DBSA
DEVELOPMENT BANK OF SOUTHERN AFRICA
Building Africa's Prosperity

ANNUAL FINANCIAL STATEMENTS

Building Africa's Prosperity

REPORT NAVIGATION

Our reporting suite for the year ended 31 March 2021 consists of three reports.

IAR — The **2021 Integrated Annual Report**, which is our primary communication with our stakeholders.

AFS — The **2021 Annual Financial Statements**, which includes the directors' report and the independent auditor's report.

SR — The **2021 Sustainability Review**, which provides further information on our sustainability performance.

CONTENTS

CHIEF EXECUTIVE OFFICER AND CHIEF FINANCIAL OFFICER RESPONSIBILITY STATEMENT

FOR THE YEAR ENDED 31 MARCH 2021

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

a) The Annual Financial Statements set out on pages 17 to 135, fairly present in all material respects the financial position, financial performance and cash flows of the Bank in terms of IFRS;

b) No facts have been omitted or untrue statements furnished that would make the Annual 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 Annual Financial Statements; and

d) The internal financial controls are adequate and effective and can be relied upon in compiling the Annual Financial Statements.

Patrick Khulekani Dlamini
Chief Executive Officer

Boitumelo Mosako
Chief Financial Officer

DIRECTORS' RESPONSIBILITY FOR FINANCIAL REPORTING

FOR THE YEAR ENDED 31 MARCH 2021

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

In preparing the Annual 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);
- The Public Finance Management Act, No. 1 of 1999 (PFMA);
- International Financial Reporting Standards (IFRS);
- 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 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 Annual Financial Statements and to safeguard, verify and maintain the accountability of the Bank's assets;
- Appropriate accounting policies, supported by reasonable and prudent judgements and estimates, are applied on a consistent and going concern basis;
- The Audit and Risk Committee, as well as the internal auditors, review the financial and internal control systems, accounting policies, reporting and disclosure; and
- Internal audit performed a review on the adequacy and effectiveness of the internal controls and systems implemented by management in the financial reporting processes (month end and year end). The assessment included governance, risk management and control environment in the three process descriptions (other financial accounts, financial assets and liabilities, and development assets and liabilities). Segregation of duties, management reviews, delegations of authority and appropriate approval committees' processes were also assessed. The review did not include the assessment of the Annual Financial Statements assertions (accuracy, occurrence, completeness, cut-off, rights and obligations, disclosure, etc.) per the individual accounts in the trial balance. This was performed by the external auditor.

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

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

The Annual Financial Statements that appear on pages 17 to 135 were approved by the Board of Directors on 15 July 2021 and are signed on its behalf by:

Enoch Godongwana
Chairman of the Board

Patrick Khulekani Dlamini
Chief Executive Officer

Martie Janse Van Rensburg
Chairman of the Audit and Risk Committee

REPORT OF THE AUDITOR-GENERAL TO PARLIAMENT ON THE DEVELOPMENT BANK OF SOUTHERN AFRICA

FOR THE YEAR ENDED 31 MARCH 2021

Report on the audit of the Annual Financial Statements

Opinion

1. I have audited the Annual Financial Statements of the Development Bank of Southern Africa (hereafter referred to as the "Bank") set out on pages 17 to 135, which comprise the statement of financial position as at 31 March 2021, the statement of comprehensive income, statement of changes in equity, and statement of cash flows as well as notes to the Annual Financial Statements, including a summary of significant accounting policies.
2. In my opinion, the Annual Financial Statements present fairly, in all material respects, the financial position of the Development Bank of Southern Africa as at 31 March 2021, and its financial performance and cash flows for the year then ended in accordance with the requirements of the International Financial Reporting Standards (IFRS), the requirements of the Public Finance Management Act of South Africa, No. 1 of 1999 (PFMA), Development Bank of Southern Africa Act, No. 13 of 1997 (Amended Act No. 41 of 2014) (DBSA Act) and sections 27 to 31 of the Companies Act of South Africa, No. 71 of 2008 (the Companies Act).

Basis for opinion

3. I conducted my audit in accordance with the International Standards on Auditing (ISAs). My responsibilities under those standards are further described in the Auditor-General's responsibilities for the audit of the Annual Financial Statements section of my report.
4. I am independent of the Bank in accordance with the International Ethics Standards Board for Accountants' (IESBA Code), International Code of Ethics for Professional Accountants (including International Independence Standards) as well as other ethical requirements that are relevant to my audit in South Africa. I have fulfilled my other ethical responsibilities in accordance with these requirements and the IESBA Code.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Key audit matters

6. Key audit matters are those matters that, in my professional judgement, were of most significance in my audit of the Annual Financial Statements for the current period. These matters were addressed in the context of my audit of the Annual Financial Statements as a whole and in forming my opinion, and I do not provide a separate opinion on these matters.

Key audit matter	How the matter was addressed in the audit
Expected credit losses on development loans	
The Bank determines the expected credit loss (ECL) relating to development loans in line with the requirements of IFRS 9 *Financial instruments*. The determination of expected credit losses is complex and requires a high level of judgement and assumptions. The Bank uses various models and assumptions in estimating the ECL. 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. The Bank uses a series of quantitative and qualitative criteria to determine if a loan has experienced significant increase in credit risk. The Bank incorporates forward-looking information (FLI) into both its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL. The ECL is measured as the probability-weighted present value of all cash shortfalls over the expected life of the financial asset, discounted at its original effective interest rate. The mechanics of the ECL includes the Probability of Default (PD) which is an estimate of the likelihood of default over a given time horizon, the Exposure at Default (EAD) is an estimate of the exposure at a future default date, considering expected changes in the exposure after the reporting date and the Loss Given Default (LGD) is an estimate of the loss arising in the case where default occurs at a given time.	In line with the requirements of ISA 540 (Revised), we performed: » enhanced risk assessment procedures relating to obtaining an understanding of the expected credit losses; and » separate risk assessment procedures for inherent risk and control risk relating to expected credit losses and its related disclosures using the principles from IFRS 9. As per requirements of ISA 540 (Revised) and in conjunction with ISA 330, a combined audit approach was followed as a response to the risk identified in expected credit losses on development loans. Our audit procedures included assessing the appropriateness of the expected credit losses in terms of the requirements of IFRS 9. We evaluated the design, implementation and the operating effectiveness of the following controls: » The governance processes in place for credit models, inputs, and overlays (addition or reduction in impairments that are over and above the numbers generated by the impairment models); » The post-investment monitoring forums where key judgements are considered; and » How the Accounting Authority ensured they have appropriate oversight over expected credit losses. We assessed whether the controls relating to annual credit reviews were performed by management in accordance with the Bank's policy by comparing the policy requirements against what was applied during the year and assessed whether the conclusions reached were appropriate.

Key audit matter	How the matter was addressed in the audit

Expected credit losses on development loans

Key audit matter

The Bank utilises a multivariate non-linear generalised additive model "GAM" 9 as the forward-looking information (FLI). The model was developed using historical macroeconomic variables (MEVs) and the historical Bank Observed Default Rates (ODRs), ranging from December 2013 to March 2021.

Probability of default; incorporates future-looking information that is impacted by the ailing economy because of the severe pressures posed by COVID-19. COVID-19 presents an unknown future and management is expected to estimate and provide assumptions on the expected credit losses considering the impact of COVID-19 in the future. In the current financial year, the Bank developed an in-house macroeconomic model which replaced the Econometrix model. The Bank is reviewing its base credit models and the full impact of the model calibration will be completed in the next financial year.

Loss given default is determined on the historical default rates of the Bank's clients. Adjustments may be required given the COVID-19 impact on the future.

In the current year, the Bank provided for an additional IFRS 9 overlay of approximately R1.9 billion in response to the base model output that recommended a reversal of the expected credit losses. The additional overlay was to account for the base model reversals for the high-risk countries and industries with deteriorating economic profiles.

The disclosures associated to the allowance for credit losses on development loans are set out in the following notes of the Annual Financial Statements:

» Note 14 – Development loans at amortised cost
» Note 42 – Risk management

Due to the high degree of estimation, management judgement and magnitude of the development loans, which constituted majority of total assets, the allowance for credit losses is considered a matter of most significance for our audit.

How the matter was addressed in the audit

We critically considered the significant increase in credit risk triggers and assumptions applied by management in determining expected credit losses for both performing and non-performing loans, and their assessment of the recoverability and supporting collateral. We found management's estimate to be within a reasonable range to our expectations.

We engaged an auditors' expert to assess the appropriateness and reasonableness of the credit risk models and assumptions used by management in determining the expected credit losses.

An assessment of the independence and competence of the expert was performed in line with ISA 620.

The expert's assessment included the following:

» The reasonableness of probability of default ("PD"), loss given default ("LGD") and exposure at default ("EAD");
» The reasonableness of the Bank's forward-looking economic scenarios, including identifying whether the Bank has appropriately considered reasonably available pertinent information and considered contradictory information;
» Review of forecast macroeconomic variables considering the impact of COVID-19 crisis;
» Additional sensitivity tests were performed on the forward-looking component of the model to assess the impact the COVID-19 scenario could have on the loan book;
» Attention has been given to the impact which COVID-19 has had on the portfolio, whilst also making use of industry benchmarking of the average through-the-cycle PDs and IFRS 9 LGD which have been assigned; and
» Recalculation of the expected credit losses.

Based on work performed by the auditor's expert, we found management's credit risk models and assumptions used to determine the expected credit losses to be reasonable and consistent with our expectations. We have determined management's estimate to be within a reasonable range to our expectations including the overlays applied.

Independent recalculation of expected credit losses was also performed to determine a reasonable range per country. The recalculated range was evaluated against the Bank expected credit losses per country, pre and post-overlay. Qualitative assessments of the overlay were performed to assess whether the considerations were specific to a business partner or were industry/country specific. The significant increase in credit risk (SICR) assessments also took into account the impact of business partners' specific overlays.

We have assessed the IFRS 9 and IFRS 7 disclosures included in the Annual Financial Statements, and we are satisfied that the disclosures are consistent with the explicit requirements of IFRS.

<table>
<tr><th>Key audit matter</th><th>How the matter was addressed in the audit</th></tr>
<tr><td colspan="2">Derivative assets/liabilities held for risk management</td></tr>
<tr><td>There is a risk of incorrect valuation of derivatives at fair value because of the level of judgement required and complexity of assumptions used in determining the appropriate valuation techniques.

Valuation of derivatives requires significant judgement in determining the appropriate valuation techniques to apply. Fair value calculations are dependent on various sources of external and internal data and on sophisticated modelling techniques used to value derivative financial instruments.

Due to the significance of the judgements made in determining the fair value of the complex financial instruments and the extent of work required to address this matter, this has been identified as a matter of most significance in the current year audit of the Annual Financial Statements.

In measuring the fair value of the derivatives, the Bank considers credit value adjustments (CVA) and debit value adjustments (DVA). CVA is the adjustment made to the value of a derivative to provide for the probability of a counterparty defaulting (adjustments for the credit risk of the derivative counterparty) (CVA). DVA is the adjustment made to provide for the probability of the holder of the derivative's own default for the credit risk of the derivative counterparty (the Bank's own credit risk).

The disclosures associated with derivatives are set out in the following notes:
» Note 8.1 – Derivative assets held for risk management purposes
» Note 8.2 – Derivative liabilities held for risk management purposes</td><td>In terms of the requirements of ISA 540 (Revised), we performed separate risk assessment procedures for inherent risk and control risk relating to derivatives and its related disclosures will be performed using the principles of IFRS 13.

As per requirements of ISA 540 in conjunction with ISA 330 a combined audit approach was followed as a response to the risk identified in derivatives through profit or loss.

Our audit procedures included assessing the appropriateness of the valuation technique used by management to value derivatives.

We engaged an auditors' expert to assess the appropriateness and reasonableness of the assumptions used by management in determining the valuation of derivatives.

An assessment of the independence and competence of the expert was performed in line with ISA 620.

The expert's assessment includes the following:
» A valuation review of the derivative instruments held by the Bank; and
» the calculation of fair value adjustments i.e. Credit Value Adjustments ("CVA") and Debit Valuation Adjustments ("DVA") on a portfolio level, including the assumptions and methodology used in determining the CVA and DVA adjustments.

We evaluated the design, implementation and the operating effectiveness of controls over the appropriateness of data and inputs used in the valuation of complex financial instruments.

For a sample of derivatives, and with the assistance of an auditor's expert, we assessed the valuation models against an independent model. We performed an independent recalculation of the fair values of derivative asset/liability positions.

We evaluated the independence and competence of the expert in line with ISA 620.

We assessed the completeness, accuracy, and adequacy of the disclosures.

We found management's valuation of the derivative to be within range and consistent with our expectations.</td></tr>
<tr><td colspan="2">Valuation of equity investments held at fair value through profit or loss</td></tr>
<tr><td>The Bank measures equity investments at fair value through profit or loss.

The portfolio of equity investments held does not have an active market and as a result, the Bank uses valuation techniques to establish what the transaction price would be in the principal (or most advantageous) market between market participants at the measurement date.

The Bank uses the net asset values (NAV) in determining the fair value of the equity investments. Management further applies marketability discounts to adjust for risk attached to each investment.

The determination of net asset value using fair value techniques includes estimates that are susceptible to management judgement and bias that may result in risk of misstatement.</td><td>In terms of the requirements of ISA 540 (Revised), we performed separate risk assessment procedures for inherent risk and control risk relating to equity investments and its related disclosures will be performed using the principles of IFRS 13.

As per requirements of ISA 540 in conjunction with ISA 330, a combined audit approach was followed as a response to the risk identified in equity investments through profit or loss.

Our audit procedures included assessing the appropriateness of the valuation technique used by management to value equity investments held at fair through profit or loss, including performing a reasonability test on the use of the net asset value valuation technique and applying marketability discounts based on comparable industry norms and practices.

We evaluated the design, implementation and where possible, the operating effectiveness of the governance processes in place to approve the valuation of equity investments.</td></tr>
</table>

Key audit matter	How the matter was addressed in the audit
Valuation of equity investments held at fair value through profit or loss (continued)	
Due to the significance of the judgements made in determining the fair value of the equity investments and the extent of work required to address this matter, this has been identified as a matter of most significance in the current year's audit of the Annual Financial Statements. Equity investments held at fair value consist of direct investments in equity and third party managed funds. Market references are normally used to measure the instruments, which required COVID-19 specific adjustments to some of the equity investment, which may be highly subjective, i.e. resale transactions, marketability discounts/ premiums, cost of debt, etc. The disclosures associated to the equity investments held at fair value through profit or loss are set out in the following note: » Note 11 – Equity investments held at fair value through profit or loss.	We obtained third-party confirmations from fund managers to confirm the participatory interest of the Bank in the fund. We evaluated the applicability of the three methods that can be used to fair value private equity, namely the income approach, market approach and net asset approach. Based on the nature of the investments held by the Bank, we concluded that the net asset value approach adopted by management is appropriate to value the equity investments. We evaluated the reasonability of the NAV and the marketability discount taking into account the impact of COVID-19. We evaluated the competency and objectivity of the fund managers who provided the underlying valuations of the investments. Where available, we assessed the reasonableness of the fund statement by comparing the valuations to the audited fund Annual Financial Statements. We assessed the appropriateness of adjustments made by the Bank to the fund's statement values by conducting independent market benchmarks.

Responsibilities of the Accounting Authority for the Annual Financial Statements

7. The Board of Directors, which constitutes the Accounting Authority is responsible for the preparation and fair presentation of the Annual Financial Statements in accordance with IFRS and the requirements of the PFMA, and for such internal control as the Accounting Authority determines is necessary to enable the preparation of Annual Financial Statements that are free from material misstatement, whether due to fraud or error.

8. In preparing the Annual Financial Statements, the Accounting Authority is responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the appropriate governance structure either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

Auditor-General's responsibilities for the audit of the Annual Financial Statements

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

10. A further description of my responsibilities for the audit of the Annual Financial Statements is included in the annexure to this auditor's report.

Report on the audit of the annual performance report

Introduction and scope

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

12. My procedures address the usefulness and reliability of the reported performance information, which must be based on the entity's approved performance planning documents. I have not evaluated the completeness and appropriateness of the performance indicators included in the planning documents. My procedures do not examine whether the actions taken by the entity enabled service delivery. My procedures do not extend to any disclosures or assertions relating to the extent of achievements in the current year or planned performance strategies and information in respect of future periods that may be included as part of the reported performance information. Accordingly, my findings do not extend to these matters.

13. I evaluated the usefulness and reliability of the reported performance information in accordance with the criteria developed from the performance management and reporting framework, as defined in the general notice, for the following selected objectives presented in the entity's annual performance report for the year ended 31 March 2021:

Objectives	Pages in the annual performance report
Objective 1 – Accelerating development impact and Smart partnership	15 – 16

REPORT OF THE AUDITOR-GENERAL TO PARLIAMENT ON THE DEVELOPMENT BANK OF SOUTHERN AFRICA (continued)

FOR THE YEAR ENDED 31 MARCH 2021

14. I performed procedures to determine whether the reported performance information was properly presented and whether performance was consistent with the approved performance planning documents. I performed further procedures to determine whether the indicators and related targets were measurable and relevant, and assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
15. I did not identify any material findings on the usefulness and reliability of the reported performance information for this objective:
    » Accelerating development impact and Smart partnership

Other matter

16. I draw attention to the matter below.

Achievement of planned targets

Refer to the annual performance report on pages 14 to 16 for information on the achievement of planned targets for the year.

Report on the audit of compliance with legislation

Introduction and scope

17. In accordance with the PAA and the general notice issued in terms thereof, I have a responsibility to report material findings on the Bank's compliance with specific matters in key legislation. I performed procedures to identify findings but not to gather evidence to express assurance.
18. I did not identify any material findings on compliance with the specific matters in key legislation set out in the general notice issued in terms of the PAA.

Other information

19. The Accounting Authority is responsible for the other information. The other information comprises the information included in the annual report, which includes the Directors' report and the Audit and Risk Committee's report The other information does not include the Annual Financial Statements, the auditor's report and those selected objectives presented in the annual performance report that have been specifically reported in this auditor's report.
20. My opinion on the Annual Financial Statements and findings on the reported performance information and compliance with legislation do not cover the other information and I do not express an audit opinion or any form of assurance conclusion on it.
21. In connection with my audit, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the Annual Financial Statements and the selected objectives presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.

Internal control deficiencies

22. I considered internal control relevant to my audit of the Annual Financial Statements, reported performance information and compliance with applicable legislation; however, my objective was not to express any form of assurance on it. I did not identify any significant deficiencies in internal control.

Material irregularities

23. In accordance with the PAA and the Material Irregularity Regulations, I have a responsibility to report on material irregularities identified during the audit and on the status of the material irregularities reported in the previous year's auditor's report.
24. There were no material irregularities identified during the current year.

Other reports

25. I draw attention to the following engagements conducted by various parties which had, or could have, an impact on the matters reported in the Bank's Annual Financial Statements and compliance with applicable legislation and other related matters. These reports did not form part of my opinion on the Annual Financial Statements or compliance with legislation.
26. The Bank instituted a forensic investigation on the loans granted to the group of companies to establish if the internal policies and procedures were followed during the origination and monitoring process. The investigation was finalised and the Bank is in the process of implementing the recommendations.

Auditor-General

Pretoria

19 July 2021

AUDITOR-GENERAL
SOUTH AFRICA

Annexure – Auditor-General's responsibility for the audit

1. As part of an audit in accordance with the ISAs, I exercise professional judgement and maintain professional scepticism throughout my audit of the Annual Financial Statements and the procedures performed on reported performance information for selected objectives and on the Bank's compliance with respect to the selected subject matters.

Annual Financial Statements

2. In addition to my responsibility for the audit of the Annual Financial Statements as described in this auditor's report, I also:
   - identify and assess the risks of material misstatement of the Annual Financial Statements, whether due to fraud or error; design and perform audit procedures responsive to those risks; and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control;
   - obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control;
   - evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors, which constitutes the Accounting Authority;
   - conclude on the appropriateness of the accounting authority's use of the going concern basis of accounting in the preparation of the Annual Financial Statements. I also conclude, based on the audit evidence obtained, whether a material uncertainty exists relating to events or conditions that may cast significant doubt on the ability of the Development Bank of Southern Africa to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the Annual Financial Statements about the material uncertainty or, if such disclosures are inadequate, to modify my opinion on the Annual Financial Statements. My conclusions are based on the information available to me at the date of this auditor's report. However, future events or conditions may cause the Bank to cease operating as a going concern; and
   - evaluate the overall presentation, structure and content of the Annual Financial Statements, including the disclosures, and determine whether the Annual Financial Statements represent the underlying transactions and events in a manner that achieves fair presentation.

Communication with those charged with governance

3. I communicate with the Accounting Authority regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

4. I also provide the Accounting Authority with a statement that I have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on my independence and, where applicable, actions taken to eliminate threats or safeguards applied.

5. From the matters communicated to those charged with governance, I determine those matters that were of most significance in the audit of the Annual Financial Statements for the current period and are therefore key audit matters. I describe these matters in this auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, I determine that a matter should not be communicated in this auditor's report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest of such communication.

DIRECTORS' REPORT

FOR THE YEAR ENDED 31 MARCH 2021

The directors have pleasure in presenting this report on the Annual Financial Statements of Development Bank of Southern Africa (DBSA) for the year ended 31 March 2021.

Nature of business

The Bank was reconstituted in terms of the Development Bank of Southern Africa Act, No. 13 of 1997 (Amended Act, No. 41 of 2014), as a development finance institution wholly owned by the South African Government. The geographic mandate of the Bank has been extended beyond the Southern African Development Community (SADC) to any country on the African continent and its oceanic islands. The Bank aims to deepen its development impact in South Africa, SADC and the rest of the African continent by expanding access to development finance while effectively integrating and implementing sustainable development solutions. Since being founded in 1983, the Bank has expanded its role to serve as financier, adviser, partner, implementer and integrator to the benefit of its clients and communities. There have been no material changes to the nature of the business from the prior years.

Corporate governance

The directors embrace the principles of King IV and the Companies Act and endeavour to comply with these recommendations as far as they are not in conflict with the DBSA Act. During the year under review, the Financial Sector Conduct Authority published the approval of amendments to the JSE Debt Listings Requirements aimed at a fair, efficient and transparent debt capital market. The amended requirements had various effective dates and as at year end the Bank has complied with the JSE Debt Listings Requirements.

Financial results and activities

The financial results of the Bank are fully disclosed on pages 17 to 135. The key financial indicators for the year under review are:

- » Net profit of R1.4 billion (31 March 2020: R504 million);
- » Sustainable earnings of R2.3 billion (31 March 2020: -R587 million);
- » Net interest income increased by 11% to R4.9 billion (31 March 2020: R4.4 billion);
- » Expected credit losses on financial assets at amortised cost R1.2 billion (31 March 2020: R3.6 billion);
- » Operating income increased by 8% to R5.1 billion (31 March 2020: R4.7 billion);
- » Cost to income ratio improved to 25% (31 March 2020: 28%);
- » Cash flow generated from operations increased to R4.5 billion (31 March 2020: R3.6 billion);
- » Total assets decreased by 0.4% to R100.0 billion (31 March 2020: to R100.5 billion);
- » Development loans and equity disbursements amounted to R13.6 billion (31 March 2020: R15.7 billion);
- » ROE on sustainable earnings 6.0% (31 March 2020: -1.6%);
- » ROE on net profit 3.7% (31 March 2020: 1.3%);
- » Debt-to-equity ratio excluding R20 billion callable capital of 152% (31 March 2020: 165%); and
- » Debt-to-equity ratio including R20 billion callable capital 101% (31 March 2020: 108%). Callable capital is authorised shares but not yet issued. Debt-to-equity ratio is within the Bank's regulatory limit of 250%.

Summarised information on the financial performance of the Bank is included in the unaudited financial overview section in the Integrated Annual Report

Risks and uncertainties associated with COVID-19 pandemic on the Bank's activities and the potential impact on the Bank

As explained in note 42 in the Annual Financial Statements, the COVID-19 outbreak and resulting measures taken by various governments to contain the virus negatively affected our business. The global spread of COVID-19 created an unprecedented health and economic crisis, which saw most countries closing borders and implementing lockdown measures to contain the spread of the virus. The economic fallout from the pandemic necessitated the implementation of unconventional monetary and fiscal policy measures across the world. In addition to the already known effects, the macroeconomic uncertainty caused disruption to economic activities and it is unknown what the long term impact would be on the Bank's operations. However, in South Africa an infrastructure-led recovery was identified as an important driver of the post-lockdown recovery plan.

As at year end, 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 asset managers.

Dividend

During the current financial year the development dividend policy was approved at the Bank's Annual General Meeting. The development dividend means the Bank annually commits to spend a portion of its sustainable earnings towards non-return generating development interventions.

Share capital

Authorised capital amounts to R20.2 billion, which is divided into two million and twenty thousand ordinary shares of R10 000 each. The Board may from time to time, with the approval of the shareholders previously given at a meeting of shareholders, increase the issued share capital of the Bank. The Minister may, after consultation with the Board and by notice in the Gazette, adjust the amount of the authorised share capital of the Bank and the number of ordinary shares.

Authorised capital

2 020 000 ordinary shares (2020: 2 020 000) at par value of R10 000 each.

Callable capital (authorised but unissued share capital)

2 000 000 ordinary shares (2020: 2 000 000) at a par value of R10 000 each.

Issued share capital

20 000 ordinary shares (2020: 20 000) at a par value of R10 000 each.

Going concern

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

Borrowing powers

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

Overall borrowing limit (R billion)	Limit	Borrowing
Regulatory per DBSA Act	94	52
Annual borrowing programme	20	2.4*
Foreign currency borrowing	33	25
Domestic Medium Term Note Programme per JSE	80	26

* The net raised of R2.4 billion was made during the year (2020: R5.8 billion).

Directorate and Secretariat

Details pertaining to the names of Board members and the Secretariat appear in the Integrated Annual Report.

Non-executive directors are subject to retirement by rotation. They hold office for a period of three years and are eligible for reappointment. Non-executive directors are eligible for appointment for a maximum of three terms. Details of the directors' current service contracts are shown in the table below.

Name	Position	Number of terms served (including current term)	Current service contract	
			From	To
Current				
Mr PK Dlamini	Chief Executive Officer and Managing Director	2	1 September 2017	31 August 2022
Ms B Mosako	Chief Financial Officer	non-applicable	1 April 2018	until such time she ceases to hold office as CFO
Mr E Godongwana	Independent Non-executive Director, Chairman	1	1 April 2019	31 March 2022
Prof M Swilling[1]	Independent Non-executive Director, Deputy Chairman	3	2 October 2020	1 October 2023
Ms M Janse Van Rensburg	Independent Non-executive Director	2	1 April 2019	31 March 2022
Adv M Kganedi[2]	Independent Non-executive Director	1	2 October 2020	1 October 2023
Mr G Magomola[2]	Independent Non-executive Director	1	2 October 2020	1 October 2023
Mr P Matji[2]	Independent Non-executive Director	1	2 October 2020	1 October 2023
Mr B Mudavanhu[1]	Independent Non-executive Director	2	2 October 2020	1 October 2023
Ms M Nqaleni	Shareholder Representative	2	1 April 2019	31 March 2022
Ms P Nqeto[1]	Independent Non-executive Director	2	2 October 2020	1 October 2023
Mr B Nqwababa[2]	Independent Non-executive Director	1	2 October 2020	1 October 2023
Ms A Sing[1]	Independent Non-executive Director	3	2 October 2020	1 October 2023
During the year				
Ms Z Monnakgotla[3]	Independent Non-executive Director	2	2 October 2020	9 February 2021
Ms B Ndamase[4]	Independent Non-executive Director	1	1 August 2017	1 October 2020
Mr L Nematswerane[4]	Independent Non-executive Director	1	1 August 2017	1 October 2020
Ms L Noge-Tungamirai[4]	Independent Non-executive Director	1	1 August 2017	1 October 2020

1. Term of service extended/renewed.
2. Appointed to the Board effective from 2 October 2020.
3. Resigned on 9 February 2021.
4. Term ended.

The details of the directors' emoluments and related party transactions are set out in notes 41 and 44 of the Annual Financial Statements. The governance structure is detailed in the Integrated Annual Report.

Remuneration policy

The DBSA remuneration policy, which is approved by the Human Resources Committee (HRC) and the Board, forms the basis of how the Bank remunerates its employees. It is aligned to the strategic direction and specific drivers of the businesses within the Bank, supporting operational excellence, continuous improvement and innovation. The aspect of remuneration continues to be fundamental vis a vis the attraction, development, retention of employees as well as continued motivation of a high performance culture, in furtherance of the Bank's ability to deliver on its mandate. In execution of afore mentioned, the Audit and Risk Committee, as well as the Human Resources Committee provide the necessary oversight in respect of the Bank's performance and employee remuneration. In line with the Shareholder's Compact, the Human Resources Committee also consults the Shareholder in respect of the executives' short term incentive payments, where applicable.

Business and registered address

The Bank's business and registered address details appear on page 138.

Taxation status

The Bank is exempt from normal taxation in terms of section 10(1)(t)(x) of the Income Tax Act No 58 of 1962, as amended. The Bank is subject to and complies with all other South African taxes, including employees' tax and value added tax. The Bank paid net VAT amounting to R23 million (31 March 2020: R62.7 million).

Changes in accounting policies

The accounting policies applied during the year ended 31 March 2021 are in all material respects consistent with those applied in the Annual Financial Statements for the year ended 31 March 2020.

Events after the reporting period

The directors are not aware of any matters or circumstances arising since the end of the financial year which will have a significant effect on the operations or the financial position of the Bank other than that disclosed in note 53 of the Annual Financial Statements on page 135.

Litigation

The directors are not aware of any litigation against the Bank other than that disclosed under contingent liabilities in note 46 of the Annual Financial Statements on page 131.

Related party transactions

Details of the Bank's related party transactions are set out in note 44 of the Annual Financial Statements on page 130.

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

i) **Particulars of material losses through criminal conduct and any irregular expenditure and fruitless and wasteful expenditure that occurred during the year:** There were no instances where the Bank sustained material losses. Refer to note 49 of the Annual Financial Statements on page 134;

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

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

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

The annual performance report and indicators for the Bank are set out below.

High level performance overview

The DBSA's strategy emphasises the importance of pursuing the dual mandate of achieving development impact while maintaining financial sustainability. The Balanced Scorecard is used to implement and monitor the achievement of predetermined strategic objectives. To this end, corporate strategic objectives and targets are developed and approved by the Board of Directors. The table below compares the planned and related actual performance on the high-level corporate strategic objectives for the year ended 31 March 2021.

The DBSA achieved exceptional results under extremely difficult trading conditions during the 2020/21 financial year, meeting most of its strategic objectives. The adverse macroeconomic fallout from COVID-19, the attendant increase in cost of funds, ratings downgrades and quick adaptation to work-from-home environment did not deter the organisation from meeting 75% of its performance objectives. This includes generating cash of R2 billion above target, achieving a return on sustainable earnings that is 3.5% above target, achieving a cost-to-income ratio that is 8.9% below target and achieving the total disbursement target, among others. A few targets for key performance indicators were either not met or partially achieved as shown below:

» **Disbursements to all RSA municipalities (excluding Top 5 metros):** The underperformance is largely attributable to municipalities not coming to market to seek funding. This was exacerbated by cost of funding challenges precipitated by COVID-19 and the ratings downgrade. The DBSA also lost tenders amounting to R603 million on account of pricing resulted from higher cost of funding. There are ongoing engagements within the Bank to find sustainable remedial measures;

» **Disbursements to fund social infrastructure:** The underperformance is largely attributable to a number of private sponsors who have and continue to review the financial viability of projects that were previously approved. Consequently, these have not progressed to commitment stage;

» **Disbursements to the Rest of Africa (excluding South Africa):** Infrastructure development and financing in the region is complex and time-consuming and can take a number of years to reach financial close, thus impacting the ability to disburse. COVID-19 and fiscal constraints from sovereign borrowers have negatively impacted deal bankability and the agility with which deals can be executed;

» **Value of projects prepared and committed:** The underperformance is mainly attributable to delays in regional projects taking time to reach financial close especially in the unprecedented times the world economies are facing. The Project Preparation team has however developed a robust pipeline that should come to market in the new financial year;

» **Value of infrastructure delivered:** The underperformance is largely attributable to time lost from lockdown regulations as well as work stoppages occasioned by the "construction mafia" on operational sites when construction resumed. This is emerging as a key risk to general infrastructure rollout in the country that authorities should deal with decisively to create a conducive environment for an infrastructure led economic recovery;

» **Value of third-party funds catalysed:** The underperformance is attributable to projects that the Bank is currently working on that took much longer than anticipated to conclude. This is evidence of the disruptive factor of the pandemic. Leveraging or crowding-in private sector funds remains a core pillar of the Bank's strategy and every opportunity to crowd-in the private sector will be explored;

» **Development position index:** The underperformance is attributable to the delays heightened by the pandemic environment in obtaining corroboratory information from the beneficiaries of training interventions prior to completion of the audit process;

» **Maintain the B-BBEE score:** The regression in the B-BBEE rating arises from the interpretation of what constitutes supplier development under the Specialised Entities Scorecard of the Financial Sector Charter Codes. This has seen a collaboration of major South African Public Development Banks (PDB) that are engaging with the Financial Sector Charter Council towards crafting a B-BBEE scorecard that is suitable for the PDBs; and

» **Skills bench strength:** The underperformance is attributable to the delayed finalisation of the succession plan for the organisation. Consequently, it was not approved by Board prior to year end. Meticulous effort has gone into ensuring that robust policies are enacted to ensure that strategic positions are identified and appropriate strategies implemented to mitigate such human capital risk.

Performance information

Objective	Key performance indicator	Target	Results
Maintain financial sustainability	**Financial**		
	» ROE (calculated on sustainable earnings)	2.54%	6.04%
	» Net cash generated from operations	R2.5 billion	R4.5 billion
	» Cost to income ratio – financing business	36.05%	27.15%
	Disbursements		
	Total disbursements	**R13.5 billion**	**R13.5 billion**
	» Top 5 metropolitan cities (direct and indirect lending)	R4.0 billion	R4.5 billion
	» All RSA municipalities (excluding Top 5 metros) [direct and indirect lending]	R1.0 billion	R0.3 billion
	» Other social infrastructure (excl. municipalities)	R0.4 billion	R0.2 billion
	» Economic infrastructure	R3.3 billion	R4.0 billion
	» Rest of Africa	R4.8 billion	R4.5 billion
Accelerating development impact and smart partnership	**Under-resourced municipalities**		
	» Value of infrastructure unlocked for under-resourced municipalities	R0.9 billion	R1.4 billion
	Project preparation		
	» Value of projects prepared and committed	R2.5 billion	R0.9 billion
	Infrastructure delivered		
	» Value of infrastructure delivered	R3.5 billion	R2.6 billion
	Total funds catalysed		
	» Total third party funds catalysed	R13.5 billion	R8.2 billion
	Development position		
	» Development position index	Rating of 3	Rating of 2.8
	Economic transformation		
	» Value of projects for black-owned entities (50% shareholding and above) approved for project preparation funding	R1.2 billion	R2.1 billion
	» Number of transactions that are committed for DBSA funding to black-owned entities (50% shareholding and above)	2	2
	» Percentage of procurement spend on black-owned suppliers for Infrastructure Delivery Division (IDD) third party fund	65%	90%
	Gender mainstreaming		
	» Percentage of procurement spend on black women-owned suppliers for IDD third party fund (30% and above shareholding)	20% of total procurement spend from B-BBEE suppliers	39%
	» Number of transactions that are committed for DBSA funding to black women-owned entities (30% shareholding and above)	1	2

Objective	Key performance indicator	Target	Results
Accelerating development impact and smart partnership	**Breakthrough initiatives (moonshot programmes)**		
	» Establishment of the Infrastructure Division	Obtain a signed MOA between DBSA, National Treasury and IIO in the Presidency to establish the Infrastructure Division	Signed MOA between the DBSA, National Treasury and IIO in the Presidency for the establishment of the Infrastructure Division. The Infrastructure Division was established and operationalised by year end
	» Number of transactions approved through the High Impact Investment Portfolio	Three transactions approved for early risk review (ERR), two transactions approved for funding and two transactions committed for funding	Six transactions were approved for ERR whilst two transactions were approved for funding and two transactions committed for funding during the year
	» Number of the DLABS	Two DLABS committed and disbursing	Two DLABS had committed and were disbursing
	» Execution of the District Development Model (DDM) Initiative	One plan completed and delivered. 3 plans = 5 score 2 plans = 3 score 1 plan = 2 score No plan = 1 score	3 plans completed and delivered to respective municipalities in the pilot sites
	Green Climate Fund		
	» Value of projects approved for funding from DBSA's existing Climate and Environmental Funds	R300 million	R302 million
Smart partnerships	**Client satisfaction survey**		
	» Client satisfaction survey	3.5	4.1
Future Fit DBSA	**Learning and growth perspective**		
	» Skills bench strength	Development of the succession plan and approved by management committee's strength = 3 Implementation of the plan = 4 Results or successes of implementation of the plan = 5	Succession plan developed but not approved by the Board at year end
	» Staff turnover ratio	Ranging 3% – 8%	6.11%
	Internal process perspective		
	» Maintain the B-BBEE score	Achieve a minimum of Level 2 = 3 rating Level 1 = 4 rating	Achieved Level 5 B-BBEE rating
	» Programmes that drive a digital DBSA	Two business processes automated for our core business	Three business processes automated for our core business
	Governance		
	Irregular, unauthorised and fruitless and wasteful expenditure	Classify 0.0% (R value) of expenses as irregular, unauthorised and fruitless and wasteful expenditure	0.06% (R0.7 million) of expenses that were classified as irregular expenditure
	Ethical behaviour	Decisive consequence management for unethical behaviour	No findings on unethical behaviour by any staff member during the year
	Compliance with the PFMA	Submit all PFMA submissions within the stipulated deadline	All PFMA submissions were submitted within the stipulated timelines
	Unqualified audit opinion	Achieve unqualified audit opinion without matter of emphasis	Achieve a clean audit opinion

STATEMENT OF FINANCIAL POSITION

AS AT 31 MARCH 2021

in thousands of rands	Notes	2021	2020
Assets			
Cash and cash equivalents at amortised cost	5	8 978 608	3 458 836
Trade receivables and other assets	6	296 376	328 069
Investment securities	7	455 215	1 787 361
Derivative assets held for risk management purposes	8.1	750 831	812 053
Other financial assets	9	42 451	36 152
Development loans held at fair value through profit or loss	10	16 847	22 413
Equity investments held at fair value through profit or loss	11	5 007 459	5 993 951
Development bonds at amortised cost	13	1 279 235	1 288 278
Development loans at amortised cost	14	82 733 448	86 240 264
Property, equipment and right of use of assets	15	405 685	417 518
Intangible assets	16	81 569	80 220
Total assets		**100 047 724**	**100 465 115**
Equity and liabilities			
Liabilities			
Trade, other payables and accrued interest on debt funding	17.1	739 962	696 324
Repurchase agreements at amortised cost	21	868 042	587 338
Derivative liabilities held for risk management purposes	8.2	127 276	784 835
Liability for funeral and post-employment medical benefits	19	47 630	42 885
Debt funding designated at fair value through profit or loss	20	1 513 997	1 505 805
Debt funding held at amortised cost	21	56 982 792	59 040 495
Provisions and lease liabilities	18	114 485	229 856
Deferred income	17.2	503 086	–
Total liabilities		**60 897 270**	**62 887 538**
Equity			
Share capital	22	200 000	200 000
Retained income		24 366 254	23 005 253
Permanent government funding	23	11 692 344	11 692 344
Other reserves	24	345 917	191 749
Reserve for general loan risk	25	2 545 939	2 488 231
Total equity		**39 150 454**	**37 577 577**
Total equity and liabilities		**100 047 724**	**100 465 115**

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 MARCH 2021

in thousands of rands	Notes	2021	2020
Interest income			
Interest income calculated using the effective interest rate	26	8 161 023	8 019 931
Other interest income	26	180 080	266 386
Interest expense			
Interest expense calculated using the effective interest rate	27	(3 335 021)	(3 392 585)
Other interest expense	27	(114 441)	(470 229)
Net interest income	27	**4 891 641**	**4 423 503**
Net fee income	28	187 858	255 513
Net foreign exchange (loss)/gain	29	(892 773)	1 171 519
Net loss from financial assets and financial liabilities	30	(354 454)	(529 027)
Investment and other income	31	57 864	202 617
Other operating (loss)/income		**(1 001 505)**	**1 100 622**
Operating income		**3 890 136**	**5 524 125**
Project preparation expenditure	32	(37 802)	(41 539)
Development expenditure	33	(78 240)	(47 192)
Impairment losses	34	(1 164 724)	(3 632 679)
Personnel expenses	35	(835 131)	(751 070)
General and administration expenses	36	(286 813)	(489 738)
Depreciation and amortisation	37	(32 287)	(29 321)
Profit from operations		**1 455 139**	**532 586**
Grants paid	38	(32 510)	(28 654)
Profit for the year		**1 422 629**	**503 932**

STATEMENT OF OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 MARCH 2021

in thousands of rands	Notes	2021	2020
Profit for the year		**1 422 629**	**503 932**
Items that will not be reclassified to profit or loss			
Loss on revaluation of land and buildings	24.1	(5 661)	(15 661)
Movement in own credit risk for funding held at fair value through profit or loss	24.3	2 097	(31 794)
Remeasurement of funeral and post-employment medical benefit liabilities		(3 920)	3 450
		(7 484)	**(44 005)**
Items that may be reclassified subsequently to profit or loss			
Unrealised gain/(loss) on cash flow hedges	24.2	344 362	(133 443)
(Gain)/loss on cash flow hedges reclassified to profit or loss	24.2	(186 630)	78 839
		157 732	**(54 604)**
Other comprehensive gain/(loss)		**150 248**	**(98 609)**
Total comprehensive income for the year		**1 572 877**	**405 323**

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 MARCH 2021

in thousands of rands	Share capital	Permanent government funding	Reserve for general loan risk
Balance at 1 April 2019	**200 000**	**11 692 344**	**2 268 456**
Profit for the year	–	–	–
Other comprehensive income			
Loss on revaluation of land and buildings	–	–	–
Movements in own credit risk for funding held at FVTPL	–	–	–
Remeasurement of funeral and post-employment benefit liabilities	–	–	–
Unrealised loss on cash flow hedges	–	–	–
Loss on cash flow hedges reclassified	–	–	–
Transfer to general loan risk reserve	–	–	219 775
Total changes	**–**	**–**	**219 775**
Balance as at 1 April 2020	**200 000**	**11 692 344**	**2 488 231**
Profit for the year	–	–	–
Other comprehensive income			
Loss on revaluation of land and buildings	–	–	–
Movements in own credit risk for funding held at FVTPL	–	–	–
Remeasurement of funeral and post-employment benefit liabilities	–	–	–
Unrealised gain on cash flow hedges	–	–	–
Gain on cash flow hedges reclassified	–	–	–
Transfer to general loan risk reserve	–	–	57 708
Total changes	**–**	**–**	**57 708**
Balance at 31 March 2021	**200 000**	**11 692 344**	**2 545 939**
Note(s)	22	23	25

* Total of other reserves comprises revaluation reserve on land and buildings, cash flow hedge reserve and own credit risk reserve.

	Other reserves*					
Revaluation on land and building	Cash flow hedge reserve	Own credit risk reserve	Total of other reserves	Retained income	Total equity
203 756	**25 918**	**64 134**	**293 808**	**22 717 646**	**37 172 254**
–	–	–	–	503 932	503 932
(15 661)	–	–	(15 661)	–	(15 661)
–	–	(31 794)	(31 794)	–	(31 794)
–	–	–	–	3 450	3 450
–	(133 443)	–	(133 443)	–	(133 443)
–	78 839	–	78 839	–	78 839
–	–	–	–	(219 775)	–
(15 661)	**(54 604)**	**(31 794)**	**(102 059)**	**287 607**	**405 323**
188 095	**(28 686)**	**32 340**	**191 749**	**23 005 253**	**37 577 577**
–	–	–	–	1 422 629	1 422 629
(5 661)	–	–	(5 661)	–	(5 661)
–	–	2 097	2 097	–	2 097
–	–	–	–	(3 920)	(3 920)
–	344 362	–	344 362	–	344 362
–	(186 630)	–	(186 630)	–	(186 630)
–	–	–	–	(57 708)	–
(5 661)	**157 732**	**2 097**	**154 168**	**1 361 001**	**1 572 877**
182 434	**129 046**	**34 437**	**345 917**	**24 366 254**	**39 150 454**
24.1	24.2	24.3	24		

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 MARCH 2021

in thousands of rands	Notes	2021	2020
Cash flows from operating activities			
Net profit adjusted for non-cash items and items separately disclosed	39	(745 023)	(1 020 270)
Interest received		8 300 905	8 125 500
Interest paid		(3 109 040)	(3 524 482)
Dividends received		4 420	33 010
Net cash generated from operating activities		**4 451 262**	**3 613 758**
Cash flows from development activities			
Development loan disbursements		(13 459 403)	(15 641 352)
Development loan principal repayments		11 002 729	6 254 667
Equity investments disbursements		(102 122)	(80 104)
Equity investments repayments		235 693	500 718
Grants, development and project preparation expenditure paid		(70 312)	(70 193)
Movements in deferred income		462 130	–
Net advances (to)/from national mandates		(46 147)	19 652
Net cash used in development activities		**(1 977 432)**	**(9 016 612)**
Net cash generated from/(used in) operating and development activities		**2 473 830**	**(5 402 854)**
Cash flows from investing activities			
Purchase of property and equipment		(10 699)	(11 545)
Disposal of property and equipment		317	649
Purchase of intangible assets		(12 342)	(8 629)
Disposal of financial market instruments		1 354 087	52 162
Net cash generated from investing activities		**1 331 363**	**32 637**
Cash flows from financing activities			
Gross financial market liabilities repaid		(21 187 343)	(19 520 116)
Gross financial market liabilities raised		23 539 700	25 358 796
Net cash generated from financing activities		**2 352 357**	**5 838 680**
Net increase in cash and cash equivalents		**6 157 550**	**468 463**
Effect of exchange rate movements on cash balances	29	(637 778)	67 497
Movement in cash and cash equivalents		**5 519 772**	**535 960**
Cash and cash equivalents at the beginning of the year	5	3 458 836	2 922 876
Cash and cash equivalents at the end of the year	5	**8 978 608**	**3 458 836**

1. Statement of compliance

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

The Bank is not subject to the Banks Act. The Bank is a PFMA schedule 2 entity. The Bank applies the IFRS framework.

1.1 Basis of preparation

1.1.1 Basis of measurement

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

- Financial instruments held at fair value through profit or loss;
- Financial instruments 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 liability.

The methods used to measure fair values are detailed in note 12.

The Annual Financial Statements were prepared on a going concern basis.

1.1.2 Presentation of the Annual Financial Statements

The Bank presents its statement of financial position in order of liquidity as it provides information that is more reliable and relevant to the users of the financial statements.

Financial assets and financial liabilities are generally reported at their net carrying amount in the statement of financial position. They are only offset when, in addition to having an unconditional legally enforceable right to offset the recognised amounts without being contingent on a future event, the parties also intend to settle on a net basis in all of the following circumstances:

- The normal course of business;
- The event of default; or
- The event of insolvency or bankruptcy of the Bank and/or its counterparties.

Income and expenses are presented on a net basis only when permitted under IFRS.

1.1.3 Significant accounting judgements, estimates and assumptions

The preparation of the Annual 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.

1. Statement of compliance (continued)

1.1 Basis of preparation (continued)

1.1.3 Significant accounting judgements, estimates and assumptions (continued)

The accounting policies which are most sensitive to the use of judgement, estimates and assumptions are specified in (a) judgements and (b) assumptions and estimates below.

(a) 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 financial statements:

(i) 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.

(ii) 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. Refer to note 42 for more details on expected credit losses and note 12 for more details on fair value measurement.

(b) Assumptions and estimation

Information about assumptions and estimation applied that have significant risks of resulting in a material adjustment is detailed below:

(i) 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 Annual 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 year end, 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 asset managers. Refer to note 42 for further disclosures on COVID-19.

(ii) Impairment testing for non-financial assets: Key assumptions underlying recoverable amounts

The recoverable amounts of assets have been determined based on the higher of value-in-use calculations and fair values. These calculations require the use of estimates and assumptions. It is reasonably possible that the assumption may change, which may then impact our estimations and may then require a material adjustment to the carrying value of the assets.

(iii) Depreciation and amortisation and the useful lives of property and equipment and intangible assets

Depreciation rates, depreciation methods adopted and residual values of assets require judgements and estimates to be made. Changes in estimates are disclosed in the relevant notes where applicable.

(iv) Valuation of land and buildings

The fair value of land and buildings is determined by an independent valuator or by management. The valuation technique used makes use of significant unobservable inputs such as expected market rental growth and capitalisation market interest rates.

(v) 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.

(vi) Measurement of funeral benefit obligations and post-employment medical benefit

The cost of defined benefit post-employment medical benefits as well as the present value of the post-employment medical aid obligation are determined using actuarial valuations.

The actuarial valuation involves making assumptions about discount rates, expected rates of return of assets, future salary increases, mortality rates and medical cost trends. All assumptions are reviewed at each reporting date.

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

(vii) 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.

(viii) Investment securities

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

(ix) 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.

(x) Provisions

Provisions are held in respect of a range of future obligations such as employee entitlements, development expenditure, ECL for some commitments and strategic initiatives.

Some of the provisions involve significant judgement about the likely outcome of various events and estimated future cash flows. The measurement of these provisions involves the exercise of management judgements about the ultimate outcomes of the transactions.

Additional disclosure of these estimates of provisions is included in note 18 – Provisions and lease liabilities.

(xi) 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 weightings of forward-looking information (best, base and worst) for inclusion in the ECL calculation.

(xii) 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.

1. Statement of compliance (continued)

1.1 Basis of preparation (continued)

1.1.3 Significant accounting judgements, estimates and assumptions (continued)

(b) Assumptions and estimation (continued)

(xiii) 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.

(xiv) 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.

(xv) IFRS 15: *Revenue from Contracts with Customers*

No significant assumptions and judgements were made for revenue from contract with customers.

(xvi) IFRS 16: *Leases*

For leases with the option to extend or terminate, the Bank assumes that it will choose not to exercise its option to renew or terminate the contract therefore assumes that the leases will be applicable until the end of the original contract. Some leases will include renewal options but these are generally renewals at market rates to be negotiated at the time of renewing the contract. These rates will only be included in the lease liability once it is reasonably certain that the Bank will exercise the extension option. Most leases in the Bank have fixed escalations.

(xvii) Write-offs

The Bank applies significant judgements for write-offs (refer to write-off policy on page 39).

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.

(c) 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. 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 (note 10)
» Equity investments held at fair value through profit or loss (note 11)
» Development bonds at amortised cost (note 13)
» Development loans at amortised cost (note 14)
» Impairment losses (note 34)

Significant judgements and estimates impacted by COVID-19

The summary below is an overview of the areas where additional judgement has been applied, this includes references to the relevant sections in the notes to the annual financial statements where additional information has been included.

i) 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 34 and note 42. 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.

ii) 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.

In order to determine the appropriate accounting treatment of the restructure of existing facilities and related additional disclosures required, the principles set out in accounting policy note 1.2.1.4 dealing with modifications of financial assets were applied.

iii) 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.

iv) 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, those 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.

1. Statement of compliance (continued)

1.1 Basis of preparation (continued)

1.1.3 Significant accounting judgements, estimates and assumptions (continued)

(c) COVID-19 impact (continued)

iv) Post-model adjustments (continued)

As the COVID-19 pandemic and its effects continue to evolve and 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.

1.2 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 and repurchase agreements.

1.2.1 Financial assets

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.

1.2.1.1 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.

Business model assessment

The Bank makes an assessment of the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

» The stated objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, or realising cash flows through the sale of the assets;

» How the performance of the portfolio is evaluated and reported to the Bank's management;

» The risks that affect the performance of the business (and the financial assets held within that business model) and how those risks are managed;

» How managers of the business are compensated such as whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and

» The frequency, volume and timing of income in prior periods, the reasons for such income and its expectations about future income activity. However, information about income activity is not considered in isolation, but as part of an overall assessment of how the Bank's stated objective for managing the financial assets is achieved and how cash flows are realised.

The business model assessment is based on reasonably expected scenarios without taking 'worst case' or 'stress case' scenarios into account. If cash flows after initial recognition are realised in a way that is different from the Bank's original expectations, the Bank does not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

The Bank's business model for the classification of financial assets is detailed in the table below:

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

An assessment of whether contractual cash flows are solely payments of principal and interest (SPPI)

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (such as liquidity risk and administrative costs), as well as profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Bank considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Bank considers:

» contingent events that would change the amount and timing of cash flows;
» leverage features;
» prepayment and extension terms;
» terms that limit the Bank's claim to cash flows from specified assets (such as non-recourse asset arrangements); and
» features that modify consideration of the time value of money such as periodical reset of interest rates.

(i) Financial assets 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.

(ii) Financial assets at fair value through profit or loss (FVTPL)

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

1. Statement of compliance (continued)

1.2 Financial instruments (continued)

1.2.1 Financial assets (continued)

1.2.1.1 Classification and subsequent measurement (continued)

(a) Financial assets at FVTPL are:

» Assets with contractual cash flows that are not SPPI; or/and

» Assets that are held in a business model other than held to collect contractual cash flows or held to collect and sell.

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. Fair value is determined in the manner described in note 1.19. These assets consist of development loans, other financial assets, equity investments, investment securities and derivatives.

(b) 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. Fair value is determined in the manner described in note 1.19.

1.2.1.2 Reclassifications of financial assets

If the business model under which the Bank holds financial assets changes, the financial assets affected are reclassified. The classification and measurement requirements related to the new category apply prospectively from the first day of the first reporting period following the change in business model that results in reclassifying the Bank's financial assets. During the current financial year and previous accounting period there was no change in the business model under which the Bank holds financial assets and therefore no reclassifications were made. Changes in contractual cash flows are considered under the accounting policy on modification and derecognition of financial assets described below.

1.2.1.3 Foreign exchange gains and losses

The carrying amount of financial assets that are denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the end of each reporting period. Specifically:

» for financial assets measured at amortised cost that are not part of a designated hedging relationship, exchange differences are recognised in profit or loss in the 'other income' line item; and

» for financial assets measured at FVTPL that are not part of a designated hedge accounting relationship, exchange differences are recognised in profit or loss.

1.2.1.4 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.

1. Statement of compliance (continued)

1.2 Financial instruments (continued)

1.2.1 Financial assets (continued)

1.2. 1.5 Derecognition of financial assets

The Bank derecognises a financial asset only when the contractual rights to the asset's cash flows expire (including expiry arising from a modification with substantially different terms), or when the financial asset and substantially all the risks and rewards of ownership of the asset are transferred to another entity. If the Bank neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Bank recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Bank retains substantially all the risks and rewards of ownership of a transferred financial asset, the Bank continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain/loss that had been recognised in other comprehensive income (OCI) and accumulated in equity is recognised in profit or loss.

On derecognition of a financial asset other than in its entirety (e.g. when the Bank retains an option to repurchase part of a transferred asset), the Bank allocates the previous carrying amount of the financial asset between the part it continues to recognise under continuing involvement, and the part it no longer recognises on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognised and the sum of the consideration received for the part no longer recognised and any cumulative gain/loss allocated to it that had been recognised in OCI is recognised in profit or loss. A cumulative gain/loss that had been recognised in OCI is allocated between the part that continues to be recognised and the part that is no longer recognised on the basis of the relative fair values of those parts.

Write-offs

IFRS 9 provides that financial assets should be written off, and accordingly derecognised, when the Bank believes that there is no reasonable expectation of recovery. The Bank has internal policies which govern the process of write-off as dealt with by the Business Support and Recovery unit which ensures that post write-off recoveries remain insignificant over the long run. An impaired loan is written off once all reasonable attempts at collection have been made and there is no material economic benefit expected from attempting to recover the balance outstanding. The following criteria must be met before a financial asset can be written off:

» The financial asset has been in default for the period which is deemed sufficient to determine whether the entity is able to receive any further economic benefit from the impaired loan; and

» At the point of write-off, the financial asset is fully impaired with no reasonable expectation of recovery of the asset.

1.2.2 Financial liabilities

Debt that is issued is classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

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.

a) 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

(i) Financial liabilities at fair value through profit or loss (FVTPL)

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.

(ii) 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.

b) 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

c) 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. Further details of derivative financial instruments are disclosed in note 8.

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.

1. Statement of compliance (continued)

1.2 Financial instruments (continued)

1.2.2 Financial liabilities (continued)

d) Embedded derivatives

Derivatives embedded in financial liabilities or other non-financial asset host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at FVTPL.

e) Modification of financial liabilities

When either the contractual terms or cash flows of financial liabilities 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 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 that 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 liability is substantially different to the existing financial liability. 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 liability.
» **Qualitative assessment:** A significant change in the terms and conditions that are 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).

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/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/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

f) Derecognition of a financial liability

The Bank derecognises financial liabilities when, and only when, the Bank's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

When the Bank exchanges with the existing lender one debt instrument for another one with substantially different terms, such exchange is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability.

Similarly, the Bank accounts for substantial modification of the terms of an existing liability or part of it as an extinguishment of the original financial liability and the recognition of a new liability. It is assumed that the terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective rate is at least 10% different from the discounted present value of the remaining cash flows of the original financial liability.

g) **Offsetting of financial instruments**

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

Income and expenses are presented on a net basis only when permitted under IFRS, or for gains and losses arising from a group of similar transactions.

1.2.3 Trade date and settlement date accounting

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

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

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

» The recognition of an asset on the day it is received by the entity; and
» The derecognition of an asset and recognition of any gain or loss on disposal on the day that it is delivered by the entity.

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

1.2.4 Repurchase and sale agreements

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

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

1.2.5 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.

Three stages

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

Stage 1: 12-month 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.

1. Statement of compliance (continued)

1.2 Financial instruments (continued)

1.2.5 Impairment of financial instruments (continued)

(i) Expected credit losses (continued)

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) Determining the staging for ECLs

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. Refer to note 42.

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.

Backstop measure
IFRS 9 requirement has a rebuttable presumption that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due (DPD). Where applicable, the Bank has rebutted this presumption based on reasonable and supportable information, which is available, without undue cost or effort. The backstop measure is applied, whereby a loan is considered to have experienced SICR when a borrower is more than 30 DPD on its contractual payments.

This 30 DPD rebuttable presumption to exclude the following factors:

- Small balances of arrears more than 30 DPD;
- Arrears which consist of default interest which fall due within the current interest period (this arrear interest is payable at next interest payment date – which could be 1 month/1 quarter/1 semester);
- Arrears on mezzanine debt/junior debt/black economic empowerment debt funding where the loan payments are dependent on the receipt of a distribution from the holding company and the distribution is delayed due to administrative processes whilst the project is performing and the senior loan is not in arrears;
- Arrears due to timing mismatch between grant funding and borrower obligations/repayment schedule to the Bank.
- Arrears as a result of fees;
- Arrears due to foreign currency liquidity in the host country are referred to the Bank's Investment Committee for a decision on a deal-by-deal basis;
- Loans with arrears as a result of repayments received, which repayments were not less than 95% of the repayment due amount; and
- Any other technical arrears as approved by the Investment Committee.

Exposures that have not deteriorated significantly since origination, or where the deterioration remains within the accepted PD variation criteria, or which are less than 30 DPD are considered not to have an indication of a significant increase in credit risk and are considered to have low credit risk. The expected credit losses for these financial assets is based on a 12-month ECL.

A financial asset will migrate through the ECL stages as asset quality deteriorates. If the Bank has measured the loss allowance for a financial instrument at an amount equal to lifetime ECLs in the previous reporting period, but determines at the current reporting date that the financial asset has been cured, as per the curing policy of the Bank, the Bank measures the loss allowance at an amount equal to 12-month ECLs at the current reporting date.

Although some financial assets within the Bank's portfolio might meet the definition of low credit risk, the Bank still performs an assessment of whether there has been a significant increase in credit risk between the reporting date and the date of initial recognition.

(iii) 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. The concept of PDs is further explained in note 42.

» **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. The EAD is further explained in note 42.

» **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. The LGD is further explained in note 42.

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)

For further details on how the Bank calculates ECLs, including the use of forward-looking information, and for details on the effect of modifications of loans on the measurement of ECL refer to note 42.

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.

1. Statement of compliance (continued)

1.2 Financial instruments (continued)

1.2.5 Impairment of financial instruments (continued)

(iv) Expected credit losses on modified financial assets

If the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made of whether the financial asset should be derecognised and ECLs are measured as follows:

- If the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset. If the modification of a financial asset measured at amortised cost does not result in derecognition of the financial asset, then the Bank first recalculates the gross carrying amount of the financial asset using the original effective interest rate of the asset and recognises the resulting adjustment as a modification gain or loss in profit or loss. For floating-rate financial assets, the original effective interest rate used to calculate the modification gain or loss is adjusted to reflect current market terms at the time of the modification. Any costs or fees incurred and modification fees received adjust the gross carrying amount of the modified financial asset and are amortised over the remaining term of the modified financial asset. The modification gain or loss is recognised in profit or loss; and
- If the expected restructuring results in the derecognition of the existing asset, then the fair value of the new asset is the new cash flows based on the new terms of the restructure. Accordingly, the date of the modification shall be treated as the date of initial recognition of that financial asset when applying the impairment requirements to the modified financial asset.

The risk of default of such assets after modification is assessed at the reporting date and compared with the risk under the original terms at initial recognition, when the modification is not substantial and so does not result in derecognition of the original asset.

The Bank monitors the subsequent performance of the modified assets. If the Bank determines that the credit risk has significantly improved after restructuring, the assets are moved from stage 3 or stage 2 (lifetime ECL) then stage 1 (12-month ECL). This is only the case for assets which have performed in accordance with the new terms for six consecutive months or more.

The Bank continues to monitor if there is a subsequent significant increase in credit risk in relation to such assets in accordance with the policy of the Bank.

(v) Trade and other receivables

For trade and other receivables only, the Bank applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognised from the initial recognition of the receivables if there is no significant financing component. Under this approach the tracking of changes in credit risk is not required, instead lifetime expected credit losses are recognised. ECLs are recognised in profit or loss.

The provision matrix will be used to calculate the ECLs.

The Bank will use the historically observed default rates (actual write-off) over the expected life of the trade and other receivables adjusted as necessary to reflect current conditions to calculate the default rate in the provision matrix.

Adjustments will be made for forward-looking information based on economic conditions. The default rate calculated in the provision matrix will be adjusted for economic conditions.

The total book debt is segregated into different categories of trade and other receivables and the default percentage is applied on the balance per category to calculate the ECL allowance.

(vi) Loan commitments

The financial asset would be assessed for impairment quarterly based on the total value of the facility that has been made available counterparty.

The date that the Bank becomes a party to the irrevocable commitment shall be considered to be the date of initial recognition for the purposes of applying the impairment requirements.

To the extent that the amount of the ECLs on a loan commitment contract exceeds the carrying amount of the associated financial asset recognised in the statement of financial position, the impairment allowance is presented as a provision.

Where there has been a significant increase in the credit risk of that specified counterparty the impairment allowance calculation would be based on the expected lifetime credit losses.

(vii) Financial guarantees

A financial guarantee is a contract to compensate the third parties for a financial loss when the financial guarantee counterparty does not pay a specified amount.

After initial recognition, the Bank measures the financial guarantees at the higher of:

- The amount of the credit loss allowance; and
- The amount initially recognised (fair value) less, when appropriate, the cumulative amount of income recognised in accordance with the principles of IFRS 15.

The ECL on financial guarantees is based on the expected payments to reimburse the holder less any amounts that the Bank expects to recover.

For financial guarantee contracts, the date that the Bank becomes a party to the irrevocable commitment is considered to be the date of initial recognition for the purposes of applying the impairment requirements.

To the extent that the amount of the ECLs on a financial guarantee contract exceeds the carrying amount of the associated financial asset recognised in the statement of financial position, the impairment allowance is presented as a provision in the statement of financial position.

(viii) 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.

(ix) Write-off policy

Financial assets are written off either partially or in their entirety only when the Bank has stopped pursuing the recovery of the financial asset.

Loan and equity investments, or portions thereof, which are classified as bad or deemed uncollectable may be written off. Facilities may only be written off when they are considered uncollectable and worthless, i.e. action for recovery has been exhausted or it is no longer worthwhile in the foreseeable future. Partial write-offs of impaired loan accounts may be considered under the following circumstances:

» A partial write-off forms part of a restructuring or a negotiated settlement;

» The realisable value of security is less than the balance outstanding (including principal, accrued interest and other charges) and topping up of the security deficiency is not forthcoming;

» The shortfall in security value over the outstanding balance is uncollectable;

» The outstanding amount is to be written down to the value of the security (i.e. the shortfall in security value over the outstanding balance is written off) or agreement has been reached for the payment of a fixed amount as full and final settlement for the indebtedness to the Bank;

» In duplum interest where its recovery is no longer possible; or

» In terms of the delegated authority held by the Chief Executive Officer.

All write-offs are recommended by the Investment Committee to the Audit and Risk Committee (ARC) for approval. Motivations for write-off may be considered when one or more of the following applies:

» There is no probability of any further recoveries and no realisable security is held;

» All security held has been realised and the sale proceeds thereof appropriated towards reducing the outstanding debt;

» The borrower and guarantor(s) have no known means of repayment;

» The recovery process will be uneconomical;

» The in duplum rule applies; and/or

» It will take abnormally long to recover outstanding debt and the Bank will/has instituted legal action to recover.

(x) Collateral and other credit enhancements

In addition to pricing for the risk, the Bank uses collateral to enhance the quality of credit and/or to reduce the expected losses on its lending portfolio. The amount and type of credit risk mitigation depends on the asset quality and nature of each transaction. Collateral, unless repossessed, is not recorded on the Bank's statement of financial position. However, the fair value of collateral affects the calculation of ECLs. It is generally assessed, at a minimum, at inception and reassessed on a yearly basis.

Collateral and guarantees are used by the Bank for credit risk mitigation. The main types of collateral taken comprise bank accounts, floating charge, guarantee, income stream, insurance, mortgage bond, notarial bond, surety and unit trust. The Bank also uses various forms of specialised legal agreement like guarantees and similar legal contracts in support of credit extension where necessary.

To the extent possible, the Bank uses active market data for valuing financial assets held as collateral. Other financial assets which do not have readily determinable market values are valued using models. Non-financial collateral, such as real estate, is valued based on data provided by third parties such as mortgage brokers, or based on housing price indices.

1. Statement of compliance (continued)

1.3 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.

Note 12 sets out details of the fair values of the derivative instruments used for hedging purposes and the movements in the hedging reserve in equity.

(i) Fair value hedge

The fair value change on qualifying hedging instruments is recognised in profit or loss. The carrying amount of a hedged item not already measured at fair value is adjusted for the fair value change attributable to the hedged risk with a corresponding entry in profit or loss.

Where gains and losses are related to hedging instruments, they are recognised in profit or loss.

The Bank discontinues hedge accounting only when the hedging relationship (or a part thereof) ceases to meet the hedge accounting requirements (after rebalancing, if applicable). This includes instances where hedging instrument expires or is sold, terminated or exercised. If the hedging derivative expires or is sold, terminated, or exercised, or the hedge no longer meets the criteria for fair value hedge accounting, or the hedge designation is revoked, hedge accounting is discontinued prospectively. Any adjustment up to that point to a hedged item for which the effective interest method is used is amortised to profit or loss as part of the recalculated effective interest rate of the item over its remaining life.

(ii) Cash flow hedge

The effective portion of changes in the fair value of derivatives and other qualifying hedging instruments that are designated and qualify as cash flow hedges is recognised in the cash flow hedging reserve, a separate component of OCI, limited to the cumulative change in fair value of the hedged item from inception of the hedge less any amounts recycled to profit or loss.

Amounts previously recognised in OCI and accumulated in equity are reclassified to profit or loss in the periods when the hedged item affects profit or loss, in the same line as the recognised hedged item.

The Bank discontinues hedge accounting only when the hedging relationship (or a part thereof) ceases to meet the hedge accounting requirements (after rebalancing if applicable). This includes instances when the hedging instrument expires or is sold, terminated or exercised, the discontinuation is accounted for prospectively. The cumulative unrealised gain or loss is recognised immediately in profit or loss.

1.4 Cash and cash equivalents

Cash and cash equivalents include notes and coins on hand, current accounts, call deposits and fixed deposits.

Cash and cash equivalents are measured at amortised cost in the statement of financial position. The balance at amortised cost are regarded as having a low probability of default, therefore the ECL is insignificant.

1.5 Trade and other receivables

Trade and other receivables comprise trade debtors, third party funds, staff loans and VAT.

Trade receivables are measured at amortised cost less an allowance for credit losses as they meet the objective of collecting cash flows over their life.

Trade receivables are carried at amortised cost less a loss allowance. They generally do not contain a significant financing component. The provision for ECLs is determined by applying a simplified approach equalling the lifetime ECLs.

The Bank shall only write-off bad debts on trade receivables and other assets when all reasonable steps have been taken to recover the debt and the Bank believes that there is no expectation of recovery. The write-off is approved according to the Bank's delegation of authority. Write-offs are disclosed as part of ECLs on trade receivables and other assets in the statement of comprehensive income. Any recoveries due to enforcement activities are treated as bad debt recovered in the year in which such recoveries are made.

1.6 Investment securities

Investment securities consist of government bonds, municipal bonds, state-owned entities bonds and segregated funds. These are held as part of the strategic liquidity portfolio. The instruments are measured at fair value through profit or loss as the overall business model is one where the main purpose for investment securities is that these are held as part of the strategic liquidity portfolio and can thus be redeemed at any time depending on the Bank's liquidity requirements. Any changes in the fair value will be recognised in profit or loss.

1.7 Impairment of non-financial assets

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

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

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

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

1.8 Property, equipment and right of use of assets

1.8.1. Property and equipment

1.8.1.1 Recognition and measurement

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

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

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

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

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

1. Statement of compliance (continued)

1.8 Property, equipment and right of use of assets (continued)

1.8.1. Property and equipment (continued)

1.8.1.1 Recognition and measurement (continued)

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

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

1.8.1.2 Subsequent costs

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

1.8.1.3 Depreciation

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

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

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

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

1.8.2 Right of use of assets

1.8.2.1 Recognition and measurement

Initially measured at the amount of the lease liability, reduced for any lease incentives received, and increased for:

- lease payments made at or before commencement of the lease;
- initial direct costs incurred; and
- the amount of any provision recognised where the Bank is contractually required to dismantle, remove or restore the leased asset.

1.8.2.2 Subsequent measurement

The Bank applies the cost model subsequent to the initial measurement of the right of use assets.

1.8.2.3 Depreciation on right of use assets

Subsequent to initial measurement, the right of use assets are depreciated on a straight-line basis over the remaining term of the lease or over the remaining economic life of the asset should this term be shorter than the lease term unless ownership of the underlying asset transfers to the group at the end of the lease term, whereby the right of use assets are depreciated on a straight line basis over the remaining economic life of the asset. This depreciation is recognised as part of operating expenses

1.8.2.4 Termination of lease

When the Bank or lessor terminates or cancels a lease, the right of use asset is derecognised; any difference in the right of use asset is recognised in profit or loss on derecognition.

Where the Bank or lessor terminates or cancels a lease, the right of use is derecognised to reflect the partial or full termination of the lease. The Bank as lessee recognises in profit or loss any gain or loss relating to the partial or full termination of the lease. The lease liability is derecognised accordingly.

1.9 Intangible assets

1.9.1 Recognition and measurement

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

Expenditure on internally developed software is recognised as an asset when the Bank is able to demonstrate that the product is technically feasible, its intention and ability to complete the development and use the software in a manner that will generate future economic benefits, and can reliably measure the costs to complete the development. The capitalised costs of internally developed software include all costs directly attributable to developing the software and capitalised borrowing costs, and are amortised over its useful life. Internally developed software is stated at capitalised cost less accumulated amortisation and any accumulated impairment.

1.9.2 Subsequent expenditure

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

1.9.3 Amortisation

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

Item	Estimated useful life
Software	3 – 15 years

1.10 Trade and other payables

Trade and other payables comprise trade creditors, third party funds and agencies.

Trade and other payables are initially measured at fair value. Subsequently, they are measured at amortised cost using the effective interest rate method.

1.11 Employee benefits

(a) Defined contribution plan

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

(b) Defined benefit plan

The Bank contributes to a defined benefit plan for post-employment medical benefits for eligible employees and pensioners. A defined benefit plan is a post-employment benefit plan other than a defined contribution plan.

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

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

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

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

(c) Termination benefits

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

(d) Short term employee benefits

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

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

1. Statement of compliance (continued)

1.12 Provisions and lease liabilities

1.12.1 Provisions

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

(a) Onerous contracts

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

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

1.12.2 Lease liabilities

A lease liability is initially measured at the present value of the contractual payments due to the lessor over the lease term, with the discount rate determined by reference to the Bank's incremental borrowing rate at the date of entering into the lease.

For variable lease payments, fixed amounts are assumed and used in the calculation of the lease liability. The difference in the amounts assumed and the amounts paid are expensed in the statement of profit or loss. Subsequent to initial recognition, the interest accrued is included in the balance of the lease liability and the repayments are reduced to the balance of the lease liability.

When the Bank or lessor terminates or cancels a lease, the lease liability is derecognised; any difference in the lease liability is recognised in profit or loss on derecognition.

1.13 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. For the determination of the fair value, refer to note 1.19.

1.14 Share capital and reserves

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Ordinary shares are classified as equity.

If the Bank reacquires its own equity instruments, the consideration paid, including any directly attributable incremental costs on those instruments are deducted from equity until the shares are cancelled or reissued. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Bank's own equity instruments. Consideration paid or received shall be recognised directly in equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction from the proceeds.

1.14.1 Share capital

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

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

1.14.2 Permanent government funding

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

1.14.3 Cash flow hedge reserve

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

1.14.4 Reserve for general loan risks

The reserve is maintained as part of the Bank's capital management purposes and is calculated based on the latest internal risk rating of borrowers. The reserve is reviewed quarterly. The reserve for each risk category is estimated by calculating each risk category as follows:

- » Low risk minimum of 3% (MS1 – MS7)
- » Medium risk minimum of 5% (MS8 – MS13)
- » High risk minimum of 7% (MS14 – MS17.4)

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

1.14.5 Revaluation reserve on land and buildings

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

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

1.15 Financial guarantees

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due in accordance with the terms of a debt instrument.

Financial guarantee contracts issued by the Bank are initially measured at their fair values and, if not designated as at FVTPL and not arising from a transfer of a financial asset, are subsequently measured at the higher of:

» The amount of the loss allowance determined in accordance with IFRS 9; and

» The amount initially recognised less, where appropriate, cumulative amount of income recognised in accordance with the Bank's revenue recognition policies.

Financial guarantee contracts not designated at FVTPL are presented as provisions on the statement of financial position and the remeasurement is presented in other revenue.

The Bank has not designated any financial guarantee contracts as at FVTPL.

1.16 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. Refer to note 47 and accounting policy 1.2.5 for the policy disclosure. ECLs arising from loan commitments are included within provisions (refer to note 18).

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.

1.17 Revenue recognition

(i) 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.

1. Statement of compliance (continued)

1.17 Revenue recognition (continued)

(i) Net interest income (continued)

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.

(ii) 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 received 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.

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 such as constructing infrastructure on behalf of clients. The fees are earned based on the stage of completion of the project.

Lending fees
Lending fees are fees charged by the Bank for processing and funding a loan. They can include application fees, attorney fees, recording fees and underwriting fees.

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

Other income
Other income includes cost recoveries, rental income and gains or losses on the disposal of assets or liabilities, excluding equity instruments and those instruments recognised at fair value through profit or loss.

Other income is recognised when or as the Bank satisfies a performance obligation.

1.18 Investment income

Investment income includes all income, loss, revaluation and foreign exchange gains and losses relating to equity investments. Dividend income is recognised in profit or loss when the Bank's right to receive payment is established per the following:

Unlisted equities
Dividend income is recognised when the issuance of the dividend is properly authorised, i.e. issuance of the dividend has been approved by the relevant authority (i.e. the Board of Directors or Shareholders) in accordance with legislation applicable to the entity's jurisdiction of incorporation.

Listed equities
Dividend income is recognised on the ex-dividend date, i.e. the date on which the Bank's irrefutable right to receive the dividend is confirmed.

1.19 Determination of fair values

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

'Fair value' is 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 in the principal or, in its absence, the most advantageous market to which the Bank has access at that date. The fair value of a liability reflects its non-performance risk.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

» Level 1 – Quoted (unadjusted) market prices in active markets for identical assets or liabilities
» Level 2 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
» Level 3 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements at fair value on a recurring basis, the Bank determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

1.19.1 Property, equipment and right of use of assets

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

1.19.2 Other financial assets

The fair value of other financial asset is based on the valuation performed by the fund managers.

1.19.3 Financial instruments

Fair value measurements are categorised into three different levels in the fair value hierarchy, based on the inputs to the valuation techniques used. The hierarchy levels are defined as follows:

(a) Unadjusted, quoted prices in active markets where the quoted price is readily available and the price represents actual and regularly occurring market transactions on an arm's length basis. The Bank does not adjust quoted prices obtained in active markets. The level 1 classification is made for all financial instruments where there is enough volume of trades and liquidity. Listed government bonds are classified as level 1. Listed municipal bonds, corporate bonds, state-owned entity bonds and own issued bonds are disclosed as level 1 fair value hierarchy only in instances where there is evidence of sufficient volume of trades and number of trades in an active market. The criteria applied are shown in point (b) below

(b) There are two groups of Bank's financial instruments that are disclosed as fair value hierarchy level 2.

- Group 1 instruments – Instruments where the valuation technique applied uses the market observable inputs. Such techniques may include: using recent arm's length market transactions, reference to the current fair value of similar instruments and discounted cash flow analysis, pricing models or other techniques commonly used by market participants.
- Group 2 instruments – Listed instruments from an inactive market and whose trading volumes do not support a level 1 classification are shown as level 2 classification. These instruments include municipal, corporate, state-owned entity and own-issued bonds listed in an inactive market where there is no sufficient volume of trades and liquidity. No adjustments are made to quoted prices. However, should the market be inactive, such fair values do not qualify for level 1 classification. Financial instruments at fair value are disclosed as level 1 fair value hierarchy only if the instrument has a minimum weekly.
- Financial instruments at fair value are disclosed as level 1 fair value hierarchy only if the instrument has a minimum daily trade volume of 10 trades, a minimum weekly trade volume of 50 trades in the last trading week close to measurement date and cumulatively a minimum of 200 trade volume per month is achieved. The thresholds are reviewed annually and represent management's judgement (based on historical trade volume analysis) in assessing the trading volumes which supports a level 1 fair value hierarchy-classification. No adjustments are made to listed or observable prices. Close to each measurement date, the Bank assesses whether instruments' trading volumes and number of trades support a level 1 classification.

(c) Valuation techniques, as described in (b) above, for which not all inputs are market observable prices or rates. Such a financial instrument is initially recognised at the transaction price, which is the best indicator of fair value, although the value obtained from the relevant valuation model may differ. The difference between the transaction price and the model value, commonly referred to as day one, profit or loss, is either amortised over the life of the transaction, deferred until the instrument's fair value can be determined using market observable inputs, or realised through settlement. The valuation techniques in (b) and (c) use as inputs interest rate yield curves, equity prices, commodity and currency prices/ yields, volatilities of underlying and correlations between inputs. The models used in these valuation techniques are calibrated against industry standards, economic models and observable transaction prices where available. The 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).

1.19.4 Equity investments

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

If the market for an equity financial instrument is not active, the Bank uses a valuation technique to establish what the transaction price would be in an orderly transaction in the principal (or most advantageous) market between market participants at the measurement date. Fair value is a market based measurement and uses the assumptions that market participants would use when pricing an asset under current market conditions. When determining fair value, it is presumed that the entity is a going concern and is not an amount that represents a force transaction, involuntary liquidation or a distressed sale.

1. Statement of compliance (continued)

1.19 Determination of fair values (continued)

1.19.4 Equity investments (continued)

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

» Price of recent investment, if available;
» Discounted cash flow analysis based on free cash flows, earnings or dividends using market-related adjusted discount rates;
» Price earnings growth (PEG);
» Option pricing models;
» Net asset values (NAV); and
» Offer price as proxy to the fair value.

The Bank ensures that these valuation techniques:

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

Equity investments held at fair value consist of direct investments in equity and third party managed funds.

1.19.5 Investment securities

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

1.19.6 Debt securities

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

1.19.7 Lines of credit

These market prices are based on capital and interest. Actively quoted market prices are not available, the fair value is determined through discounted cash flow techniques, using market interest rates taking into account the credit quality and duration of the instrument.

1.19.8 Derivatives

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

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

The fair value of options is calculated using a Black-Scholes derived model that values both time value of money and intrinsic value of options to determine a theoretical market value. The Bank applies a version of the Black-Scholes option-pricing model that is modified to incorporate a ‘dividend yield’ from the underlying asset. In the case of currency options, the dividend yield is the interest rate on the foreign currency. The intrinsic value is computed as the maximum of zero and the value of the option if it were exercised immediately. Intrinsic value is either zero or the payoff that would accrue from exercising the option immediately, whichever is the larger.

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

1.19.9 Interest-bearing loans

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, convert 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 following assumptions are applied in the calculation of fair value:

» The forecasted interest and capital cash flows are contractual;
» A flat probability of default curve for each loan is assumed across all loan maturities. A flat probability of default curve means a flat credit margin (being a product of loss given default and probability of default) for each loan;
» The credit margin is added to an interpolated swap rate to determine the discount rate used in discounting the cash flows;
» The swap rates represent the base risk free rate for all loans. The swap rates are downloaded from Reuters as at valuation date and contain market data of interest rate swaps;

- The interest cash flows include client credit margin and the discount rate applied is adjusted to include the credit margin;
- The discount rate is used to calculate the present value of cash flows i.e. present value = cash flow/(1 + discount rate)^tenor; and
- The valuation excludes non-performing loans due to cash flows being uncertain and this has been consistent with prior years.

1.19.10 Interest rates used for determining fair value

The Bank uses market-derived discount curves as at the reporting date. Future cash flows are based on contractual cash flows and, where market observable inputs are not available, management makes use of best estimates to determine the appropriate credit spread to apply. The Bank recognises transfers between levels of the fair value hierarchy as of the end of the reporting period during which the change has occurred.

1.20 Contingent liabilities and commitments

Transactions are classified as contingencies when the Bank's obligations depend on uncertain future events not within the Bank's control.

Items are classified as commitments when the Bank commits itself to future transactions with external parties.

1.21 Events after the reporting period

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

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

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

1.22 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.

1.23 Non-current assets held-for-sale

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

Non-current assets held-for-sale (or disposal groups) are measured at the lower of their carrying amount and fair value less costs to sell. A non-current asset is not depreciated (or amortised) while it is classified as held-for-sale or while it is part of a disposal group classified as held for sale. Interest and other expenses attributable to the liabilities of a disposal group classified as held-for-sale are recognised in profit or loss.

1.24 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.

1.25 Business combinations

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at fair value at acquisition date.

When the Bank acquires a business, it assesses the financial assets acquired and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date.

1. Statement of compliance (continued)

1.26 Fund administerd on behalf of third parties

The Bank manages funds on behalf of third parties. Funds administered on behalf of third parties are in ring fenced bank accounts, which are restricted and are utilised for specific purposes as determined in the agreements with third parties and as instructed by the parties to the agreements. The funds are not disclosed in the Bank's statement of financial position as they do not meet the definition of an asset as per the accounting framework.

1.27 Segmental reporting

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

Segment	Key group of assets in the segment	Business model	Classification and measurement under IFRS 9
RSA Municipalities	Development bonds – Municipal bonds	To collect contractual cash flows	Amortised cost
	Development loans	To collect contractual cash flows	Amortised cost
	Trade receivables and other assets	To collect contractual cash flows	Amortised cost
RSA Economic and Social	Development loans	To collect contractual cash flows	Amortised cost
	Trade receivables and other assets	To collect contractual cash flows	Amortised cost
Rest of Africa	Development loans	To collect contractual cash flows	Amortised cost
	Trade receivables and other assets	To collect contractual cash flows	Amortised cost
Treasury and Balance Sheet Management	Cash and cash equivalents	To hold to collect contractual cash flows	Amortised cost
	Investment securities	Held primarily for sale to manage liquidity needs	Fair value through profit or loss
	Derivative assets	Derivative assets held for risk management purposes	Fair value through profit or loss
Infrastructure Delivery	Trade receivables and other assets	To collect contractual cash flows	Amortised cost

1. New standards and interpretations

1.1 Standards and interpretations issued but not yet effective

1.1.1 Amendment to IFRS 9: *Financial Instruments (Prepayment Features)*

The IASB published Prepayment Features with Negative Compensation (Amendments to IFRS 9) to address the concerns about how IFRS 9: *Financial Instruments* classifies particular prepayable financial assets. In addition, the IASB clarified an aspect of the accounting for financial liabilities following a modification.

Changes regarding symmetric prepayment options: Prepayment Features with Negative Compensation amends the existing requirements in IFRS 9 regarding termination rights in order to allow measurement at amortised cost (or, depending on the business model, at fair value through other comprehensive income) even in the case of negative compensation payments. Under the amendments, the sign of the prepayment amount is not relevant, i.e. depending on the interest rate prevailing at the time of termination, a payment may also be made in favour of the contracting party effecting the early repayment. The calculation of this compensation payment must be the same for both the case of an early repayment penalty and the case of an early repayment gain.

Clarification regarding the modification of financial liabilities: It clarifies that an entity recognises any adjustment to the amortised cost of the financial liability arising from a modification or exchange in profit or loss at the date of the modification or exchange. A retrospective change of the accounting treatment may therefore become necessary if in the past the effective interest rate was adjusted and not the amortised cost amount. There are no development loans or bonds with prepayment features with negative compensation. The Bank has no modified financial liabilities.

The standard is not applicable to date.

1.1.2 The following standards were also issued and have been assessed by the Bank. The standards have no impact on the Bank’s financial statements:

» IFRS 1: First-time Adoption of International Financial Reporting Standards
» IFRS 4: Insurance Contracts
» IFRS 17: Insurance Contracts
» IFRS 3: Business Combinations
» IAS 41: Agriculture

2. Segmental information

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

» RSA Municipalities;
» RSA Economic and Social;
» Rest of Africa;
» Infrastructure Delivery; and
» Treasury and Balance Sheet Management.

2. Segmental information (continued)

in thousands of rands	RSA Municipalities 2021	RSA Municipalities 2020	RSA Economic and Social 2021	RSA Economic and Social 2020	Rest of Africa 2021	Rest of Africa 2020
Interest income calculated using EIR	2 907 893	2 833 120	3 283 058	3 466 097	1 737 426	1 451 496
Other interest income	–	–	45 484	14 329	15 011	10 862
Total interest income	**2 907 893**	**2 833 120**	**3 328 542**	**3 480 426**	**1 752 437**	**1 462 358**
Interest expense calculated using EIR	(1 303 487)	(1 510 647)	(1 539 830)	(1 708 457)	(461 783)	(385 590)
Other interest expense	–	–	–	–	–	–
Total interest expense	**(1 303 487)**	**(1 510 647)**	**(1 539 830)**	**(1 708 457)**	**(461 783)**	**(385 590)**
Net interest income	**1 604 406**	**1 322 473**	**1 788 712**	**1 771 969**	**1 290 654**	**1 076 768**
Net fee income	2 443	2 782	31 245	58 120	73 486	44 022
Dividends[1]	–	–	4 420	14 807	–	18 203
Other operating income[1]	10 677	8 391	4 218	35 363	13 124	107 627
Non-interest income/(loss)	**13 120**	**11 173**	**39 883**	**108 290**	**86 610**	**169 852**
Operating income	**1 617 526**	**1 333 646**	**1 828 595**	**1 880 259**	**1 377 264**	**1 246 620**
Operating expenses[2]	(306 203)	(344 092)	(358 105)	(429 917)	(261 953)	(279 660)
Depreciation and amortisation	(9 151)	(8 470)	(12 628)	(11 957)	(9 332)	(7 697)
Expected credit losses	(225 727)	(3 349)	(56 462)	(321 054)	(876 975)	(3 304 943)
Expenses	**(541 081)**	**(355 911)**	**(427 195)**	**(762 928)**	**(1 148 260)**	**(3 592 300)**
Development expenditure[3]	(63 725)	(29 324)	–	–	–	–
Project preparation	–	–	(2 590)	–	–	–
Revaluation of development loans[4]	–	–	–	–	(5 237)	(77 482)
Revaluation of equity investments[4]	–	–	(130 365)	(67 361)	(218 405)	(303 951)
Grants[5]	–	–	–	–	–	–
Sustainable earnings[5]	**1 012 720**	**948 411**	**1 268 445**	**1 049 970**	**5 362**	**(2 727 113)**
Net foreign exchange gain/(loss)[6]	–	–	–	–	–	–
Net (loss)/gain from financial assets and liabilities[4]	–	–	–	–	–	–
Profit/(loss) for the year	**1 012 720**	**948 411**	**1 268 445**	**1 049 970**	**5 362**	**(2 727 113)**
Capital expenditure	–	–	–	–	–	–
Development loans	29 249 937	26 222 156	35 832 581	38 387 446	17 650 930	21 630 662
Development bonds	1 279 235	1 288 278	–	–	–	–
Equity investments	–	–	2 104 962	2 419 806	2 902 497	3 574 145
Other assets	4 988	8	394 641	133	17 923	25 515
Total assets	**30 534 160**	**27 510 442**	**38 332 184**	**40 807 385**	**20 571 350**	**25 230 322**
Total liabilities	**15 739 322**	**13 728 326**	**22 055 419**	**25 799 065**	**13 567 297**	**18 231 632**

* The All other segment includes Project Preparation and Corporate assets.
1. Dividends (R4 420) and other operating income (R53 444) make up other income (R57 864) in the statement of comprehensive income.
2. Operating expenses (R1 121 944) comprises personnel expenses (R835 131) and general and administration expenses (R286 813).
3. Development expenditure relates to lending and non-lending support of under-resourced municipalities.
4. Revaluation losses have been split between equity investments, development loans and financial instruments for segment reporting purposes. Revaluation loss on equity investments (R348 770), gain on development loans (R5 237) and net loss from financial assets and liabilities (R447) make up net loss from financial assets and financial liabilities (R354 454) in the statement of comprehensive income.
5. Sustainable earnings as outlined in the DBSA's corporate plan means earnings (profit) before foreign currency exchange loss and financial instruments adjustments, but including revaluation on equity instruments.
6. Treasury is responsible for foreign exchange management across the Bank and as such all foreign exchange gains and losses have been reallocated to Treasury.

Infrastructure Delivery		Treasury and Balance Sheet Management		*All other		Total	
2021	**2020**	**2021**	**2020**	**2021**	**2020**	**2021**	**2020**
–	–	232 646	269 218	–	–	8 161 023	8 019 931
–	–	119 585	241 195	–	–	180 080	266 386
–	**–**	**352 231**	**510 413**	**–**	**–**	**8 341 103**	**8 286 317**
–	–	(29 921)	212 109	–	–	(3 335 021)	(3 392 585)
–	–	(114 318)	(470 279)	(123)	50	(114 441)	(470 229)
–	**–**	**(144 239)**	**(258 170)**	**(123)**	**50**	**(3 449 462)**	**(3 862 814)**
–	**–**	**207 992**	**252 243**	**(123)**	**50**	**4 891 641**	**4 423 503**
123 520	190 802	(59 514)	(62 981)	16 678	22 768	187 858	255 513
–	–	–	–	–	–	4 420	33 010
14 048	15 813	5	11	11 372	2 402	53 444	169 607
137 568	**206 615**	**(59 509)**	**(62 970)**	**28 050**	**25 170**	**245 722**	**458 130**
137 568	**206 615**	**148 483**	**189 273**	**27 927**	**25 220**	**5 137 363**	**4 881 633**
(172 761)	(187 960)	49 632	3 680	(72 554)	(2 859)	(1 121 944)	(1 240 808)
(824)	(811)	(352)	(386)	–	–	(32 287)	(29 321)
–	–	–	–	(5 560)	(3 333)	(1 164 724)	(3 632 679)
(173 585)	**(188 771)**	**49 280**	**3 294**	**(78 144)**	**(6 192)**	**(2 318 955)**	**(4 902 808)**
–	–	–	–	(14 515)	(17 868)	(78 240)	(47 192)
–	–	–	–	(35 212)	(41 539)	(37 802)	(41 539)
–	–	–	–	–	–	(5 237)	(77 482)
–	–	–	–	–	–	(348 770)	(371 312)
–	–	–	–	(32 510)	(28 654)	(32 510)	(28 654)
(36 017)	**17 844**	**197 763**	**192 567**	**(132 424)**	**(69 033)**	**2 315 849**	**(587 354)**
–	–	(892 773)	1 171 519	–	–	(892 773)	1 171 519
–	–	(6 742)	(72 652)	6 295	(7 581)	(447)	(80 233)
(36 017)	**17 844**	**(701 752)**	**1 291 434**	**(126 129)**	**(76 614)**	**1 422 629**	**503 932**
–	–	–	–	29 429	20 332	29 429	20 332
–	–	–	–	–	–	82 733 448	86 240 264
–	–	–	–	–	–	1 279 235	1 288 278
–	–	–	–	–	–	5 007 459	5 993 951
207 894	152 993	9 836 860	6 193 632	565 276	570 341	11 027 582	6 942 622
207 894	**152 993**	**9 836 860**	**6 193 632**	**565 276**	**570 341**	**100 047 724**	**100 465 115**
197 367	**106 449**	**4 869 848**	**684 697**	**4 468 017**	**4 337 369**	**60 897 270**	**62 887 538**

3. Financial assets by category

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

in thousands of rands	Notes	At amortised cost	FVTPL	Total carrying amount	Fair value
31 March 2021					
Cash and cash equivalents at amortised cost	5	8 978 608	–	8 978 608	8 978 608
Trade receivables and other assets	6	168 198	–	168 198	168 198
Investment securities	7	–	455 215	455 215	455 215
Derivative assets held for risk management purposes*	8.1	–	750 831	750 831	750 831
Other financial asset	9	–	42 451	42 451	42 451
Development loans at FVTPL**	10	–	16 847	16 847	16 847
Equity investments held at FVTPL**	11	–	5 007 459	5 007 459	5 007 459
Development bonds at amortised cost	13	1 279 235	–	1 279 235	1 310 388
Development loans at amortised cost	14	82 733 448	–	82 733 448	94 668 215
		93 159 489	**6 272 803**	**99 432 292**	**111 398 212**

* 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 at 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	–	455 215	–	455 215
Derivative assets held for risk management purposes	–	750 831	–	750 831
Development loans at FVTPL	–	–	16 847	16 847
Other financial asset	–	42 451	–	42 451
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**

in thousands of rands	Notes	At amortised cost	FVTPL	Total carrying amount	Fair value
31 March 2020					
Cash and cash equivalents at amortised cost	5	3 458 836	–	3 458 836	3 458 836
Trade receivables and other assets	6	161 796	–	161 796	161 796
Investment securities	7	–	1 787 361	1 787 361	1 787 361
Derivative assets held for risk management purposes	8.1	–	812 053	812 053	812 053
Other financial assets	9	–	36 152	36 152	36 152
Development loans at FVTPL	10	–	22 413	22 413	22 413
Equity investments held at FVTPL	11	–	5 993 951	5 993 951	5 993 951
Development bonds at amortised cost	13	1 288 278	–	1 288 278	1 202 477
Development loans at amortised cost	14	86 240 264	–	86 240 264	95 039 148
		91 149 174	**8 651 930**	**99 801 104**	**108 514 187**

in thousands of rands	Level 1 category	Level 2 category	Level 3 category	Total
Financial assets held at fair value				
Investment securities	544 185	1 243 176	–	1 787 361
Derivative assets held for risk management purposes	–	812 053	–	812 053
Development loans at FVTPL	–	–	22 413	22 413
Other financial assets	–	36 152	–	36 152
Equity investments held at FVTPL	–	3 817 616	2 176 335	5 993 951
	544 185	**5 908 997**	**2 198 748**	**8 651 930**
Financial assets held at amortised cost for which fair values are disclosed				
Cash and cash equivalents at amortised cost	–	3 458 836	–	3 458 836
Trade receivables and other assets	–	–	161 796	161 796
Development loans at amortised cost	–	–	95 039 148	95 039 148
Development bonds at amortised cost	–	1 202 477	–	1 202 477
	–	**4 661 313**	**95 200 944**	**99 862 257**
Total fair value of financial assets	**544 185**	**10 570 310**	**97 399 692**	**108 514 187**

4. Financial liabilities by category

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

in thousands of rands	Notes	At amortised cost	FVTPL	Total carrying amount	Fair value
31 March 2021					
Derivative liabilities held for risk management purposes*	8.2	–	127 276	127 276	127 276
Trade, other payables and accrued interest on debt funding	17	560 753	–	560 753	560 753
Debt funding designated at FVTPL	20	–	1 513 997	1 513 997	1 513 997
Debt funding held at amortised cost**	21	56 982 792	–	56 982 792	61 334 041
Repurchase agreements held at amortised cost	21	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 of R57.4 billion is made up of accrued interest of R371 million plus principal of R56.98 billion. 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 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	–	869 135	–	869 134
	–	**62 589 623**	**174 305**	**62 763 928**
Total fair value of financial liabilities	**–**	**64 230 896**	**174 305**	**64 405 201**

4. Financial liabilities by category (continued)

in thousands of rands	Notes	At amortised cost	FVTPL	Total carrying amount	Fair value
31 March 2020					
Derivative liabilities held for risk management purposes*	8.2	–	784 835	784 835	784 835
Trade, other payables and accrued interest on debt funding	17	546 227	–	546 227	546 227
Debt funding designated at FVTPL	20	–	1 505 805	1 505 805	1 505 805
Debt funding at amortised cost**	21	59 040 495	–	59 040 495	62 183 714
Repurchase agreements held at amortised cost	21	587 338	–	587 338	529 858
		60 174 060	**2 290 640**	**62 464 700**	**65 550 439**

* Derivative liabilities held for risk management are mandatorily held at FVTPL.

** The accrued interest portion of R422 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 of R59.4 billion is made up of accrued interest of R422 million plus principal of R59 billion. 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 designated at fair value				
Debt funding designated at FVTPL	–	1 505 805	–	1 505 805
Derivative liabilities held for risk management purposes	–	784 835	–	784 835
	–	**2 290 640**	**–**	**2 290 640**
Financial liabilities held at amortised cost for which fair values are disclosed				
Trade, other payables and accrued interest on debt funding	–	429 459	116 768	546 227
Debt funding at amortised cost	–	62 183 714	–	62 183 714
Repurchase agreements held at amortised cost	–	529 858	–	529 858
	–	**63 143 031**	**116 768**	**63 259 799**
Total fair value of financial liabilities	**–**	**65 433 671**	**116 768**	**65 550 439**

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

in thousands of rands	2021	2020
5. Cash and cash equivalents at amortised cost		
Cash and cash equivalents consist of:		
Call deposits	4 818 237	1 899 866
Cash in bank	4 160 371	1 558 970
Balance at the end of the year	**8 978 608**	3 458 836

The average interest rate earned on call deposits detailed above was 4.51% (31 March 2020: 7.43%). The Bank's exposure to interest rate risk and sensitivity analysis for financial assets and financial liabilities is disclosed in note 42.

in thousands of rands	2021	2020
6. Trade receivables and other assets		
Financial assets at amortised cost		
Trade receivables	179 374	140 101
Less provision for ECL on trade receivables	(12 825)	(7 264)
Net carrying amount trade receivables	**166 549**	**132 837**
Accrued interest	1 604	28 888
Deposits	4	4
Staff loans*	41	67
Total financial assets	**168 198**	**161 796**
Non-financial assets		
Payroll expenses receivable	801	45
Prepayments	125 765	162 532
Subsistence and travel	86	1 064
VAT	1 526	2 632
Total other assets	**128 178**	**166 273**
Balance at the end of the year	**296 376**	**328 069**

Analysis of trade receivables and other assets

Current portion	169 810	165 492
Non-current portion	126 566	162 577
Balance at the end of the year	**296 376**	**328 069**

Reconciliation of provision for ECL on trade receivables

Balance at the beginning of the year	7 264	3 931
Increase in provision for ECL on trade receivables (refer to note 34)	5 561	3 333
Balance at the end of the year	**12 825**	**7 264**

* Staff loans are for employees and are interest free. The interest that should have been payable on this account is R2 852 at a rate of 7% (31 March 2020: R6 163 at the rate of 9.25%).

Staff loans, deposits, accrued interest and trade receivables are held at amortised cost. Staff loans, deposits and accrued interest are not impaired.

Expected credit losses are provided on trade receivables based on the simplified approach. The Bank used historically observed default rates (actual write-off) over the expected life of the trade receivables adjusted as necessary to reflect current conditions to calculate the expected credit losses for trade receivables.

Default rates used for the calculation of expected credit losses for trade receivables are detailed below.

Default rates	%	%
Infrastructure Delivery trade receivables	0	0
Other trade receivables	17 and 100	17
Ex-employees receivables	100	100

6. Trade receivables and other assets (continued)

The table below provides information about the credit quality of trade and other receivables, where the expected credit loss is measured at an amount equal to the lifetime expected credit losses (simplified approach).

	Days				
in thousands of rands	**>90**	**61-90**	**31-60**	**1-30**	**Total**
31 March 2021					
Infrastructure Delivery trade receivables – Expected loss rate of 0%					
Gross carrying amount	22 308	14 460	9 413	99 039	145 220
Provision for lifetime ECL	–	–	–	–	–
Net carrying amount at the end of the year	**22 308**	**14 460**	**9 413**	**99 039**	**145 220**
Other trade receivables – Expected loss rate of 17% and 100%					
Gross carrying amount	5 510	1 586	1 634	23 471	32 201
Provision for lifetime ECL	(4 931)	(514)	(522)	(4 905)	(10 872)
Net carrying amount at the end of the year	**579**	**1 072**	**1 112**	**18 566**	**21 329**
Ex-employees – Expected loss rate of 100%					
Gross carrying amount	1 953	–	–	–	1 953
Provision for lifetime ECL	(1 953)	–	–	–	(1 953)
Net carrying amount at the end of the year	**–**	**–**	**–**	**–**	**–**
Total net carrying amount at the end of the year	**22 887**	**15 532**	**10 525**	**117 605**	**166 549**

	Days				
in thousands of rands	**>90**	**61-90**	**31-60**	**1-30**	**Total**
31 March 2020					
Infrastructure Delivery trade receivables – Expected loss rate of 0%					
Gross carrying amount	4 641	–	32 268	69 842	106 751
Provision for lifetime ECL	–	–	–	–	–
Net carrying amount at the end of the year	**4 641**	**–**	**32 268**	**69 842**	**106 751**
Other trade receivables – Expected loss rate of 17%					
Gross carrying amount	11 238	721	8 617	10 797	31 373
Provision for lifetime ECL	(1 911)	(122)	(1 465)	(1 789)	(5 287)
Net carrying amount at the end of the year	9 327	599	7 152	9 008	26 086
Ex-employees – Expected loss rate of 100%					
Gross carrying amount	1 703	–	–	274	1 977
Provision for lifetime ECL	(1 703)	–	–	(274)	(1 977)
Net carrying amount at the end of the year	**–**	**–**	**–**	**–**	**–**
Total net carrying amount at the end of the year	**13 968**	**599**	**39 420**	**78 850**	**132 837**

The table below shows the reconciliation of the opening balance to the closing balance of the gross carrying amount of trade receivables and the provision for expected credit losses:

	Default rate			
in thousands of rands	**0%**	**17% and 100%**	**100%**	**Total**
31 March 2021				
Reconciliation of gross carrying amount				
Balance at the beginning of the year	106 751	31 373	1 977	140 101
Movements for the year	38 469	828	(24)	39 273
Gross carrying amount at the end of the year	**145 220**	**32 201**	**1 953**	**179 374**
Reconciliation of provision for ECL				
Balance at the beginning of the year	–	(5 287)	(1 977)	(7 264)
Increase in provision for ECL	–	(5 585)	24	(5 561)
Provision for ECL at the end of the year	**–**	**(10 872)**	**(1 953)**	**(12 825)**
Net carrying amount at the end of the year	**145 220**	**21 329**	**–**	**166 549**

in thousands of rands	Default rate 0%	17%	100%	Total
31 March 2020				
Reconciliation of gross carrying amount				
Balance at the beginning of the year	139 581	13 106	1 767	154 454
Movements for the year	(32 830)	18 267	210	(14 353)
Gross carrying amount at the end of the year	**106 751**	**31 373**	**1 977**	**140 101**
Reconciliation of provision for ECL				
Balance at the beginning of the year	–	(2 164)	(1 767)	(3 931)
Increase in provision for ECL	–	(3 123)	(210)	(3 333)
Provision for ECL at the end of the year	**–**	**(5 287)**	**(1 977)**	**(7 264)**
Net carrying amount at the end of the year	**106 751**	**26 086**	**–**	**132 837**

Included in trade and other receivables are*:

in thousands of rands	2021	2020
Mandates		
City of Johannesburg	–	783
District Development Model	8 064	–
Eastern Cape Department of Education	1 346	5 763
Ekurhuleni Metropolitan Municipality	40 077	10 464
Free State Department of Education	7 161	–
Green Fund	–	29
Infrastructure Delivery Management System	2 577	150
Infrastructure Fund	4 626	–
Infrastructure Investment Programme for South Africa (IIPSA)	5 700	6 952
KfW HIV/VCT 2 Programme	347	347
KwaZulu-Natal Department of Education	37 970	29 563
Limpopo Department of Economic Development	38	630
Limpopo Department of Education	976	7 736
Limpopo Department of Health	15 214	138
Limpopo Department of Public Works	374	218
National Cooperative Governance and Traditional Affairs	–	414
National Department of Basic Education for Accelerated Infrastructure Schools Programme	8 874	3 975
National Department of Defence	48	–
National Department of Energy – Independent Power Producers Office (IPPO)	4 835	13 505
National Department of Health	8 846	19 124
National Department of Public Works	10 163	21 446
National Department of Sport, Arts and Culture	–	378
National Department of Trade and Industry	3 370	229
National Treasury – Project Preparation Fund	1 803	–
National Treasury Cities Support Programme (NTCSP)	6 946	4 637
Student Housing Infrastructure Programme Management	2 374	–
World Economic Forum – Sustainable Development Investment Partnership Programme	703	–
Balance at year end for mandates	**172 432**	**126 481**
Other programmes and receivables		
African World Heritage Fund (AWHF)	35	617
Bank SETA	15	15
Former employees	1 953	1 977
KfW SADC Water Fund	891	753
Msunduzi Local Municipality	850	–
Other trade receivables	1 116	8 966
Pan African Capacitation Building Platform (PACBP)	18	968
Proparco	64	324
Rustenburg Local Municipality	2 000	–
Balance at year end for other programmes and receivables	**6 942**	**13 620**
Balance at the end of the year	**179 374**	**140 101**

* The amounts mainly arose from the Bank's non-lending activities in the Infrastructure Delivery Division, mandates and other agencies.

in thousands of rands	2021	2020
7. Investment securities		
Investment securities consist of the following:		
Investment securities mandatorily held at fair value through profit or loss		
Government bonds – listed	–	544 185
Investment in segregated funds	32 699	508 491
Municipal bonds – listed	337 872	649 632
State-owned entities bonds – listed	84 644	85 053
Balance at the end of the year	**455 215**	**1 787 361**

Investments securities are held for sale as part of the strategic liquidity portfolio to manage the Bank's liquidity requirements. Accrued interest is presented as part of the investment securities fair value movements and amounts to R16.4 million. Accrued interest for 31 March 2020 of R38.4 million.

Investment securities reconciliation

	2021	2020
Balance at the beginning of the year	1 787 361	1 880 502
Fair value movements	23 698	(17 323)
Additions, disposals and maturities	(1 309 000)	(70 000)
Premium and discounts	(46 844)	(5 818)
Balance at the end of the year	**455 215**	**1 787 361**

Analysis of investment securities

	2021	2020
Current portion	16 395	141 314
Non-current portion	438 820	1 646 047
Balance at the end of the year	**455 215**	**1 787 361**

8. Derivative assets and liabilities held for risk management purposes

8.1. Derivative assets held for risk management purposes

Risk type:

	2021	2020
Interest rate derivatives	17 243	38 653
Foreign exchange derivatives	733 588	773 400
Balance at the end of the year	**750 831**	**812 053**

Included in derivative assets is a credit valuation adjustment (CVA) of R91 million (31 March 2020: R61 million).

8.2. Derivative liabilities held for risk management purposes

Risk type:

	2021	2020
Interest rate derivatives	(34 504)	(27 524)
Foreign exchange derivatives	(92 772)	(757 311)
Balance at the end of the year	**(127 276)**	**(784 835)**

Included in derivative liabilities is a debit valuation adjustment (DVA) of RNil (31 March 2020: R48 million).

8.3. Net derivatives held for risk management

	2021	2020
Derivatives designated as fair value hedges	(10 940)	(6 928)
Derivatives designated as cash flow hedges	485 274	103 549
Derivatives held for risk management not designated hedges – economic hedges	149 221	(69 403)
Net derivatives at the end of the year	**623 555**	**27 218**

Derivatives designated as fair value hedges

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

IFRS 9 has not finalised the dynamic hedging component of portfolio hedging. The Bank has elected to remain under IAS 39 hedge accounting on this fair value portfolio for hedge effectiveness testing purposes.

Derivatives designated as cash flow hedges

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

Derivatives held for risk management not designated hedges – economic hedges

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

The Bank did not early adopt IFRS 7 and IFRS 9 phase 2 amendments on reference rates reform. The full impact of the reference rate reform cannot be reliably estimated at this point in time.

Fair value portfolio

Historically, the Bank applied fair value hedge accounting on the portfolio. However, DBSA has been phasing out the fair value hedge accounting on this liability portfolio naturally as the individual instrument matures.

Instrument type	Accounting treatment	2021	2020
Annual break swap	No hedge accounting applied	(8 266)	14 656
Debt funding – FVTPL	Fair value hedge accounting	(1 513 997)	(1 505 805)
Government bonds	Fair value hedge accounting	–	544 185
Interest rate swap	Fair value hedge accounting	(10 940)	(6 928)
Municipal bonds	Fair value hedge accounting	337 872	649 632
State-owned entity bonds	Fair value hedge accounting	84 644	85 053
Grand total		**(1 110 687)**	**(219 207)**

Hedge accounting

The table below summarises the effect on financial position and performance – hedging instruments.

in thousands of rands	Nominal amount	Carrying amount Assets	Carrying amount Liabilities	Changes in fair value used for calculating hedge ineffectiveness	Line item in the financial statements
31 March 2021					
Fair value hedges					
Interest rate risk					
Interest rate swaps	680 000	15 297	(26 237)	(2 129)	Derivative financial instruments
Cash flow hedges					
Foreign exchange rate risk					
Cross currency swaps	634 957	222 506	(23 963)	(9 253)	Derivative financial instruments
Currency options	3 472 846	286 731	–	303 206	Derivative financial instruments
Total	**4 107 803**	**509 237**	**(23 963)**	**293 953**	

8. Derivative assets and liabilities held for risk management purposes (continued)

8.3 Net derivatives held for risk management (continued)

Hedge accounting (continued)

in thousands of rands	Carrying amount of the hedged item		Accumulated amount of fair value hedge adjustments on the hedged item included in the carrying amount of the hedged item		Changes in fair value used for calculating hedge ineffectiveness	Cash flow hedge reserve	Line item in the financial statements
	Assets	Liabilities	Assets	Liabilities			
31 March 2021							
Fair value hedges							
Interest rate risk							
Net residual risk in fair value portfolio	215 215	(516 847)	–	–	2 129	–	Debt funding and investment securities
Cash flow hedges							
Foreign exchange risk rate							
Debt funding	–	–	–	–	9 251	(40 171)	Debt funding at amortised cost
Currency options	–	–	–	–	(352 277)	(88 875)	Debt funding held at amortised cost, development loans at amortised cost and equity investments at FVTPL
Total	**215 215**	**(516 847)**	**–**	**–**	**(340 897)**	**(129 046)**	

The table below summarises the effect on financial position and performance – hedged items.

in thousands of rands	Ineffectiveness recognised in profit or loss	Ineffectiveness recognised in OCI	Line in the financial statements
31 March 2021			
Fair value hedges			
Interest rate risk	–	–	Net gain/(loss) from financial assets and financial liabilities

in thousands of rands	Change in the value of the hedging instrument recognised in OCI	Hedge ineffectiveness recognised in profit or loss	Line item in profit or loss that includes hedge ineffectiveness	Amount reclassified from cash flow hedge reserve to profit or loss	Line item affected in profit or loss because of the reclassification
31 March 2021					
Cash flow hedges					
Cross currency swaps	(37 358)	(2)	Net (gain)/loss from financial assets and financial liabilities	18 643	Net (gain)/loss from financial assets and from financial liabilities
Options	381 720	(49 071)	Net (gain)/loss from financial assets and from financial liabilities	(205 273)	Net (gain)/loss from financial assets and from financial liabilities
Total	**344 362**	**(49 073)**		**(186 630)**	

in thousands of rands	Nominal amount	Carrying amount: Assets	Carrying amount: Liabilities	Changes in fair value used for calculating hedge ineffectiveness	Line item in the financial statements
31 March 2020					
Fair value hedges					
Interest rate risk					
Interest rate swaps	680 000	20 596	(27 524)	8 817	Derivative financial instruments
Cash flow hedges					
Foreign exchange rate risk					
Cross currency swaps	887 461	320 170	(23 699)	(886 460)	Derivative financial instruments
Currency options	4 871 928	28 825	(221 748)	(73 573)	Derivative financial instruments
Total	**5 759 389**	**348 995**	**(245 447)**	**(960 033)**	

	Carrying amount of the hedged item		Accumulated amount of fair value hedge adjustments on the hedged item included in the carrying amount of the hedged item		Changes in fair value used for calculating hedge ineffectiveness	Cash flow hedge reserve	Line item in the financial statements
in thousands of rands	Assets	Liabilities	Assets	Liabilities			
31 March 2020							
Fair value hedges							
Interest rate risk							
Net residual risk in fair value portfolio	220 488	(524 249)	–	–	(8 817)	–	Debt funding and investment securities
Cash flow hedges							
Foreign exchange risk rate							
Debt funding	–	–	–	–	886 332	(58 886)	Debt funding at amortised cost
Currency options	–	–	–	–	124 580	87 572	Debt funding held at amortised cost, development loans at amortised cost and equity investments at FVTPL
Total	**220 448**	**(524 249)**	**–**	**–**	**(1 002 095)**	**28 686**	

in thousands of rands	Ineffectiveness recognised in profit or loss	Ineffectiveness recognised in OCI	Line in the financial statement
31 March 2020			
Fair value hedges			
Interest rate risk	–	–	Net gain/(loss) from financial assets and financial liabilities

8. Derivative assets and liabilities held for risk management purposes (continued)

8.3 Net derivatives held for risk management (continued)

Hedge accounting (continued)

in thousands of rands	Change in the value of the hedging instrument recognised in OCI	Hedge ineffectiveness recognised in profit or loss	Line item in profit or loss that includes hedge ineffectiveness	Amount reclassified from cash flow hedge reserve to profit or loss	Line item affected in profit or loss because of the reclassification
31 March 2020					
Cash flow hedges					
Cross currency swaps	41 853	(128)	Net (gain)/loss from financial assets and financial liabilities	(27 839)	Net (gain)/loss from financial assets and financial liabilities
Options	(175 296)	51 007	Net (gain)/loss from financial assets and financial liabilities	106 678	Net (gain)/loss from financial assets and financial liabilities
Total	**(133 443)**	**50 879**		**78 839**	

in thousands of rands	2021	2020
9. Other financial asset		
Market value of investments	**42 451**	**36 152**

This asset represents the fair value of the Medipref investment held with Sanlam.

	2021	2020
Balance at the beginning of the year	**36 152**	**43 732**
Income	4 144	4 669
Expenses	(1 267)	(435)
Contributions paid	(4 078)	(3 717)
Increase/(decrease) in market value	7 500	(8 097)
Balance at the end of the year	**42 451**	**36 152**

10. Development loans held at FVTPL

	2021	2020
Balance at the beginning of the year	99 895	–
Movements for the year	(329)	99 895
Gross development loans at FVTPL	**99 566**	**99 895**
Fair value movements	(82 719)	(77 482)
Balance at the end of the year	**16 847**	**22 413**

Movements during the year

	2021	2020
Loans disbursed	–	73 046
Interest accrued	15 011	10 862
Foreign exchange adjustments	(15 340)	15 987
Movement for the year	**(329)**	**99 895**

10.1 Fair value adjustment

	2021	2020
Balance at the beginning of the year	(77 482)	–
Current year fair value adjustment (refer to note 30)	(5 237)	(77 482)
Balance at the end of the year	**(82 719)**	**(77 482)**

10.2 Maturity analysis of development loans at FVTPL

	2021	2020
Due after three months but within one year	99 566	99 895

in thousands of rands	2021	2020

10.3 Sectoral analysis of development loans at FVTPL

Energy – Electricity	99 566	99 895

10.4 Geographical analysis of development loans at FVTPL

Sierra Leone	99 566	99 895
USD amount	6 743	5 599

10.5 Client classification of development loans at FVTPL

Private sector intermediaries	99 566	99 895

10.6 Fixed and variable interest rate loans of development loans at FVTPL

Fixed	99 566	99 895

10.7 Analysis of development loans at FVTPL

Current portion*	99 566	99 895

* The project experienced COVID-19 induced delays, resulting in a tenor extension. As such, the prior period balance was disclosed at current, based on expected payment at the time, and remains current.

11. Equity investments held at fair value through profit or loss

Equity investments held at FVTPL	**5 007 459**	**5 993 951**

11.1 Equity investments held at FVTPL

Cost		
Balance at the beginning of the year	3 579 087	3 999 701
Acquisitions	102 122	80 104
Capital return	(235 693)	(500 718)
Balance at the end of the year	**3 445 516**	**3 579 087**
Fair value adjustment		
Balance at the beginning of the year	423 479	651 902
Current year fair value adjustment (refer to note 30)	(348 770)	(371 312)
Realised capital gain (refer to note 31)	26 882	142 889
Balance at the end of the year	**101 591**	**423 479**
Foreign exchange adjustments		
Balance at the beginning of the year	1 991 385	1 285 975
Unrealised (loss)/gain (refer to note 29)	(618 896)	587 709
Realised gain (refer to note 29)	87 863	117 701
Balance at the end of the year	**1 460 352**	**1 991 385**
Fair value at the end of the year	**5 007 459**	**5 993 951**

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 (refer to note 11.2).

in thousands of rands	2021	2020
11. Equity investments held at fair value through profit or loss (continued)		
11.2 Period since initial investment		
Less than one year but within four years	53 333	217 013
Four years but within nine years	395 487	3 251 770
10 years and older	4 558 639	2 525 168
Balance at the end of the year	**5 007 459**	**5 993 951**
11.3 Sectoral analysis of equity investments		
Commercial infrastructure	2 655 212	3 451 151
Institutional infrastructure	981 652	985 201
Residential facilities	1 370 595	1 557 599
Balance at the end of the year	**5 007 459**	**5 993 951**
11.4 Geographical analysis of equity investments		
South Africa	1 553 212	1 716 436
International (the rest of the Africa excluding South Africa)	3 454 247	4 277 515
Balance at the end of the year	**5 007 459**	**5 993 951**
11.5 US dollar and Euro amounts included in the above Africa and International equity investments		
US dollar amount included	**146 337**	**157 722**
Euro amount included	**36 298**	**32 637**
11.6 Analysis of equity investments		
Current portion	–	–
Non-current portion	5 007 459	5 993 951
Balance at the end of the year	**5 007 459**	**5 993 951**

12. Fair value of financial assets and liabilities

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 valued using discounted cash flow analysis. This category includes unlisted equity investments and development loans (both measured at fair value and at amortised cost). No significant interrelationships between unobservable inputs used in the valuation of its 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
31 March 2021					
Financial instruments					
Financial assets held 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.

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	Notes	Level 1	Level 2	Level 3	Total
31 March 2020					
Financial assets held at FVTPL					
Investment securities	3	544 185	1 243 176	–	1 787 361
Other financial assets	3	–	36 152	–	36 152
Derivative assets held for risk management purposes	3	–	812 053	–	812 053
Development loans at FVTPL	3	–	–	22 413	22 413
Equity investments at FVTPL	3	–	3 817 616	2 176 335	5 993 951
Financial assets held at amortised cost for which fair values are disclosed					
Cash and cash equivalents	3	–	3 458 836	–	3 458 836
Trade receivables and other assets	3	–	–	161 796	161 796
Development bonds	3	–	1 202 477	–	1 202 477
Development loans	3	–	–	95 039 148	95 039 148
Total financial assets		**544 185**	**10 570 310**	**97 399 692**	**108 514 187**
Financial liabilities held at FVTPL					
Derivative liabilities held for risk management	4	–	784 835	–	784 835
Debt funding designated at FVTPL	4	–	1 505 805	–	1 505 805
Financial liabilities held at amortised cost for which fair values are disclosed					
Trade, other payables and accrued interest on debt funding	4	–	429 459	116 768	546 227
Debt funding held at amortised cost	4	–	62 183 714	–	62 183 714
Repurchase agreements held at amortised cost		–	529 858	–	529 858
Total financial liabilities		**–**	**65 433 671**	**116 768**	**65 550 439**

in thousands of rands	2021	2020
12. Fair value of financial assets and liabilities (continued)		
Reconciliation of level 3 financial assets held at FVTPL:		
Equity investments held at FVTPL		
Balance at the beginning of the year	2 176 335	2 221 796
Transfers into level 3*	758 461	–
Decrease in fair value of equity investments (refer to note 30)	(137 572)	(45 461)
Balance at the end of the year	**2 797 224**	**2 176 335**

* 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.

	2021	2020
Development loans at FVTPL		
Balance at the beginning of the year	22 413	–
Acquisition of development loan at FVTPL and other movements	(329)	99 895
Decrease in fair value of development loans at FVTPL (refer to note 30)	(5 237)	(77 482)
Balance at the end of the year	**16 847**	**22 413**

The table below shows the fair value hierarchy and valuation techniques used to determine their fair values:

in thousands of rands	2021 Fair value	2021 Hierarchy level	2020 Fair value	2020 Hierarchy level
Financial instruments				
Derivative assets (a)	750 831	2	812 053	2
Investment securities (b)	455 215	2	1 787 361	1 and 2
Development loans at FVTPL (f)	16 847	3	22 413	3
Equity investments (c)	5 007 459	1, 2 and 3	5 993 951	2 and 3
Other financial asset (d)	42 451	2	36 152	2
Financial assets	**6 272 803**		**8 651 930**	
Derivative liabilities (a)	127 276	2	784 835	2
Debt funding designated at FVTPL (e)	1 513 997	2	1 505 805	2
Financial liabilities	**1 641 273**		**2 290 640**	

Valuation techniques used to determine fair value

(a) Derivatives

Include discounted cash flow models, comparison 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

Market observable bond prices from the Johannesburg Stock Exchange interest rate market. 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 and management judgement regarding fair value hierarchy

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 that this phase there is 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 equities

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 15% to 20% and in the prior year this was 10% to 25%.

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.

12. Fair value of financial assets and liabilities (continued)

Valuation techniques used to determine fair value (continued)

(c) Equity investments (continued)

(iii) Valuation techniques – Unlisted equities (continued)

Level 1 inputs	Level 2 inputs	Level 3 inputs
Quoted prices in active markets	Quoted prices for similar assets or liabilities in active markets	Marketabilty 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.

(e) Debt funding designated at fair value through profit or loss

Market observable bond prices from the interest rate market of the Johannesburg Stock Exchange. No adjustments are made to observable prices.

(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, development bonds, debt funding and repurchase agreements at amortised cost

Financial instruments valued using discounted cash flow analysis.

in thousands of rands	2021	2020
13. Development bonds at amortised cost		
Municipal bonds	**1 279 235**	1 288 278

13.1 Analysis of development bonds

	2021	2020
Balance at the beginning of the year	1 290 855	1 290 607
Movement during the year (refer to note 13.2)	(636)	248
Gross development bonds	**1 290 219**	**1 290 855**
Provision for ECL on development bonds (refer to note 13.3)	(10 984)	(2 577)
Balance at the end of the year	**1 279 235**	**1 288 278**

in thousands of rands	2021	2020

13.2 Movements during the year

	2021	2020
Interest accrued (refer to note 26)	122 001	122 301
Gross interest repayments	(122 637)	(122 053)
Net movements for the year	**(636)**	**248**

13.3 Reconciliation of provision for ECL on development bonds

	2021	2020
Balance at the beginning of the year	2 577	428
Increase in provision for ECL on development bonds (refer to note 34)	8 407	2 149
Balance at the end of the year	**10 984**	**2 577**

Development bonds are bullet bonds with fixed interest rates and are held at amortised cost using the effective interest rate method. The contractual rate is equal to the effective interest rate.

13.4 Analysis of development bonds

	2021	2020
Client classification		
Local government	1 290 219	1 290 855
Regional		
South Africa	1 290 219	1 290 855
Geography		
Gauteng	1 290 219	1 290 855
Sector		
Energy	1 290 219	1 290 855

13.5 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
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.

13. Development bonds at amortised cost (continued)

13.5 Reconciliation of development bonds (continued)

in thousands of rands	Stage 1	Stage 2	Stage 3	Total
31 March 2020				
Reconciliation of gross carrying amount				
Balance at the beginning of the year	**1 290 607**	**–**	**–**	**1 290 607**
Transfer from stage 1 to stage 2	(750 000)	750 000	–	–
Changes in interest accrual	15 918	22 937	–	38 855
Repayments	(38 607)	–	–	(38 607)
Balance at the end of the year	**517 918**	**772 937**	**–**	**1 290 855**
Reconciliation of provision for ECL March 2020				
Balance at the beginning of the year	**428**	**–**	**–**	**428**
Transfer from stage 1 to stage 2	(49)	2 339	–	2 290
Subsequent change in ECL due to changes in risk parameters (PDs, LGDs and EAD)	(141)	–	–	(141)
Balance at the end of the year	**238**	**2 339**	**–**	**2 577**

in thousands of rands	2021	2020
13.6 Expected credit losses		
ECL charge to the statement of comprehensive income (refer to note 34)	8 407	2 149
13.7 Analysis of current and non-current portion of development bonds		
Current	38 219	38 855
Non-current	1 252 000	1 252 000
Gross development bonds	**1 290 219**	**1 290 855**
Provision for ECL	(10 984)	(2 577)
Balance at the end of the year	**1 279 235**	**1 288 278**

14. Development loans at amortised cost

14.1 Analysis of development loans

	2021	2020
Balance at the beginning of the year	96 425 614	82 012 250
Movements during the year (refer to note 14.1.1)	(2 327 426)	14 413 364
Gross development loans	**94 098 188**	**96 425 614**
Provision for ECL on development loans (refer to note 14.9)	(11 364 740)	(10 185 350)
Net development loans at the end of the year	**82 733 448**	**86 240 264**

14.1.1 Movements during the year

	2021	2020
Loans disbursed – current year	13 459 403	15 568 306
Effective interest income on development loans (refer to note 26)	7 806 377	7 628 412
Movement in deferred fee	(80 342)	(180 328)
Contractual interest on stage 3 (refer to note 14.9)	149 537	365 645
Development loans written off (refer to note 14.9)	(84 906)	(242 144)
Foreign exchange adjustment	(4 956 804)	5 018 319
Development loans acquired through business combination*	64 052	–
Recovery of amounts impaired prior to business combination*	14 284	–
Gross loan repayments	(18 831 746)	(14 055 083)
Fees raised	189 984	310 237
Modification losses	(57 265)	–
Loans de-recognised due to substantial modification	(14 434)	(3 212 981)
New loans recognised after substantial modification	14 434	3 212 981
Movements for the year	**(2 327 426)**	**14 413 364**

* 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. Refer to note 45.

in thousands of rands	2021	2020

14.2 Maturity analysis of gross development loans

	2021	2020
Due within one year	17 651 879	16 136 034
Due after 1 (one) year but within 2 (two) years	6 268 919	9 898 335
Due after 2 (two) years but within 3 (three) years	5 739 378	6 480 379
Due after 3 (three) years but within 4 (four) years	6 492 633	5 952 996
Due after 4 (four) years but within 9 (nine) years	34 536 403	29 870 078
Due after 9 (nine) years but within 14 (fourteen) years	18 197 447	17 424 889
Due after 14 (fourteen) years	5 211 529	10 662 903
Total	**94 098 188**	**96 425 614**

14.3 Sectoral analysis of gross development loans

	2021	2020
Commercial – fund	309 658	266 741
Commercial – manufacturing	81 848	245 611
Commercial – mining	111 000	111 000
Commercial – tourism	288 341	356 977
Commercial – other	250 088	291 024
Communication and transport infrastructure	11 331 393	11 844 654
Energy – electricity	49 223 342	51 460 649
Oil and gas*	4 699 533	–
Energy – non-grid standalone	105 930	1 210 398
Human resources development	1 441 292	1 477 865
Institutional infrastructure	11	56
Residential facilities	2 523 238	2 756 108
Roads and drainage	14 332 692	14 388 502
Sanitation	826 144	883 737
Social infrastructure	5 768 971	8 277 334
Water	2 804 707	2 854 958
Total	**94 098 188**	**96 425 614**

* In March 2020, oil and gas exposures amounted to R5.5 billion and were classified under the energy (R3.4 billion) and social infrastructure (R2.1 billion) sectors. During the current period, the Audit and Risk Committee approved an oil and gas sector limit for the financing of infrastructure linked to the identification of oil or gas deposits, transportation and storage of oil or gas, and refining and purification of oil or natural gas. The risks assumed in the oil and gas industry are deemed to be fundamentally different, requiring separate disclosure.

in thousands of rands	2021	2020
14. Development loans at amortised cost (continued)		
14.4 Geographical analysis of gross development loans		
Eastern Cape	1 560 534	1 615 645
Free State	1 620 362	1 830 472
Gauteng	43 614 375	42 135 476
KwaZulu-Natal	4 859 704	5 494 711
Limpopo	920 979	1 049 683
Mpumalanga	689 661	741 084
North West	565 374	603 073
Northern Cape	9 319 170	9 199 153
Western Cape	5 261 676	4 873 816
Rest of Africa	25 686 353	28 882 501
Total	**94 098 188**	**96 425 614**
Rest of Africa		
Angola	4 871 394	5 930 146
Congo	1 424 463	1 617 489
Cote d'Ivoire	2 956 912	1 457 597
Ethiopia	663 818	879 712
Ghana	4 259 567	5 145 540
Kenya	260 856	396 153
Lesotho	307 926	407 875
Madagascar	332 533	378 388
Mauritius	696 074	780 619
Mozambique	699 235	425 505
Multi-regional	69 998	254 791
Namibia	80 000	80 000
Swaziland	41 474	46 986
Tanzania	509 155	157 755
Zambia	5 845 510	7 517 692
Zimbabwe	2 667 438	3 406 253
Total	**25 686 353**	**28 882 501**
Euro amount included in the Rest of Africa loans	**252 389**	**93 311**
US dollar amount included in the above Rest of Africa loans	**1 481 044**	**1 482 828**
14.5 Client classification of gross development loans		
Development finance institutions	69 998	254 791
Educational institutions	1 119 406	1 139 634
Local government	29 177 647	25 881 659
National and provincial government	6 486 246	4 117 586
Private sector intermediaries	28 224 832	29 860 221
Public utilities	29 020 059	35 171 723
Total	**94 098 188**	**96 425 614**
14.6 Fixed and variable interest rate gross development loans		
Fixed interest rate loans	42 393 359	46 000 898
Variable interest rate loans	51 704 829	50 424 716
Total	**94 098 188**	**96 425 614**

in thousands of rands	2021	2020

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

14.7.1 Sectoral analysis of gross non-performing loans

in thousands of rands	2021	2020
Commercial – manufacturing	81 848	245 611
Commercial – mining	111 000	111 000
Commercial – tourism	288 341	356 977
Commercial – other	212 372	242 477
Communication and transport infrastructure	1 110 578	1 452 220
Energy	1 502 032	1 736 795
Human resources development	268 829	278 253
Oil and gas*	1 560 474	–
Residential facilities	249 718	320 790
Roads and drainage	675 944	841 396
Sanitation	170 039	163 881
Social infrastructure	741 045	897 298
Water	298 549	299 691
Total	**7 270 769**	**6 946 389**

- In March 2020, oil and gas non-performing loan exposures amounted to R1.9 billion and were classified under energy (R1.6 billion) and communication and transportation infrastructure (R294 million). During the current period, the Audit and Risk Committee approved an oil and gas sector limit for the financing of infrastructure linked to the identification of oil or gas deposits, transportation and storage of oil or gas, and refining and purification of oil or natural gas. The risks assumed in the oil and gas industry are deemed to be fundamentally different, requiring separate disclosure.

14.7.2 Geographical analysis of gross non-performing loans

in thousands of rands	2021	2020
Eastern Cape	–	15 476
Free State	352 714	437 885
Gauteng	888 926	895 650
Limpopo	318 248	388 895
Mpumalanga	394 794	409 947
North West	145 968	143 550
Northern Cape	93 596	111 259
Rest of Africa	5 076 523	4 543 727
Total	**7 270 769**	**6 946 389**

Rest of Africa

in thousands of rands	2021	2020
Congo	1 297 089	1 521 769
Lesotho	299 523	392 012
Mauritius	696 074	780 619
Mozambique	315 479	394 592
Tanzania	–	157 755
Zambia	1 682 603	317 427
Zimbabwe	785 755	979 553
Total	**5 076 523**	**4 543 727**

14.7.3 Client classification on gross non-performing loans

in thousands of rands	2021	2020
Educational institutions	2 221	2 436
Local government	758 430	823 675
Private sector intermediaries	4 504 770	4 944 179
Public utilities	2 005 348	1 176 099
Total	**7 270 769**	**6 946 389**

	in thousands of rands	2021	2020
14.	**Development loans at amortised cost** (continued)		

14.8 Client concentration of gross development loans

	2021	2020
One client as percentage of total loan portfolio (%)	16.3	18.2
Seven clients as percentage of total loan portfolio (%)	48.2	45.9
Ten clients as percentage of total loan portfolio (%)	55.7	53.8

14.9 Provision for ECL on development loans reconciliation

	2021	2020
Balance at the beginning of the year	**10 185 350**	**6 195 744**
Impairment of current year interest (refer to note 14.1)	149 537	365 645
Loans written off during the year (refer to note 14.1)	(84 906)	(242 144)
Recovery of amounts impaired prior to business combination	14 284	–
Expected credit losses (refer to note 34)	1 100 475	3 866 105
Stage 3	634 365	1 533 069
Stages 1 and 2	466 110	2 333 036
Balance at the end of the year	**11 364 740**	**10 185 350**

14.10 Analysis of impairment charge

	2021	2020
Stage 3 loans		
Stage 3 expected credit losses	634 365	1 533 069
Stages 1 and 2 loans		
Stage 1 expected credit losses	(76 834)	289 831
Stage 2 expected credit losses	542 944	2 043 205
Balance at the end of the year	**1 100 475**	**3 866 105**

14.11 Reconciliation of net carrying amount development loans

The table 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
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 movement – 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	Stage 1	Stage 2	Stage 3	Total
31 March 2020				
Balance at the beginning of the year	**48 396 664**	**29 604 173**	**4 011 413**	**82 012 250**
Transfer from stage 1 to stage 2	(1 645 374)	1 645 374	–	–
Transfer from stage 2 to stage 3	–	(2 072 475)	2 072 475	–
Transfer from stage 1 to stage 3	(573 253)	–	573 253	–
Transfer from stage 2 to stage 1	1 004 578	(1 004 578)	–	–
Transfer from stage 3 to stage 2	–	4 496	(4 496)	–
New disbursements	15 352 173	158 626	57 507	15 568 306
Repayments	(10 236 723)	(3 013 885)	(804 475)	(14 055 083)
Effective interest on development loans during the year	4 472 425	2 921 537	234 450	7 628 412
Contractual interest on stage 3	–	–	365 645	365 645
Write-offs and waivers	–	–	(242 144)	(242 144)
Foreign exchange movements	2 097 918	2 255 339	665 062	5 018 319
Other movements – Fees	291 908	595	17 734	310 237
New loans recognised after substantial modification	3 212 981	–	–	3 212 981
Loans derecognised due to substantial modification	(3 212 981)	–	–	(3 212 981)
Movements in fees that are integral to the loan	(180 293)	–	(35)	(180 328)
Gross carrying amount	**58 980 023**	**30 499 202**	**6 946 389**	**96 425 614**
Less provisions for ECLs	(487 777)	(5 331 811)	(4 365 762)	(10 185 350)
Balance at the end of the year	**58 492 246**	**25 167 391**	**2 580 627**	**86 240 264**

14.12 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

in thousands of rands	2021	2020
Stage 1 loans	53 730 020	58 980 023
Stage 2 loans	33 081 869	30 499 202
Stage 3 loans	7 270 769	6 946 389
POCI	15 530	–
Loss allowance	(11 364 740)	(10 185 350)
Development loans receivable net of expected loss	**82 733 448**	**86 240 264**

14. Development loans at amortised cost (continued)

14.13 Reconciliation of expected credit losses of development loans

The table 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
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)
Transfer from stage 1 to stage 3	–	–	–	–	–
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, EADs)*	(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	Stage 1 – 12-month ECL	Stage 2 – lifetime ECL	Stage 3 – lifetime ECL	Total
31 March 2020				
Balance at the beginning of the year	**197 946**	**3 288 607**	**2 709 191**	**6 195 744**
Transfer from stage 1 to stage 2	(12 134)	47 335	–	35 201
Transfer from stage 2 to stage 3	–	(307 179)	1 097 187	790 008
Transfer from stage 2 to stage 1	45	(541)	–	(496)
Transfer from stage 3 to stage 2	–	1 092	(1 211)	(119)
Transfer from stage 1 to stage 3	(2 017)	–	149 109	147 092
New disbursements	100 577	–	–	100 577
Repayments	(1 695)	(305)	(4 126)	(6 126)
Suspended interest	–	–	365 645	365 645
New loans recognised after substantial modification	2 328	–	–	2 328
Loans derecognised due to substantial modification	(2 328)	–	–	(2 328)
Write-offs	–	–	(242 144)	(242 144)
Foreign exchange movements	8 895	389 839	400 469	799 203
Subsequent changes in ECL due to changes in risk parameters (PDs, LGDs, EADs)	196 160	1 912 963	(108 358)	2 000 765
Balance at the end of the year	**487 777**	**5 331 811**	**4 365 762**	**10 185 350**
ECL allowance recognised to income statement	**289 831**	**2 043 205**	**1 533 069**	**3 866 105**

in thousands of rands	2021	2020
Expected credit losses		
ECL charged to the statement of comprehensive income (refer to note 34)	1 100 475	3 866 105

14.14 Analysis of current and non-current portion of development loans

Development loans

Current	15 872 167	17 184 990
Non-current	78 226 021	79 240 624
Gross loan book	**94 098 188**	**96 425 614**
Provision for expected credit losses	(11 364 740)	(10 185 350)
Amortised cost	**82 733 448**	**86 240 264**

14.15 Modification of financial assets measured at amortised cost:

Gross loan book

	Stage 1		Stage 2		Stage 3		
in thousands of rands	Amortised cost before modification	Net modification gain/(loss)	Amortised cost before modification	Net modification gain/(loss) recognised	Amortised cost before modification	Net modification gain/(loss)	Total net modification gain/(loss)
31 March 2021							
Development loans	775 427	462	4 983 117	(57 727)	–	–	(57 265)
31 March 2020							
Development loans	3 212 981	–	–	–	–	–	–

During the period under review the Bank provided relief in the form of payment holidays to specific clients, upon request. The above table provides information on loans which were modified while they had loss allowances measured both at an amount equal to 12-month and lifetime expected credit losses and the modification resulting in a modification gain or loss being recognised. Substantial modifications were concluded on a net present value neutral basis with no gains or losses noted.

15. Property, equipment and right of use of assets

	2021		
in thousands of rands	Cost/valuation	Accumulated depreciation	Carrying value
Land	92 300	–	92 300
Buildings	324 555	(46 855)	277 700
Furniture and fittings	16 953	(15 593)	1 360
Motor vehicles	3 152	(1 104)	2 048
Office equipment	36 532	(14 304)	22 228
Computer equipment	83 273	(75 365)	7 908
Leasehold improvements	770	(770)	–
Lease equipment	3 880	(2 383)	1 497
Leasehold property	3 104	(2 460)	644
Total	**564 519**	**(158 834)**	**405 685**

15. Property, equipment and right of use of assets (continued)

	2020			
in thousands of rands	Cost/valuation	IFRS 16 adjustment	Accumulated depreciation	Carrying value
Land	94 000	–	–	94 000
Buildings	328 516	–	(42 516)	286 000
Furniture and fittings	16 537	–	(15 397)	1 140
Motor vehicles	3 152	–	(832)	2 320
Office equipment	28 351	–	(11 613)	16 738
Computer equipment	81 617	–	(67 904)	13 713
Leasehold improvements	770	–	(770)	–
Lease equipment	–	3 880	(2 150)	1 730
Leasehold property	–	3 104	(1 227)	1 877
Total	**552 943**	**6 984**	**(142 409)**	**417 518**

Reconciliation of property, equipment and right of use of assets – 2021

in thousands of rands	Opening balance	Additions	Change in estimate	Disposals	Revaluations	Depreciation	Closing balance
Land	94 000	–	–	–	(1 700)	–	92 300
Buildings	286 000	–	–	–	(3 961)	(4 339)	277 700
Furniture and fittings	1 140	415	–	–	–	(195)	1 360
Motor vehicles	2 320	–	–	–	–	(272)	2 048
Office equipment	16 738	8 179	–	(189)	–	(2 500)	22 228
Computer equipment	13 713	2 104	–	(40)	–	(7 869)	7 908
Lease equipment	1 730	–	1 264	–	–	(1 497)	1 497
Lease property	1 877	–	–	–	–	(1 233)	644
	417 518	**10 698**	**1 264**	**(229)**	**(5 661)**	**(17 905)**	**405 685**

Reconciliation of property, equipment and right of use of assets – 2020

in thousands of rands	Opening balance	Additions	Disposals	Revaluations	Depreciation	Closing balance
Land	94 000	–	–	–	–	94 000
Buildings	306 000	–	–	(15 661)	(4 339)	286 000
Leasehold property	–	3 104	–	–	(1 227)	1 877
Furniture and fittings	926	479	–	–	(265)	1 140
Motor vehicles	2 749	–	(49)	–	(380)	2 320
Office equipment	10 855	7 277	–	–	(1 394)	16 738
Computer equipment	20 490	1 458	(211)	–	(8 024)	13 713
Lease equipment	–	3 880	–	–	(2 150)	1 730
	435 020	**16 198**	**(260)**	**(15 661)**	**(17 779)**	**417 518**

Valuations

Land

Land constitutes Portion 465 (of Portion 442) of the Farm Randjesfontein 405 measuring 24 613 hectares donated by the South African Government in 1985. The land was fair valued by an independent valuator at R92 million (31 March 2020: R94 million by management).

Buildings

The existing buildings were erected in 1987 at a cost of R35.2 million. There were no improvements in the current financial year to the buildings. The buildings were fair valued by an independent valuator at R278 million (31 March 2020: R286 million by management). The historical carrying value of the existing buildings is R222 million (31 March 2020: R223 million).

The Bank has no restrictions on its assets neither have the assets been placed as collateral for its liabilities.

16. Intangible assets

in thousands of rands	2021 Cost	2021 Accumulated amortisation	2021 Carrying value	2020 Cost	2020 Accumulated amortisation	2020 Carrying value
Computer software	218 249	(136 680)	81 569	202 518	(122 298)	80 220

Reconciliation of intangible assets – 2021

in thousands of rands	Opening balance	Additions	Amortisation	Closing balance
Computer software	80 220	15 731	(14 382)	81 569

Reconciliation of intangible assets – 2020

in thousands of rands	Opening balance	Additions	Amortisation	Closing balance
Computer software	83 133	8 629	(11 542)	80 220

The Bank has no restrictions on its intangible assets neither have the assets been placed as collateral for its liabilities.

17. Trade, other payables and accrued interest on debt funding and deferred income

17.1 Trade, other payables and accrued interest on debt funding

in thousands of rands	2021	2020
Financial liabilities at amortised cost		
Accrued interest (financial market liabilities – amortised cost)	371 226	422 226
Accrued interest – Repurchase agreements	15 222	7 233
Deferred income*	–	15 145
Trade payables	171 388	98 166
Current portion of lease liabilities	2 917	3 457
Balance at the end of the year	**560 753**	**546 227**
Non-financial liabilities		
Bonus provision	171 025	139 922
PAYE, VAT and Compensation Commissioner	8 184	10 175
Balance at the end of the year	**179 209**	**150 097**
Trade, other payables and accrued interest on debt funding	**739 962**	**696 324**

* In the current year the deferred income is disclosed separately under deferred income (refer to note 17.2).

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. The reclassification did not have an impact on retained earnings.

Analysis of trade and other payables

	2021	2020
Current portion	739 962	681 180
Non-current portion	–	15 144
	739 962	**696 324**

Analysis of trade payables agencies

	2021	2020
Municipal Financial Improvement Programme (NT MFIP)	506	506
Municipal Infrastructure Support Agency (MISA)	201	201
National Rural Youth Service Corporation (NARYSEC)	115	115
Balance at the end of the year	**822**	**822**
Trade payables – Other		
Former employees	–	3
Accounts payable	45 061	31 099
Payroll	2 428	462
Accruals	123 077	65 780
Balance at the end of the year	**170 566**	**97 344**
Total trade payables	**171 388**	**98 166**

17. Trade, other payables and accrued interest on debt funding and deferred income (continued)

17.1 Trade, other payables and accrued interest on debt funding (continued)

Included in trade payables is bonus provision as reconciled below:

in thousands of rands	Opening balance	Utilised during the year	Reversal of prior period provision	Current year provision	Closing balance
31 March 2021					
Bonus provision	139 922	(138 011)	–	169 114	171 025

in thousands of rands	Opening balance	Utilised during the year	Reversal of prior year provision	Current year provision	Closing balance
31 March 2020					
Bonus provision	188 795	(179 757)	–	130 884	139 922

Reconciliation of deferred income

in thousands of rands	Opening balance	Utilised during the year	Reversal of prior year provision	Current year provision	Closing balance
31 March 2020					
Deferred income	16 179	(1 034)	–	–	15 145

17.2. Deferred income

in thousands of rands	2021	2020
Balance at the beginning of the year*	15 145	–
Business combination	461 468	–
Current movements	16 070	–
Interest income and recoveries on loans	16 146	–
Deferred income recognised during the year	(5 743)	–
Balance at the end of the year	**503 086**	**–**

* Deferred income is disclosed separately in the current year; it was disclosed under trade, other payables and accrued interest on debt funding in the prior year.

During the year, the Department of Environment, Forestry and Fisheries (DEFF) transferred Green Fund assets and liabilities to the DBSA. The funds transferred for the projects from the DEFF are governed by the MOA. The funds will be used for catalysing economy-wide green investments. The Green Fund grant transferred by 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.

18. Provisions

18.1 Provisions

Reconciliation of provisions – 2021

in thousands of rands	Opening balance	Current year provision	Utilised during the year/ reversed	Closing balance
Developmental 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**

Reconciliation of provisions – 2020

in thousands of rands	Opening balance	Current year provision	Utilised during the year/ reversed	Closing balance
Developmental expenditure	62 992	16 691	(7 299)	72 382
Provision for expected losses on loan commitments	246 018	–	(238 908)	7 110
Strategic initiatives – COVID-19	–	150 000	–	150 000
	309 010	**166 691**	**(246 207)**	**229 492**

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.

18.2 Lease liabilities

Reconciliation of lease liabilities – 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)	–

Reconciliation of lease liabilities – 2020

in thousands of rands	Opening balance	IFRS 16 adjustments	Interest accrued	Repayments	Current portion	Total
Leases	–	7 215	403	(3 797)	(3 457)	364

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.

18.3 Total of provisions and lease liabilities

in thousands of rands	2021	2020
Provisions	114 485	229 492
Lease liabilities	–	364
Total provisions and lease liabilities	**114 485**	**229 856**

19. Liability for funeral and post-employment medical benefits

19.1 Liability for funeral benefits

This benefit covers all current and retired employees of the Bank. In respect of these employees, a gross amount of R20 000 (31 March 2020: R20 000) is paid to the family upon the death of an employee or retired employee. The obligation was valued by Alexander Forbes on 31 March 2021.

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

in thousands of rands	2021	2020
Balance at the beginning of the year	**2 241**	**2 068**
(Decrease)/increase in liability	(56)	173
Balance at the end of the year	**2 185**	**2 241**

A portion of the actuarial gains for the year were due to changes in economic assumptions of RNil (31 March 2020 Loss of R0.017 million) and demographic assumptions of R0.306 million (31 March 2020: Loss of R0.017 million).

19.2 Liability for post-employment medical benefits

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

Pensioners include retired employees and their dependants. The liability is in respect of pensioners who continue to belong to the medical aid after retirement and one active member currently employed by the Bank.

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

Present value of obligation

	2021	2020
Balance at the beginning of the year	**40 644**	**42 416**
Interest cost	4 654	4 199
Current service cost (includes interest to year end)	49	50
Past service cost	–	1 314
Benefits paid	(4 127)	(3 852)
Actuarial loss/(gain) for the year	4 225	(3 483)
Balance at the end of the year	**45 445**	**40 644**

Gain for the year was due to changes in experience adjustments of R0.375 million (31 March 2020: Loss of R1.391 million) and loss in financial assumptions of R4.6 million (31 March 2020: Gain of R4.874 million).

	2021	2020
Total funeral and post-employment medical benefits liabilities	**47 630**	**42 885**

Analysis of funeral and post-employment medical benefits liabilities

	2021	2020
Current portion	4 299	4 180
Non-current portion	43 331	38 705
Balance at the end of the year	**47 630**	**42 885**

The amount recognised as an expense in the statement of comprehensive income in respect of the defined benefit plan is as follows:

	2021	2020
Interest cost	4 654	4 199
Current service cost	49	50
Past service cost	–	1 314
Total charge for the year (included in personnel expenses in the statement of comprehensive income – refer to note 35)	**4 703**	**5 563**

The amount recognised as an expense in the statement of other comprehensive income in respect of the defined benefit plan is as follows:

	2021	2020
Actuarial loss/(gain) for the year	4 225	(3 483)

in thousands of rands	2021	2020

19.3 The principal assumptions in determining the post-employment medical benefits obligation are as follows:

	2021	2020
Discount rate before taxation (%)	10.6	12.1
Medical aid inflation rate (%)	8.2	8.4

19.4 Sensitivity analysis

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

	Central assumption	% point decrease	% point increase
Medical aid inflation rate (%)	8.2	(1.0)	1.0
Accrued liability 31 March 2021 (R'000)	45 445	41 789	49 749
% change	–	(8.0)	9.5
Current service cost + interest cost 2021/22 (R'000)	4 646	4 250	5 113
% change	–	(8.5)	10.1
Sensitivity results from previous valuation: Medical aid inflation rate 2020/21 (%)	8.4	(1.0)	1.0
Current service cost + interest cost 2020/21 (R'000)	4 703	4 333	5 131
% change	–	(7.9)	9.1

19.5 The obligation for the three years prior to March 2020 is as follows:

in thousands of rands	
March 2019	42 416
March 2018	44 604
March 2017	40 712

in thousands of rands	2021	2020
19.6 Defined contribution plan		
The total amount expensed during the period (including group life assurance and income continuity benefits)	71 201	65 600

The Development Bank of Southern Africa Provident Fund (the Fund) was established on 1 June 1994. As a condition of employment, all eligible employees are required to join as members. The Fund, which is governed by the Pension Funds Act, No. 24 of 1956, is a defined contribution plan for the employees of the Bank. The number of employees covered by the plan for 31 March 2021 was 606 (31 March 2020: 613).

20. Debt funding designated at fair value through profit or loss

	2021	2020
Debt securities	**1 513 997**	**1 505 805**
Balance at the beginning of the year	**1 505 805**	**6 469 451**
Discounts and premiums	627	30 928
Fair value adjustments	149 965	318 443
Interest repayment	(142 400)	(451 017)
Capital repaid	–	(4 862 000)
Balance at the end of the year	**1 513 997**	**1 505 805**
Current portion	12 981	13 301
Non-current portion	1 501 016	1 492 504
Balance at the end of the year	**1 513 997**	**1 505 805**

20. Debt funding designated at fair value through profit or loss (continued)

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 R34 million (31 March 2020: R32 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 31 March 2021 designated at FVTPL was R90 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 31 March 2021 is inclusive of accrued interest amounting to R13 million.

in thousands of rands	2021	2020
21. Debt funding held at amortised cost		
Debt securities	33 604 308	31 860 267
Lines of credit	23 378 484	27 180 228
Balance per statement of financial position	**56 982 792**	**59 040 495**
Accrued interest (refer to note 17.1)	371 226	422 226
Balance at the end of the year including accrued interest	**57 354 018**	**59 462 721**

Reconciliation of debt funding at amortised cost

Balance at the beginning of the year	**59 040 495**	**44 516 190**
Capital raised	20 114 267	24 755 028
Capital repaid	(18 042 298)	(14 608 027)
Amortisation of discounts, premiums and transaction costs	297 835	308 814
Foreign exchange adjustments on lines of credit	(4 427 507)	4 068 490
Accrued interest (refer to note 17.1)	371 226	422 226
Balance at the end of the year including accrued interest	**57 354 018**	**59 462 721**

Analysis of debt funding at amortised cost

Current portion	9 012 134	17 325 403
Non-current portion	47 970 658	41 715 092
Balance at the end of the year	**56 982 792**	**59 040 495**

R80 billion Domestic Medium Term Note Programme (DMTN) is currently registered and listed on the JSE Securities Exchange as at 31 March 2021.

JSE DMTN Programme reconciliation

JSE DMTN Programme amount	80 000 000	80 000 000
Bonds in issue	(26 444 116)	(25 442 116)
Bond amount available for issuance	**53 555 884**	**54 557 884**

The Financial Sector Conduct Authority published on 31 July 2020 the approval of the amendments to the JSE Debt Listings Requirements (the "Debt Requirements") in the Government Gazette through Board Notice 89 of 2020 No. 43571, with an initial effective date of 31 August 2020 but later changed to 30 September 2020. The amendments are aimed at ensuring a fair, efficient and transparent debt capital market in South Africa. In terms of the new JSE Debt Listings Requirements, the Bank appointed Mr E Dietrich as the Debt Officer. The mandatory requirements of the Debt Listings Requirements have been disclosed in the Integrated Annual Report.

Debt securities designated at fair value through profit or loss consist of listed DV bonds. The valuation of debt securities held at fair value through profit or loss incorporates own credit risk adjustment of R34 million (2020: R32 million).

Debt securities carried at amortised cost consists of Eurorand bond issues, Money Market issuances (bridging bonds and short term Commercial paper), 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 years ended 31 March 2021 and 31 March 2020.

The total carrying amount of funding debt securities held at amortised cost inclusive of accrued interest amount of R255 million is R33.6 billion. The total carrying amount of funding lines of credit held at amortised cost inclusive of accrued interest amount of R51.3 million is R23.4 billion.

in thousands of rands	2021	2020
Floating rate notes and commercial paper – nominal values		
Commercial paper – short term notes	–	200 000
Floating rate notes – medium term notes	13 445 000	12 243 000
Balance at the end of the year	**13 445 000**	**12 443 000**

The Bank also issued several floating medium term notes under instrument codes DVF. These are floating rate notes instruments with a maturity of two to ten years held at amortised cost.

Repurchase agreements at amortised cost

Balance at the beginning of the year	587 338	–
Capital raised	3 425 749	587 338
Capital repaid	(3 145 045)	–
Balance per the statement of financial position	868 042	587 338
Accrued interest (refer to note 17.1)	15 222	7 233
Balance at the end of the year including accrued interest	**883 264**	**594 571**

Analysis of repurchase agreements at amortised cost

Current	883 264	594 571
Balance at the end of the year	**883 264**	**594 571**

Investment securities and development bonds worth R895 million (31 March 2020: R525 million) which relate to repurchase agreements has been pledged with financial institutions.

22. Share capital

Authorised

2 020 000 ordinary shares (31 March 2020: 2 020 000) at a par value of R10 000 each	20 200 000	20 200 000

The Board may, with the approval of the Shareholder previously given at a shareholder's meeting, increase the issued share capital of the Bank by the creation and issue of ordinary and preference shares.

The DBSA Act was amended in 2014 to increase the authorised share capital to R20.2 billion, divided into 2 020 000 ordinary shares. In terms of section 13(2A) of the Amended Act, the Minister of Finance may, after consultation with the Board and notice in the Gazette, adjust the amount of the authorised share capital of the Bank and number of ordinary shares.

Issued capital

20 000 ordinary shares (31 March 2020: 20 000) at a par value of R10 000 each	200 000	200 000

All issued capital is fully paid for.

23. Permanent government funding

Balance at the end of the year	**11 692 344**	**11 692 344**

This represents capital provided by the South African Government and remains part of the permanent capital of the Bank. There are no repayment terms and this funding is interest-free. The total amount received equates to equity.

24. Other reserves

24.1 Revaluation reserve on land and buildings

Balance at the beginning of the year	188 095	203 756
Loss on revaluation of land and buildings (refer to note 15)	(5 661)	(15 661)
Balance at the end of the year	**182 434**	**188 095**

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

in thousands of rands	2021	2020
24. Other reserves (continued)		
24.2 Cash flow hedge reserve		
Balance at the beginning of the year	**(28 686)**	**25 918**
Unrealised gain/(loss) on cash flow hedges	344 362	(133 443)
(Gain)/loss reclassified to profit or loss	(186 630)	78 839
Balance at the end of the year	**129 046**	**(28 686)**

The cash flow hedging reserve represents the cumulative effective portion of gains and losses arising on changes in fair value of hedging instruments designated as cash flow hedges. The cumulative gains and losses arising on changes in fair value of the hedging instruments will be reclassified to profit or loss when the hedged transaction affects the profit or loss or when it is determined that a hedged forecast transaction is no longer expected to occur.

24.3 Own credit risk reserve

Balance at the beginning of the year	32 340	64 134
Movements in own credit risk for funding held at FVTPL	2 097	(31 794)
Balance at the end of the year	**34 437**	**32 340**

Own credit risk reserve was previously presented as cash flow hedge reserve and is now presented separately in the statement of changes in equity.

Total of other reserves		
Revaluation reserve on land and buildings	182 434	188 095
Cash flow hedge reserve	129 046	(28 686)
Own credit risk reserve	34 437	32 340
Total other reserves	**345 917**	**191 749**

Total other reserves on land and buildings, cash flow hedge reserve and own credit risk reserve have been combined and presented as Other reserves in the statement of financial position.

25. Reserve for general loan risk

Balance at the beginning of the year	2 488 231	2 268 456
Transfer to general loan reserve	57 708	219 775
Balance at the end of the year	**2 545 939**	**2 488 231**

The reserve is maintained for capital management purposes and is based on the risk grading of the borrowers and movements are recognised directly between the reserve for general loan risk and retained earnings. The general loan reserve is a non-distributable reserve representing a transfer from/(to) retained earnings. The reserve is separate from ECL reserves calculated in terms of IFRS 9.

26. Interest income

Interest income calculated using the effective interest rate		
Cash and cash equivalents	232 645	269 218
Development bonds	122 001	122 301
Effective interest income on development loans	7 806 377	7 628 412
Total interest income calculated using the effective interest rate	**8 161 023**	**8 019 931**
Other interest income		
Interest received on financial assets held at fair value through profit or loss		
Derivatives hedging assets	34 733	70 886
Development loans at FVTPL	15 011	10 862
Equity investments – interest received from mezzanine instruments	45 483	14 328
Investment securities	84 853	170 310
Total other interest income	**180 080**	**266 386**
Total interest income	**8 341 103**	**8 286 317**

in thousands of rands	2021	2020
26.1 Interest income on development loans per staging		
Stage 1 loans	4 439 549	4 472 425
Stage 2 loans	2 887 312	2 921 537
Stage 3 loans	478 475	234 450
POCI	1 041	–
Total interest income on effective interest rate	**7 806 377**	**7 628 412**

26.2. Interest income on development loans – client classification

Development finance institutions	7 711	18 800
Educational institutions	95 779	104 846
Local government	2 768 433	2 681 651
National and provincial government	309 245	179 129
Private sector intermediaries	1 839 069	1 927 327
Public utilities	2 786 140	2 716 659
Total interest income on effective interest rate	**7 806 377**	**7 628 412**

27. Interest expense

Interest expense on financial liabilities calculated using the effective interest rate

Bank and other payables	3 931	16 988
Debt funding held at amortised cost	3 331 090	3 375 597
Total interest expense on financial liabilities calculated using the effective interest rate	**3 335 021**	**3 392 585**
Other interest expense		
Interest expense on financial liabilities held at fair value through profit or loss		
Derivatives hedging liabilities	(28 266)	(52 831)
Funding: Debt securities at FVTPL	142 707	523 060
Total other interest expense	**114 441**	**470 229**
Total interest expense	**3 449 462**	**3 862 814**
Net interest income (note 26 less note 27)	**4 891 641**	**4 423 503**

28. Net fee income

Gross fee income		
Lending fees	101 130	102 633
Management fees	146 715	216 848
Non-lending fees	918	364
Total fee income	**248 763**	**319 845**
Gross fee expense		
Fees on funding	15 177	12 457
Guarantee fees	39 981	39 903
Other fees	5 747	11 972
Total fee expense	**60 905**	**64 332**
Net fee income	**187 858**	**255 513**

in thousands of rands	2021	2020
28. Net fee income (continued)		
Disaggregation of gross fee income		
Lending fees		
RSA Municipalities	675	2 782
RSA Economic and Social	29 995	55 620
Rest of Africa	70 460	44 231
Total lending fees	**101 130**	**102 633**
Management fees		
RSA Municipalities	1 767	–
RSA Economic and Social	1 250	2 500
Rest of Africa	4 418	1 143
Infrastructure Delivery Division	122 912	190 540
Other divisions	16 368	22 665
Total management fees	**146 715**	**216 848**
Non-lending fees		
Infrastructure Delivery Division	608	261
Other divisions	310	103
Total non-lending fees	**918**	**364**

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.

Contract assets and liabilities

As at 31 March 2021 the Bank had R60 million (31 March 2020 R50 million) in trade receivable assets as a result of contracts with customers relating to management fees and R8 million (31 March 2020: R41 million) relating to lending fees. As at 31 March 2021, the Bank had no trade payables as a result of contracts with customers.

Reconciliation of contract assets	2021	2020
Balance at the beginning of the year	49 769	38 844
Repayments during the year	(49 294)	(38 249)
Raised and not paid during the year	59 113	49 174
Balance at the end of the year	**59 588**	**49 769**

Impairment on fee receivables and contract assets

During 2021, there were no material impairments recognised in relation to fees receivable and contract assets from management fees. Impairments relating to lending fees were recognised under development loans.

Remaining performance obligations

As at 31 March 2021, the Bank had no outstanding obligations emanating from contracts with customers for which a contract liability had 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 year.

in thousands of rands	2021	2020
Management fees comprise:		
African World Heritage Fund (AWHF)	1 426	1 426
District Development Model	1 767	–
Eastern Cape Department of Education	1 987	8 284
Ekurhuleni Metropolitan Municipality	14 358	42 541
Free State Department of Education	6 997	–
Infrastructure Delivery Management System	1 249	27
Infrastructure Investment Programme for South Africa (IIPSA)	791	108
KfW SADC Water Fund	722	256
KwaZulu-Natal Department of Education	13 854	30 013
Limpopo Department of Economic Development	1 180	809
Limpopo Department of Education	210	1 455
Limpopo Department of Public Works	3 510	925
National Department of Basic Education for Accelerated Infrastructure Schools Programme	24 330	29 394
National Department of Cooperative Governance and Traditional Affairs	105	1 183
National Department of Defence	2 616	–
National Department of Energy – Independent Power Producers Office	6 910	11 301
National Department of Health	13 810	27 190
National Department of Public Works	28 850	34 492
National Department of Sports Arts and Culture	398	329
National Department of Trade and Industry	3 313	8 422
National Treasury Cities Support Programme (NTCSP)	1 790	1 054
North West Department of Education	870	4 167
North West Department of Public Works	2 013	–
Other entities	13 659	12 820
Student Housing Infrastructure Programme	–	652
Total management fees	**146 715**	**216 848**

29. Net foreign exchange (loss)/gain

Unrealised – financial assets/liabilities at amortised cost		
Cash and cash equivalents: (loss)/gain	(637 778)	67 497
Development loans: (loss)/gain	(5 445 311)	4 664 691
Funding lines of credit: gain/(loss)	5 295 312	(3 353 922)
Unrealised – financial assets/liabilities at fair value through profit or loss		
Equity investments: (loss)/gain (refer to note 11.1)	(618 896)	587 709
Hedging derivatives – funding: gain/(loss)	538 631	(384 284)
Hedging derivatives development loans: gain	29 966	111 528
Total unrealised foreign exchange (loss)/gain	**(838 076)**	**1 693 219**
Realised – financial assets/liabilities at amortised cost		
Development loans: gain	534 919	385 534
Realised – financial assets/liabilities at fair value through profit or loss		
Equity investments: gain(refer to note 11.1)	87 863	117 701
Funding and hedging loss	(864 598)	(764 087)
Hedging derivatives: gain/(loss)	187 119	(260 848)
Total realised foreign exchange loss	**(54 697)**	**(521 700)**
Net foreign exchange (loss)/gain	**(892 773)**	**1 171 519**

in thousands of rands	2021	2020
30. Net loss from financial assets and financial liabilities		
Net gain/(loss) on derivatives held for risk management at FVTPL other than held for trading		
Interest rate derivatives*		
Realised	43 321	20 572
Unrealised	(104 481)	(53 688)
Net loss from interest rate derivatives	**(61 160)**	**(33 116)**
Foreign exchange derivatives*		
Realised	3 117	(16 435)
Unrealised	(25 513)	(7 240)
Net loss from foreign exchange derivatives	**(22 396)**	**(23 675)**
Investment securities at FVTPL – unrealised		
Government bonds	41 105	(37 321)
Municipal bonds	(73)	(20 864)
Investment in segregated funds	(738)	603
State-owned entities bonds	435	(1 242)
Net gain/(loss) investment securities at FVTPL – unrealised	**40 729**	**(58 824)**
Investment securities at FVTPL – realised		
State-owned entities, government and municipal bonds	**46 066**	**–**
Debt securities		
Designated at FVTPL – unrealised	(9 982)	97 419
At amortised cost – realised	–	(42 357)
Designated at FVTPL – realised	–	(12 099)
Net (loss)/gain debt securities	**(9 982)**	**42 963**
Equity investments		
Held at FVTPL – unrealised (refer to note 11.1)	**(348 770)**	**(371 312)**
Development loans		
Development loans at FVTPL	**(5 237)**	**(77 482)**
Other financial assets		
Other financial assets held at FVTPL – unrealised	**6 296**	**(7 581)**
Total net loss from financial assets and liabilities	**(354 454)**	**(529 027)**

* Included in the net gain/(loss) on derivatives held for risk management at FVTPL is a CVA adjustment loss of R30 million (31 March 2020: loss of R51 million) and a DVA adjustment loss of R48 million (31 March 2020: gain of R37 million).

The total unrealised (losses)/gains for the year related to level 3 positions held at year end are set below.

	2021	2020
Equity investments (refer to note 12)	(137 572)	(45 461)
Development loans at FVTPL (refer to note 12)	(5 237)	(77 482)
	(142 809)	**(122 943)**

31. Investment and other income

	2021	2020
Investment income		
Dividend income	4 420	33 010
Realised gain on equity investments	26 882	142 889
Non-investment income		
Profit on sale of property and equipment	132	50
Sundry income	26 430	26 668
Total	**57 864**	**202 617**

in thousands of rands	2021	2020

32. Project preparation expenditure

Expenditure incurred on the planning, project definition, pre-feasibility, feasibility and structuring phase of projects	**37 802**	**41 539**

33. Development expenditure

In support of secondary and under-resourced municipalities	**78 240**	**47 192**

34. Impairment losses

Trade receivables and other assets (refer to note 6)	5 561	3 333
Development bonds (refer to note 13.3)	8 407	2 149
Modification loss on financial assets	57 265	–
Development loans (refer to note 14.9)	1 100 475	3 866 105
Loan commitments (refer to note 47.1)	(6 984)	(238 908)
Total charge to profit or loss	**1 164 724**	**3 632 679**

35. Personnel expenses

Post-retirement medical benefits liability movement (refer to note 19.2)	4 703	5 563
Personnel expenses	830 428	745 507
Total	**835 131**	**751 070**

Included in other personnel expenses are the following:

Chief Executive Officer and Chief Financial Officer remuneration (refer to note 41.1)	16 699	17 330
Executive members' remuneration (refer to note 41.1)	44 444	45 903
Total executive remuneration	**61 143**	**63 233**

36. General and administration expenses

Auditor's remuneration	14 765	13 325
Communication costs	11 567	7 750
Consulting fees	30 210	23 332
Information technology costs	47 496	42 534
Legal expenses	17 547	17 698
Low value assets	1 806	2 594
Non-executive directors' fees paid (refer to note 41.2)	9 618	8 943
Other expenses	67 854	104 656
Public relations activities	25 813	42 269
Strategic initiatives – COVID-19	–	150 000
Strategic initiatives – Other*	51 601	7 645
Subsistence and travel	8 536	68 992
Total	**286 813**	**489 738**

* In the prior year, Strategic initiatives – Other was shown as part of other expenses.

in thousands of rands	2021	2020
37. Depreciation and amortisation (refer to notes 15 and 16)		
Computer equipment	7 869	8 024
Furniture and fittings	195	265
Intangible assets	14 382	11 542
Lease equipment	1 497	2 150
Lease property	1 233	1 227
Motor vehicles	272	380
Office equipment	2 500	1 394
Revalued buildings	4 339	4 339
Total	**32 287**	**29 321**

38. Grants

Association of African Development	–	150
Bright Kid Foundation	12 413	9 540
COVID-19 Humanitarian Intervention	100	–
DBSA Youth Challenge Competition	72	2 357
Education Grant	31	21
Emfuleni School Sanitation	1 369	151
Enterprise development programmes	–	17
Free State Integrated Health and Education Support	500	–
KZN Umbelethisi Programme	1 500	3 000
Mobile Tablet Trolley Project	224	223
Nelson Mandela Day Built Event	–	500
Neuro Coaching for Schools	–	480
OR Tambo School	–	335
Orphaned and Vulnerable Children Centre	100	–
Poultry Project	1 261	–
Procuresense (Pty) Ltd – incubation services	–	249
Public Sector Audit Committee Forum Contribution	96	97
Rise against Hunger	1 475	435
Scholar Transport in Ukhanya District	815	1 046
Schools COVID-19 Support	2 386	–
Schools Capacity Support	–	1 196
Schools Space Solutions	–	2 216
Symphonia for South Africa	9 903	4 479
Tau Tlou Creche Revamping	–	1 162
Umhlanjana River Pedestrian Bridge	265	–
Vuyani & Maxhoba Project	–	1 000
Total	**32 510**	**28 654**

These are discretionary grants and recognised as an expense when paid.

in thousands of rands	2021	2020
39. Net profit adjusted for non-cash items and items separately disclosed		
Net profit for the year	1 422 629	503 932
Dividends received (refer to note 31)	(4 420)	(33 010)
Management fees – segregated funds	243	1 184
Depreciation and amortisation (refer to note 37)	32 287	29 321
Profit on sale of property and equipment (refer to note 31)	(132)	(50)
Revaluation of development loans at FVTPL	–	77 484
Grants, development expenditure and project preparation expenditure paid	148 552	117 385
Unrealised loss from financial assets and liabilities	546 417	193 824
Fees reversed	178 525	256 146
Fees received	(186 506)	(106 277)
Debt guarantee fee raised	38 873	38 873
Unrealised foreign exchange loss/(gain) (refer to note 29)	892 773	(1 171 520)
Capital gain on equity investments (refer to note 31)	(26 882)	(142 889)
Impairment losses (refer to note 34)	1 164 724	3 632 679
Change in liability for funeral benefits and post retirement medical benefit	4 745	(1 599)
Net interest income (refer to note 27)	(4 891 641)	(4 423 503)
Movements in provisions	(181 861)	112 562
Decrease/(increase) in trade receivables and other assets	11 563	(6 558)
Increase/(decrease) in trade, other payables and accrued interest on debt funding	105 088	(98 254)
Total	**(745 023)**	**(1 020 270)**

40. Reconciliation of financial liabilities from financing activities

	2021	2020
Balance at the beginning of the year	**61 563 097**	**51 349 088**
Financial market liabilities repaid	(21 187 343)	(19 470 027)
Financial market liabilities raised	23 540 016	25 342 366
Interest repayment	(3 151 245)	(3 476 375)
Fair value movements	149 965	318 443
Interest accrual	2 979 717	3 064 223
Premiums, discounts and transaction costs	298 462	339 742
Foreign exchange rate movement	(4 441 390)	4 095 637
Balance at the end of the year	**59 751 279**	**61 563 097**

Included in opening balance is debt securities held at fair value through profit or loss of R1.51 billion, debt funding at amortised costs of R59.50 billion, and repos of R594 million. Included in closing balance for year ended March 2021 is debt funding designated at fair value through profit or loss of R1.51 billion, debt funding held at amortised cost of R57.35 billion and repos R883 million.

41. Schedule of executive members, directors' and prescribed officers' emoluments

41.1 Executive members' remuneration and prescribed officers

	Basic salaries and fees R	Medical aid, group life and provident fund contributions R	Sub-sistence and travel R	Cell costs R	Perfor-mance bonus R	Retention bonus R	2021 R	2020 R
Executive directors								
Mr PK Dlamini	5 899 458	1 113 306	–	–	1 879 391	2 880 750	11 772 905	12 162 954
Ms B Mosako	2 668 497	448 974	–	26 400	622 802	1 159 203	4 925 876	5 166 623
Executive managers								
Mr PA Currie	3 909 292	529 408	1 000	39 600	841 536	1 658 464	6 979 300	7 165 765
Mr E Dietrich	2 506 320	645 800	24 705	66 000	612 233	1 172 088	5 027 146	5 179 662
Mr M Hillary	2 514 702	486 063	–	26 400	582 835	1 115 807	4 725 807	4 819 610
Mr M Kubelo	2 510 714	298 137	–	26 400	526 932	1 038 455	4 400 638	4 494 268
Ms N Mbele	2 490 268	483 161	–	26 400	610 527	1 105 643	4 715 999	4 761 957
Ms MS Motsepe	2 168 924	707 547	–	26 400	539 617	1 063 454	4 505 942	3 843 043
Mr M Rakgate[2]	1 227 820	202 137	219	16 500	577 525	1 105 643	3 129 844	4 833 755
Mr C Ramphele	2 578 495	230 356	14 041	26 400	557 928	1 038 455	4 445 675	4 429 747
Ms C Koffman[1]	429 375	51 189	–	5 500	–	–	486 064	–
Mr M Vivekanandan	3 054 030	735 353	1 511	39 600	781 823	1 415 855	6 028 172	6 375 476
Total	**31 957 895**	**5 931 431**	**41 476**	**325 600**	**8 133 149**	**14 753 817**	**61 143 368**	**63 232 860**

1. Appointed on 1 February 2021.
2. Resigned on 30 September 2020.

41.2 Remuneration of non-executive directors and co-opted members of the Board

	Fees for services as directors R	Subsistence and travel R	2021 R	2020 R
Mr E Godongwana	1 473 087	1 444	1 474 531	1 042 842
Prof M Swilling	1 096 443	–	1 096 443	979 776
Ms M Janse Van Rensburg	1 140 885	–	1 140 885	1 017 375
Adv M Kganedi[1]	298 271	433	298 704	–
Mr G Magomola[1]	318 652	866	319 518	–
Mr M Matji[1]	318 652	–	318 652	–
Ms Z Monnakgotla[2]	807 197	433	807 630	946 520
Ms G Mtetwa[3]	–	–	–	421 597
Mr B Mudavanhu	851 217	433	851 650	778 078
Ms B Ndamase[4]	265 148	–	265 148	754 630
Mr L Nematswerane[4]	367 849	–	367 849	604 572
Ms L Noge-Tungamirai[4]	349 022	–	349 022	627 554
Ms P Nqeto	956 911	433	957 344	867 208
Mr B Nqwababa[1]	330 446	866	331 312	–
Ms A Sing	1 038 436	433	1 038 869	902 851
	9 612 216	**5 341**	**9 617 557**	**8 943 003**

Director's fees include a non-claimable VAT portion. DBSA claims VAT on an apportionment basis according to section 17 of the VAT Act, No. 89 of 1991.

1. Appointed to the Board effective from 2 October 2020.
2. Resigned on 9 February 2021.
3. Resigned on 30 August 2019.
4. Term ended.

42. Risk management

42.1 Market risk

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

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

42.2 Interest rate risk

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

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

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

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

The repricing profile as at 31 March 2021 is encapsulated in the table below. As reflected in the 12-month cumulative repricing gap, the Bank is asset sensitive, with an immediate 50 basis points upward or downward shift in short term rates expected to results in an increase/(decrease) in NII over the projected 12-month period of approximately R217.3 million (31 March 2020: R61.4 million).

42.3 Hedging interest rate risk

Desired changes to the Bank's interest rate risk profile are achieved through the use of derivative instruments, particularly interest rate swaps, in line with the Bank's hedging guidelines.

As at 31 March 2021, the Bank had a combined ZAR interest rate and USD interest rate swaps portfolio with a total notional amount of R1.07 billion (31 March 2020: R1.38 billion). The Bank classifies interest rate swaps as fair value hedges and economic hedges and states them at fair value (refer to note 8). The net fair value of these swaps as at 31 March 2021 was R17.26 million (31 March 2020: R11.13 million), comprising assets of R17.24 million (31 March 2020: R38.6 million) and liabilities of R34.5 million (31 March 2020: R27.5 million). These amounts are recognised as fair value derivatives.

42. Risk management (continued)

42.3 Hedging interest rate risk (continued)

The table below shows the contractual repricing gap for 31 March 2021:

in millions of rands		<1M	1 – 3M
Cash and cash equivalents	ZAR	4 937	–
	USD	3 195	–
	EUR	847	–
Investment securities	ZAR	33	–
Development bonds	ZAR	–	–
Development loans	USD	2 829	3 551
	EUR	1 022	1 195
	ZAR	3 980	24 603
Derivatives held for risk management purposes – cross currency swaps	ZAR	1 079	–
	EUR	–	90
Derivative assets held for risk management – interest rate swaps	ZAR	–	180
	USD	–	–
Derivative assets held for risk management purposes – foreign exchange contracts	USD	–	–
Total financial market assets		**17 922**	**29 619**
Derivative liabilities held for risk management purposes – cross currency swaps	EUR	–	–
	USD	(1 152)	(297)
	ZAR	–	(138)
Fund under repurchase agreements	ZAR	–	(868)
Debt funding at amortised cost and FVTPL – funding bonds	ZAR	(2 378)	(10 611)
	EUR	–	–
Debt funding at amortised cost – funding lines of credit	EUR	(1 126)	(90)
	USD	–	(4 817)
	ZAR	–	(2 299)
Derivative liabilities held for risk management purposes – interest rate swaps	ZAR	–	(825)
	USD	–	(70)
Debt funding at amortised cost – money market debt	ZAR	(50)	(125)
Derivative liabilities held for risk management purposes – forward exchange contracts	EUR	–	–
Total financial market liabilities		**(4 706)**	**(20 140)**
Repricing gap		**13 216**	**9 479**
Cumulative repricing gap		**13 216**	**22 695**

The above analysis excludes non-performing assets. Variable interest rate instruments are included in the maturity bucket in which they reprice. Fixed rate instruments, although not subject to repricing risk, are included in the maturity bucket in which they mature, due to the assumption that it will be rolled at maturity or that it will convert to cash.

3 – 12M	1 – 2 Yrs	2 – 3 Yrs	3 – 4 Yrs	4 – 5 Yrs	>5 Yrs	Total
–	–	–	–	–	–	4 937
–	–	–	–	–	–	3 195
–	–	–	–	–	–	847
–	75	130	181	–	–	419
–	–	–	502	–	750	1 252
8 512	350	333	469	211	436	16 691
2 087	–	–	–	–	–	4 304
4 247	1 599	1 671	1 707	1 702	28 038	67 547
–	–	–	–	–	–	1 079
166	256	202	109	71	294	1 188
500	–	–	325	–	–	1 005
–	70	–	–	–	–	70
–	–	–	–	–	–	–
15 512	**2 350**	**2 336**	**3 293**	**1 984**	**29 518**	**102 534**
–	–	–	–	–	–	–
–	–	–	–	–	–	(1 449)
(56)	(65)	(65)	(42)	(18)	(94)	(478)
–	–	–	–	–	–	(868)
(1 553)	(9 285)	(2 093)	–	–	(4 711)	(30 631)
–	–	–	–	–	(3 464)	(3 464)
(503)	(256)	(202)	(109)	(71)	(295)	(2 652)
(13 083)	(115)	(81)	(83)	(86)	(182)	(18 447)
(54)	–	–	–	–	–	(2 353)
–	–	(180)	–	–	–	(1 005)
–	–	–	–	–	–	(70)
(725)	–	–	–	–	–	(900)
–	–	–	–	–	–	–
(15 974)	**(9 721)**	**(2 621)**	**(234)**	**(175)**	**(8 746)**	**(62 317)**
(462)	**(7 371)**	**(285)**	**3 059**	**1 809**	**20 772**	
22 233	**14 862**	**14 577**	**17 636**	**19 445**	**40 217**	

42. Risk management (continued)

42.3 Hedging interest rate risk (continued)

The table below shows the contractual repricing gap for 31 March 2020:

in millions of rands		<1M	1 – 3M
Cash and cash equivalents	ZAR	2 803	–
	USD	614	–
	EUR	42	–
Investment securities	ZAR	508	–
Development bonds	ZAR	–	–
Development loans	USD	3 518	5 902
	EUR	383	450
	ZAR	9 142	18 785
Derivatives held for risk management purposes – cross currency swaps	ZAR	–	97
	EUR	1 798	–
Derivative assets held for risk management – interest rate swaps	ZAR	–	180
Derivative assets held for risk management purposes – foreign exchange contracts	USD	–	–
	USD	869	–
Total financial market assets		**19 677**	**25 414**
Derivative liabilities held for risk management purposes – cross currency swaps	EUR	–	–
	USD	(2 319)	(502)
	ZAR	–	(153)
Fund under repurchase agreements	ZAR	–	–
Debt funding at amortised cost and fair value through profit or loss – funding bonds	ZAR	(4 349)	(8 094)
Debt funding at amortised cost – funding lines of credit	EUR	–	(692)
	USD	(2 373)	(6 626)
	ZAR	–	(1 427)
	ZAR	(250)	(825)
	USD	–	(7)
Debt funding at amortised cost – money market debt	ZAR	–	(400)
Derivative liabilities held for risk management purposes – forward exchange contracts	EUR	(856)	–
Total financial market liabilities		**(10 147)**	**(18 726)**
Repricing gap		**9 530**	**6 688**
Cumulative repricing gap		**9 530**	**16 218**

3 – 12M	1 – 2 Yrs	2 – 3 Yrs	3 – 4 Yrs	4 – 5 Yrs	>5 Yrs	Total
–	–	–	–	–	–	2 803
–	–	–	–	–	–	614
–	–	–	–	–	–	42
100	–	75	284	231	525	1 723
–	–	–	–	502	750	1 252
10 971	274	269	271	274	527	22 006
1 003	–	–	–	–	–	1 836
1 444	4 605	1 585	1 400	1 618	28 086	66 665
184	281	281	220	115	463	1 641
–	–	–	–	–	–	1 798
–	500	250	–	325	–	1 255
–	–	7	–	–	–	7
–	–	–	–	–	–	869
13 702	**5 660**	**2 467**	**2 175**	**3 065**	**30 351**	**102 511**
–	–	–	–	–	–	–
–	–	–	–	–	–	(2 821)
(56)	(65)	(65)	(65)	(42)	(113)	(559)
(587)	–	–	–	–	–	(587)
–	(1 097)	(9 285)	(2 093)	–	(4 345)	(29 263)
(572)	(291)	(291)	(229)	(124)	(416)	(2 615)
(10 812)	(140)	(139)	(97)	(101)	(324)	(20 612)
(2 071)	–	–	–	–	(500)	(3 998)
–	–	–	(180)	–	–	(1 255
–	–	–	–	–	–	(7)
(3 550)	–	–	–	–	–	(3 950)
–	–	–	–	–	–	(856)
(17 648)	**(1 593)**	**(9 780)**	**(2 664)**	**(267)**	**(5 698)**	**(66 523)**
(3 946)	**4 067**	**(7 313)**	**(489)**	**2 798**	**24 653**	
12 272	**16 339**	**9 026**	**8 537**	**11 335**	**35 988**	

42. Risk management (continued)

42.4 Foreign exchange risk

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

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

42.5 Hedging of foreign currency risk exposure

The Bank uses cross currency swaps, currency options and forward exchange contracts (FECs) to hedge its foreign currency risk. As at 31 March 2021, the Bank had cross currency swaps with a notional amount of R1.9 billion (31 March 2020: R3.38 billion). In addition, the Bank had foreign exchange contracts with notional amount of R0 million (31 March 2020: R869 million) and foreign exchange option hedges with notional amount of R7.2 billion (31 March 2020: R4.9 billion). The notional amounts indicate the volume of currency hedges outstanding at the balance sheet date and do not represent the amount at risk.

42.6 Foreign currency sensitivity analysis

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

	2021		2020	
Currency in thousand	**EUR**	**USD**	**EUR**	**USD**
Assets				
Cash and cash equivalents	48 910	216 336	2 143	34 408
Development loans	252 389	1 481 044	93 956	1 521 096
Equity investments	36 298	146 337	31 187	178 379
Future net interest income	4 599	36 020	3 285	51 832
Total assets	**342 196**	**1 879 737**	**130 571**	**1 785 715**
Liabilities				
Debt funding and lines of credit	(353 116)	(1 249 254)	(132 885)	(1 155 316)
Total liabilities	**(353 116)**	**(1 249 254)**	**(132 885)**	**(1 155 316)**
Net open position before hedging	**(10 920)**	**630 483**	**(2 314)**	**630 399**
Cross currency swaps	68 618	(98 106)	83 387	(158 149)
Foreign exchange contracts	–	–	(43 490)	48 709
Currency options	(22 323)	(164 535)	(19 832)	(159 825)
Net open position after hedging	**35 375**	**367 842**	**17 751**	**361 134**

The assumption used in the sensitivity analysis has changed to include non-performing loans and arrears given the fact there are collections on this portion of the development loan book. The change has no impact on assets or equity or liabilities or profit or loss. The Bank is currently reviewing the currency risk management policy.

42.7 Foreign currency exchange rate (FX) sensitivity analysis

Sensitivity	%	EUR/ZAR	EUR potential impact	USD/ZAR	USD potential impact	FX sensitivity combined
	(15)	14.7205	(91 895)	12.5515	(814 761)	(906 656)
	(10)	15.5864	(61 263)	13.2899	(543 174)	(604 437)
	(5)	16.4523	(30 632)	14.0282	(271 587)	(302 219)
	–	17.3182	–	14.7665	–	–
	5	18.1841	30 632	15.5048	271 587	302 219
	10	19.0500	61 263	16.2432	543 174	604 437
	15	19.9159	91 895	16.9815	814 761	906 656
Spot exchange rate used		**17.3182**		**14.7665**		

42.8 Liquidity risk

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

In order to shield the Bank against the risk of liquidity shortfall, the Bank's liquidity risk management policy requires the maintenance of prudential liquidity levels higher than or equal to the highest average monthly disbursements based on the previous four quarters. In addition, in the interest of added prudence, the Bank has adopted the Basel III recommended liquidity risk metrics – the liquidity coverage ratio and the net stable funding ratio – as part of its liquidity risk management policy.

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

Total liquidity at 31 March 2021 was R9.7 billion (31 March 2020: R4.66 billion). This includes cash and cash equivalents of R9.0 billion (31 March 2020: R3.46 billion), segregated money market funds of R33 million (31 March 2020: R508 million) and SOE and municipal bonds of R743 million (31 March 2020: R690 million).

42.9 Available liquidity

in thousands of rands	2021	2020
High quality liquid assets		
Cash and cash equivalents	8 978 608	3 458 836
Other less liquid assets		
Investment in segregated funds	32 699	508 491
Municipal bonds – nominal value	668 000	615 000
SOE bonds – nominal value	75 000	75 000
Total available liquidity	**9 754 307**	**4 657 327**

In addition to holding a minimum level of liquidity in the form of cash and near cash equivalents (tradable market securities) as described above, the Bank has at its disposal a variety of funding sources should the need arise. These include uncommitted credit lines with reputable financial institutions, committed loan facilities with multilateral, bilateral and other development finance institutions, money and capital securities issuance under the Bank's domestic medium-term programme and capital market repurchase transactions. Liquidity includes undrawn credit facilities for the year amounting to approximately R1.2 billion (31 March 2020: R6.2 billion).

The Bank uses cash flow forecasts and cumulative maturity gap analysis to assess and monitor its liquidity requirements and risk levels. A maturity gap profile report forms part of the asset and liability report which is reviewed and analysed by ALCO on a monthly basis. The 12 months cumulative liquidity gap as at 31 March 2021 was R7.53 billion (31 March 2020: negative R2.05 billion).

42. Risk management (continued)

42.9 Available liquidity (continued)

The table below analyses the contractual liquidity gap for 31 March 2021.

in millions of rands		<1M	1 – 3M
Cash and cash equivalents	ZAR	4 937	–
	USD	3 195	–
	EUR	847	–
Investment securities	ZAR	33	–
Development bonds	ZAR	–	–
Development loans	EUR	–	–
	USD	57	345
	ZAR	97	131
Derivative assets held for risk management purposes – cross currency swaps	EUR	–	90
	ZAR	–	–
Derivative assets held for risk management purposes – forward exchange contracts	USD	–	–
Total financial market assets		**9 166**	**566**
Derivative liabilities held for risk management purposes – cross currency swaps	USD	–	(59)
	ZAR	–	(17)
Debt funding at amortised cost and fair value through profit or loss – funding bonds	ZAR	–	(1 457)
	EUR	–	–
Debt funding at amortised cost – lines of credit	EUR	(87)	(90)
	USD	–	(1 494)
	ZAR	–	(1 007)
Fund under repo	ZAR	–	(868)
Debt funding at amortised cost – money market debt	ZAR	(50)	(125)
Derivative liabilities held for risk management purposes – forward exchange contracts	EUR	–	–
Total financial market liabilities		**(137)**	**(5 117)**
Liquidity gap		**9 029**	**(4 551)**
Cumulative liquidity gap		**9 029**	**4 478**

Note that the contractual liquidity gap has been adjusted to include the Bank's 2027 zero coupon liability at current book value. This bond contractually matures in 2027 and accrues interest semi-annually towards a maturity value of R7.27 billion.

As per the table above the Bank has a positive cumulative liquidity gap where the contractual inflows exceed outflows across all time buckets. This profile is anticipated due to the nature of the business where the Bank has raised long dated stable funding and generated short term amortising assets. There are no behavioural assumptions made on the liquidity gap and all assets and liabilities are disclosed with the underlying contractual maturity as determined by the cash flow profile for each record.

3 – 12M	1 – 2 Yrs	2 – 3 Yrs	3 – 4 Yrs	4 – 5 Yrs	>5 Yrs	Total
–	–	–	–	–	–	4 937
–	–	–	–	–	–	3 195
–	–	–	–	–	–	847
–	75	130	181	–	–	419
–	–	–	502	–	750	1 252
23	202	551	760	763	2 004	4 303
2 441	3 064	2 619	1 751	1 608	4 808	16 693
5 298	2 975	3 062	3 474	3 578	48 931	67 546
166	256	202	109	71	294	1 188
719	360	–	–	–	–	1 079
–	–	–	–	–	–	–
8 647	**6 932**	**6 564**	**6 777**	**6 020**	**56 787**	**101 459**
(827)	(503)	(59)	–	–	–	(1 448)
(63)	(80)	(80)	(56)	(33)	(149)	(478)
(1 935)	(10 816)	(4 393)	(4 755)	(765)	(6 510)	(30 631)
–	–	–	–	–	(3 464)	(3 464)
(1 223)	(276)	(223)	(132)	(96)	(525)	(2 652)
(764)	(3 035)	(1 235)	(1 238)	(4 194)	(6 486)	(18 446)
(55)	(30)	(1 230)	(18)	(13)	–	(2 353)
–	–	–	–	–	–	(868)
(725)	–	–	–	–	–	(900)
–	–	–	–	–	–	–
(5 592)	**(14 740)**	**(7 220)**	**(6 199)**	**(5 101)**	**(17 134)**	**(61 240)**
3 055	**(7 808)**	**(656)**	**578**	**919**	**39 653**	
7 533	**(275)**	**(931)**	**(353)**	**566**	**40 219**	

42. Risk management (continued)

42.9 Available liquidity (continued)

The table below analyses the contractual liquidity gap for 31 March 2020.

in millions of rands		<1M	1 – 3M
Cash and cash equivalents	ZAR	2 803	–
	USD	614	–
	EUR	42	–
Investment securities	ZAR	508	–
Development bonds	ZAR	–	–
Development loans	EUR	–	–
	USD	68	779
	ZAR	121	780
Derivative assets held for risk management purposes – cross currency swaps	EUR	–	102
	ZAR	–	–
Derivative assets held for risk management purposes – forward exchange contracts	USD	869	–
Total financial market assets		**5 025**	**1 661**
Derivative liabilities held for risk management purposes – cross currency swaps	USD	–	(72)
	ZAR	–	(17)
Debt funding at amortised cost and fair value through profit or loss – funding bonds	ZAR	–	–
Debt funding at amortised cost – lines of credit	EUR	–	(102)
	USD	–	(185)
	ZAR	–	(757)
Fund under repo	ZAR	–	–
Debt funding at amortised cost – money market debt	ZAR	–	(400)
Derivative liabilities held for risk management purposes – forward exchange contracts	EUR	(856)	–
Total financial market liabilities		**(856)**	**(1 533)**
Liquidity gap		**4 169**	**128**
Cumulative liquidity gap		**4 169**	**4 297**

Note that the contractual liquidity gap has been adjusted to include the Bank's 2027 zero coupon liability at current book value. This bond contractually matures in 2027 and accrues interest semi-annually towards a maturity value of R7.27 billion.

As per the table above the Bank has a positive cumulative liquidity gap where the contractual inflows exceed outflows across all time buckets. This profile is anticipated due to the nature of the business where the Bank has raised long dated stable funding and generated short term amortising assets. There are no behavioural assumptions made on the liquidity gap and all assets and liabilities are disclosed with the underlying contractual maturity as determined by the cash flow profile for each record.

	3 – 12M	1 – 2 Yrs	2 – 3 Yrs	3 – 4 Yrs	4 – 5 Yrs	>5 Yrs	Total
	–	–	–	–	–	–	2 803
	–	–	–	–	–	–	614
	–	–	–	–	–	–	42
	100	–	75	284	231	525	1 723
	–	–	–	–	502	750	1 252
	–	27	141	366	368	936	1 838
	2 871	3 947	3 541	2 949	2 083	5 768	22 006
	7 306	5 703	2 581	2 484	2 949	44 741	66 665
	189	291	291	229	124	416	1 642
	719	719	360	–	–	–	1 798
	–	–	–	–	–	–	869
	11 185	**10 687**	**6 989**	**6 312**	**6 257**	**53 136**	**101 252**
	(999)	(1 071)	(607)	(72)	–	–	(2 821)
	(63)	(80)	(80)	(80)	(56)	(182)	(558)
	(848)	(3 392)	(10 816)	(3 093)	(4 755)	(6 359)	(29 263)
	(779)	(291)	(291)	(229)	(124)	(799)	(2 615)
	(8 117)	(1 235)	(3 280)	(1 031)	(1 034)	(5 729)	(20 611)
	(2 588)	(62)	(30)	(30)	(18)	(513)	(3 998)
	(587)	–	–	–	–	–	(587)
	(3 550)	–	–	–	–	–	(3 950)
	–	–	–	–	–	–	(856)
	(17 531)	**(6 131)**	**(15 104)**	**(4 535)**	**(5 987)**	**(13 582)**	**(65 259)**
	(6 346)	**4 556**	**(8 115)**	**1 777**	**270**	**39 554**	
	(2 049)	**2 507**	**(5 608)**	**(3 831)**	**(3 561)**	**35 993**	

42. Risk management (continued)

42.10 Cash flow hedges nominal values

in millions of rands		1 – 3M	3 – 6M	6 – 9M	9 – 12M	1 – 2 Yrs	2 – 3 Yrs	3 – 5 Yrs	5 – 7 Yrs	7 – 10 Yrs	10 – 15 Yrs	Total
31 March 2021												
Cross currency swaps	EUR	73	–	73	–	146	92	76	76	57	42	635
Total financial market assets		**73**	**–**	**73**	**–**	**146**	**92**	**76**	**76**	**57**	**42**	**635**
Cross currency swaps	EUR	(73)	–	(73)	–	(146)	(92)	(76)	(76)	(57)	(42)	(635)
	USD	(59)	–	(59)	–	(119)	(59)	–	–	–	–	(296)
	ZAR	(9)	–	(9)	–	(18)	(18)	(36)	(36)	(32)	(26)	(184)
Total financial market liabilities		**(141)**	**–**	**(141)**	**–**	**(283)**	**(169)**	**(112)**	**(112)**	**(89)**	**(68)**	**(1 115)**
Liquidity gap		**(68)**	**–**	**(68)**	**–**	**(137)**	**(77)**	**(36)**	**(36)**	**(32)**	**(26)**	
Cumulative liquidity gap		**(68)**	**(68)**	**(136)**	**(136)**	**(273)**	**(350)**	**(386)**	**(422)**	**(454)**	**(480)**	

in millions of rands		1 – 3M	3 – 6M	6 – 9M	9 – 12M	1 – 2 Yrs	2 – 3 Yrs	3 – 5 Yrs	5 – 7 Yrs	7 – 10 Yrs	10 – 15 Yrs	Total
31 March 2020												
Cross currency swaps	EUR	83	–	83	–	166	166	148	86	95	60	887
Total financial market assets		**83**	**–**	**83**	**–**	**166**	**166**	**148**	**86**	**95**	**60**	**887**
Cross currency swaps	EUR	(83)	–	(83)	–	(166)	(166)	(148)	(86)	(95)	(60)	(887)
	USD	(72)	–	(72)	–	(143)	(143)	(72)	–	–	–	(502)
	ZAR	(9)	–	(9)	–	(18)	(18)	(36)	(36)	(43)	(33)	(202)
Total financial market liabilities		**(164)**	**–**	**(164)**	**–**	**(327)**	**(327)**	**(256)**	**(122)**	**(138)**	**(93)**	**(1 591)**
Liquidity gap		**(81)**	**–**	**(81)**	**–**	**(161)**	**(161)**	**(108)**	**(36)**	**(43)**	**(33**	
Cumulative liquidity gap		**(81)**	**(81)**	**(162)**	**(162)**	**(323)**	**(484)**	**(592)**	**(628)**	**(671)**	**(704)**	

42.11 Concentration of debt funding

	2021 %	2020 %
Concentration of debt funding as per source of funding		
Domestic bond markets	45	42
Domestic money markets	7	13
European bond markets	7	6
International Development Finance Institution	30	18
International money markets	11	21
	100	**100**
Concentration of debt funding per currency		
USD	29	31
EUR	10	4
ZAR	61	65
	100	**100**

42.12 Credit risk

Definition of credit risk

Credit risk is the risk of economic loss should any of the Bank's clients or market counterparties fail to fulfil their contractual obligations and is mainly prevalent in the Bank's development financing and lending operations as a result of potential counterparty defaults on loan repayments. Credit risk may also arise in the equity investments of the Bank, where the downgrading of a client's rating causes the fair value of the investment in that entity to deteriorate. Country risk is taken into account when cross border loans are evaluated and form part of the credit risk rating of these loans. Any movement in the risk profile of a country in which an exposure or counterparty is domiciled, could therefore result in a changed credit rating and lead to a change in the value of the affected assets.

Management of credit risk

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

The Bank meets its credit risk management objectives through:

i) an enterprise-wide framework of credit risk oversight, governance and assurance;

ii) an integrated system of internal credit risk ratings, pricing and mitigation guided by its risk appetite; and

iii) a rigorous standard for the measurement, monitoring and control of credit risk exposures in the credit portfolios.

Credit risk oversight, governance and assurance

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

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

Credit risk assurance: The quality of credit risk management is assured through a three way approach. Firstly, the Credit Analysts report into the Financing Operations Division having been deployed as a first line of defence to provide an objective view of the quality of individual credits under consideration, and work closely with the frontline to monitor the performance of assets post approval, on an ongoing basis. Secondly, the Credit Lab that runs the models forms part of the Financing Operations Division with an independent reporting line to the Investment Technical Committee to validate its models. Finally, the Group Risk Assurance Division is responsible for the development of policies and monitoring thereof to support an efficient and effective credit risk management throughout the Bank.

Credit risk ratings

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

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

The Bank has developed a number of internal credit risk rating models for all of its major asset classes to calculate credit risk ratings as a basis for assigning a PD. All credit ratings are confirmed through the credit committee process to ensure consistency and effective challenge. The credit risk rating models are all subjected to validation and review before implementation.

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

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

42. Risk management (continued)

42.12 Credit risk (continued)

Credit risk ratings (continued)

Rating grade	Mid joint PD (%)	Lower bound PD (%)	Upper bound PD (%)	Mapping to S&P	Mapping to Moody's
MS1	0.01	–	0.02	AAA	Aaa
MS2	0.02	0.02	0.03	AA+	Aa1
MS3	0.03	0.03	0.04	AA	Aa2
MS4	0.04	0.04	0.05	AA-	Aa3
MS5	0.05	0.05	0.06	A+	A1
MS6	0.06	0.06	0.08	A	A2
MS7	0.10	0.08	0.14	A-	A3
MS8	0.17	0.14	0.24	BBB+	Baa1
MS9	0.30	0.24	0.40	BBB	Baa2
MS10	0.50	0.40	0.68	BBB-	Baa3
MS11	0.85	0.68	1.13	BB+	Ba1
MS12	1.40	1.13	1.90	BB	Ba2
MS13	2.40	1.90	3.20	BB-	Ba3
MS14	4.00	3.20	5.50	B+	B1
MS15	7.00	5.50	9.50	B	B2
MS16	12.00	9.50	16.00	B-	B3
MS17.1	17.20	16.00	22.10	CCC	Caa
MS17.2	28.51	22.10	36.80	CCC	Caa
MS17.3	47.40	36.80	61.10	CCC	Caa
MS17.4	78.70	61.10	99.00	CCC	Caa
Default	100.00	99.99	100.00	Default	D

Pricing of loans

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

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

Credit risk models

The credit risk models (PD, LGD and EAD) for all major portfolios of the Bank's loan book (Municipal, Balance Sheet Lending, Project Finance and Higher Education) were subjected to review and further development during the 2017/18 financial year.

This is required to be carried out on a three-year cycle for governance purposes and approved by the Risk Models Technical Committee which is a subcommittee of the Investment Committee.

The requirement to comply with IFRS 9 in the 2018/19 financial year called for further enhancements of the outputs of the credit risk models. The new versions of the models are more adaptable and predictive. The models were recalibrated to current performance of the Bank's loan book and larger benchmark portfolios. The new versions of the credit risk models were successfully approved by the Technical Committee for implementation in the 2018/19 financial year. Performance of these models will be tracked as part of governance requirements. Further enhancements to the outputs of credit risk models for the purposes of IFRS 9 compliance will be subject to the review process which governs the credit risk models 12-month PDs and LGDs were transformed to lifetime measures in order to consider the term structure of loans and enable the calculation of lifetime ECL applicable to stage 2 classification loans contributing to the portfolio impairment. The results using the IFRS 9 compliant models for the calculation of ECL are included in the impairment of the loan book for the 2019/20 Annual Financial Statements.

Country risk ratings

Country risk ratings: The Bank has implemented an internal country risk rating model which uses external rating agency ratings as well as economic data from various sources such as IMF and the World Bank combined with in country visits by the Country Risk team. The Investment Committee reviews the country ratings on an annual basis or more frequently if adverse events take place.

The country risk rating methodology considers solvency, liquidity, economic and political issues to risk rate countries and generate probability of default. The model inputs are continuously updated to reflect economic and political changes in individual countries. The Bank's country risk limits are calculated using sovereign risk ratings in conjunction with debt absorption capacity of countries as measured by the gross domestic product. The limits therefore consider the economic strength of countries ensuring that country exposures are related to the degrees of perceived risk as well as the country's debt absorption capacity. Using PD and LGD in the calculation of the risk limits per country, the limits set are also subject to the availability of capital and the number of simultaneous defaults that can be absorbed by that capital. All limits are set in line with the approved risk appetite.

Credit risk mitigation

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

Credit risk monitoring, measurement and reporting

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

At individual counterparty level:

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

At portfolio level:

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

Risk rating in relation to IFRS 9 staging

Prior to IFRS 9 adoption and as part of the established credit risk management practices, the Bank classifies development loans as either high risk (MS14 – MS17.4), medium risk (MS8 – MS13) and low risk (MS1 – MS7) categories. This means a development loan can be originated at high risk category and be classified as stage 1 IFRS 9 purposes should there be no demonstrable significant increase in credit risk from initial recognition to reporting date.

42.13 Credit risk exposure

Maximum exposure

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

These reviews are conducted as part of and in complementing the Investment Committee process. The following factors are reviewed:

» Global and local economic factors;
» Observable and unobservable market factors;
» Asset specific factors affecting portfolio impairment levels; and
» Fair values and discount rates with the objective of ensuring that risk in the asset portfolio is adequately, fairly and timely reflected in the Bank's results.

The reviews include assessment of the impairment triggers and reversals within the asset portfolio, and review of performance of the equity portfolio on a regular basis with the asset managers. In addition, watch list meetings are held monthly.

The following table sets out the maximum exposure on financial instruments within the scope of IFRS 9's impairment model to credit risk as well as the impact of collateral and other credit enhancements on credit risk.

42. Risk management (continued)

42.13 Credit risk exposure (continued)

Credit exposure per class of financial instruments

in thousands of rands	Maximum exposure to credit risk	Provision for expected credit losses	Collateral held as security
31 March 2021			
Cash and cash equivalents	8 978 608	–	–
Development bonds at amortised cost	1 290 219	(10 984)	–
Development loans at amortised cost	94 098 188	(11 364 740)	625 422
Development loans at FVTPL	16 847	–	–
Loan commitments	5 232 294	(126)	–
Trade receivables and other assets	179 374	(12 825)	–
	109 795 530	**(11 388 675)**	**625 422**
31 March 2020			
Cash and cash equivalents	3 458 836	–	–
Development bonds at amortised cost	1 290 855	(2 577)	–
Development loans at amortised cost	96 425 614	(10 185 350)	1 028 976
Development loans at FVTPL	22 413	–	–
Loan commitments	7 613 146	(7 110)	–
Trade receivables and other assets	169 060	(7 264)	–
	108 979 924	**(10 202 301)**	**1 028 976**

The table below provides breakdown of municipal book:

in thousands of rands	Market 1*	Market 2**	Market 3***	Total 2021	Market 1*	Market 2**	Market 3***	Total 2020
Low risk	3 265 599	1 288 029	141 313	4 694 941	3 661 355	1 113 935	218 957	4 994 247
Medium risk	14 703 227	1 993 161	423 424	17 119 812	15 819 222	2 400 857	280 954	18 501 033
High risk	5 092 144	1 746 226	524 523	7 362 893	377 088	1 708 440	300 861	2 386 389
	23 060 970	**5 027 416**	**1 089 260**	**29 177 646**	**19 857 665**	**5 223 232**	**800 772**	**25 881 669**

* Metropolitan municipalities
** Secondary municipalities
*** Under-resourced municipalities.

Credit quality analysis

The following table sets out risk composition of the gross loan book.

Internal rate grade (in thousands of rands)	Internal rate description	2021	2020
MS1	Low risk	–	–
MS2	Low risk	54 167	–
MS3	Low risk	214 662	3 816 151
MS4	Low risk	–	65 322
MS5	Low risk	134 671	3 757 555
MS6	Low risk	455 458	284 154
MS7	Low risk	9 041 977	6 778 093
MS8	Medium risk	19 099 214	14 100 914
MS9	Medium risk	2 654 086	2 669 377
MS10	Medium risk	4 742 997	11 046 906
MS11	Medium risk	23 209 844	24 202 319
MS12	Medium risk	8 618 974	4 955 274
MS13	Medium risk	1 204 173	5 845 928
MS14	High risk	10 334 292	1 408 669
MS15	High risk	2 447 725	2 800 231
MS16	High risk	398 825	86 955
MS17.1	High risk	18 145	1 299 119
MS17.2	High risk	412 009	6 362 258
MS17.3	High risk	–	–
MS17.4	High risk	3 786 200	–
Default	Default	7 270 769	6 946 389
		94 098 188	**96 425 614**

The following table sets out information about the credit quality of financial assets measured at amortised cost unless, specifically indicated, for financial assets, the amounts in the table represent gross carrying amounts.

For loan commitments and financial guarantee contracts, the amounts in the table represent the amounts committed or guaranteed, respectively.

The total carrying amounts represent the maximum gross exposure to credit risk before collateral, expected credit losses and other securities at the reporting date.

in thousands of rands	Stage 1	Stage 2	Stage 3	POCI	2021 Total	2020 Total
Development loans at amortised cost						
Stage 3						
Municipalities	–	–	758 430	–	758 430	823 675
Other	–	–	6 512 339	15 530	6 527 869	6 122 714
Allowance for expected credit losses						
Municipalities	–	–	(110 389)	–	(110 389)	(90 793)
Other	–	–	(4 947 332)	(7 035)	(4 954 367)	(4 274 969)
Net carrying amount			**2 213 048**	**8 495**	**2 221 543**	**2 580 627**
Net carrying amount: Municipalities	–	–	648 041	–	648 041	732 882
Net carrying amount: Other	–	–	1 565 007	8 495	1 573 502	1 847 745
Net carrying amount	**–**	**–**	**2 213 048**	**8 495**	**2 221 543**	**2 580 627**
Low risk (MS1 – MS7)						
Stages 1 and 2						
Municipalities	4 694 942	–	–	–	4 694 942	4 994 247
Other	5 205 994	–	–	–	5 205 994	9 707 028
Allowance for expected credit losses						
Municipalities	(927)	–	–	–	(927)	(929)
Other	(5 269)	–	–	–	(5 269)	(9 125)
Net carrying amount	**9 894 740**	**–**	**–**	**–**	**9 894 740**	**14 691 221**
Net carrying amount: Municipalities	4 694 015	–	–	–	4 694 015	4 993 318
Net carrying amount: Other	5 200 725	–	–	–	5 200 725	9 697 903
Net carrying amount	**9 894 740**	**–**	**–**	**–**	**9 894 740**	**14 691 221**
Medium risk (MS8 – MS13)						
Stages 1 and 2						
Municipalities	16 573 574	546 239	–	–	17 119 813	17 512 272
Other	25 860 783	16 548 691	–	–	42 409 474	45 308 447
Allowance for expected credit losses						
Municipalities	(8 747)	(9 088)	–	–	(17 835)	(25 419)
Other	(227 803)	(1 139 694)	–	–	(1 367 497)	(1 453 191)
Net carrying amount	**42 197 807**	**15 946 148**	**–**	**–**	**58 143 955**	**61 342 109**
Net carrying amount: Municipalities	16 564 827	537 151	–	–	17 101 978	17 486 853
Net carrying amount: Other	25 632 980	15 408 997	–	–	41 041 977	43 855 256
Net carrying amount	**42 197 807**	**15 946 148**	**–**	**–**	**58 143 955**	**61 342 109**

42. Risk management (continued)

42.13 Credit risk exposure (continued)

Credit quality analysis (continued)

in thousands of rands	Stage 1	Stage 2	Stage 3	POCI	2021 Total	2020 Total
High risk (MS14 – MS17.4)						
Stages 1 and 2						
Municipalities	217 834	6 386 630	–	–	6 604 464	1 562 713
Other	1 176 893	9 600 309	–	–	10 777 202	10 394 518
Allowance for expected credit losses						
Municipalities	(2 609)	(278 797)	–	–	(281 406)	(73 571)
Other	(179 874)	(4 447 176)	–	–	(4 627 050)	(4 257 353)
Net carrying amount	**1 212 244**	**11 260 966**	**–**	**–**	**12 473 210**	**7 626 307**
Net carrying amount: Municipalities	215 225	6 107 833	–	–	6 323 058	1 489 142
Net carrying amount: Other	997 019	5 153 133	–	–	6 150 152	6 137 165
Net carrying amount	**1 212 244**	**11 260 966**	**–**	**–**	**12 473 210**	**7 626 307**
Gross carrying amount	**53 730 020**	**33 081 869**	**7 270 769**	**15 530**	**94 098 188**	**96 425 614**
Provision for ECL	(425 229)	(5 874 755)	(5 057 721)	(7 035)	(11 364 740)	(10 185 350)
Net carrying amount	**53 304 791**	**27 207 114**	**2 213 048**	**8 495**	**82 733 448**	**86 240 264**
Development bonds at amortised cost						
Medium risk (MS8-MS13)						
Stages 1 and 2						
Municipalities	517 865	772 354	–	–	1 290 219	1 290 855
Gross carrying amount	**517 865**	**772 354**	**–**	**–**	**1 290 219**	**1 290 855**
Provision for ECL	(189)	(10 795)	–	–	(10 984)	(2 577)
Balance at the end of the year	**517 676**	**761 559**	**–**	**–**	**1 279 235**	**1 288 278**
Loan commitments						
Stage 3						
Other	–	–	713 965	–	713 965	1 250 258
Low risk (MS1-MS7)						
Stages 1 and 2						
Municipalities	–	–	–	–	–	149 700
Other	250 000	–	–	–	250 000	100 000
Total	**250 000**	**–**	**–**	**–**	**250 000**	**249 700**
Medium risk (MS8 – MS13)						
Stages 1 and 2						
Municipalities	–	–	–	–	–	4 677
Other	2 990 889	–	–	–	2 990 889	6 006 343
Total	**2 990 889**	**–**	**–**	**–**	**2 990 889**	**6 011 020**
High risk (MS14 – MS17.4)						
Stages 1 and 2**						
Municipalities	–	–	–	–	–	30 000
Other	826 689	450 612	–	–	1 277 301	72 000
Total	**826 689**	**450 612**	**–**	**–**	**1 277 301**	**102 000**
Carrying amount	**4 067 578**	**450 612**	**713 965**	**–**	**5 232 155**	**7 612 978**
Provision for ECL	(125)	(1)	–	–	(126)	(7 110)
Balance at the end of the year	**4 067 453**	**450 611**	**713 965**	**–**	**5 232 029**	**7 605 868**

** Refer to page 111 for risk rating in relation to IFRS 9 staging.

Cash and cash equivalents

The Bank held cash and cash equivalents of R8.98 billion at 31 March 2021. The cash and cash equivalents are held with financial institution counterparties that are rated at least AA+, based on a national scale credit rating.

Collateral held and other credit enhancements

The Bank holds collateral which it is entitled to sell in the case of default by the owner of the collateral. The amount and type of collateral held for the exposure depends on an assessment of the credit risk of the counterparty. Guidelines have been implemented regarding the acceptability of the types of collateral. The value of the collaterals are determined with reference to the realisable value of security under forced-sale conditions. Because of the Bank's focus on corporate customers' creditworthiness, the Bank does not routinely update the valuation of collateral held against all loans to corporate customers. Valuation of collateral is updated when the loan is put on a watch list and the loan is monitored closely.

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

Because of the Bank's focus on corporate customers' creditworthiness, the Bank does not routinely update the valuation of collateral held against all loans to corporate customers. Valuation of collateral is updated when the loan is put on a watch list and the loan is monitored more closely.

For credit impaired loans, the Bank obtains appraisals of collateral because it provides input into determining the management credit risk actions.

At 31 March 2021, the gross carrying amount of credit impaired loans amounted to R7 billion (2020: R7 billion) and the value of identifiable collateral held against those loans amounted to R187 million (2020: R531 million).

The carrying amount of collateral taken in possession during the year is RNil (2020: RNil).

The fair value of collateral held in respect of the above amounted to R625 million (2020: R1 billion). For the purposes of calculating this aggregated total, the fair value of each collateral is limited to the carrying value for each individual loan.

The following table sets out the principal types of collateral held against different types of financial assets.

Collateral held

in thousands of rands	Nature of the collateral held	% of exposure that is subject to collateral requirements	2021	2020
Development loans	Bank account	70	436 491	469 543
Development loans	Floating charge	0	6 231	7 528
Development loans	Guarantee	9	54 442	110 736
Development loans	Mortgage bond	21	128 257	335 318
Development loans	Surety	0	–	105 851
			625 421	**1 028 976**

The above collaterals consist of guarantees, cession of debtors, mortgages, investments, notarial bonds, sinking fund investments and insurance policies. The Bank also holds collateral in the form of assignment agreements, bank accounts, bank guarantees, debentures, escrow accounts, floating charges, guarantees, income streams, letters of comfort/intent, shares, subordination agreements, sureties and undertakings.

Financial assets that are credit impaired and related collateral held in order to mitigate potential losses are shown below.

Credit impaired – Stage 3

in thousands of rands	Gross exposure	Provision for ECL	Carrying amount	Fair value of collateral held
31 March 2021				
Development loans	7 270 769	(5 057 721)	2 213 048	187 811
31 March 2020				
Development loans	6 947 923	(4 365 769)	2 582 154	531 028

Expected credit losses

The amount of expected credit losses is measured as the probability-weighted present value of all cash shortfalls over the expected life of the financial asset discounted at its original effective interest rate. The cash shortfall is the difference between all contractual cash flows that are due to the Bank and all the cash flows that the Bank expects to receive.

Because expected credit losses consider the amount and timing of payments, a credit loss arises even if the entity expects to be paid in full but later than when contractually due.

42. Risk management (continued)

42.13 Credit risk exposure (continued)

Assessments of clients

The Bank assesses credit risk on loans on an individual basis using all relevant information about the loan and the borrower. The Bank individually assesses significantly large exposures. There are no amounts that have been written off for which enforcement activity is still being enforced. Further, any recoveries post write-off are accounted for in the income statement as bad debts recovered.

12-month expected credit losses

Represents the expected credit losses that result from default events on a financial instrument that are possible within the 12 months after the reporting date.

Lifetime expected credit losses

Lifetime expected credit losses are the expected credit losses that result from all possible default events over the expected life of a financial instrument. Expected life is estimated by considering cash flows taking into account all contractual terms of the financial instrument (for example, prepayment, extension, call and similar options).

The maximum period to consider when measuring expected credit losses is the maximum contractual period (including extension options) over which the entity is exposed to credit risk and not a longer period, even if that longer period is consistent with business practice.

There is a presumption that the expected life of a financial instrument can be estimated reliably. However, in those rare cases when it is not possible to reliably estimate the expected life of a financial instrument, the entity shall use the remaining contractual term (maturity) of the financial instrument.

A collective assessment of impairment takes into account data from the loan portfolio such as credit quality, levels of arrears, credit utilisation, loan to collateral ratios, etc.

Significant increase in credit risk

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Bank considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Bank's historical experience and expert credit assessment and including forward-looking information.

» The objective of the assessment is to identify whether a significant increase in credit risk has occurred for an exposure by comparing the remaining lifetime probability of default (PD) as at the reporting date; with
» The remaining lifetime PD for this point in time that was estimated at the time of initial recognition of the exposure (adjusted where relevant for changes in prepayment expectations).

The Bank uses the table below to determine significant increase in credit risk.

Grade at origination date	Notch movement	Grade at reporting date	Stage
MS1	6	MS7	Stage 2
MS2	6	MS8	Stage 2
MS3	6	MS9	Stage 2
MS4	6	MS10	Stage 2
MS5	6	MS11	Stage 2
MS6	5	MS11	Stage 2
MS7	4	MS11	Stage 2
MS8	4	MS12	Stage 2
MS9	3	MS12	Stage 2
MS10	3	MS13	Stage 2
MS11	2	MS13	Stage 2
MS12	2	MS14	Stage 2
MS13	2	MS15	Stage 2
MS14	2	MS16	Stage 2
MS15	2	MS17.1	Stage 2
MS16	1	MS17.1	Stage 2
MS17.1	1	MS17.2	Stage 2
MS17.2	1	MS17.3	Stage 2
MS17.3	1	MS17.4	Stage 2
MS17.4	1	Default	Stage 3
Default	N/A	N/A	Stage 3

Origination date and contractual life of loans

The Bank's development loans are mostly non-revolving credit facilities. The Bank defines the loan origination date as the date of initial recognition when the Bank becomes party to an irrevocable commitment. Where applicable, this could be the date of signing of the lending agreement if conditions precedent are met or the date on which all remaining conditions precedent for disbursement are met and the Bank is irrevocably bound to the lending agreement. The tenor used in assessing significant increase in credit risk is the contractual tenor of the loan. The Bank assesses significant increase in credit risk from the origination date to date of transition and after transition date, assessments are done from origination date to date of reporting. The Bank lends long tenors sometimes extending up to 30 years and for some development loans that were very old at transition date, the Bank has assumed that the origination date is the first loan disbursement date and where applicable the Bank has used reasonable and supportable information without undue effort and costs in assessing origination date of some loans. The Bank currently has one revolving credit facility, the Bank has used the maximum contractual period, and the Bank has not applied the exception of using a shorter period for estimating expected credit losses.

The Bank use the number of days past due (DPD) to determine significant increase in credit risk. The Bank assigns each facility a credit rating at initial recognition based on available information about the borrower. Credit risk is deemed to have increased significantly if the credit rating has significantly deteriorated at the reporting date relative to the credit rating at the date of initial recognition. In addition, as a backstop, the Bank considers that significant increase in credit risk occurs when an asset is more than 30 DPD.

The Bank uses a series of quantitative, qualitative and backstop criteria to determine if a loan has experienced significant increase in credit risk. The assessment of whether there has been SICR is to be based on both of the following:

» A significant downgrade of a loan through the Bank's internal credit rating system where downgrade is not influence by changes in the model but influenced by actual deterioration of a borrower's/project's credit risk. This will be measured by the increase in a loan's lifetime forward-looking PD at origination rating date compared to the remaining lifetime PD at reporting rating date; and
» Qualitative factors that are not captured through the Bank's internal credit rating process. The qualitative criteria include the observation of specific adverse events in the economy/industry/market the borrower is operating in, which events may have an adverse impact on the ability of the borrower to fulfil its obligations.

A backstop will be applied, whereby a loan is considered to have experienced SICR when a borrower is more than 30 DPD on its contractual payments. The Bank monitors the effectiveness of the criteria used to identify significant increases in credit risk by regular review.

Key factors considered in assessing whether there is significant increase in credit risk:

» Negative changes in credit risk pricing;
» Terms, which would change if a loan, were granted again at reporting date;
» Market indicators;
» External ratings;
» Internal ratings;
» Business/economic conditions;
» Operating results of the borrower;
» Risk on other lending products extended to the borrower;
» Regulatory, technical or other economic changes;
» Reduced value of collateral;
» Deterioration in the quality of guarantees;
» Financial support;
» Expected breach of terms;
» Performance of behaviour;
» Changes in lender credit risk management approach; and
» Payments past due date.

Low credit risk assessment at reporting date

At reporting date, the Bank has assessed whether there has been significant increase in credit risk for all financial assets at amortised cost. The Bank has not made an election to assume that some financial instruments have low credit risk thereby requiring no assessment of significant increase in credit risk.

42. Risk management (continued)

42.13 Credit risk exposure (continued)

Lifetime PD

Lifetime PD is the probability of a default event when assessed over the lifetime of a financial asset.

There is no single method for estimating a lifetime PD measure as it applies to a very large variety of financial assets. The following dimensions are useful for classification:

» Referencing an individual entity versus collective assessment for pools;
» Model estimation based on market data or historical default data; and
» Credit process assumptions based on hazard rate models, markov chains and structural default models, etc.

Categories of risks are detailed in the table below.

Development loans	Company definition of category	Basis for recognition of ECL provision
Stage 1	Customers have a low risk of default and a strong capacity to meet contractual cash flows	12-month expected credit losses. Where the expected lifetime of an asset is less than 12 months, expected losses are measured at its expected lifetime
Stage 2	Loans for which there is a significant increase in credit risk; as significant increase in credit risk is presumed if interest and/or principal repayments are 30 days past due except in certain circumstances	Lifetime expected credit losses
Stage 3	Interest and/or principal repayments are 90 days past due	Lifetime expected credit losses
Write-off	Interest and/or principal repayments where there is no reasonable expectation of recovery	Asset is written off
Purchased or originated credit impaired loans	Loans that are credit impaired on initial recognition	Lifetime expected credit losses

Exposures are subject to ongoing monitoring, which may result in an exposure being moved to a different credit risk grade. The monitoring typically involves use of the following data:

» Information obtained during periodic review of customer files such as audited financial statements, management accounts, budgets and projections. Examples of areas of particular focus are: gross profit margins, financial leverage ratios, debt service coverage, compliance with covenants, quality of management and senior management changes;
» Data from credit reference agencies, press articles and changes in external credit ratings; and
» Significant actual and expected changes in the political, regulatory and technological environment of the borrower or in its business activities.

Generating the term structure of PD

Credit risk grades are a primary input into the determination of the term structure of PD for exposures. The Bank collects performance and default information about its credit risk exposures analysed by jurisdiction or region and by type of product and borrower as well as by credit risk grading. For some portfolios, information purchased from external credit reference agencies is also used.

The Bank employs statistical models to analyse the data collected and generate estimates of the remaining lifetime PD of exposures and how these are expected to change as a result of the passage of time. This analysis includes the identification and calibration of relationships between changes in default rates and changes in key macroeconomic factors as well as in-depth analysis of the impact of certain other factors (e.g. forbearance experience) on the risk of default. For most exposures, key macroeconomic indicators include: GDP growth, benchmark interest rates and unemployment. For exposures to specific industries and/or regions, the analysis may extend to relevant commodity and/or real estate prices.

Based on advice from the Bank Market Risk Committee and economic experts and consideration of a variety of external actual and forecast information, the Bank formulates a 'base case' view of the future direction of relevant economic variables as well as a representative range of other possible forecast scenarios (see discussion below on incorporation of forward-looking information). The Bank then uses these forecasts to adjust its estimates of PDs.

Modified financial assets

Generally, loan restructuring is a qualitative indicator of a significant increase in credit risk and an expectation of a restructure may constitute evidence that an exposure is credit impaired or in default. A customer needs to demonstrate consistently good payment behaviour over a period of time before the exposure is no longer considered to be credit impaired/in default or the PD is considered to have decreased such that the loss allowance reverts to being measured at an amount equal to 12-month ECL.

Credit impaired

For financial assets that have become credit impaired, a lifetime ECL is recognised and interest revenue is calculated by applying the effective interest rate to the amortised cost (net of provisions for doubtful debt) rather than the gross carrying amount. Unrecognised interest when a credit impaired (stage 3) financial asset is subsequently paid in full or is no longer credit impaired (cures) is recognised as a reversal of impairment losses.

Definition of default and credit impaired assets

In order to determine whether financial assets are credit impaired the Bank considers:

» 90 days past due;
» Any bad debt write-off;
» Distressed restructuring of credit obligations;
» Obligor's bankruptcy or similar protection such as Business Rescue; and
» The borrower is insolvent.

A financial contract (loan, other credit product, derivative, etc.) is past due when a counterparty has failed to make a payment when that payment was contractually due.

The missed payment concerns any amount due under the contract (interest, principal, fee or other amount) that has not been paid in full at the date when it was due. An exposure should be considered past due from the first day of missed payment, even when the amount of the exposure or the past-due amount, as applicable, is not considered material. The default definition has been applied consistently to model of PD, EAD and LGD throughout the Bank's ECL calculations.

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

Incorporation of forward-looking information

The Bank incorporates forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL. Based on advice from the economic experts and consideration of a variety of external actual and forecast information, the Bank formulates a 'base case' view of the future direction of relevant economic variables as well as a representative range of other possible forecast scenarios. This process involves developing two or more additional economic scenarios and considering the relative probabilities of each outcome.

External information includes economic data and forecasts published by governmental bodies and monetary authorities in the countries where the Bank operates, supranational organisations such as the OECD and the International Monetary Fund, and selected private sector and academic forecasters.

The base case represents a most-likely outcome and is aligned with information used by the Bank for other purposes such as strategic planning, budgeting and capital management. The other scenarios represent more optimistic and more pessimistic outcomes. Periodically, the Bank carries out stress testing of more extreme shocks to calibrate its determination of these other representative scenarios.

The Bank has identified and documented key drivers of credit risk and credit losses for each financial instrument and, using an analysis of historical data, has estimated relationships between macroeconomic variables and credit risk and credit losses. The economic scenarios used included the following ranges of key indicators for South Africa for the years ending 31 March 2021 and 2020.

The key indicators are:

» South African CPI;
» Sub-Saharan nominal GDP;
» Crude oil;
» Three-month LIBOR/JIBAR and
» ZAR/USD exchange rate.

In estimating the expected credit losses, the Bank considers a range of possible outcomes with the respective risks of default as weights. The Bank does not rely on one economic scenario. The Bank uses at least three scenarios for the purposes of incorporating forward-looking information and the various inputs to the scenarios are relevant and appropriate to the classes of financial assets and off balance sheet items across the various geographies in which the Bank operates. In incorporating forward-looking information as well estimating the expected credit loss assessment, the Bank uses reasonable and supportable information available without undue effort and costs.

In estimating the expected credit losses, the Bank considers the probability of default on a loan level over the lifetime of the assets, forward-looking information, which has an impact on the loan book and weightings for each of the scenarios based on the likelihood of each scenario. For the purposes of incorporating forward-looking information in the calculation of ECL, the Bank uses three macroeconomic scenarios. The Bank has considered the base-case scenario, which simulates the most expected economic conditions for the Bank's loan portfolio given current economic state, i.e. conditions similar to what is known at year end. The best-case scenario represents the most favourable economic conditions for the performance of Bank's loan book. The worst-case scenario represents unfavourable economic conditions for the performance of the Bank's loan book. The Bank considers several factors such as interest rates, GDP growth rates, exchange rate and inflation as macroeconomic drivers.

42. Risk management (continued)

42.13 Credit risk exposure (continued)

Incorporation of forward-looking information (continued)

The expected credit losses are an estimate and therefore there is an inherent degree of subjectivity and that the current estimate of the expected credit losses may not perfectly predict the actual outcome in future. The Bank has applied the principles of unbiased probability weighted average, time value of money and has used reasonable and supportable information without undue effort and costs in the estimation process. In estimating the expected credit losses, the Bank has considered the base-case scenario, which simulates the most expected economic conditions for the Bank's loan portfolio given current economic state, i.e. conditions similar to what is known at year end. The best-case scenario represents the most favourable economic conditions for the performance of Bank's loan book. The worst-case scenario represents unfavourable economic conditions for the performance of the Bank's loan book. The Bank considers several factors such as interest rates, GDP growth rates, exchange rate and inflation.

The Bank conducts back testing of macroeconomic forecasts. Further, the Bank has introduced a Financial Planning Working Group, which reports to ALCO and the Investment Committee comprising various specialists within the Bank. The Working Group reviews various sources of economic data (both internal and external) and formulates a house view of key macroeconomic variables for use in all models within the bank. These scenarios are relevant and appropriate to the classes of financial assets and off balance sheet items across the various geographies in which the Bank operates. The Bank has applied regression analysis of the macroeconomic variables against the observed default rates. The Credit Lab performs a regression analysis at least annually and where applicable marginal adjustments are made to the PD curves to incorporate future-looking information. The PD and LGD used for the ECL calculation are produced from benchmarked credit risk models which are reviewed and calibrated to performance. A regression analysis of PD against the forecasts of macro variables informs the forecast change in PDs given the forecast of macro variables. The outcome of the regression analysis is updated annually and where applicable marginal adjustments are made to the PD curves to incorporate future-looking information.

The Bank has applied the principles of unbiased probability weighted average, time value of money and has used reasonable and supportable information without undue effort and costs in the estimation process. Where applicable, overlays are applied depending on various factors and considerations including the directional relationship between changes in expected credit loss and results of observable data. The overlays are subject to strict governance and approval process by the Bank's Investment Committee and Board Audit and Risk Committee.

The most significant period-end assumptions used in the ECL calculation are set out below:

Economic variable	2020	2021	2022	2023
South African CPI				
Mild case	3.55	4.32	4.86	4.70
Base case	3.45	4.20	4.50	4.38
Best case	3.50	4.05	4.70	4.55
Sub-Saharan nominal GDP				
Mild case	(11.10)	(3.83)	(1.55)	(1.02)
Base case	(5.10)	4.59	4.91	4.20
Best case	(3.10)	5.73	5.82	5.59
Crude oil				
Mild case	25.50	59.88	57.16	59.60
Base case	31.75	62.88	6316	63.60
Best case	37.25	64.38	65.66	66.60
Three-month LIBOR				
Mild case	0.86	0.18	0.24	0.33
Base case	1.06	0.23	0.30	0.52
Best case	1.26	0.38	0.65	0.92
ZAR/USD exchange rate				
Mild case	22.59	16.77	18.77	19.36
Base case	19.28	15.27	16.02	16.53
Best case	16.90	14.14	14.15	14.90

The forward-looking information is incorporated into the PD curves used for the lifetime ECL calculation. Multivariate non-linear regression analysis is conducted to take into account economic forecasts of variables which affect the assets in the loan portfolio, and their effect on our prediction of PD forward looking. This analysis is an accurate prediction for the shape of the PD curves for the following four years. Following the first four years, the shape of the PD curves uses the through the cycle (TTC) PD of the DBSA loan portfolio. Each loan's PD will however be at the level of PD as determined by its MS rating. The ECL is calculated over the full life of the loan for stage 2 assets.

Weightings of best, worst and base case:

	Best case	Base case	Worst case
Weightings	5%	45%	50%

Macroeconomic factors

IFRS 9 requires the use of macroeconomic factors when calculating ECL. To the extent that it is relevant and practical the Bank has used macroeconomic factors in the ECL methodology. Incorporating forward-looking information increases the level of judgement as to how changes in these macroeconomic factors will affect ECL. The methodology, assumptions and macro-indices, including any forecasts of future economic conditions, are reviewed annually.

Measurement of expected credit losses

The key inputs into the measurement of ECL are the term structure of the following variables:

» Probability of default (PD);

» Loss given default (LGD); and

» Exposure at default (EAD).

These parameters are generally derived from internally developed statistical models and other historical data. They are adjusted to reflect forward-looking information as described above.

PD estimates are estimates at a certain date, which are calculated based on statistical rating models, and assessed using rating tools tailored to the various categories of counterparties and exposures. These statistical models are based on internally compiled data comprising both quantitative and qualitative factors. Where it is available, market data may also be used to derive the PD for large corporate counterparties. If a counterparty or exposure migrates between rating classes, then this will lead to a change in the estimate of the associated PD. PDs are estimated considering the contractual maturities of exposures and estimated prepayment rates

LGD is the magnitude of the likely loss if there is a default. The Bank estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties. The LGD models consider the structure, collateral, seniority of the claim, counterparty industry and recovery costs of any collateral that is integral to the financial asset. For loans secured by retail property, LGD estimates are recalibrated for different economic scenarios. They are calculated on a discounted cash flow basis.

EAD represents the expected exposure in the event of a default. The Bank derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract including amortisation. The EAD of a financial asset is its gross carrying amount. For lending commitments and financial guarantees, the EAD includes the amount drawn, as well as potential future amounts that may be drawn under the contract, which are estimated based on historical observations and forward-looking forecasts. For some financial assets, EAD is determined by modelling the range of possible exposure outcomes at various points in time using scenario and statistical techniques.

As described above, and subject to using a maximum of a 12-month PD for financial assets for which credit risk has not significantly increased, the Bank measures ECL considering the risk of default over the maximum contractual period (including any borrower's extension options) over which it is exposed to credit risk, even if, for risk management purposes, the Bank considers a longer period. The maximum contractual period extends to the date at which the Bank has the right to require repayment of an advance or terminate a loan commitment or guarantee.

In the current year, there has been no change in probability weightings applied to the scenarios in determining the expected credit losses.

	2021 %	2020 %	2019 %
Best case	5	5	5
Base case	45	45	45
Worst case	50	50	50
	100	**100**	**100**

In the current year, there have been changes to the expected credit losses. There have been changes in the assumptions used, however, there have been no changes in the estimation techniques used to measure the expected credit losses except the changes due to COVID-19 where the multivariate approach was used.

42. Risk management (continued)

42.13 Credit risk exposure (continued)

Measurement of expected credit losses (continued)

Methods used to determine	Method	Inputs	Assumptions	Estimation techniques
12-month and lifetime expected credit losses	Expected loss methods based on PD, LGD and EAD; expected credit losses are discounted to the reporting date using the effective interest rate.	PD, LGD and EAD over current PDs survival rate and expected credit losses	Current PDs are the output of the calibrated rating model; PDs in subsequent years are determined based on survival rate, seasoning and cyclicality effects. The current LGD is the output of the LGD model; analyses showed that the subsequent LGDs are the same as the first year's LGD. Lifetime is the contractual tenor of the loan; no prepayments assumed.	PDs: migration matrices for multi-year migration effects, term structure analysis for seasoning effect, macroeconomic overlay for cyclically. LGD: LGD model calibrated with own data history. EAD: Inclusion of repayment schedules.
Whether a credit risk has increased significantly since initial recognition	According to the stage 2 definition: Different Bank specific identifiers including the minimum 30 days past due criteria (after relevant exclusion rules have been applied) have been selected for the identification of SICR.	Information on single loan level, such as loans management risk indicators, arrears information, etc.	While each loan is firstly considered on its own, the final classification is assessed at an individual loan level.	Stage classification is fact based using current flags and information available in the Bank's database.
Whether a financial asset is a credit impaired financial asset	Definition: In general, unlikeliest to pay as well as >90 days past due are the criteria considered; these criteria are interpreted in terms of the Bank's identifier, e.g. for specific cases of unlikeliest to pay	Information on single loan level, such as loans management risk indicators, arrears information, etc.	While each loan is firstly considered on its own, the final classification is performed on a client level, i.e. if one loan is considered to be credit impaired (stage 3) then all loans of the same clients are considered to be so as well.	Stage classification is fact based using current flags and information available in the Bank's database. Maximum stage across all loans per client rule applies.

Sensitivity analysis

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.

Loans	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	–
Weighted ECL – stages 1 and 2				**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	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)

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%.

	10% decrease in management value	Actual	10% increase in management value
31 March 2021			
Stage 3 ECL (incl. POCI) (R'000)	5 861 716	5 064 756	5 462 440
% change	15.74	–	7.85

Sensitivity analyses were performed on the equity portfolio to determine the possible effect of fair value adjustment. In calculating the sensitivities for investments using a top-down approach, the fair value adjustment was stressed with a factor ranging from -10% to +10%. The impact of the top-down approach that uses fair value adjustment is disclosed in the table below. From the table below a 10% increase on the fair value adjustment will have a R34 million increase in the equity values as at 31 March 2021, and a 10% decrease in fair value adjustment results in a R34 million decrease in the equity values as at 31 March 2021.

Equity investments

in thousands of rands	10% decrease in fair value	Fair value – actual	10% increase In fair value
31 March 2021			
Equity instruments listed and unlisted	**383 647**	**348 770**	**313 893**
Listed	–	21 437	–
Unlisted	383 647	327 333	313 893

The Bank performed a sensitivity analysis on each investment to determine the potential impact of COVID-19, using a bottom-up approach, with the total impact on the portfolio determined and noted in the table below. In the current period, the analysis is performed using a top-down approach with the potential variances as disclosed above.

Sensitivity analysis

	Fair value loss R'000	Variance R'000	Valuation R'000	Variance %
31 March 2020				
Actual	371 000	–	5 993 951	–
Stressed – worst case	398 795	27 795	5 966 157	(0.46)
Stressed – positive case	225 818	(145 182)	6 139 133	2.42

Sensitivity analysis – Level 3

	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)

	Fair value loss R'000	Variance R'000	Valuation R'000	Variance %
31 March 2020				
Actual	45 461	–	2 176 335	
Stressed – worst case	4 546	4 546	2 176 335	(0.20)
Stressed – positive case	4 546	(4 546)	2 176 335	(0.20)

42. Risk management (continued)

42.13 Credit risk exposure (continued)

Sensitivity analysis (continued)

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 -18% to +18% and prior year (-25% to +25%). The effect of each change on the value of the investment was disclosed below:

Sensitivity analysis – marketability discounts

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%.

in thousands of rands	Base value	10% increase in marketability discount	Fair value – actual	10% decrease in marketability discount
31 March 2020				
Listed				
Level 1	–	–	–	
Unlisted				
Level 2	4 380 150	3 782 994	3 817 616	3 852 238
Level 3	2 764 224	2 117 546	2 176 335	2 235 124
Total	**7 144 374**	**5 900 540**	**5 993 951**	**6 087 362**
% change in fair value		**(1.56)**		**1.56**

For 10% movement in marketability discount rate the fair value change on the equity portfolio was +/-1.56%.

Sensitivity analysis – effective exchange rates

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 R14.7665 and ZAR/EUR at R 17.3182.

in thousands of rands	25% decrease in effective exchange rate	Fair value – actual	25% increase in effective exchange rate
31 March 2020			
Listed			
Level 1			
ZAR	–	–	–
Unlisted			
Level 2			
USD	2 217 050	2 956 067	3 695 084
ZAR	861 549	861 549	861 549
Level 3			
EUR	481 621	642 161	802 702
USD	–	–	–
ZAR	1 534 174	1 534 174	1 534 174
Total	**5 094 394**	**5 993 951**	**6 893 509**
% change in fair value	**(15.01)**		**15.01**

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 25% movement in foreign exchange rate, the fair value change on the equity portfolio was +/-15.01%. The exchange rates used at measurement date ZAR/USD at R17.8402 and ZAR/EUR at R19.6760.

Discount rate applied

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**

in thousands of rands	Level 1	Level 2	Level 3	Total
31 March 2020				
0% – 12.5%	–	3 474 576	–	3 474 576
12.5% – 15.0%	–	–	–	–
15.0% – 16.5%	–	343 040	713 288	1 056 328
20.0% – 22.5%	–	–	–	–
22.5% – 25.0%	–	–	1 463 047	1 463 047
Total	**–**	**3 817 616**	**2 176 335**	**5 993 951**

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.

42. Risk management (continued)

42.13 Credit risk exposure (continued)

Concentrations of credit risk

The Bank monitors concentrations of credit risk by sector, region and by geographic location. An analysis of concentrations of credit risk from development loans, development bonds, trade and other receivables, loan commitments and financial guarantees

	Development loans		Loan commitments	
Concentration of risk	**2021**	**2020**	**2021**	**2020**
Gross carrying amount/amount committed (R'000)	94 098 188	96 425 614	5 232 294	7 613 146
Concentration by sector: Energy %	52	55	44	46
Concentration by country: South Africa %	73	70	65	65
Concentration by currency: (ZAR) %	73	71	62	65

Concentration by location for development loans, loan commitments and financial guarantees is based on the customers' country of domicile.

(a) Geographical analysis of development loans at amortised cost

in thousands of rands	Stage 1	Stage 2	Stage 3	POCI	Total 2021	Total 2020
Stage 3						
South Africa	–	–	2 194 246	15 530	2 209 776	2 402 662
Rest of Africa	–	–	5 076 523	–	5 076 523	4 543 726
Total	**–**	**–**	**7 270 769**	**15 530**	**7 286 299**	**6 946 388**
Allowance for ECL						
South Africa	–	–	(1 280 418)	(7 035)	(1 287 453)	(1 282 362)
Rest of Africa	–	–	(3 777 303)	–	(3 777 303)	(3 083 400)
Total	**–**	**–**	**(5 057 721)**	**(7 035)**	**(5 064 756)**	**(4 365 762)**
Carrying amount: South Africa	–	–	913 828	8 495	922 323	1 120 300
Carrying amount: Rest of Africa	–	–	1 299 220	–	1 299 220	1 460 326
Carrying amount – stage 3	**–**	**–**	**2 213 048**	**8 495**	**2 221 543**	**2 580 626**
Stages 1 and 2						
South Africa	42 924 625	23 277 433	–	–	66 202 058	65 140 452
Rest of Africa	10 805 395	9 804 436	–	–	20 609 831	24 338 774
Total	**53 730 020**	**33 081 869**	**–**	**–**	**86 811 889**	**89 479 226**
Allowance for ECL						
South Africa	(160 330)	(1 751 327)	–	–	(1 911 657)	(1 655 032)
Rest of Africa	(264 899)	(4 123 428)	–	–	(4 388 327)	(4 164 556)
Total	**(425 229)**	**(5 874 755)**	**–**	**–**	**(6 299 984)**	**(5 819 588)**
Carrying amount: South Africa	42 764 295	21 526 106	–	–	64 290 401	63 485 420
Carrying amount: Rest of Africa	10 540 496	5 681 008	–	–	16 221 504	20 174 218
Carrying amount – stages 1 and 2	**53 304 791**	**27 207 114**	**–**	**–**	**80 511 905**	**83 659 638**
Gross carrying amount	53 730 020	33 081 869	7 270 769	15 530	94 098 188	96 425 614
Allowance for ECL	(425 229)	(5 874 755)	(5 057 721)	(7 035)	(11 364 740)	(10 185 350)
Carrying amount	**53 304 791**	**27 207 114**	**2 213 048**	**8 495**	**82 733 448**	**86 240 264**

ECL balance sheet balance excludes interest in suspense of R694 million (31 March 2020: R562 million).

in thousands of rands	2021	2020
12-month ECL	936 872	487 777
Lifetime ECL – not credit impaired	5 363 094	5 331 811
Lifetime ECL – credit impaired	4 363 438	3 803 643
Purchased – credit impaired	6 839	–
Total	**10 670 243**	**9 623 231**

(b) Development bonds

in thousands of rands	12 month ECL	Lifetime ECL – not credit impaired	Lifetime ECL – credit impaired	2021	2020
Performing					
Municipal	517 865	772 354	–	1 290 219	1 290 855
Provision for ECL	(188)	(10 796)	–	(10 984)	(2 577)
Net carrying amount	517 677	761 558	–	**1 279 235**	**1 288 278**

The maximum exposure relating to development bonds is R1.3 billion (March 2020: R1.3 billion).

(c) Trade receivables and other assets

in thousands of rands	Default rate 0%	Default rate 17% and 100%	Default rate 100%	2021	2020
Trade receivables					
Trade debtors	145 220	32 201	1 953	179 374	140 101
Provision for ECL on trade receivable	–	(10 872)	(1 953)	(12 825)	(7 264)
Net carrying amount of trade receivables	**145 220**	**21 329**	**–**	**166 549**	**132 837**
Financial and other assets					
Deposits				4	4
Interest accrued	–	–	–	1 604	28 888
Prepayments				125 765	162 532
Payroll expenses receivable				801	45
Staff loans				41	67
Subsistence and travel				86	1 064
VAT receivable				1 526	2 632
Total other assets				**129 827**	**195 232**
Grand total				**296 376**	**328 069**

(d) Commitments (loans signed, but not yet fully disbursed)

in thousands of rands		2021	2020
Low risk	– Municipal	–	149 700
	– Other	250 000	100 000
Medium risk	– Municipal	–	4 677
	– Other	2 990 889	6 006 343
High risk	– Municipal	–	30 000
	– Other	1 991 405	1 322 426
Gross carrying amount		**5 232 294**	**7 613 146**
Provision for ECL		(126)	(7 110)
Net carrying amount		**5 232 168**	**7 606 036**

42. Risk management (continued)

42.13 Credit risk exposure (continued)

Concentrations of credit risk (continued)

(e) Loans that are past due not individually impaired

in thousands of rands	2021 Total	2021 <3 months	2021 3–6 months	2021 6–12 months	2021 >12 months	2020 Total	2020 <3 months	2020 3–6 months	2020 6–12 months	2020 >12 months
Overdue amounts	39 932	39 810	49	73	–	646 122	623 774	19 016	1 305	2 027
Not yet due	3 682 289	–	–	–	–	9 020 264	–	–	–	–
Total	**3 722 221**	**39 810**	**49**	**73**	**–**	**9 666 386**	**623 771**	**19 016**	**1 305**	**2 027**

An amount of R39 million (31 March 2020: R117 million) was received after the reporting date, but before the authorisation of the Annual Financial Statements.

The fair value of collateral held in respect of the above amounted to RNil (31 March 2020: RNil). For the purposes of calculating this aggregated total, the fair value of each collateral is limited to the carrying value for each individual loan.

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

(f) Financial counterparty exposure

in thousands of rands	2021	2020
Bonds	1 638 000	2 467 000
Cash and cash equivalents	8 978 608	3 458 836
Derivatives	714 599	39 659
Segregated funds	32 699	508 491
Total	**11 363 906**	**6 473 986**

42.14 Capital management

The Bank's objectives when managing capital are:

- » To safeguard the Bank's ability to continue as a going concern, through ensuring a sufficient cushion against unexpected losses, and to provide for an acceptable growth rate in the Bank's development finance activities;
- » To maintain an adequate credit rating to ensure the Bank has continued access to raise funds at optimal rates, in support of its mission to provide affordable development finance solution; and
- » To align the returns on the Bank's assets to its associated risks.

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

The leverage ratio is calculated as total debt divided by shareholders' capital, where total debt comprises total liabilities excluding other creditors (as shown on the statement of financial position). Capital comprises share capital, permanent government funding, retained earnings, and reserves. As at 31 March 2021, the debt to equity stood at 152% (31 March 2020: 165%). The capital ratio is calculated as shareholders' capital divided by unweighted assets, where unweighted assets comprise total assets (as shown in the statement of financial position). Shareholders' capital comprises share capital, permanent government funding, retained earnings, general provisions and the fair reserve. As at 31 March 2021, the capital ratio stood at 39% (31 March 2020: 37%).

42.15 COVID-19 impact

Asset portfolio

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 March 2021 and will be finalised in the 2021/22 financial year.

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 as at year end. The full extent of the COVID-19 pandemic remains unknown and was evolving at financial year end. 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.

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.

Post balance sheet

Prior to the advent of the COVID-19 pandemic, the Bank's standard practice was to use forward-looking information obtained about a month before reporting date. This was been consistently applied up to the 2020 financial year with the Bank treating the COVID-19 pandemic and its effects as an adjusting post balance sheet event. Given the continued prevalence of the pandemic, the impact of changes to forward-looking information for February 2021 was reviewed (in a manner consistent with the prior year) using data available as at 31 March 2021 but obtained in early April 2021.

Expansion of the master rating scale

In terms of Principle 10 of Basel Principle 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.

The expansion of the MS17 category into four sub-categories within this category, allows for more granularity within the MS17 category to more accurately assess and reflect each client's credit risk deterioration. The expansion followed an exponential extrapolation method, overall PD ranges remained unchanged from last year from 12% to 99%, and these new grades which adds more granularity and credit risk differentiation were benchmarked with rating agencies. The expansion of the MS17 grade was approved by the Investment Committee's Technical Committee.

A new MS17 framework was approved by the Investment Committee and in response to the COVID-19 pandemic all significantly large exposures were reviewed and assessed for COVID-19 impact. The additional risk rating grades provided add to a well-structured rating system, which provides a good means of differentiating degrees of credit risk of different exposures and allows more enhanced determination of overall characteristics of credit portfolio, concentrations, problem credits and adequacy of loan loss reserves/expected credit losses.

Change in weightings

In the prior year, 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. The Bank proactively had increased the negative weighting, and the negative weightings 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 the stress testing and changing the weightings.

» Increase in worst case by 5% causes ECL to increase by approximately 0.1%;

» Increase in worst case by 10% causes ECL to increase by approximately 0.1%; and

» Increase in worst case by 15% causes ECL to increase by approximately 0.1%.

IFRS 9 post-implementation plan

After successful embedment of IFRS 9 over the preceding two 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.

42. Risk management (continued)

42.15 COVID-19 impact (continued)

Liabilities portfolio

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 which has been meeting on a weekly basis. 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.

Hedge accounting

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 financial year end 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.

42.16 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 IAS 39/IFRS 9 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 19 until the uncertainty arising from the interest rate benchmark reform with respect to the timing and the amount of the underlying cash flows to which the Bank is exposed to ends. The nominal value of hedging instrument exposed to interest rate reform is disclosed in note 8 to the Annual Financial Statements.

43. Non-current asset held for sale

As a result of a calling on its security against a loan in default, the Bank obtained a 100% shareholding in a property investment company with a view to sell. All assets in the company have been sold and the amount due to the Bank is RNil (31 March 2020: R0.28 million). Frandevco is in the process of being deregistered with the Companies Intellectual Properties Commission.

44. Related parties

44.1 Related party relationships

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. The Bank has a 0% shareholding in Frandevco (refer to note 44.2.3).

44.2 Transactions with related parties

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

44.2.1 National public entities

The total book debt of loans extended to national public entities amounts to R19.6 billion (31 March 2020: R23.4 billion). None of these loans are non-performing.

44.2.2 National mandates

The net amount outstanding at year end amounted to R172 million (31 March 2020: R126 million) (refer note 6).

44.2.3 Frandevco

The Bank has 0% shareholding in Frandevco (31 March 2020: 100%). There were no transactions with Frandevco during the year (31 March 2020: RNil). Frandevco is in the process of being deregistered with the Companies Intellectual Properties Commission.

45. Business combination

Effective 1 April 2020, The Department of Environment, Forestry and fisheries (DEFF) transferred the Green Fund assets and liabilities to the Bank. The transfer of assets and liabilities was accounted for under IFRS 3: *Business Combinations*. The fair value of the assets and liabilities transferred is shown below:

in thousands of rands	2021	2020
Recognised amounts of identifiable assets and liabilities transferred		
Cash and cash equivalents at amortised cost	397 907	–
Development loans held at FVTPL	64 052	–
Trade, other payables and accrued interest on debt funding	(462)	–
Deferred income	(461 468)	–
Gain on transfer	(29)	–
	–	**–**

46. 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.

47. Commitments

At the reporting date, the Bank had the following commitments:

in thousands of rands	2021	2020
Capital commitments	150 081	202 081
Development expenditure	19 624	23 999
Development loan commitments	5 232 294	7 613 146
Equity investments commitments	730 403	734 255
Project preparation expenditure	141 751	247 951
Gross carrying amount	**6 274 153**	**8 821 432**
Provision for expected credit losses	(126)	(7 110)
Net commitments at the end of the year	**6 274 027**	**8 814 322**

47.1 Development loan commitments

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

Client classification

Educational institutions	–	71 999
Local government	–	184 378
National and provincial government	1 761 210	905 096
Private sector intermediaries	2 204 083	3 943 001
Public utilities	1 267 001	2 508 672
Total	**5 232 294**	**7 613 146**

Geography

Eastern Cape	–	71 999
Gauteng	294 411	2 578 580
KwaZulu-Natal	250 000	104 676
Limpopo	–	30 000
Northern Cape	1 130 181	1 732 909
Western Cape	32 370	502 760
Rest of Africa	3 525 332	2 592 222
Total	**5 232 294**	**7 613 146**

in thousands of rands	2021	2020

47. Commitments (continued)

47.1 Development loan commitments (continued)

	2021	2020
Rest of Africa		
Cote d'Ivoire	–	905 096
Congo	183 056	399 907
Ethiopia	48 807	58 966
Ghana	740 005	575 532
Angola	355 043	–
Mozambique	1 122 019	–
Madagascar	95 569	108 581
Mauritius	423	535 374
Sierra Leone	139	–
Tanzania	973 016	–
Zimbabwe	7 255	8 766
Total	**3 525 332**	**2 592 222**

	2021	2020
Sector		
Water	250 000	239 200
Roads and drainage	7 255	918 537
Energy – electricity	2 653 662	3 383 054
Energy – non-grid standalone	100 000	–
Communication and transport	1 550 965	2 702 752
Social infrastructure	236 540	30 000
Education	–	71 999
Sanitation	433 872	267 604
Total	**5 232 294**	**7 613 146**

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:

in thousands of rands	Stage 1	Stage 2	Stage 3	Fair value	Total
31 March 2021					
Reconciliation of carrying amount					
Balance at the 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 at the 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
31 March 2021				
Reconciliation of provision for expected credit losses				
Balance at the 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, EADs)	(6 996)	(102)	–	(7 098)
Balance at the end of the year	**125**	**1**	**–**	**126**

in thousands of rands	Stage 1	Stage 2	Stage 3	2021
31 March 2021				
Expected credit losses				
Expected credit losses recognised in the income statement excluding interest in suspense and write-off	(6 984)	–	–	(6 984)

in thousands of rands	Stage 1	Stage 2	Stage 3	Fair value	Total
31 March 2020					
Reconciliation of carrying amount					
Balance at the beginning of the year	**7 463 250**	**593 772**	**435 745**	**–**	**8 492 767**
Transfer from stage 2 to stage 3	–	(545 725)	545 725	–	–
Transfer from stage 1 to stage 3	(713 872)	–	713 872	–	–
New loan commitments issued	19 057 361	–	–	93 367	19 150 728
Disbursements	(15 510 799)	–	(57 507)	(73 046)	(15 641 352)
Withdrawals	(2 764 175)	(48 047)	(545 725)	–	(3 357 947)
Foreign exchange gains	(1 169 045)	–	158 148	(20 153)	(1 031 050)
Balance at the end of the year	**6 362 720**	**–**	**1 250 258**	**168**	**7 613 146**

in thousands of rands	Stage 1	Stage 2	Stage 3	Total
31 March 2020				
Reconciliation of provision for expected credit losses				
Balance at the beginning of the year	**1 933**	**244 085**	**–**	**246 018**
New loan commitments issued	2 734	–	–	2 734
Withdrawals	–	(244 085)	–	(244 085)
Subsequent changes in expected credit losses due to changes in risk parameters (PDs, LGDs, EAD)	2 407	–	–	2 407
Foreign exchange movements	36	–	–	36
Balance at the end of the year	**7 110**	**–**	**–**	**7 110**

in thousands of rands	Stage 1	Stage 2	Stage 3	2020
31 March 2020				
Expected credit losses				
Expected credit losses recognised in the income statement excluding interest in suspense and write-off	5 177	(244 085)	–	(238 908)

47.2. Development expenditure, project preparation expenditure, equity investments and capital commitments

The commitments approved are to be financed from funds generated from operations and funds raised from local financial markets and foreign sources.

48. Lease obligations

in thousands of rands	2021	2020
Minimum lease payments due (IFRS 16)		
– within one year	2 917	3 457
– in second to fifth year inclusive	–	364
	2 917	**3 821**

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

49. Irregular, fruitless and wasteful expenditure

49.1 Irregular expenditure

in thousands of rands	2021	2020
Balance at the beginning of the year	2 744	394
Incurred in the current year	608	2 744
Condoned	(2 586)	(388)
Removed – not irregular	–	(6)
Balance at the end of the year	**766**	**2 744**

Details of irregular expenditure

Contract increased in expenditure due to increase in scope	45	282
Contracts continued post expiry date	563	2 462
Total	**608**	**2 744**

Incidents of irregular expenditure occurred during the current and previous years. Appropriate corrective measures are being applied as relevant to each case.

50. Funds administered on behalf of third parties

Balance at the beginning of the year	1 794 988	1 537 837
Funds received	3 419 784	4 372 606
Interest, foreign exchange and other movements	(419 284)	139 904
Funds disbursed	(2 989 435)	(4 255 359)
Balance at the end of the year	**1 806 053**	**1 794 988**

The Bank manages funds on behalf of third parties. Funds administered on behalf of third parties are in ring fenced bank accounts which are restricted and are utilised for specific purposes as determined in the agreements with third parties and as instructed by the parties to the agreements. The funds are not disclosed in the Bank's statement of financial position as they do not meet the definition of an asset as per the accounting framework.

In August 2019, the Cabinet of the Government of South Africa approved the establishment of the Infrastructure Fund (IF) through a dedicated implementation unit housed in the DBSA, which would facilitate the financial structuring, procurement and implementation of priority blended-finance projects and programmes. The IF was established through a Memorandum of Agreement (MOA) which was signed on 17 August 2020 between the Department of Public Works and Infrastructure: Infrastructure South Africa (ISA), the National Treasury (Treasury) and the DBSA for a period of 10 years ending 17 August 2030. As per the MOA it was agreed that the DBSA and the National Treasury will each contribute 50% towards the operating costs of the IF for the first five years of the agreement. During the financial year, the DBSA committed an amount of R28 million towards the operational costs of the IF and the amount is disclosed under general and administration expenses.

in thousands of rands	2021	2020
51. Third party managed funds cost recovered		
Third party funds and mandates		
African World Heritage Fund	4 852	4 689
Climate Finance Facility Trust	655	–
District Development Model	22 550	–
Eastern Cape Department of Education	–	486
Gauteng Department of Agriculture	419	–
Global economic	–	18
Green Fund	–	2 869
Infrastructure Delivery Management System	2 443	1 112
Infrastructure Fund	4 022	–
Infrastructure Investment Programme for South Africa (IIPSA)	4 050	6 070
Jobs Fund	2 588	4 827
KfW SADC Water Fund	2 465	1 978
National Department of Basic Education for Accelerated Infrastructure Schools Programme	3 629	2 142
National Department of Energy – Independent Power Producers Office (IPPO)	52 682	62 206
National Department of Health	4 908	7 199
National Department of Public Works	22 988	–
National Treasury Cities Support Programme (NTCSP)	10 837	12 419
Newcastle Local Municipality	–	4 500
Pan African Capacity Building Platform (PACBP)	4 146	6 833
Student Housing Infrastructure Programme	3 355	–
World Economic Forum – Sustainable Development Investment Partnership Programme	611	–
Total costs recovered	**147 200**	**117 348**
Third party managed funds managed per division		
Finance	15 608	11 522
Infrastructure Delivery	42 593	29 854
Project Preparation	66 449	75 972
Coverage	22 550	–
Total	**147 200**	**117 348**
Cost recovery for each division		
Corporate Services	75 232	69 575
Finance	13 021	11 523
Infrastructure Delivery	54 327	36 250
Project Preparation	4 620	–
Total	**147 200**	**117 348**

52. Taxation

The Bank is exempt from South African normal taxation in terms of section 10(1)(t)(x) of the Income Tax Act, 1962 (Act No. 58 of 1962), as amended, and consequently no liability for normal taxation has been recognised. The Bank is registered for VAT, PAYE, SDL and UIF.

53. Events after the reporting period

There were no material adjusting events after the reporting date other that those already addressed in the notes to the Annual Financial Statements (refer to note 42 on page 97).

ABBREVIATIONS AND ACRONYMS

ALCO	Assets & Liability Management Committee
B-BBEE	Broad-Based Black Economic Empowerment
COVID-19	Coronavirus disease 2019
CPI	Consumer Price Index
CVA	Credit value adjustment
DBSA	Development Bank of Southern Africa Limited
DDM	District Development Model
DFID	The United Kingdom's Department for International Development
DFI	Development Finance Institution
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
IESBA	International Ethics Standards Board for Accountants
IF	Infrastructure Fund
IFRS	International Financial Reporting Standards
IIPSA	Infrastructure Investment Programme for South Africa
IPPO	Independent Power Producers Office
ISA	International Standards on Auditing
JSE	Johannesburg Stock Exchange
KfW	The German Agency, Kreditanstalt für Wiederaufbau
LGD	Loss given default
MISA	Municipal Infrastructure Support Agency
NAV	Net asset value
NCD	Negotiable certificate of deposit
NDP	National Development Plan
NII	Net interest income
NPL	Non-performing loans
NTCSP	National Treasury Cities Support Programme
OCI	Other comprehensive income
PAA	Public Audit Act, No. 25 of 2004
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

FINANCIAL DEFINITIONS

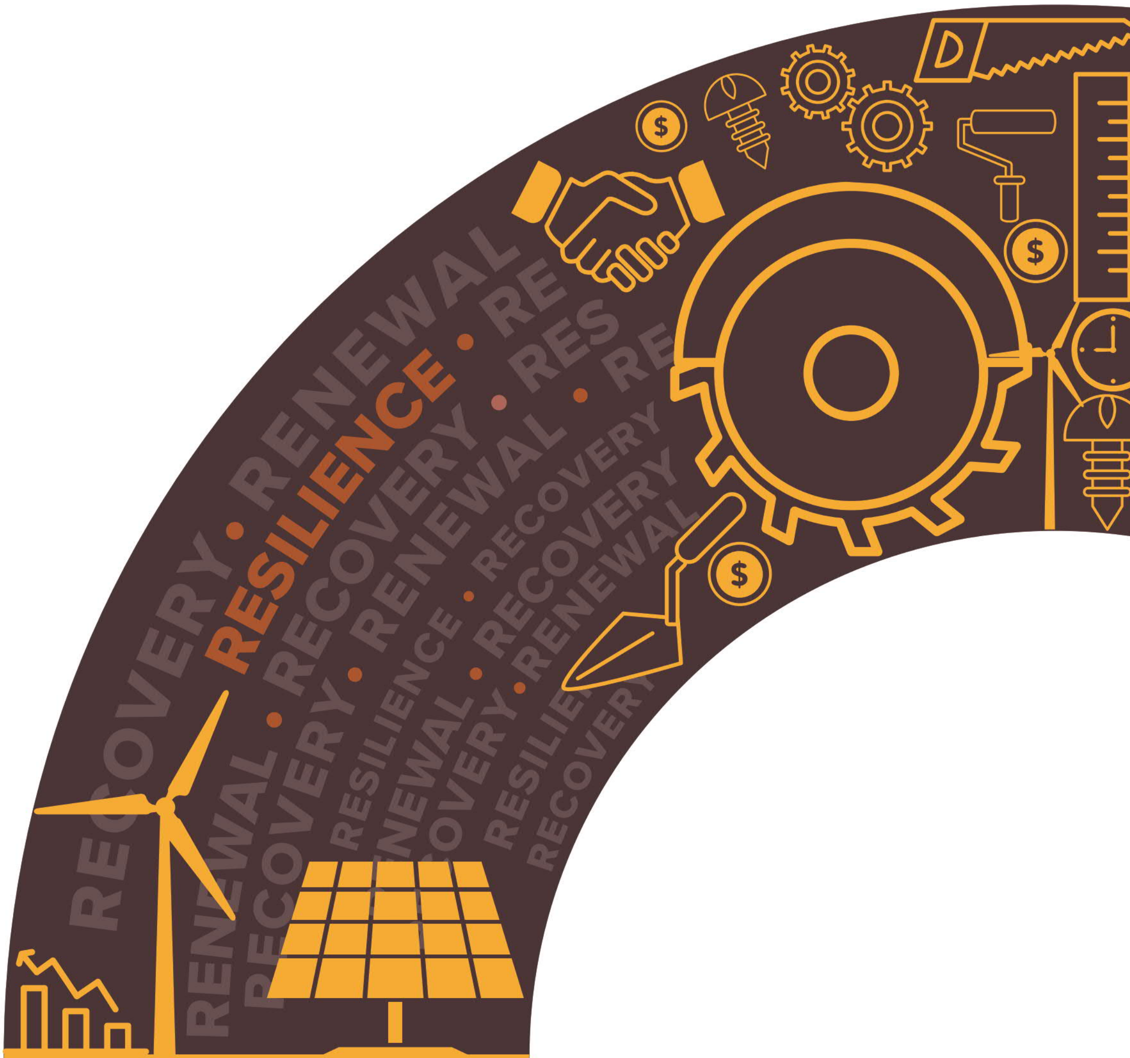
Callable capital	The authorised but unissued share capital of the DBSA
Cost-to-income ratio	Operating expenses, (including personnel, general and administration, depreciation and amortisation expenses), project preparation and development expenditure as a percentage of income from operations
Income from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

GENERAL INFORMATION

Registered office	Headway Hill 1258 Lever Road Midrand Johannesburg South Africa
Business address	1258 Lever Road Headway Hill Halfway House 1685 South Africa
Postal address	PO Box 1234 Halfway House 1685 South Africa
Banker	The Standard Bank of South Africa
Registered Auditor	Auditor-General of South Africa
Company registration number	1600157FN
Preparer	The Annual Financial Statements were compiled under the supervision of the Chief Financial Officer, Boitumelo Mosako CA(SA).
JSE debt sponsor	Nedbank (1 April 2020 to 31 December 2020) Rand Merchant Bank (a division of FirstRand Bank Limited) since 1 January 2021
Primary Debt Listings	JSE Limited
Telephone	+27 11 313 3911
Fax	+27 11 313 3086
Home page	www.dbsa.org
LinkedIn	www.linkedin.com/company/dbsa/
Twitter	twitter.com/DBSA Bank
Email	dbsa@dbsa.org

NOTES

NOTES



www.dbsa.org

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