset because of financial difficulties; and
» The purchase or origination of a financial asset at a deep discount that reflects the incurred credit losses.

Purchased or originated credit impaired loan (POCI) – Lifetime ECL – Credit impaired

For financial assets that are considered credit impaired on purchase or on origination, a lifetime ECL is recognised.

For purchased or originated credit impaired financial assets, the Bank calculates credit-adjusted effective interest rate, which is calculated based on the amortised cost of the financial asset or its gross carrying amount and incorporates the impact of ECLs in the estimated future cash flows.

ii) Presentation of allowance for ECL in the statement of financial position

Loss allowances for ECL are presented in the statement of financial position as follows:
» Financial assets measured at amortised cost: As a deduction from the gross carrying amount of the assets;
» Financial guarantee contracts: Generally, as a provision where a financial instrument includes both a drawn and an undrawn component;
» The Bank does not identify the ECL on the loan commitment component separately from those on the drawn component: The Bank presents a combined loss allowance for both components;
» Combined amount is presented as a deduction from the gross carrying amount of the drawn component; and
» Where the financial instrument only includes the undrawn loan commitment resulting in excess of the loss allowance over the gross amount of the drawn component, the impairment allowance is presented as a provision.

(iii) Determining the staging for expected credit losses (ECL)

At each reporting date, the Bank assesses whether there has been a significant increase in credit risk of the financial assets since initial recognition by comparing the risk of default occurring over the expected life between the reporting date and the date of initial recognition. In determining whether credit risk has increased significantly since initial recognition, the Bank uses its internal credit risk grading system, external risk ratings and forecast information to assess deterioration in the credit quality of a financial asset.

The Bank also considers reasonable and supportable information that is relevant and available without undue cost or effort for this purpose. This includes quantitative and qualitative information and also forward-looking analysis.

The Bank assesses whether the credit risk on a financial asset has increased significantly on an individual loan level basis.

The Bank does not rely solely on past due information when determining whether credit risk has increased significantly since initial recognition. However, when information that is more forward-looking than past due status (either on an individual or a collective basis) is not available without undue cost or effort, the Bank uses past due information to determine whether there have been significant increases in credit risk since initial recognition.

(iv) Measurement of ECLs

ECLs are derived from unbiased and probability-weighted estimates of expected loss, and are measured as follows:
» Financial assets that are not credit impaired at the reporting date: As the present value of all cash shortfalls over the expected life of the financial asset discounted by the effective interest rate. The cash shortfall is the difference between the cash flows due to the Bank in accordance with the contract and the cash flows that the Bank expects to receive;
» Financial assets that are credit impaired at the reporting date: As the difference between the gross carrying amount and the present value of estimated future cash flows discounted by the effective interest rate;
» Undrawn loan commitments: As the present value of the difference between the contractual cash flows that are due to the Bank if the commitment is drawn down and the cash flows that the Bank expects to receive; and
» Financial guarantee contracts: As the expected payments to reimburse the holder less any amounts that the Bank expects to recover.

The Bank calculates ECLs based on three probability-weighted scenarios to measure the expected cash shortfalls, discounted at an approximation to the EIR. A cash shortfall is the difference between the cash flows that are due to an entity in accordance with the contract and the cash flows that the entity expects to receive.

The mechanics of the ECL calculations are outlined below and the key elements are as follows:
» PD: The Probability of Default is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed period, if the facility has not been previously derecognised and is still in the portfolio.
» EAD: The Exposure at Default is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, whether scheduled by contract or otherwise, expected drawdowns on committed facilities, and accrued interest from missed payments.
» LGD: The Loss Given Default is an estimate of the loss arising in the case where default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realisation of any collateral. It is usually expressed as a percentage of the EAD.

ECLs are recognised using a provision for impairment loss account in profit or loss. In case of financial guarantees, the measurement of ECLs is based on the three-stage approach as applied to financial assets at amortised cost. The Bank recognises the provision for impairment loss charge in profit or loss. The corresponding amount is recognised in the statement of financial position, with no reduction in the carrying amount of the asset in the balance sheet.

When estimating the ECLs, the Bank considers three scenarios (base case, best case and worst case). Each of these is associated with different PDs, EADs and LGDs. When relevant, the assessment of multiple scenarios also incorporates how defaulted loans are expected to be recovered, including the probability that the loans will cure and the value of collateral or the amount that might be received for selling the asset.

In its ECL models, the Bank relies on a broad range of forward-looking information as economic inputs relevant to Bank's loan book, such as:
» CPI;
» GDP;
» Central Bank base rates (JIBAR, repo, prime);
» Crude oil; and
» Exchange rates (ZAR/USD).

When an asset is uncollectible, it is written off against the related provision. Such assets are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off reduce the amount of the expense in the income statement.

The inputs and models used for calculating ECLs may not always capture all characteristics of the market at the date of the financial statements. To reflect this, qualitative adjustments or overlays are occasionally made as temporary adjustments when such differences are significantly material.

5. Hedge accounting

The Bank designates certain derivatives as hedging instruments in respect of foreign currency risk and interest rate risk in fair value hedges or cash flow hedges. The Bank applies fair value hedge accounting of portfolio hedges of interest rate risk by using the exemption to continue with IAS 39 hedge accounting rules for these portfolios hedges.

At the inception of the hedge relationship, the Bank documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Bank assesses whether the following effectiveness requirements are met:
» There is an economic relationship between the hedged item and the hedging instrument. Therefore, there must be an expectation that the value of the hedging instrument and the value of the hedged item would move in the opposite direction because of the common underlying or hedged risk. The Bank enters into hedge relationships where the critical terms of the hedging instrument match exactly with the terms of the hedged item;
» The effect of credit risk does not dominate the value changes that result from that economic relationship; and
» The hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the Bank actually hedges and the quantity of the hedging instrument that the Bank actually uses to hedge that quantity of hedged item. The Bank determines the hedge ratio by comparing the notional of the derivative with the principal of the debt issued or the loan granted. If the loan granted has an amortising principal the Bank enters into interest rate swaps with an equivalent amortising notional amounts.

The Bank rebalances a hedging relationship in order to comply with the hedge ratio requirements when necessary. In such cases, discontinuation may apply to only part of the hedging relationship.

If a hedging relationship ceases to meet the hedge effectiveness requirement relating to the hedge ratio but the risk management objective for that designated hedging relationship remains the same, the Bank adjusts the hedge ratio of the hedging relationship (i.e. rebalances the hedge) so that it meets the qualifying criteria again.

In some hedge relationships, the Bank designates only the intrinsic value of options. In this case the change in fair value attributable to the time value of money component of the option contract is deferred to the statement of other comprehensive income. Over the term of the hedge if the hedged item is time related, the amount of the original time value of the option that relates to the hedged item is amortised from equity to profit or loss on a rational basis (e.g. straight line) over the term of the hedging relationship. The change in fair value attributable to the time value of money component of the option contract is capitalised to the carrying amount of the hedge if the hedged item is not recognised on time accrual basis (transaction related) and reclassified back to the profit or loss when option matures or is exercised.

6. Debt funding

Debt securities issued and lines of credit are the Bank's sources of debt funding.

Debt securities and lines of credit issued are initially measured at fair value less incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest method, except where the Bank designates liabilities at fair value through profit or loss in which case it is measured at fair value with changes in fair value recognised in profit or loss.

7. Loan commitments

Loan commitments are recognised at the date that the Bank becomes a party to the irrevocable commitment (fixed commitment); that the date when all the conditions precedent (CPs) are met and the loan is on the implementation stage. We also assume this to be the date of origination of the loan.

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. The Bank will recognise ECL on loan commitments. ECLs arising from loan commitments are included within provision.

Subsequently, they are measured at amortised amount less the amount of expected credit loss allowance. The financial asset would be assessed for impairment annually based on the total value of the facility that has been made available to the debtor. Where there has been a significant increase in the credit risk of that specified debtor the loss allowance calculation would be based on the expected lifetime credit losses.

8. Net Interest income

Interest income and expense for all financial instruments except for those measured or designated as at FVTPL are recognised in the profit or loss account using the effective interest rate method. Interest on financial instruments measured as at FVTPL is recognised in 'other Interest income' and 'other interest expense'.

The effective interest rate (EIR) is the rate that exactly discounts estimated future cash flows of the financial instrument through the expected life of the financial instrument or, where appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability. The future cash flows are estimated taking into account all the contractual terms of the instrument. The calculation of the EIR includes all the fees that are considered to be an integral part of the lending arrangement, transaction cost and all other premiums or discounts. For financial assets at FVTPL, transaction costs are recognised in profit or loss at initial recognition.

The interest income is calculated by applying the EIR to the gross carrying amount of non-credit impaired (stage 1 and stage 2) financial assets (i.e. at the amortised cost of the financial asset before adjusting for any expected credit loss allowance), or to the amortised cost of financial liabilities. For credit impaired (stage 3) financial assets, the interest income is calculated by applying the EIR to the amortised cost of the credit impaired financial assets (i.e. the gross carrying amount less the allowance for ECLs. For financial assets purchased or originated credit impaired (POCI), the EIR reflects the ECLs in determining the future cash flows expected to be received from the financial asset.

Interest income and expense in the Bank's statement of profit or loss also include the effective portion of fair value changes of derivatives designated as hedging instruments in cash flow hedges of interest rate risk. For fair value hedges of interest rate risk interest, the effective portion of fair value changes of the designated derivatives as well as the fair value changes of the designated risk of the hedged item are also included in interest income and expense.

9. Fee income and expense

Fee income and expense include fees other than those that are an integral part of EIR (see above). The fees include, among other things fees charged for servicing a loan, non-utilisation fees relating to loan commitments when it is unlikely that these will result in a specific lending arrangement and loan syndication fees. Fee income and expenses with regard to services are accounted for as the services are rendered according to the five-step model. The five-step model includes:
» identifying the contract with the customer;
» identifying each of the performance obligations included in the contract;
» determining the amount of consideration in the contract;
» allocating the consideration to each of the identified performance obligations; and
» recognising revenue as each performance obligation is satisfied.

10. Contingent liabilities

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

11. Events after the reporting date

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

Adjusting events

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 events

An event after the reporting period that is indicative of a condition that arose after the end of the reporting period.

12. Related parties

The Bank operates in an economic environment currently dominated by entities directly or indirectly owned by the South African Government. As a result of the constitutional independence of all three spheres of government (national, provincial and local) in South Africa, only parties within the national sphere of government will be considered to be related parties. Key management is defined as being individuals with the authority and responsibility for planning, directing and controlling activities of the Bank. All individuals from Executive Management up to the Board of Directors are key management individuals in their dealings with the Bank. Close family members of key management personnel are considered to be those family members who may be expected to influence or be influenced by key management individuals in their dealings with the Bank. Other related party transactions are also disclosed in terms of the requirements of IAS 24. The objective of the standard and the financial statements is to provide relevant and reliable information and therefore materiality is considered in the disclosure of these transactions.

13. Government grants

A government grant is recognised when there is reasonable assurance that the Bank will comply with the conditions attaching to it, and that the grant will be received. Government grants received are deferred and recognised in profit or loss over the period necessary to match them with the costs that the grants are intended to compensate.

14. Segment information

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

1. New standards, amendments and interpretations

1.1. IFRS16: Leases: COVID-19-Related Rent Concessions:

In March 2021, the Board amended the conditions of the practical expedient in IFRS 16 that provides relief to lessees from applying the IFRS 16 guidance on lease modifications to rent concessions arising as a direct consequence of the covid-19 pandemic. As a practical expedient, a lessee may elect not to assess whether a covid-19 related rent concession from a lessor is a lease modification. A lessee that makes this election accounts for any change in lease payments resulting from the covid-19 related rent concession the same way it would account for the change under IFRS 16, if the change were not a lease modification. Following the amendment, the practical expedient now applies to rent concessions for which any reduction in lease payments affects only payments originally due on or before 30 June 2022, provided the other conditions for applying the practical expedient are met.

Lessees will apply the amendment retrospectively, recognising the cumulative effect of initially applying it as an adjustment to the opening balance of retained earnings (or other component of equity, as appropriate) at the beginning of the annual reporting period in which they first apply the amendment. In the reporting period in which a lessee first applies the 2021 amendment, the lessee will not be required to disclose the information required by paragraph 28(f) of IAS 8. In accordance with paragraph 2 of IFRS 16, a lessee is required to apply the relief consistently to eligible contracts with similar characteristics and in similar circumstances, irrespective of whether the contract became eligible for the practical expedient before or after the amendment.

This amendment has no effect on the Bank.

1.2 Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16: Interest Rate Benchmark Reform – Phase 2

In August 2020, the IASB published Interest Rate Benchmark Reform – Phase 2, Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4and IFRS 16. With publication of the phase two amendments, the IASB has completed its work in response to IBOR reform. The amendments provide temporary reliefs which address the financial reporting effects when an interbank offered rate (IBOR)is replaced with an alternative nearly risk-free interest rate (RFR).

The amendments are mandatory, with earlier application permitted. Hedging relationships must be reinstated if the hedging relationship was discontinued solely due to changes required by IBOR reform and it would not have been discontinued if the phase two amendments had been applied at that time. While application is retrospective, an entity is not required to restate prior periods.

The Bank has not yet adopted this standard.

1.3 IFRS 9: Financial Instruments: Amendments: Fees in the '10 per cent' test for derecognition of financial liabilities

The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. There is no similar amendment proposed for IAS 39.

An entity applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment. An entity applies the amendment for annual reporting periods beginning on or after 1 January 2022. Earlier application is permitted.

The Bank has not yet adopted this standard.

1.4 Other new standards, amendments and interpretations issued

The following new standards, amendments and interpretations are effective and assessment of the impact of these standards, amendments and interpretations on the Bank is ongoing and therefore have not been discussed in detail:

(i) IFRS 3 Business Combinations: Amendments - Reference to the Conceptual Framework

Effective for annual periods beginning on or after 1 January 2022. The amendments add an exception to the recognition principle of IFRS 3 to avoid the issue of potential 'day 2' gains or losses arising for liabilities and contingent liabilities that would be within the scope of IAS 37 Provisions, Contingent Liabilities and Contingent Assets or IFRIC 21 Levies, if incurred separately. The exception requires entities to apply the criteria in IAS 37 or IFRIC 21, respectively, instead of the Conceptual Framework, to determine whether a present obligation exists at the acquisition date.

(ii) IAS 16 Property, Plant and Equipment: Amendments - Proceeds before Intended Use

Effective for annual periods beginning on or after 1 January 2022. The amendment prohibits entities from deducting from the cost of an item of property, plant and equipment (PP&E), any proceeds of the sale of items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling such items, and the costs of producing those items, in profit or loss.

(iii) IAS 37 Provisions, Contingent Liabilities and Contingent Assets : Amendments - Onerous Contracts, Costs of Fulfilling a Contract

Effective for annual periods beginning on or after 1 January 2022. The amendments clarify that a full gain or loss is recognised when a transfer to an associate or joint venture involves a business as defined in IFRS 3. Any gain or loss resulting from the sale or contribution of assets that does not constitute a business, however, is recognised only to the extent of unrelated investors' interests in the associate or joint venture.

(iv) IAS 1 Presentation of Financial Statements: Amendments - Disclosures of Accounting Policies

Effective for annual periods beginning on or after 1 January 2023. In February 2021, the Board issued amendments to IAS 1 and IFRS Practice Statement 2 Making Materiality Judgements (the PS), in which it provides guidance and examples to help entities apply materiality judgements to accounting policy disclosures.

IAS 1 Presentation of Financial Statements: Amendments - Classification of Liabilities as Current or Non-current

Effective for annual periods beginning on or after 1 January 2023. In January 2020, the Board issued amendments to paragraphs 69 to 76 of IAS 1 Presentation of Financial Statements to specify the requirements for classifying liabilities as current or non-current.

(vii) IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors: Amendments - Definition of Accounting Estimates and Disclosure of Accounting Policies

Effective for annual periods beginning on or after 1 January 2023. In February 2021, the Accounting Standards Board issued amendments to IAS 8, in which it introduces a new definition of 'accounting estimates'. The amendments clarify the distinction between changes in accounting estimates and changes in accounting policies and the correction of errors. Also, they clarify how entities use measurement techniques and inputs to develop accounting estimates.

in thousands of rands	30 September 2021 Reviewed	30 September 2020 Reviewed
2. Condensed segmental information		
Total Interest Income		
RSA Municipalities	**1 599 461**	1 428 681
RSA Economic and Social	**1 703 270**	1 709 685
Rest of Africa	**1 022 326**	736 639
Infrastructure Delivery	**-**	-
Treasury and Balance Sheet Management	**126 653**	206 022
All other *	**-**	-
Total DBSA	**4 451 710**	**4 081 027**
Profit/(loss) for the period		
RSA Municipalities	**514 333**	556 647
RSA Economic and Social	**1 020 794**	498 138
Rest of Africa	**536 696**	(112 302)
Infrastructure Delivery	**(26 576)**	(18 088)
Treasury and Balance Sheet Management	**272 336**	(252 082)
All other *	**(82 998)**	(78 590)
Total DBSA	**2 234 585**	**593 723**

in thousands of rands	30 September 2021 Reviewed	31 March 2021 Audited
Total assets		
RSA Municipalities	34 113 599	30 534 160
RSA Economic and Social	36 954 658	38 332 184
Rest of Africa	21 393 413	20 571 350
Infrastructure Delivery	178 654	207 894
Treasury and Balance Sheet Management	7 125 400	9 836 860
All other *	615 135	565 276
Total DBSA	100 380 859	100 047 724
Total liabilities		
RSA Municipalities	18 804 429	15 739 322
RSA Economic and Social	19 657 099	22 055 419
Rest of Africa	13 852 666	13 567 297
Infrastructure Delivery	194 702	197 367
Treasury and Balance Sheet Management	1 937 592	4 869 848
All other *	4 600 871	4 468 017
Total DBSA	59 047 359	60 897 270

All revenue was derived from external customers and there are no inter-segmental revenues. *The All Other segment includes Project Preparation and Corporate Assets.

3. Financial assets by category

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

in thousands of rands	At amortised cost	FVTPL	Total carrying amount	Fair value
30 September 2021				
Cash and cash equivalents at amortised cost	6 667 999	-	6 667 999	6 667 999
Trade receivables and other assets	162 358	-	162 358	162 358
Investment securities*	-	451 101	451 101	451 101
Derivative assets held for risk management purposes*	-	395 912	395 912	395 912
Other financial asset	-	41 796	41 796	41 796
Development loans at FVTPL**	-	17 236	17 236	17 236
Equity investments held at FVTPL**	-	5 127 088	5 127 088	5 127 088
Development bonds at amortised cost	1 230 311	-	1 230 311	1 300 210
Development loans at amortised cost	85 676 767	-	85 676 767	98 273 025
	93 737 435	6 033 133	99 770 568	112 436 725

** Derivative assets held for risk management and investment securities are mandatorily held at fair value through profit or loss.*
*** Development loans and equity instrument are mandatory held a fair value through profit or loss.*

in thousands of rands	Level 1 category	Level 2 category	Level 3 category	Total
Financial assets held at fair value				
Investment securities	-	451 101	-	451 101
Derivative assets held for risk management purposes	-	395 912	-	395 912
Other financial asset	-	41 796	-	41 796
Development loans at FVTPL	-	-	17 236	17 236
Equity investments held at FVTPL	46 009	2 262 061	2 819 018	5 127 088
	46 009	3 150 870	2 836 254	6 033 133
Financial assets held at amortised cost for which fair values are disclosed				
Cash and cash equivalents at amortised cost	-	6 667 999	-	6 667 999
Trade receivables and other assets	-	-	162 358	162 358
Development bonds at amortised cost	-	1 300 210	-	1 300 210
Development loans at amortised cost	-	-	98 273 025	98 273 025
	-	7 968 209	98 435 383	106 403 592
Total fair value of financial assets	46 009	11 119 079	101 271 637	112 436 725

in thousands of rands	At amortised cost	FVTPL	Total carrying amount	Fair value
31 March 2021				
Cash and cash equivalents at amortised cost	8 978 608	-	8 978 608	8 978 608
Trade receivables and other assets	168 198	-	168 198	168 198
Investment securities*	-	455 215	455 215	455 215
Derivative assets held for risk management purposes*	-	750 831	750 831	750 831
Other financial asset	-	42 451	42 451	42 451
Development loans at FVTPL**	-	16 847	16 847	16 847
Equity investments held at FVTPL**	-	5 007 459	5 007 459	5 007 459
Development bonds at amortised cost	1 279 235	-	1 279 235	1 310 388
Development loans at amortised cost	82 733 448	-	82 733 448	94 668 215
	93 159 489	**6 272 803**	**99 432 292**	**111 398 212**

in thousands of rands	Level 1 category	Level 2 category	Level 3 category	Total
Financial assets held at fair value				
Investment securities	-	455 215	-	455 215
Derivative assets held for risk management purposes	-	750 831	-	750 831
Other financial asset	-	42 451	-	42 451
Development loans at FVTPL	-	-	16 847	16 847
Equity investments held at FVTPL	49 346	2 160 889	2 797 224	5 007 459
	49 346	**3 409 386**	**2 814 071**	**6 272 803**
Financial assets held at amortised cost for which fair values are disclosed				
Cash and cash equivalents at amortised cost	-	8 978 608	-	8 978 608
Trade receivables and other assets	-	-	168 198	168 198
Development bonds at amortised cost	-	1 310 388	-	1 310 388
Development loans at amortised cost	-	-	94 668 215	94 668 215
	-	**10 288 996**	**94 836 413**	**105 125 409**
Total fair value of financial assets	**49 346**	**13 698 382**	**97 650 484**	**111 398 212**

4. Financial liabilities by category

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

in thousands of rands	At amortised cost	FVTPL	Total carrying amount	Fair value
30 September 2021				
Derivative liabilities held for risk management purposes*	-	136 747	136 747	136 747
Trade, other payables and accrued interest on debt funding	606 063	-	606 063	606 063
Debt funding designated at FVTPL		1 498 803	1 498 803	1 498 803
Debt funding held at amortised cost**	54 635 748	-	54 635 748	58 668 659
Repurchase agreements held at amortised cost	1 380 109	-	1 380 109	1 383 125
	56 621 920	1 635 550	58 257 470	62 293 397

**Derivative liabilities held for risk management are mandatorily held at fair value through profit or loss.*

The accrued interest portion of R380 million on funding debt securities held at amortised cost is presented under trade, other payables and accrued interest on debt funding line. Total debt funding at amortised cost inclusive of accrued interest is R55 billion and is made up of accrued interest of R380 million plus principal of R54.64 billion. Refer to note 14.The total fair value of the Bank's funding is R62 billion.

in thousands of rands	Level 1 category	Level 2 category	Level 3 category	Total
Financial liabilities held at fair value				
Debt funding designated at FVTPL	-	1 498 803	-	1 498 803
Derivative liabilities held for risk management purposes	-	136 747	-	136 747
	-	1 635 550	-	1 635 550
Financial liabilities held at amortised cost for which fair values are disclosed				
Trade, other payables and accrued interest on debt funding	-	401 884	204 179	606 063
Debt funding held at amortised cost	-	58 668 659	-	58 668 659
Repurchase agreements held at amortised cost	-	1 383 125	-	1 383 125
	-	60 453 668	204 179	60 657 847
Total fair value of financial liabilities	-	62 089 218	204 179	62 293 397

in thousands of rands	At amortised cost	FVTPL	Total carrying amount	Fair value
31 March 2021				
Derivative liabilities held for risk management purposes*	-	127 276	127 276	127 276
Trade, other payables and accrued interest on debt funding	560 753	-	560 753	560 753
Debt funding designated at FVTPL	-	1 513 997	1 513 997	1 513 997
Debt funding held at amortised cost**	56 982 792	-	56 982 792	61 334 041
Repurchase agreements held at amortised cost	868 042	-	868 042	869 134
	58 411 587	**1 641 273**	**60 052 860**	**64 405 201**

**Derivative liabilities held for risk management are mandatorily held at fair value through profit or loss.*

*** The accrued interest portion of R371 million on funding debt securities held at amortised cost is presented under trade, other payables and accrued interest on debt funding line. Total debt funding at amortised cost inclusive of accrued interest is R57.4 billion and is made up of accrued interest of R371 million plus principal of R56.98 billion. Refer to note 14. The total fair value of the Bank's funding is R64 billion.*

in thousands of rands	Level 1 category	Level 2 category	Level 3 category	Total
Financial liabilities held at fair value				
Debt funding designated at FVTPL	-	1 513 997	-	1 513 997
Derivative liabilities held for risk management purposes	-	127 276	-	127 276
	-	**1 641 273**	-	**1 641 273**
Financial liabilities held at amortised cost for which fair values are disclosed				
Trade, other payables and accrued interest on debt funding	-	386 448	174 305	560 753
Debt funding held at amortised cost	-	61 334 041	-	61 334 041
Repurchase agreements held at amortised cost	-	869 134	-	869 134
	-	**62 589 623**	**174 305**	**62 763 928**
Total fair value of financial liabilities	-	**64 230 896**	**174 305**	**64 405 201**

in thousands of rands	30 September 2021 Reviewed	31 March 2021 Audited
5. Development loans held at FVTPL		
5.1 Analysis of development loans held at FVTPL		
Balance at beginning of the year	99 566	99 895
Movements for the year	11 011	(329)
Gross development loans at FVTPL	110 577	99 566
Fair value movements	(93 341)	(82 719)
Balance at end of the period	17 236	16 847

in thousands of rands	30 September 2021 Reviewed	31 March 2021 Audited
5.2 Movements during the period		
Interest accrued	9 404	15 011
Foreign exchange adjustments	1 607	(15 340)
Movements during the period	11 011	(329)
5.3 Fair value adjustment		
Balance at the beginning of the year	(82 719)	(77 482)
Current year fair value adjustment	(10 622)	(5 237)
Balance at end of the period	(93 341)	(82 719)
5.4. Sectoral analysis of development loans at FVTPL		
Energy – Electricity	110 577	99 566
5.5. Geographical analysis of development loans at FVTPL		
Sierra Leone	110 577	99 566
5.6 US dollar amounts included in development loans held at FVTPL		
USD amount	7 329	6 743
6. Equity investments held at FVTPL		
Equity investments held at FVTPL	5 127 088	5 007 459
6.1 Equity investments held at FVTPL		
Cost		
Balance at beginning of the year	3 445 516	3 579 087
Acquisitions	111 366	102 122
Capital return	(81 167)	(235 693)
Balance at end of the period	3 475 715	3 445 516
Fair value adjustment		
Balance at beginning of the year	101 591	423 479
Current period fair value adjustments	32 671	(348 770)
Realised capital gain	3 142	26 882
Balance at end of the period	137 404	101 591
Foreign exchange adjustments		
Balance at beginning of the year	1 460 352	1 991 385
Unrealised (loss) gain	33 238	(618 896)
Realised gain	20 379	87 863
Balance at end of the period	1 513 969	1 460 352
Fair value at the end of the period	5 127 088	5 007 459

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

The DBSA equity investment portfolio comprises “Funds of funds” investments and direct equity investments. At the reporting date the portfolio is denominated in both foreign currency (EUR and USD) and ZAR. The non-ZAR portfolio is invested in commercial infrastructure projects, such as energy, roads, and logistics sectors with the balance invested in the financial sector. The ZAR portfolio is invested in affordable housing projects, commercial infrastructure and the information technology sector. A significant portion of the funds are approaching maturity and the Bank is exiting each underlying investment on an investment-by-investment basis.

in thousands of rands	30 September 2021 Reviewed	31 March 2021 Audited
6.2. Sectoral analysis of equity investments held at FVTPL		
Commercial infrastructure	**2 863 269**	2 655 212
Institutional infrastructure	**920 376**	981 652
Residential facilities	**1 343 443**	1 370 595
Balance at end of the period	5 127 088	**5 007 459**
6.3. Geographical analysis of equity investments held at FVTPL		
South Africa	**2 037 681**	1 553 212
International (the rest of the Africa excluding South Africa)	**3 089 407**	3 454 247
Balance at end of the period	5 127 088	**5 007 459**
6.4. US dollar and Euro amounts included in the above Africa and International equity investment at FVTPL		
US Dollar amount included	173 348	**146 337**
Euro amount included	30 807	**36 298**

7. Fair value hierarchy disclosures

The Bank measures fair values in accordance with IFRS 13, which defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Bank also uses a fair value hierarchy that categorises into three levels the inputs to valuation techniques used to measure fair value, which gives highest priority to quoted prices.

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 are valued using discounted cash flow analysis. This category includes unlisted equity investments and development loans and are measured at fair value and at amortised cost. No significant interrelationships between unobservable inputs used in the valuation of level 3 equity investments have been identified.

The table below shows the fair value hierarchy of the Bank's financial assets and financial liabilities.

in thousands of rands	Notes	Level 1	Level 2	Level 3	Total
30 September 2021					
Financial assets at FVTPL					
Investment securities	3	-	451 101	-	451 101
Derivative assets held for risk management purposes	3	-	395 912	-	395 912
Development loans at FVTPL	3	-		17 236	17 236
Other financial asset	3	-	41 796	-	41 796
Equity investments held at FVTPL*	3	46 009	2 262 061	2 819 018	5 127 088
Financial assets held at amortised cost for which fair values are disclosed					
Cash and cash equivalents**	3	-	6 667 999	-	6 667 999
Trade receivables and other assets**	3	-	-	162 358	162 358
Development bonds	3	-	1 300 210	-	1 300 210
Development loans	3	-	-	98 273 025	98 273 025
Total financial assets		46 009	11 119 079	101 271 637	112 436 725

* Included in level 2 of the Bank's international equity investment portfolio are foreign currency denominated investments which are materially sensitive to exchange rate fluctuations, when determining fair value, solely due to the investment structure. In such instances the Bank evaluates the key drivers of fair value by application of the requirements of IFRS 13 (paragraph 73) in order to determine that lowest level input which is significant to the entire measurement value. Also included in level 2 are investments where the Bank has used recent transactional data, including quoted prices for similar assest in markets which are not active, and/or market-corroborated inputs in determination of fair values. The total fair value of these equity investments as at the reporting date is R2.2 billion (31 March 2021: R2.1 billion).

Financial liabilities held at FVTPL					
Derivative liabilities held for risk management	4	-	136 747	-	136 747
Debt funding designated at FVTPL	4	-	1 498 803	-	1 498 803
Financial liabilities held at amortised cost for which fair values are disclosed					
Trade, other payables and accrued interest on debt funding**	4	-	401 884	204 179	606 063
Debt funding held at amortised cost	4	-	58 668 659	-	58 668 659
Repurchase agreements held at amortised cost	4	-	1 383 125	-	1 383 125
Total financial liabilities		-	62 089 218	204 179	62 293 397

**Financial assets and financial liabilities carrying amounts approximate their fair values due to the instruments being short term in nature.

in thousands of rands	Notes	Level 1	Level 2	Level 3	Total
March 2021					
Financial assets at FVTPL					
Investment securities	3	-	455 215	-	455 215
Derivative assets held for risk management purposes	3	-	750 831	-	750 831
Development loans at FVTPL	3	-	-	16 847	16 847
Other financial asset	3	-	42 451		42 451
Equity investments held at FVTPL*	3	49 346	2 160 889	2 797 224	5 007 459
Financial assets held at amortised cost for which fair values are disclosed					
Cash and cash equivalents	3	-	8 978 608	-	8 978 608
Trade receivables and other assets	3	-	-	168 198	168 198
Development bonds	3	-	1 310 388	-	1 310 388
Development loans	3	-	-	94 668 215	94 668 215
Total financial assets		**49 346**	**13 698 382**	**97 650 484**	**111 398 212**

* Exchange rate movements are a material driver of the fair value of equity instruments categorised as level 2. The fair value of R2.1 billion (31 March 2020: R3.8 billion) includes foreign currency translation impact of R1.5 billion (31 March 2020: R2.0 billion) which is driven by observable currency exchange rates.

	Notes	Level 1	Level 2	Level 3	Total
Financial liabilities held at FVTPL					
Derivative liabilities held for risk management	4	-	127 276	-	127 276
Debt funding designated at FVTPL	4	-	1 513 997	-	1 513 997
Financial liabilities held at amortised cost for which fair values are disclosed					
Trade, other payables and accrued interest on debt funding	4	-	386 448	174 305	560 753
Debt funding held at amortised cost	4	-	61 334 041	-	61 334 041
Repurchase agreements held at amortised cost	4	-	869 134	-	869 134
Total financial liabilities		**-**	**64 230 896**	**174 305**	**64 405 201**

in thousands of rands	30 September 2021 Reviewed	31 March 2021 Audited
Reconciliation of Level 3 financial assets held at FVTPL		
Equity investments held at FVTPL		
Balance at the beginning of the year	2 797 224	2 176 335
Transfers into level 3*	-	758 461
Increase/(decrease) in fair value of equity investments - unrealised**	21 794	(137 572)
Balance at the end of the period	**2 819 018**	**2 797 224**

*Transfers from level 2 to level 3 during the period are due to significant adjustments to the base valuation required due to COVID-19 risk factors. Transfers occurred at the end of the period under review, following completion of the year-end valuation estimate process.

**The movements in the unrealised gain and losses in equity investments is included "Net gain/(loss) from financial assets and financial liabilities" in the statement of comprehensive income.

The Bank recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the transfers have occurred. The Bank's policy for determining when transfers between levels in the hierarchy have occurred includes monitoring of the following factors:

» Changes in market and trading activity (e.g. significant increases/decreases in trading activity); and
» Changes in inputs used in valuation techniques (e.g. inputs becoming/ceasing to be observable in the market or significant adjustments required due to material risk events, such as COVID-19, applicable as from the year under review).

in thousands of rands	30 September 2021 Reviewed	31 March 2021 Audited
Development loans at FVTPL		
Balance at the beginning of the year	16 847	22 413
Acquisition of development loan at FVTPL and other movements	11 011	(329)
Decrease in fair value of development loans at FVTPL - unrealised*	(10 622)	(5 237)
Balance at the end of the period	**17 236**	**16 847**

*The movements in the unrealised gain and losses in fair value of development loans is included in "Net gain/(loss) from financial assets and financial liabilities".

The table below shows the fair value hierarchy and valuation techniques used to determine their fair values for recurring and non recurring assets and liabilities:

	30 September 2021		31 March 2021	
in thousands of rands	Fair value	Fair value hierarchy	Fair value	Fair value hierarchy
Financial instruments				
Derivative assets (a)	395 912	2	750 831	2
Investment securities (b)	451 101	2	455 215	2
Development loans at FVTPL (f)	17 236	3	16 847	3
Equity investments (c)	5 127 088	1,2 and 3	5 007 459	1,2 and 3
Other financial asset (d)	41 796	2	42 451	2
Land and buildings (h)	394 431	3	370 000	3
Assets	**6 427 564**		**6 642 803**	
Derivative liabilities (a)	136 747	2	127 276	2
Debt funding designated at FVTPL (e)	1 498 803	2	1 513 997	2
Liability for funeral benefits (i)	2 185	3	2 185	3
Liability for post-employment medical benefits (i)	45 445	3	45 445	3
Liabilities	**1 683 180**		**1 688 903**	

Valuation techniques used to determine fair value

(a) Derivatives

The valuation technique includes discounted cash flow models, comparisons with similar instruments for which observable market prices exist, Black- Scholes and polynomial option pricing models and other valuation models. Input includes independently sourced market parameters (interest rate yield curves, equities and commodities prices, option volatilities and currency rates).

(b) Investment securities

The bonds are valued using Johannesburg Stock Exchange listed bond prices. For segregated funds, the fair value is determined based on the asset manager’s valuation.

(c) Equity investments

(i) Valuation techniques for 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 discount in the range 10% to 30% should be factored into the valuation. Different factors are considered in setting the marketability and other discount and it is possible for the marketability and other discount for a particular instrument to be outside the guideline range.

(ii) Valuation techniques for third party managed private equity funds

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 above guidelines are applied by the Bank's fund managers who provide a calculated fair value estimates as inputs to the Bank's assessment. The Bank thereafter applies these guidelines which 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.

Given the illiquidity concerns of some of the closed ended funds, the Bank considers marketability and liquidity discounts in valuing DBSA's unit of account in the fund. DBSA equity exposures are in different jurisdiction in Africa. The investments go through an investment phase, growth phase and exit phase. A significant portion of the investments are in the exit phase and in this phase there is an active secondary market for the underlying investment that are being exited. Adjustments to net asset value (NAV) (for assets within the exit phases) greater than 20% are considered significant to enable a level 3 input classification even if there is some evidence of exits in the underlying investments within the secondary markets. Adjustments to NAV (for assets within the investment phase) greater than 10% are considered significant to enable a level 3 input classification even if there is some evidence of infrastructure secondary market activity. The determination of 10% and 20% thresholds are a significant management judgement. The differentiation between the investment phase and exit phase is appropriate given the nature of infrastructure cycle and infrastructure primary and secondary market activities across the African continent. There are however no bright lines for determining significance of an input to the fair value measurement in its entirety management has consistently applied the evaluation criteria for the significance of inputs. In assessing the significance of unobservable inputs to an asset fair value, DBSA management:
(a) Considers sensitivity of the asset overall value to changes in the data; and
(b) Reassesses the likelihood of variability in the data over the life of the asset.

(iii) Valuation techniques – Unlisted

If the market for a financial instrument is not active, the Bank determines fair value by using various valuation techniques. These techniques include:
i) Using recent arm's length market transactions between knowledgeable, willing parties;
ii) Reference to the current fair value of another instrument that is substantially the same in nature;
iii) Reference to the value of the net assets of the underlying business;
iv) Earnings multiples; and
v) Discounted cash flow analysis.

To estimate a reliable fair value, where appropriate, the Bank applies certain valuation adjustments to the information derived from the above sources. In making appropriate adjustments, the Bank considers certain adjustments to the modelled price that market participants would make when pricing that instrument. The Bank also reviews its portfolio to identify any correlation between key valuation inputs which may serves as proxy inputs. Where reliable information relating to a correlated input is not readily available the Bank may reference its proxy in determining an appropriate fair value.

Fair value measurements are categorised into level 2 or 3 within the fair value hierarchy based on the significance of observable inputs versus unobservable inputs in relation to the fair value of the instrument.

The Bank policy is to apply a range between 10% to 30%. However, the actual discount rate applied for level 2 and 3 equity investment ranged between 0% to 24% and in the prior year this was 13.6% to 24%.

For both equity investments in third party managed funds and unlisted equities, price quotes may be a level 2 or level 3 input or may not represent fair value and therefore the Bank considers the following factors in making a determination:
» Volume of recent transactions for the instrument;
» Price quotations that are not developed using current information;
» Price quotations that vary substantially either over time or among market makers;
» Indices that were previously highly correlated with the fair value of the asset or liability are demonstrably uncorrelated with recent indications of fair value;
» Whether there are significant increases in implied liquidity premiums, yields or performance indicators for observed transactions or quoted prices when compared with the entity's estimate of expected future cash flows, taking into account all available market data about credit and other non-performance risk for the asset or liability;
» Wide bid-ask spread or a significant increase in the bid-ask spread; and
» Significant decline in the activity of, or there is an absence of a market, for new issues for the asset or liability or similar assets or liabilities and there is little information publicly available.

Level 1 inputs	Level 2 inputs	Level 3 inputs
Quoted price in active markets	Quoted prices for similar assets or liabilities in active markets	Marketability discounts not collaborated by observable market information
Unadjusted prices	Quoted prices for identical or similar assets or liabilities in markets that are not active	Liquidity discounts
Accessible prices at measurement date	Inputs other than quoted prices that are observable for the assets or liability, for example: » Interest rates » Yield curves » Credit spreads and implied volatility	Earnings multiples
	Quotes corroborated with observable market information	Unlisted equity investments
	Exchange rate movements with direct correlation to fair value	Valuations based on significant proprietary information
	Where there is increase in bid/ask spread	Where there is a significant increase in bid/ask spread

(d) Other financial asset

The fair value of other financial asset is based on the valuation performed by the fund managers based on investments in various listed entities.

(e) Debt funding designated at fair value through profit or loss and development bonds held at amortised cost

Market observable bond prices from the interest rate market of the Johannesburg Stock Exchange. No adjustments are made to observable prices. The classification is due to low trading level volumes.

(f) Development loans at fair value through profit or loss

The Bank uses present value technique, which is an application of the income approach to calculate the fair value of the development loans. Valuations under the income approach, such as present value techniques converts expected future amounts to a single present amount. The Bank uses discount rate adjustment present value technique, which attempts to capture all the risk associated with the item being measured in the discount rate and is most commonly used to value assets and liabilities with contractual payments such as debt instruments. The discount rate is used to calculate the present value of cash flows. The valuation excludes non-performing loans due to cash flow being uncertain.

(g) Development loans, debt funding and repurchase agreements at amortised cost

Financial instruments valued using discounted cash flow analysis. The Bank uses present value technique, which is an application of the income approach to calculate the fair value of the development loans. Valuations under the income approach, such as present value techniques converts expected future amounts to a single present amount. The Bank uses discount rate adjustment present value technique, which attempts to capture all the risk associated with the item being measured in the discount rate and is most commonly used to value assets and liabilities with contractual payments such as debt instruments. The discount rate is used to calculate the present value of cash flows. The valuation excludes non-performing loans due to cash flow being uncertain.

(h) Land and buildings

The fair value of land and buildings is calculated using the capitalised net rental approach. This involves estimating the gross market monthly rental income that the property would command if the property is rented at valuation date in the open market.

(i) Liabilities for funeral benefit and post-employment medical benefits

The actuarial valuation method used to value the liabilities is the Projected Unit Credit Method. In order to undertake the valuation, it is necessary to make a number of assumptions. The most significant assumptions used for the previous and current valuations are economic and demographic assumptions.

in thousands of rands	30 September 2021 Reviewed	31 March 2021 Audited
8. Development bonds at amortised cost		
Municipal bonds	**1 230 311**	**1 279 235**
8.1 Analysis of development bonds		
Balance at the beginning of the year	**1 290 219**	1 290 855
Movement during the year	**247**	(636)
Gross development bonds	**1 290 466**	**1 290 219**
Provision for ECL on development bonds	**(60 155)**	(10 984)
Balance at the end of the period	**1 230 311**	**1 279 235**
8.2 Movements during the period		
Interest accrued	**61 177**	122 001
Gross interest repayments	**(60 930)**	(122 637)
Net movements for the year	**247**	**(636)**
8.3 Reconciliation of provision for ECL on development bonds		
Balance at the beginning of the year	**10 984**	2 577
Increase in provision for ECL on development bonds	**49 171**	8 407
Balance at the end of the period	**60 155**	**10 984**
8.4 Client classification of development bonds		
Local government	**1 290 466**	**1 290 219**
8.5 Regional analysis of development bonds		
South Africa	**1 290 466**	**1 290 219**
8.6 Geographical analysis of development bonds		
Gauteng	**1 290 466**	**1 290 219**
8.7 Sectoral analysis of development bonds		
Energy	**1 290 466**	**1 290 219**

8.8 Reconciliation of development bonds

The table below shows the reconciliation of the opening balance to the closing balance of development bonds gross carrying amount and the provision for expected credit losses.

in thousands of rands	Stage 1	Stage 2	Stage 3	Total
30 September 2021				
Reconciliation of gross carrying amount				
Balance at the beginning of the year	517 865	772 354	-	1 290 219
Changes in interest accrual	25 605	35 572	-	61 177
Repayments	(25 552)	(35 378)	-	(60 930)
Balance at the end of the year	517 918	772 548	-	1 290 466
Reconciliation of provision for ECL 2021				
Balance at the beginning of the year	189	10 795	-	10 984
Subsequent change in ECL due to changes in risk parameters (PDs, LGDs and EADs)	(34)	49 205	-	49 171
Balance at the end of the year	155	60 000	-	60 155

The increase in ECL for the year was due to changes in stages together with changes in PDs, EADs and LGDs arising from use of new macroeconomic data.

The table below shows the reconciliation of the opening balance to the closing balance of development bonds gross carrying amount and the provision for expected credit losses.

in thousands of rands	Stage 1	Stage 2	Stage 3	Total
31 March 2021				
Reconciliation of gross carrying amount				
Balance at the beginning of the year	517 918	772 937	-	1 290 855
Changes in interest accrual	51 051	70 950	-	122 001
Repayments	(51 104)	(71 533)	-	(122 637)
Balance at the end of the year	**517 865**	**772 354**	-	**1 290 219**
Reconciliation of provision for ECL 2021				
Balance at the beginning of the year	238	2 339	-	2 577
Subsequent change in ECL due to changes in risk parameters (PDs, LGDs and EADs)	(50)	8 457	-	8 407
Balance at the end of the year	**188**	**10 796**	-	**10 984**

The increase in ECL for the year was due to changes in stages together with changes in PDs, EADs and LGDs arising from use of new macroeconomic data.

in thousands of rands	30 September 2021 Reviewed	30 September 2020 Reviewed
8.9 Expected credit losses		
ECL charge to the statement of comprehensive income	49 171	-

in thousands of rands	30 September 2021 Reviewed	31 March 2021 Audited
9. Development loans at amortised cost		
9.1 Analysis of development loans		
Balance at the beginning of the year	94 098 188	96 425 614
Movements during the period	3 195 048	(2 327 426)
Gross development loans	97 293 236	**94 098 188**
Provision for ECLs on development loans	(11 616 469)	(11 364 740)
Net development loans at the end of the period	85 676 767	**82 733 448**
9.2 Movements during the period		
Loans disbursed – current year	6 937 460	13 459 403
Effective interest income on development loans	4 204 951	7 806 377
Effective interest adjustment	(10 906)	(80 342)
Contractual interest on stage 3	(79 589)	149 537
Development loans written off	-	(84 906)
Other administrative adjustments	(1 979)	-
Foreign exchange adjustment	502 834	(4 956 804)
Development loans acquired through business combination*	-	64 052
Recovery of amounts impaired prior to business combination*	-	14 284
Gross loan repayments	(8 475 622)	(18 831 746)
Fees raised	117 899	189 984
Modification losses	-	(57 265)
Loans de-recognised due to substantial modification	-	(14 434)
New loans recognised after substantial modification	-	14 434
Movements for the period	3 195 048	**(2 327 426)**

*Effective 1 April 2020, the DBSA acquired a portfolio of loans at amortised cost as part of a business combination from the Department of Environment, Forestry and Fisheries.

in thousands of rands	30 September 2021 Reviewed	31 March 2021 Audited
9.3 Provision for expected credit losses on development loans reconciliation		
Balance at the beginning of the year	**11 364 740**	**10 185 350**
Impairment of current period interest	**(79 589)**	149 537
Loans written off during the period	-	(84 906)
Other administrative adjustments	**(1 979)**	-
Recovery of amounts impaired prior to business combination	-	14 284
Movements in expected credit losses	**333 297**	**1 100 475**
Stage 3	**(16 608)**	634 365
Stage 1 and 2	**349 905**	466 110
Balance at the end of period	**11 616 469**	**11 364 740**

9.4 Sectoral analysis of gross development loans

Commercial – fund	**241 264**	309 658
Commercial – manufacturing	**79 666**	81 848
Commercial – mining	**111 000**	111 000
Commercial – tourism	**305 465**	288 341
Commercial – other	**260 941**	250 088
Communication and transport infrastructure	**14 873 171**	11 331 393
Energy – electricity	**47 088 453**	49 223 342
Oil and gas	**4 751 520**	4 699 533
Energy – non-grid standalone	**96 564**	105 930
Human resources development	**1 282 460**	1 441 292
Institutional infrastructure	-	11
Residential facilities	**2 439 353**	2 523 238
Roads and drainage	**14 881 190**	14 332 692
Sanitation	**794 237**	826 144
Social infrastructure	**7 371 079**	5 768 971
Water	**2 716 873**	2 804 707
Total	**97 293 236**	**94 098 188**

9.5 Geographical analysis of gross development loans

Eastern Cape	**907 392**	1 560 534
Free State	**1 586 841**	1 620 362
Gauteng	**46 827 945**	43 614 375
KwaZulu-Natal	**5 605 761**	4 859 704
Limpopo	**885 629**	920 979
Mpumalanga	**667 447**	689 661
North West	**639 116**	565 374
Northern Cape	**8 713 865**	9 319 170
Western Cape	**5 027 873**	5 261 676
Rest of Africa	**26 431 368**	25 686 353
Total	**97 293 237**	**94 098 188**

Rest of Africa

SADC

Angola	**6 148 665**	4 871 394
Congo	**1 436 573**	1 424 463
Lesotho	**322 486**	307 926
Madagascar	**333 594**	332 533
Mauritius	**490 330**	696 074
Mozambique	**737 648**	699 235
Namibia	-	80 000
Swaziland	**38 498**	41 474
Tanzania	**658 524**	509 155
Zambia	**5 669 649**	5 845 510
Zimbabwe	**2 427 874**	2 667 438
Total SADC	**18 263 841**	**17 475 202**

in thousands of rands	30 September 2021 Reviewed	31 March 2021 Audited
Non - SADC		
Cote d'Ivoire	2 995 724	2 956 912
Ethiopia	636 280	663 818
Ghana	4 302 507	4 259 567
Kenya	233 016	260 856
Multi-regional	-	69 998
Total Non-SADC	**8 167 527**	**8 211 151**
Total Rest of Africa	**26 431 368**	**25 686 353**

9.6 Client classification of gross development loans

Development finance institutions	-	69 998
Educational institutions	1 172 023	1 119 406
Local government	33 010 844	29 177 647
National and provincial government	7 829 002	6 486 246
Private sector intermediaries	26 759 556	28 224 832
Public utilities	28 521 811	29 020 059
Total	**97 293 236**	**94 098 188**

9.7 Fixed and variable interest rate gross development loans

Fixed interest rate loans	44 711 633	42 393 359
Variable interest rate loans	52 581 604	51 704 829
Total	**97 293 237**	**94 098 188**

9.8 Non-performing loans (included in total development loans)

9.8.1 Sectoral analysis of gross non-performing loans

Commercial – manufacturing	79 666	81 848
Commercial – mining	111 000	111 000
Commercial – tourism	305 465	288 341
Commercial – other	226 820	212 372
Communication and transport infrastructure	1 175 587	1 110 578
Energy	1 446 196	1 502 032
Human resources development	254 391	268 829
Oil and gas	1 269 022	1 560 474
Residential facilities	249 473	249 718
Roads and drainage	617 377	675 944
Sanitation	145 083	170 039
Social infrastructure	578 957	741 045
Water	206 552	298 549
Total	**6 665 589**	**7 270 769**

9.8.2 Geographical analysis of gross non-performing loans

Free State	50 762	352 714
Gauteng	831 510	888 926
Limpopo	318 212	318 248
Mpumalanga	392 948	394 794
North West	144 697	145 968
Northern Cape	98 126	93 596
Rest of Africa	4 829 334	5 076 523
Total	**6 665 589**	**7 270 769**

in thousands of rands	30 September 2021 Reviewed	31 March 2021 Audited
Rest of Africa		
Congo	1 241 296	1 297 089
Lesotho	317 850	299 523
Mauritius	490 330	696 074
Mozambique	332 087	315 479
Zambia	1 708 429	1 682 603
Zimbabwe	739 342	785 755
Total	4 829 334	5 076 523
9.8.3 Client classification on gross non-performing loans		
Educational institutions	2 199	2 221
Local government	455 964	758 430
Private sector intermediaries	4 258 927	4 504 770
Public utilities	1 948 499	2 005 348
Total	6 665 589	7 270 769

in thousands of rands	30 September 2021 Reviewed	30 September 2020 Reviewed
9.9 Analysis of impairment charge		
Stage 3 loans		
Stage 3 expected credit losses including POCI	(16 608)	1 035 394
Stage 1 and 2 loans		
Stage 1 expected credit losses	64 659	150 368
Stage 2 expected credit losses	285 246	(912 024)
Impairment charge for the period	333 297	273 738

9.10 Reconciliation of the net carrying amount of development loans at amortised cost

The tables below shows the reconciliation of the opening balance to the closing balance of the net carrying amount of development loans:

in thousands of rands	Stage 1	Stage 2	Stage 3	POCI	Total
30 September 2021					
Balance at the beginning of the year	53 730 020	33 081 869	7 270 769	15 530	94 098 188
Transfer from Stage 1 to Stage 2	(242 612)	242 612	-	-	-
Transfer from Stage 2 to Stage 1	37 290	(37 290)	-	-	-
Transfer from Stage 3 to stage 2	-	364 604	(364 604)	-	-
New disbursements	5 839 725	1 095 219	2 516	-	6 937 460
Repayments	(5 288 461)	(2 591 845)	(595 010)	(306)	(8 475 622)
Effective interest on development loans during the year	2 336 196	1 516 681	340 328	-	4 193 205
Contractual interest on stage 3	-	(161)	(79 468)	-	(79 629)
Other administrative adjustments	-	(314)	(1 665)	-	(1 979)
Foreign exchange movements	206 977	203 368	92 489	-	502 834
Other movements- fees	106 051	11 613	235	-	117 899
Interest at credit-adjusted effective interest rate	-	-	-	880	880
Gross carrying amount	56 725 186	33 886 356	6 665 590	16 104	97 293 236
Less provision for ECLs	(489 888)	(6 159 526)	(4 959 325)	(7 730)	(11 616 469)
Balance at end of the period	56 235 298	27 726 830	1 706 265	8 374	85 676 767

in thousands of rands	Stage 1	Stage 2	Stage 3	POCI	Total
31 March 2021					
Balance at the beginning of the year	58 980 023	30 499 202	6 946 389	-	96 425 614
Development loans acquired through business combination	64 052	-	-	-	64 052
Transfer from Stage 1 to Stage 2	(5 131 500)	5 131 500	-	-	-
Transfer from Stage 2 to Stage 3	-	(1 737 875)	1 737 875	-	-
Transfer from Stage 2 to Stage 1	13 319	(13 319)	-	-	-
Transfer from Stage 3 to stage 2	-	15 207	(15 207)	-	-
Recovery of amounts impaired prior to business combination	14 284	-	-	-	14 284
New disbursements	10 700 003	2 752 307	7 093	-	13 459 403
Repayments	(13 508 739)	(4 451 033)	(871 834)	(141)	(18 831 747)
New loans recognised after substantial modification	-	-	-	14 434	14 434
Loans derecognised due to substantial modification	-	-	(14 434)	-	(14 434)
Effective interest on development loans during the year	4 273 579	2 972 981	478 433	-	7 724 993
Interest at credit-adjusted effective interest rate	-	-	-	1 237	1 237
Contractual interest on stage 3	-	-	149 341	-	149 341
Write-offs and waivers	-	-	(84 907)	-	(84 907)
Foreign exchange movements	(1 829 963)	(2 060 931)	(1 065 907)	-	(4 956 801)
Other movements - fees	154 500	31 557	3 927	-	189 984
Modification gain/loss	462	(57 727)	-	-	(57 265)
Gross carrying amount	**53 730 020**	**33 081 869**	**7 270 769**	**15 530**	**94 098 188**
Less provisions for ECLs	(425 229)	(5 874 755)	(5 057 721)	(7 035)	(11 364 740)
Balance at the end of the year	**53 304 791**	**27 207 114**	**2 213 048**	**8 495**	**82 733 448**

in thousands of rands	30 September 2021 Reviewed	31 March 2021 Audited
9.11 Maximum exposure to loss		
The gross carrying amount of development loans receivables and thus the maximum exposure to loss is as follows:		
Development loans receivable net of expected credit losses		
Stage 1 loans	**56 725 186**	53 730 020
Stage 2 loans	**33 886 356**	33 081 869
Stage 3 loans	**6 665 590**	7 270 769
POCI	**16 104**	15 530
Gross development loans	**97 293 236**	94 098 188
Provision for ECLs on development loans	**(11 616 469)**	(11 364 740)
Development loans receivable net of expected credit losses	**85 676 767**	**82 733 448**

9.12 Reconciliation of expected credit losses on development loans

The tables below shows the reconciliation of provision for expected credit losses of development loans:

in thousands of rands	Stage 1 - 12 month ECL	Stage 2 - Lifetime ECL	Stage 3 - Lifetime ECL	POCI	Total
30 September 2021					
Balance at the beginning of the year	425 229	5 874 755	5 057 721	7 035	11 364 740
Transfer from Stage 1 to Stage 2	(24 942)	380 209	-	-	355 267
Transfer from Stage 2 to Stage 1	48	(689)	-	-	(641)
Transfer from Stage 3 to Stage 2	-	18 759	(11 851)	-	6 908
New financial assets	7 510	389			7 899
Repayments during the year	(384)	(202)	(86 545)		(87 131)
Suspended interest	-	(161)	(79 468)	40	(79 589)
Other administrative adjustments	-	(314)	(1 665)	-	(1 979)
Foreign exchange movements	4 370	79 718	62 589	-	146 677
Subsequent changes in ECL due to changes in risk parameters (PDs, LGDs, EAD)*	78 057	(192 938)	18 544	655	(95 682)
Balance at end of the period	489 888	6 159 526	4 959 325	7 730	11 616 469
ECL allowance recognised to income statement	64 659	285 246	(17 263)	655	333 297

* The ECL on development loans has increased marginally from the prior year due organic loan book growth coupled with the impact of continued COVID-19 related uncertainty and specific risk factors affecting key sectoral and geographic exposures. In response to credit risk factors identified at both the macroeconomic and client level, the Bank has recognised a R1.2 billion judgemental credit adjustment on the total development loan portfolio. The credit adjustment is reflective of management's best estimate relating to the anticipated outcome of the economic recovery at the reporting date. These additional management adjustments have been subjected to the appropriate governance framework.

** No development loans written off in full during the period (31 March 2021: R11 million). No waivers were granted on development loans during the period (31 March 2021: RNil).

in thousands of rands	Stage 1 -12 month ECL	Stage 2 - Lifetime ECL	Stage 3 - Lifetime ECL	POCI	Total
31 March 2021					
Balance at the beginning of the year	487 777	5 331 811	4 365 762	-	10 185 350
Transfer from Stage 1 to Stage 2	(75 044)	473 464	-	-	398 420
Transfer from Stage 2 to Stage 3	-	(992 852)	830 502	-	(162 350)
Transfer from Stage 2 to Stage 1	22	(143)	–	-	(121)
Transfer from Stage 3 to Stage 2	-	1 097	(2 357)	-	(1 260)
New disbursements	54 052	397 513	7 231	-	458 796
Repayments	(183)	(1 471)	(809)	-	(2 463)
Suspended interest	-	-	149 341	196	149 537
Loans-substantial modification	-	-	-	6 839	6 839
Write offs**	-	-	(84 907)	-	(84 907)
Foreign exchange movements	(21 079)	(529 044)	(528 064)	-	(1 078 187)
Subsequent changes in ECL due to changes in risk parameters (PDs, LGDs, EAD)*	(20 316)	1 194 380	321 022	-	1 495 086
Balance at the end of the year	425 229	5 874 755	5 057 721	7 035	11 364 740
ECL allowance recognised to income statement	(76 834)	542 944	627 526	6 839	1 100 475

*The ECL on development loans has increased from the prior year (despite the associated loan book value decreasing marginally) due to the impact of COVID-19 related uncertainty, coupled with specific risk factors affecting key sectoral and geographic exposures. In response to credit risk factors identified at both the macroeconomic and client level, the Bank has deemed it appropriate to recognise an additional R1.8 billion judgemental credit adjustment on the total development loan portfolio. The credit adjustment is based on management's best estimate relating to the anticipated trajectory of the economic recovery at the reporting date. These additional management adjustments have been subjected to the appropriate governance framework.

**The net carrying amount of development loans written off in full during the period is R11 million (2020: R4 million). The total contractual amount outstanding on development loans with write-offs during the period and are still subject to enforcement activity is R355 million (2020: R2.6 million). The write-offs had no material impact on net profit for the Bank because these loans had been fully provided for under IFRS 9. All amounts written off comprised stage 3 or non-performing development loans subject to lifetime ECL allowances. The measurement of ECL and net amortised cost, the carrying amounts reflected management's best estimate of the present value of estimated future cash flows discounted by the effective interest rate. Accordingly, the carrying amounts of loans written off were systematically reduced through the application of ECL impairments recorded in prior financial year ends. As such the write-off values recorded are limited to:
» the residual carrying amount, not yet impaired, for accounts fully written off; and
» the difference between the recalculated present value of estimated (revised) future cash flows and the existing carrying amount.

The total amount of undiscounted expected credit losses at initial recognition of purchased or originated credit impaired assets at original recognition was R7.5 million.

in thousands of rands	30 September 2021 Reviewed	31 March 2021 Audited
10. Trade, other payables and accrued interest on debt funding		
Financial liabilities at amortised cost		
Accrued interest (financial market liabilities – amortised cost)	380 204	371 226
Accrued interest – Repurchase agreements	21 680	15 222
Trade payables	202 581	171 388
Current portion of lease liabilities	1 598	2 917
Balance at the end of the period	**606 063**	**560 753**
Non-financial liabilities		
Bonus provision	113 905	171 025
PAYE, VAT and Compensation Commissioner	5 415	8 184
Balance at the end of the period	**119 320**	**179 209**
Total trade, other payables and accrued interest on debt funding	**725 383**	**739 962**

In line with best practice, accrued interest on financial market liabilities held at fair value through profit or loss has been presented together with debt funding at fair value.

11. Provisions and lease liabilities

11.1 Provisions

Reconciliation of provisions at 30 September 2021

in thousands of rands	Opening balance	Current period provision	Reversed/ utilised during the period	Closing balance
Development expenditure	65 482	-	(3 983)	61 499
Provision for expected losses on loan commitments	126	9 365	(126)	9 365
Strategic initiatives Covid-19	48 877	-	(6 559)	42 318
	114 485	**9 365**	**(10 668)**	**113 182**

Reconciliation of provisions at 31 March 2021

in thousands of rands	Opening balance	Current period provision	Utilised during the year	Closing balance
Development expenditure	72 382	824	(7 724)	65 482
Provision for expected losses on loan commitments	7 110	-	(6 984)	126
Strategic initiatives Covid-19	150 000	-	(101 123)	48 877
	229 492	**824**	**(115 831)**	**114 485**

Provision for developmental expenditure

In response to meeting mandate requirements, the Bank approved the granting of assistance to municipalities in the Market 2 (secondary municipalities)/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 expected losses on loan commitments

The provision for development loans and commitments represents the expected credit losses on loan commitments. The expected credit loss is the present value of the difference between the contractual cash flows that are due to the Bank if the commitment is drawn down and the cash flows that the Bank expects to receive. To the extent that the amount of the expected credit losses on loan commitment exceeds the carrying amount of the associated financial asset recognised in the statement of financial position, the amount of the credit losses is presented as a provision.

COVID-19 provision

The outbreak of COVID-19 was declared a National Disaster by the South African Government on 15 March 2020. This required every stakeholder to work with government to combat the spread of the pandemic particularly to the most vulnerable communities. The Bank is one of the key stakeholders expected to assist with combating this pandemic. DBSA responded as a key stakeholder.

11.2 Lease liabilities

Reconciliation of lease liabilities at 30 September 2021

in thousands of rands	Opening balance	Interest accrued	Repayments	Current portion	Total
Leases	**2 917**	**86**	**(1 405)**	**(1 598)**	**-**

Reconciliation of lease liabilities at 31 March 2021

in thousands of rands	Opening balance	Change in estimate	Interest accrued	Repayments	Current portion	Total
Leases	**3 821**	**1 264**	**329**	**(2 497)**	**(2 917)**	**-**

There are no other potential future cash flows to which the Bank is exposed to other than those that are reflected in the lease liabilities

in thousands of rands	30 September 2021 Reviewed	31 March 2021 Audited
11.3 Total of provisions and lease liabilities		
Provisions	113 182	114 485
Lease liabilities	-	-
Total provisions and lease liabilities	**113 182**	**114 485**

in thousands of rands	30 September 2021 Reviewed	31 March 2021 Audited
12. Repurchase agreements at amortised cost		
Repurchase agreement	**1 380 109**	**868 042**
Reconciliation of repurchase agreement held at amortised cost		
Balance at beginning of the year	**868 042**	587 338
Capital raised	**1 380 109**	3 425 749
Capital repaid	**(868 042)**	(3 145 045)
Balance per statement of financial position	**1 380 109**	**868 042**
Accrued interest (note 10)	**21 680**	15 222
Balance at the end of the period including accrued interest	**1 401 789**	**883 264**
13. Debt funding designated at fair value through profit or loss		
Debt securities	**1 498 803**	**1 513 997**
Reconciliation of debt funding designated at fair value through profit or loss		
Balance at beginning of the year	**1 513 997**	1 505 805
Amortisation of discounts, premiums and transaction costs	**342**	627
Fair value adjustments	**55 664**	149 965
Interest repayment	**(71 200)**	(142 400)
Balance at the end of the period	**1 498 803**	**1 513 997**

Debt securities designated at fair value through profit or loss consists of listed DV bonds. These instruments form part of a group of financial assets and liabilities that are managed and its performance evaluated on a fair value basis. These instruments were irrevocably designated at fair value through profit or loss at initial recognition because in doing so the Bank is significantly reducing a measurement inconsistency that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases. The valuation of debt securities held at fair value through profit or loss incorporates own credit risk adjustment of R30 million (31 March 2021: R34 million). The change in fair value attributable to changes in credit risk on debt securities in issue is calculated using the credit spread observed for recent issuances of similar debt, adjusted for subsequent changes in the credit spread observed on NCDs.

The carrying amount of the debt securities in issue at 30 September 2021 designated at FVTPL was R75 million higher than the contractual amount due at maturity of R1.42 billion.

The carrying amount of debt funding held at fair value through profit or loss for 30 September 2021 is inclusive of accrued interest amounting to R14 million.

14. Debt funding held at amortised cost

Debt securities	**33 064 977**	33 604 308
Lines of credit	**21 570 771**	23 378 484
Balance per statement of financial position	**54 635 748**	**56 982 792**
Accrued interest (note 10)	**380 204**	371 226
Balance at end of the period including accrued interest	**55 015 952**	**57 354 018**
Reconciliation of debt funding held at amortised cost		
Balance at beginning of the year	**56 982 792**	59 040 495
Capital raised	**2 357 110**	20 114 267
Capital repaid	**(5 274 574)**	(18 042 298)
Amortisation of discounts, premiums and transaction costs	**193 077**	297 835
Foreign exchange adjustments on lines of credit	**377 343**	(4 427 507)
Accrued interest (note 10)	**380 204**	371 226
Balance at end of the period including accrued interest	**55 015 952**	**57 354 018**

Debt securities carried at amortised cost consists of Eurorand bond issues, Money Market issuances (bridging bonds), medium and long term fixed rate and floating rate bonds.

The Bank did not have any defaults of principal or interest or other breaches with respect to its debt securities during the period ended 30 September and 31 March 2021.

The total carrying amount of the debt funding at amortised costs at 30 September 2021 comprised of principal of R54.64 billion as well as accrued interest of R380 million, the total value of debt outstanding amounted to R55 billion.

in thousands of rands	30 September 2021 Reviewed	31 March 2021 Audited
15. Deferred income		
Balance at the beginning of the year	503 086	15 145
Business combination	-	461 468
Current movements	-	16 070
Interest income and recoveries on loans	7 068	16 146
Deferred income recognised during the year	(397)	(5 743)
Balance at the end of the year	**509 757**	**503 086**

The Green Fund grant transferred by Department of Environment, Forestry and Fisheries(DEFF) to the Bank will be unwound to profit or loss when the Bank incurs expenditure related to green projects which the grant is intended to compensate. The funds transferred are recognised as deferred income when they are received and are then recognised in profit or loss over the periods necessary to match the grants with the related costs which they are intended to compensate.

in thousands of rands	30 September 2021 Reviewed	30 September 2020 Reviewed
16. Interest income		
Interest income calculated using the effective interest rate		
Cash and cash equivalents	94 164	126 886
Development bonds	61 177	61 124
Effective interest income on development loans	4 204 951	3 804 036
Total interest income calculated using the effective interest rate	**4 360 292**	**3 992 046**
Other interest income		
Interest received on financial assets held at fair value through profit		
Derivative hedged assets	10 630	21 074
Development loans held at FVTPL	9 404	9 464
Equity investments – interest received from mezzanine instruments	49 524	382
Investment securities	21 860	58 061
Total other interest income	**91 418**	**88 981**
Total interest income	**4 451 710**	**4 081 027**
17. Interest expense		
Interest expense on financial liabilities calculated using the effective interest rate		
Bank and other payables	525	3 172
Debt funding held at amortised cost	1 504 720	1 786 270
Total interest expense on financial liabilities calculated using the effective interest rate	**1 505 245**	**1 789 442**
Other interest expense		
Interest expense on financial liabilities held at fair value through profit or loss		
Derivatives hedging liabilities	(9 514)	(13 176)
Funding: Debt securities at FVTPL	72 104	71 749
Total other interest expense	**62 590**	**58 573**
Total interest expense	**1 567 835**	**1 848 015**
Net interest income (Note 16 less Note17)	**2 883 875**	**2 233 012**

in thousands of rands	30 September 2021 Reviewed	30 September 2020 Reviewed
18. Net fee income		
Gross fee income		
Lending fees	98 111	19 576
Management fees	63 088	56 198
Non-lending fees	931	173
Total fee income	**162 130**	**75 947**
Gross fee expense		
Fees on funding	5 282	8 476
Guarantee fees	17 233	19 991
Other fees	50	33 419
Total fee expense	**22 565**	**61 886**
Net fee income	**139 565**	**14 061**

Lending fees

Lending fees are fees that are earned in funding transactions which are not an integral part of the loan and therefore do not form part of the effective interest rate calculation of the loan. The fees are recognised when the service obligation is discharged.

Management fees

Management fees refers to fees earned by the Bank for acting as an implementing agent. The fees are earned for implementing the client's mandate as per the agreement between the Bank and the client. The fees are earned based on the stage of completion of the project.

Non-lending fees

The fees relate to non-lending services provided to customers and are recognised when the service obligation is completed.

Trade receivables

As at 30 September 2021 the Bank had R41 million (31 March 2021 R60 million) in trade receivables as a result of contracts with customers relating to management fees and R14 million (31 March 2021: R8 million) relating to lending fees. As at 30 September 2021, the Bank had no trade payables as a result of contracts with customers.

in thousands of rands	30 September 2021 Reviewed	31 March 2021 Audited
Reconciliation of trade receivables		
Balance at the beginning of the year	59 588	49 769
Repayments during the period	(33 491)	(49 294)
Raised and not paid during the period	14 872	59 113
Balance at the end of the period	**40 969**	**59 588**

Impairment on fee receivables

During period under review, there were no material impairments recognised in relation to fees receivable from management fees. Impairments relating to lending fees were recognised under development loans.

Remaining performance obligations

As at 30 September 2021, the Bank had no outstanding obligations emanating from contracts with customers for which trade payables have been recognised.

Costs incurred in obtaining or fulfilling a contract

The Bank's incremental costs of fulfilling and obtaining a contract were immaterial for the period under review.

in thousands of rands	30 September 2021 Reviewed	30 September 2020 Reviewed
19. Impairment charges		
Trade receivables and other assets	2 960	(160)
Development loans	333 297	273 738
Development bonds	49 171	-
Loan commitments	9 239	(4 269)
	394 667	269 309
20. Net profit adjusted for non-cash items and items separately disclosed		
Net profit for the year	2 234 585	593 723
Dividends received	(5 473)	(2 237)
Management fees – segregated funds	50	206
Depreciation and amortisation	18 261	16 094
Profit on sale of property and equipment	(9)	(178)
Revaluation of development loans at FVTPL	10 622	3 320
Grants, development expenditure and project preparation expenditure paid	70 248	51 400
Unrealised loss from financial assets and liabilities	293 225	430 891
Fees accrued	(97 811)	(19 576)
Fees received	147 106	50 874
Debt guarantee fee raised	16 660	19 437
Unrealised foreign exchange (gain)/loss	(179 087)	353 879
Capital gain on equity investments	(3 143)	(25 915)
Impairment losses	394 667	269 309
Net interest income	(2 883 875)	(2 233 012)
Movements in provisions	(28 747)	(65 532)
(Increase)/decrease in trade receivables and other assets	(4 200)	3 122
(Decrease)/increase in trade, other payables and accrued interest on debt funding	(7 767)	138 890
	(24 688)	(415 305)

21. Risk management

21.1 Equity investments

21.1.1 Sensitivity analysis – Level 3

in thousands of rands	Fair value gain R'000	Variance R'000	Valuation R'000	Variance %
30 September 2021				
Actual	21 794	-	2 819 018	-
Stressed – worst case	2 179	(2 179)	2 816 839	(0.77)
Stressed – positive case	2 179	2 179	2 821 197	0.77

in thousands of rands	Fair value loss R'000	Variance R'000	Valuation R'000	Variance %
31 March 2021				
Actual	137 572	-	2 038 763	-
Stressed – worst case	13 757	13 757	2 038 763	(0.67)
Stressed – positive case	13 757	(13 757)	2 038 763	(0.67)

Sensitivity analyses were performed on the equity portfolio to determine the possible effect on the fair value adjustment changes should a range of input variables change, e.g. currency, liquidity, etc. These assumptions were built into the applicable valuation models. In calculating the sensitivities for investments, the key input variables were changed by a factor ranging from -10% to +10% and prior year (-18% to +18%). The effect of each change on the value of the investment was disclosed below.

21.1.2 Sensitivity analysis - marketability discounts

in thousands of rands	Base value	10% increase in marketability discount	Fair value – actual	10% decrease in marketability discount
30 September 2021				
Listed				
Level 1	46 009	46 009	46 009	46 009
Unlisted				
Level 2	2 677 745	2 217 946	2 262 061	2 306 177
Level 3	3 479 045	2 756 439	2 819 018	2 881 596
Total	6 202 799	5 020 394	5 127 088	5 233 782
% change in fair value		(2.08)		2.08

For 10% movement in marketability discount rate the fair value change on the equity portfolio was +/-2.08%.

in thousands of rands	Base value	10% increase in marketability discount	Fair value – actual	10% decrease in marketability discount
31 March 2021				
Listed				
Level 1	49 346	49 346	49 346	49 346
Unlisted				
Level 2	2 563 582	2 120 515	2 160 889	2 201 262
Level 3	3 444 430	2 734 071	2 797 224	2 860 376
Total	**6 057 358**	**4 903 932**	**5 007 459**	**5 110 984**
% change in fair value		**(2.07)**		**2.07**

For 10% movement in marketability discount rate the fair value change on the equity portfolio was +/-2.07%.

21.1.3 Sensitivity analysis - foreign exchange rates

in thousands of rands	10% decrease in effective exchange rate	Fair value - actual	10% increase in effective exchange rate
30 September 2021			
Listed			
Level 1			
ZAR	46 009	46 009	46 009
Unlisted			
Level 2			
USD	2 035 855	2 262 061	2 488 267
Level 3			
EUR	484 485	538 317	592 149
USD	252 706	280 785	308 863
ZAR	1 999 916	1 999 916	1 999 916
Total	4 818 971	5 127 088	5 435 204
% Change in fair value	(6.01)		6.01

Currency exchange rate (which is observable) is the single significant lowest level input that drives the fair value of the investments in its entirety and across the DBSA portfolio. For 10% movement in foreign exchange rate the fair value change on the equity portfolio was +/-6.01%. The exchange rates used at measurement date are ZAR/USD at R 15.0884 and ZAR/EUR at R 17.4739.

in thousands of rands	18% decrease in effective exchange rate	Fair value - actual	18% increase in effective exchange rate
31 March 2021			
Listed			
Level 1			
ZAR	49 346	49 346	49 346
Unlisted			
Level 2			
USD	1 782 733	2 160 889	2 539 044
Level 3			
EUR	518 609	628 617	738 625
USD	145 282	176 100	206 917
ZAR	1 992 507	1 992 507	1 992 507
Total	**4 488 477**	**5 007 459**	**5 526 439**
% Change in fair value	**(10.36)**		**10.36**

Currency exchange rate (which is observable) is the single significant lowest level input that drives the fair value of the investments in its entirety and across the DBSA portfolio. For 18% movement in foreign exchange rate the fair value change on the equity portfolio was +/-10.36%. The exchange rates used at measurement date are ZAR/USD at R 14.7665 and ZAR/EUR at R 17.3182.

21.1.4 Discount rate applied

in thousands of rands	Level 1	Level 2	Level 3	Total
30 September 2021				
0% – 12.5%	**46 009**	**4 074**	**75 442**	**125 525**
12.5% – 15.0%	**-**	**-**	**42 448**	**42 448**
15.0% – 16.5%	**-**	**2 257 987**	**1 292 781**	**3 550 768**
20.0% – 22.5%	**-**	**-**	**1 343 443**	**1 343 443**
22.5% – 25.0%	**-**	**-**	**64 904**	**64 904**
Total	**46 009**	**2 262 061**	**2 819 018**	**5 127 088**

in thousands of rands	Level 1	Level 2	Level 3	Total
31 March 2021				
0% – 12.5%	49 346	3 987	-	53 333
12.5% – 15.0%	-	-	58 852	58 852
15.0% – 16.5%	-	2 156 902	1 328 226	3 485 128
20.0% – 22.5%	-	-	1 346 874	1 346 874
22.5% – 25.0%	-	-	63 272	63 272
Total	**49 346**	**2 160 889**	**2 797 224**	**5 007 459**

The Bank may apply a marketability discount to each investment with reference to factors, including but not limited to the following: the location of the investment operations, the passage of time between the Bank's reporting date and the date of the most recent asset or earning-based valuation, investment specific risk factors, general and sectoral economic conditions and their current and projected impact on the investment operations, the relative size of the Bank's proportionate interest, the relative age of the investment (i.e. the investment stage and time to maturity), and recent transactional information or lack thereof, i.e. anticipated ease of liquidation (relating to exits of similar investments). COVID-19 adjustments were factored into each investment discount rate.

21.2 Development loans held at fair value - sensitivity analysis

The most significant inputs affecting the fair value of development loans are ZAR/USD swap rates, ZAR/USD exchange rate and the estimated risk discount factor applied to the value of cash flows due on contractual payment dates. The table below details the changes to the reported fair value which will result in changes to the risk discount factor applied.

in thousands of rands	Base value	10% Increase in risk discount factor	Fair value - Actual	10% Decrease in risk discount factor
30 September 2021				
Level 3	110 577	7 469	17 236	27 004
% Change	-	(56.7)	-	56.7

A 10% movement in the risk discount rate applied results in a fair value change of approximately +/-57%.

in thousands of rands	Base value	10% Increase in risk discount factor	Fair value - Actual	10% Decrease in risk discount factor
31 March 2021				
Level 3	99 566	7 301	16 847	26 394
% Change	-	(56.7)	-	56.7

A 10% movement in the risk discount rate applied results in a fair value change of approximately +/-57%.

21.3 Expected credit losses - sensitivity analysis

21.3.1 Portfolio impairments

The most significant assumptions affecting ECL are GDP, crude oil prices, interest rate and ZAR/USD exchange rate. Detailed in the table below are changes to the ECL that will result from changes in the weightings applied due to changes in the economic indicators used in the Bank's economic variable assumption.

30 September 2021	Actual weight %	Adjusted weight %	Change %	Actual ECL R'000	Adjusted ECL R'000	Change ECL %
Base case	45	50	5	2 378 379	2 642 643	11.11
Worst case	50	45	(5)	4 054 929	3 765 773	(7.13)
Best case	5	5	-	216 106	216 104	-
Stage 1 and 2 weighted ECL				6 649 414	6 624 520	(0.37)
Stage 3 ECL				4 967 055	4 967 055	-
Total ECL				11 616 469	11 591 575	0.2

31 March 2021	Actual weight %	Adjusted weight %	Change %	Actual ECL R'000	Adjusted ECL R'000	Change ECL %
Base case	45	50	5	3 502 129	3 735 174	6.7
Worst case	50	45	(5)	2 588 305	2 329 475	(10.0)
Best case	5	5	-	209 532	209 532	-
Stage 1 and 2 weighted ECL				**6 299 966**	**6 274 181**	**(0.4)**
Stage 3 ECL				5 064 774	5 064 774	-
Total ECL				**11 364 740**	**11 338 955**	**(0.2)**

The following table shows a comparison of the forward-looking impact on the ECL provision based on the probability weightings of the above three scenarios resulting from recalculating each of the scenarios using a 100% rating of the above factors:

Loans 30 September 2021	Applied Weight %	Adjusted Weight %	Unweighted ECL R'000	Difference to weighted ECL R'000	Difference to weighted ECL %
Base case	45	100	11 415 712	(200 757)	(1.7)
Worst case	50	100	11 913 544	297 075	2.6
Best case	5	100	10 452 495	(1 163 974)	(10.0)

Loans 31 March 2021	Adjusted Weight %	Unweighted ECL R'000	Difference to weighted ECL R'000	Difference to weighted ECL %
Base case	100	11 130 399	(234 341)	(2.1)
Worst case	100	11 646 108	281 368	2.5
Best case	100	10 660 119	(704 621)	(6.2)

21.3.2 Sensitivity analysis - single name impairments

In defining the recoverable amounts attributed to distressed/defaulted borrowers, management considers a range of factors attributable to the economy at large as well as the state of affairs of the borrower. Changes resulting from the elevated uncertainty due to the pandemic as well as specific conditions applicable to each borrower may have a significant impact on the value of recoveries and estimation of recoverable amounts involved.

The following table shows a comparison of the impact on the aggregated total of single name ECL provision (stage 3) should the estimated recoverable amounts either increase or decrease by a factor of 10%.

in thousands of rands	10% Decrease in management value R'000	Actual R'000	10% Increase in management value R'000
30 September 2021			
Stage 3 ECL / Single name impairments (incl. POCI)	5 133 066	4 967 055	4 801 047
% change	3.34	-	(3.34)

in thousands of rands	10% Decrease in management value R'000	Actual R'000	10% Increase in management value R'000
31 March 2021			
Stage 3 ECL / Single name impairments (incl. POCI)	5 861 716	5 064 756	5 462 440
% change	15.74	-	7.85

21.4 COVID-19 Impact

21.4.1 Assets Portfolio

(i) Credit models

The base credit models applied in finalising expected credit losses remained consistent with the prior year. No changes were made to the base credit models in the year under consideration in response to COVID-19. The base credit model review commenced in February 2021 but could not be completed by September 2021 and will be finalised in the 2021/22 financial year.

(ii) Forward looking information models

IFRS 9 requires assessment of credit risk to incorporate forward-looking information. Credit models should recognise expected credit losses considering all reasonable and supportable information, including that which is forward-looking. The model methodology was reassessed to determine applicability given the current market conditions. In response to the COVID-19 pandemic, the DBSA Credit Lab revised the Forward-Looking Model based on linear regression methodology. Given the COVID-19 and economic conditions, the linear regression model proved to be unreliable by under and overestimating expected credit losses at various time periods. Linear regression approach limitation is only predicting linear relations between dependent variables. Non-linear methodologies were investigated; and non-parametric regression methods were considered a good option given the shape of the development data. The Generalised Additive Model (GAM), a form of non-parametric regression was utilised to model the effects of macroeconomic factors on the DBSA PDs in order to appropriately determine the expected credit losses. The full extent of the COVID-19 pandemic remains unknown and is still evolving. Management has, however, estimated the impact of COVID-19 on forward-looking information (including modelling default rates associated with COVID-19) using multivariate regression approaches. The estimated impact has been factored into the first three years of the forward-looking information forecasting window and thereafter assumption was made that the probability adjustment will revert to through the cycle (TTC) levels onwards.

(iii) Staging impact

DBSA did not offer blanket payment holidays in response to the COVID-19 pandemic. There was no change of staging automatic triggers in response to the COVID-19 and the Bank applied banking guidance provided where loans with satisfactory performance prior to the COVID-19 outbreak are not automatically changed in terms of IFRS 9 loan staging.

(iv) Forward-looking information impacted by COVID-19

Prior to the advent of the COVID-19 pandemic, the Bank’s standard practice was to use forward-looking information obtained approximately a month before reporting date. This has been consistently applied since with the Bank treating the COVID-19 pandemic and its effects as an adjusting post balance sheet event when the impact is deemed material. Given the continued prevalence of the pandemic, the impact of changes to forward-looking information for August 2021 was reviewed (in a manner consistent with the prior year) using data available as at 30 September 2021 but obtained in early October 2021.

(v) Expansion of the master rating scale

In terms of Principle 10 of Basel Principles of Credit Risk Management, banks are encouraged to develop and utilise internal risk rating systems which should be consistent with the nature, size and complexity of a bank’s activities. DBSA reviewed and expanded the MS17 category of the master scale rating. DBSA master scale limitation has been the broad range of PD between the MS16 and MS17 class with a rapid increase of PD from 12% to 58% based on one risk class migration.

As at 31 March 2020, DBSA reviewed and expanded the MS17 category of the Master scale rating system to allow for better granularity and better provisioning which is responsive to risk migration. The MS17 risk grade was expanded into 4 sub-grades using exponential extrapolation and the additional grades were benchmarked with rating agencies. DBSA has consistently applied the risk rating grades for period ended 30 September 2021.

(vi) Change in weightings

During the period ended 30 September 2021, DBSA increased weightings for the worst case to 50% in expectation of RSA country downgrade and due to the higher probability assigned to worst case, the worst case became the base case. Since IFRS 9 adoption, there has been an overall continuing negative trend on most macroeconomic factors, notwithstanding the reversal in certain high frequency indicators, off the low base caused by the pandemic during the 2021 financial period. As noted, the Bank proactively increased the worst case scenario weighting, as the negative outcomes had a higher probability. The Bank ran various scenario analyses and stress testing of the expected credit losses, and the summary below shows results from selected stress testing and adjustments to the assigned worst case scenario weighting:
» Increase in worst case by 5% causes ECL to increase by approximately 0.2%;
» Increase in worst case by 10% causes ECL to increase by approximately 0.4%; and
» Increase in worst case by 15% causes ECL to increase by approximately 0.6%.

(vii) IFRS 9 post-implementation plan

After successful embedment of IFRS 9 over the preceding three financial reporting periods, the Bank's post implementation review project is currently underway. The Bank has identified a number of key focal areas and the project has been delineated into corresponding workstreams, each with a working group established to deal with each focus area. As part of the review, the Bank seeks to continue compliance with best practice in a manner commensurate with its internal risk and governance approach. Any required changes or updates to internal policies and/or processes are subject to approval under the Bank's applicable governance framework.

21.4.2 Liabilities Portfolio

(i) Liquidity risk management

The Bank primarily sources funding from lines of credit, debt capital market and repurchase agreements. The Bank has enhanced its liquidity management process and established a dedicated Exco subcommittee. In addition, the Bank has increased the frequency of cash flow forecasting using different scenarios and assumptions. The Bank experienced an increase in the cost of raising new liquidity considering the COVID-19 impact on markets and ability to raise long term funding. There has been no default or breaches relating to the borrowings recognised during and at the end of the reporting period. Apart from the challenges in the domestic market, the Bank foreign currency borrowing limit was approved at a higher limit and this enabled DBSA to raise funding in the international markets. The Bank's cash and cash equivalents is R6.7bn (31 March 2021: R9bn).

(ii) Hedging

The Bank continues to apply the provision of IFRS 9 in the management of risks associated with hedging activities. The Bank continues to use various derivative instruments for risk management and there was no change in the derivative instruments used for risk management.

In applying hedge accounting, the Bank has considered appropriateness of the cash flow hedge accounting and concluded that forecast transactions remain highly probable. The Bank's cash flow hedges comprise predominantly currency swaps and currency options. These are highly probable transactions for which there is a minimal risk of uncertainty and these instruments have been effective in managing currency risk.

Post reporting period there has been no reclassification of irrecoverable loss from the cash flow hedge reserve to profit or loss. The currency swaps are 100% effective and the time value of money component of currency options is recognised in cash flow reserve.

21.5 Reference rate reform

The Bank is exposed to market risk associated with the following interest rate benchmarks in its hedge accounting relationships and contractual agreements: JIBAR, LIBOR and EURIBOR, which extend beyond 2021. In response to the interest rate benchmark transition, the Bank has commenced with the reference rate reform preparation work and plan. Various groups have been established, which are comprising various skills sets and professionals across the Bank. These include Finance, Treasury and Balance Sheet Management, Group Risk Assurance, Transacting, Coverage, Financing Operations, Internal Audit, ICT, Strategy and Economics. The workstreams are conducting a gap analysis and are closely monitoring the market and output from the various industry working groups in managing the transition to new benchmark interest rates. In addition, training sessions have been held. In light of the amendments issued by the IASB to IFRS 9/IAS 39 which provides relief to all hedging relationships that are directly affected by interest rate benchmark reform, the Bank will continue to apply the phase 1 amendments to IFRS 9/IAS 39.

22. Related parties

The Bank is a Schedule 2 public entity 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 National Treasury (the shareholder), is the parent of the Bank and exercises ultimate control.

Frandevco was deregistered in June 2021.

23. Contingencies

Contingent liabilities

The Bank operates in a legal and regulatory environment that exposes it to litigation risks. As a result the Bank is involved in disputes and legal proceedings which arise in the ordinary course of business. The Bank does not expect the ultimate resolution of any of the proceedings to have a significant adverse effect on the financial position of the Bank. The Bank has assessed the contingent liabilities based on information at balance sheet date and has concluded that the possibility of an outflow of economic benefits is remote. Therefore no contingent liabilities have been disclosed.

in thousands of rands	30 September 2021 Reviewed	31 March 2021 Audited
24. Commitments		
Capital commitments	116 906	150 081
Development expenditure	19 624	19 624
Development loan commitments	11 440 363	5 232 294
Equity investments commitments	722 585	730 403
Project preparation expenditure	145 771	141 751
Gross carrying amount	**12 445 249**	**6 274 153**
Less provision for expected credit losses	(9 365)	(126)
Net commitments at end of the period	**12 435 884**	**6 274 027**

The table below shows the reconciliation of the opening balance to the closing balance of development loan commitments gross carrying amount and provision for expected credit losses for 30 September 2021:

in thousands of rands	Stage 1	Stage 2	Stage 3	Fair value	Total
Reconciliation of carrying amount					
Balance at beginning of the year	4 067 578	450 612	713 965	139	5 232 294
New loan commitments issued	11 807 188	1 518 050	-	-	13 325 238
Disbursements	(5 839 725)	(1 095 219)	(2 516)	-	(6 937 460)
Withdrawals	(208 140)	4 684	8 612	-	(194 844)
Foreign exchange losses	23 131	(8 354)	355	3	15 135
Balance as at end of the period	9 850 032	869 773	720 416	142	11 440 363

in thousands of rands	Stage 1	Stage 2	Stage 3	Total
Reconciliation of provision for expected credit losses				
Balance at beginning of the year	125	1	-	126
Transfer from Stage 1 to Stage 2	-	-	-	-
New loan commitments issued	2 932	2 509	-	5 441
Withdrawals	-	-	-	-
Subsequent changes in expected credit losses due to changes in risk parameters (PDs, LGDs, EAD)	3 798	-	-	3 798
Balance as at end of the period	6 855	2 510	-	9 365

Expected credit losses

Expected credit losses recognised in the income statement	**6 730**	**2 509**	**-**	**9 239**

The table below shows the reconciliation of the opening balance to the closing balance of development loan commitments gross carrying amount and provision for expected credit losses for 31 March 2021:

in thousands of rands	Stage 1	Stage 2	Stage 3	Fair value	Total
Reconciliation of carrying amount					
Balance at beginning of the year	6 362 720	-	1 250 258	168	7 613 146
Transfer from stage 1 to stage 2	(182 715)	182 715	-	-	-
New loan commitments issued	9 358 991	3 109 114	-	-	12 468 105
Disbursements	(10 700 003)	(2 752 307)	(7 093)	-	(13 459 403)
Withdrawals	70 292	(4 684)	(500 391)	-	(434 783)
Foreign exchange gains	(841 707)	(84 226)	(28 809)	(29)	(954 771)
Balance as at end of the year	**4 067 578**	**450 612**	**713 965**	**139**	**5 232 294**

in thousands of rands	Stage 1	Stage 2	Stage 3	Total
Reconciliation of provision for expected credit losses				
Balance at beginning of the year	7 110	-	-	7 110
Transfer from stage 1 to stage 2	(102)	102	-	-
New loan commitments issued	125	1	-	126
Withdrawals	(12)	-	-	(12)
Subsequent changes in expected credit losses due to changes in risk parameters (PDs, LGDs, EAD)	(6 996)	(102)	-	(7 098)
Balance as at end of the year	**125**	**1**	**-**	**126**

Expected credit losses

Expected credit losses recognised in the income statement	**(6 984)**	**-**	**-**	**(6 984)**

in thousands of rands	30 September 2021 Reviewed	31 March 2021 Audited
25. Irregular, fruitless and wasteful expenditure		
25.1 Irregular expenditure		
Balance at beginning of the year	766	2 744
Incurred in the current period	-	608
Condoned	(203)	(2 586)
Balance at end of the period	**563**	**766**
Details of irregular expenditure		
Contract increased in expenditure due to increase in scope	-	45
Contracts continued post expiry date	-	563
Total	**-**	**608**

Contract increased in expenditure due to increase in scope

Occurred during the previous year and appropriate corrective measures were applied to address this irregularity.

Contracts continued post expiry date

The process to seek condonation is work in progress as at 30 September 2021.

26. Events after the reporting period

There were no material adjusting events after the reporting date.

27. Directors

Appointments

The Board, with the concurrence of the shareholder, has elected Prof Mark Swilling as the Interim Chairperson of the DBSA Board, with effect from 22 September 2021 until the conclusion of the appointment process of the new Chairperson by the DBSA Board. This election as interim chair was due to Mr. Enoch Godongwana's resignation as an independent non-executive director and chair of the DBSA Board ("Board") following his appointment as Minister of Finance.

The Board has appointed Ms. Pinkie Nqeto as the Chairperson of the Social and Ethics Committee, with effect from 22 September 2021. Ms Nqeto's appointment was to fill a vacancy that arose following the resignation of Ms. Zanele Monnakgotla from DBSA Board and its committees.

28. Independent review by auditors

These Condensed Interim Financial Statements have been reviewed by Auditor General of South Africa who expressed a conclusion on the Condensed Interim Financial Statements. A copy of the auditor's review conclusion is available for inspection at the registered office of the Bank.

ABBREVIATIONS AND ACRONYMS

ALCO	Assets & Liability Management Committee
COVID-19	Coronavirus disease 2019
CPI	Consumer Price Index
CVA	Credit value adjustment
DBSA	Development Bank of Southern Africa Limited
DVA	Debit value adjustment
EAD	Exposure at default
ECL	Expected credit loss
EIR	Effective interest rate
ERR	Early risk review
FVTPL	Fair value through profit or loss
GDP	Gross domestic product
IASB	International Accounting Standards Board
ICT	Information and communications technology
IDD	Infrastructure Delivery Division
IFRS	International Financial Reporting Standards
JSE	Johannesburg Stock Exchange
LGD	Loss given default
NAV	Net asset value
NCD	Negotiable certificate of deposit
NII	Net interest income
NPL	Non-performing loans
OCI	Other comprehensive income
PD	Probability of default
PFMA	Public Finance Management Act, No. 1 of 1999
POCI	Purchased or originated credit impaired
ROE	Return on equity
SADC	Southern African Development Community
SARB	South African Reserve Bank
SICR	Significant increase in credit risk
SMME	Small, medium and micro enterprises
SOC	State-owned company
SPPI	Solely payments of principal and interest
SOE	State-Owned Entity

www.dbsa.org

Image: Rehabilitating, improving and normal maintenance of roads are some of the services provided by the Infrastructure Delivery Division to municipalities.