Development Bank of Southern Africa Limited
Registration number: 1600157FN
JSE alpha code: DIDBS
Audited results for the year ended 31 March 2019

Overview

Development Bank of Southern Africa Limited (hereafter referred as "the Bank") is a development finance institution, whose only shareholder is the Government of the Republic of South Africa. This summary of the condensed year-end financial results is published on SENS to provide information to the holders of the Bank's listed debt instruments. The condensed year end results are prepared in accordance with the requirements of the JSE Limited (JSE) Listings Requirements, the requirements of International Financial Reporting Standards (IFRS) and its interpretations as adopted by the International Accounting Standards Board, the presentation requirements of IAS 1 and requirements of section 27 to 31 of the Companies Act of South Africa (Act No.71 of 2008), The Companies Act being the relevant and corresponding sections specified in the Development Bank of Southern Africa Act. The detailed annual results are available on the DBSA website https://www.dbsa.org

Audit of the financial results

The annual financial statements of the Bank for the year ended 31 March 2019 have been audited by the Bank's auditor, The Auditor-General of South Africa (hereafter referred to as the AG). The AG in his audit report, which is available for inspection at the Bank's Registered Office, stated that his audit was conducted in accordance with International Standards on Auditing, and has expressed an unqualified audit opinion on the annual financial statements for the year ended 31 March 2019.

Context of the annual financial statements

During the year under review, the GDP of South Africa remained subdued and affected the demand for infrastructure funding. Statistics SA announced in September 2018 that South Africa was in a technical recession following two consecutive quarters of GDP contraction, primarily driven by declining output in agriculture, transport and trade. Further to this, business confidence and economic growth continue to be weak and the country GDP growth reduced by 3.2% in Q1 to 31 March 2019. The Bank continues to experience the adverse impact of the subdued economy, resulting in reduction in disbursements compared to the prior year. Disbursement levels declined compared to the previous five years. However, the Bank achieved higher levels of loan approvals and commitments compared to the prior year. Furthermore, the Bank continued, in line with its mandate, to pursue the implementation of its growth strategy designed to augment disbursements by focusing on its catalytic role to enable sustainable infrastructure development. Through this strategy, the Bank aims at increasing crowding in third party funding, de-risking projects through early stage project preparation and improved innovation.

Preparation of the annual financial statements

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

Basis of preparation

The annual financial statements have been prepared in accordance with the recognition, measurement and disclosure requirements of International Financial Reporting Standards ("IFRS"), Public Finance Management Act of South Africa ("PFMA"), Section 27 to 31 of the Companies Act of South Africa and the Development Bank of Southern Africa Act. The accounting policies applied during the year ended 31 March 2019 are in all material respects consistent with those applied in the Annual Financial Statements for the year ended 31 March 2018, except for the adoption of IFRS 9: Financial Instruments, IFRS 7: Financial Instruments Disclosures and IFRS 15: Revenue from Contracts with Customers. IFRS 9 replaced IAS 39 with effect from 1 January 2018. IFRS 9 introduced new requirements, which included an expected credit losses (ECL) impairment model, and new requirements for the classification and measurement of financial assets. IFRS 9 impacted the Bank's opening balances upon adoption. The impact to the Bank's opening retained earnings upon transition to IFRS 9 was material and relates to IFRS 9 expected credit loss impairment requirements.

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

Key impressions of the financial results and activities

The Bank achieved net profit for the year amounting to R3.10 billion (31 March 2018: R2.28 billion). Sustainable earnings (net profit excluding foreign exchange gains or losses and revaluation adjustments on financial instruments) amounted to R2.32 billion (31 March 2018: R2.76 billion). Net profit was boosted by foreign exchange gains of R744 million compared to foreign exchange losses of R302 million in the prior year. The Bank closely monitors its exposure to foreign exchange risk in order to limit the downside risk emanating from the Rand appreciation. Return on equity based on sustainable earnings is 6.5% (31 March 2018: 8.3%).

Net interest income grew by 17% to R4.49 billion (31 March 2018: R3.85 billion) Impairment charge increased to R1.44 billion compared to R623 million in the prior year in line with IFRS 9 provisioning requirements and in particular, the additional expected credit loss impairment provisions in our SADC portfolio due to changes in the economic conditions. IFRS 9 requires entities to be proactive and recognise expected credit losses due to current and forecast economic conditions. Operating costs remain under control, with cost to income ratio coming in at 23% (31 March 2018: 22%).

Total assets remained relatively flat from the prior year, with a 0.3% increase year on year. Total disbursements of R9 billion were R3.2 billion down compared to prior year. This resulted in a muted growth in total assets, as the disbursements were just sufficient to replace loans that were running off. Balance sheet provision for expected credit losses increased by 29% to R6.20 billion (31 March 2018: R4.82 billion) on the back of the aforementioned reasons. The loan book asset quality remains acceptable and within the Bank's target of 6% as demonstrated by non-performing loans ratio of 4.8% (31 March 2018: 4.2%).

Total funding liabilities decreased by 5% year on year. During the financial period, repayments from customers and internally generated profits were generally used to fund the Bank's operations. The Bank's regulatory debt to equity ratio improved during the financial period. Debt-to-equity ratio excluding R20 billion callable capital was 138.1% (31 March 2018 156.2%), while debt-to-equity ratio including R20 billion callable capital was 89.8% (31 March 2018 98.7%). These ratios are within the regulatory debt to equity ratio limit of 250%. Callable capital is shares authorised but not issued.

Cash generated from operations was R3.80 billion compared to R4.04 billion in the prior year.

Events after the reporting period

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

Statement of Financial Position as at 31 March 2019

in thousands of rand	2019	2018
Assets		
Cash and cash equivalents at amortised cost	2 922 876	3 741 853
Trade receivables and other assets	365 579	399 621
Investment securities	1880 502	1 420 920
Derivative assets held for risk management	713 304	1 240 445
Post-retirement medical benefits investment	43 732	45 446
Equity investments held at fair value through profit and loss	5 937 578	5 535 351
Development bonds at amortised cost	1 290 179	1 290 361
Development loans at amortised cost	75 816 506	75 047 479
Property and equipment	435 020	398 760
Intangible assets	83 133	91 710
Total assets	**89 488 409**	**89 211 946**
Equity and liabilities		
Liabilities		
Trade, other payables and accrued interest on debt funding	678 991	1 204 264
Derivative liabilities held for risk management	297 798	59 240
Liability for funeral benefit	-	2 152
Post-retirement medical benefit liability	-	44 604
Liability for funeral and post-retirement medical benefits	44 484	-
Debt securities held at through fair value through profit or loss	-	6 473 055
Debt securities held at amortised cost	-	33 363 703
Funding: lines of credit	-	13 677 213
Debt funding designated at fair value through profit or loss	6 469 451	-
Debt funding held at amortised cost	44 516 190	-
Provisions	309 010	66 640
Total liabilities	**52 315 924**	**54 890 871**
Equity		
Share capital	200 000	200 000
Retained earnings	22 717 877	19 472 969
Permanent government funding	11 692 344	11 692 344
Revaluation reserve on land and buildings	-	183 809
Cash flow hedge reserve	-	151 883
Available-for-sale reserve	-	8 094
Other reserves	293 808	-
Reserve for general loan risks	2 268 456	2 611 976
Total equity	**37 172 485**	**34 321 075**
Total liabilities and equity	**89 488 409**	**89 211 946**

Statement of Comprehensive Income for the year ended 31 March 2019

in thousands of rand	2019	2018
Interest income	-	7 750 606
Interest income calculated using the effective interest rate	8 157 805	-
Other interest income	252 034	-
Interest expense	-	(3 905 259)
Net interest expense calculated using the effective interest rate	(3 344 288)	-
Other interest expense	(571 101)	-
Net interest income	**4 494 450**	**3 845 347**
Net fee income	193 380	190 196
Net foreign exchange gain/(loss)	743 713	(302 057)
Net gain/(loss) from financial assets and liabilities	69 945	(131 605)
Investment and other income	139 773	242 540
Other operating income/(loss)	**1 146 811**	**(926)**
Operating income	**5 641 261**	**3 844 421**
Project preparation expenditure	(1 405)	(7 094)
Development expenditure	(20 505)	(15 154)
Expected credit losses/impairment on financial assets held at amortised cost	(1 441 056)	(623 178)
Personnel expenses	(751 300)	(702 880)
General and administration expenses	(292 403)	(177 601)
Depreciation and amortisation	(19 579)	(25 871)
Profit from operations	**3 115 013**	**2 292 643**
Grants paid	(18 318)	(9 766)
Profit for the year	**3 096 695**	**2 282 877**

Statement of Other Comprehensive Income for the year ended 31 March 2019

in thousands rand

	2019	2018
Profit for the year	**3 096 695**	**2 282 877**
Items that will not be reclassified to profit and loss		
Gain/(loss)on revaluation of land and buildings	19 947	(14 513)
Movement due to changes in own credit risk on financial liabilities designated at fair value through profit or loss	(12 852)	-
Fair value movements in post-retirement benefit liability	2 750	-
	9 845	**(14 513)**
Items that may be reclassified subsequently to profit and loss		
Unrealised (loss)/gain on cash flow hedges	(143 346)	121 616
Loss/(gain)/loss on cash flow hedges reclassified to statement of comprehensive income	94 367	(111 413)
Unrealised gain on available-for-sale financial assets	-	11 132
	(48 979)	**21 335**
Other comprehensive (loss)/profit	**(39 134)**	**6 822**
Total comprehensive income for the year	**3 057 561**	**2 289 699**

Condensed statement of changes in equity for the year ended 31 March 2019

In thousands of rand

	2019	2018
Balance at 1 April 2018	**34 321 075**	**32 031 376**
Impact of adoption of IFRS 9	(206 151)	-
Restated balance at 1 April 2018	**34 114 924**	**32 031 376**
Profit for the year	3 096 695	2 282 877
Unrealised (loss)/gain on cash flow hedges	(143 346)	121 616
Loss/(gain)/loss on cash flow hedges reclassified to statement of comprehensive income	94 367	(111 413)
Gain/(loss)on revaluation of land and buildings	19 947	(14 513)
Movements in changes in own credit risk	(12 852)	-
Gain on available-for-sale financial assets	-	11 132
Fair value movements on post-retirement benefit liability	2 750	-
Balance at 31 March 2019	**37 172 485**	**34 321 075**

Summarised Statement of Cash Flows for the year ended 31 March 2018

In thousands of rand

Cash flows generated from operating activities	3 796 777	4 039 466
Cash flows generated from/(utilised in) development activities	1 216 652	(5 606 062)
Cash flows utilised by investing activities	(345 238)	(444 179)
Cash flows (utilised by)/generated from financing activities	(5 516 646)	3 543 653
Effect of exchange rate movement on cash balances	29 478	(90 272)
Net (decrease)/increase in cash and cash equivalents	**(818 977)**	**1 442 606**
Cash and cash equivalents at the beginning of the year	**3 741 853**	**2 299 247**
Cash and cash equivalents at the end of the year	**2 922 876**	**3 741 853**

Outlook

The success in the year ending 31 March 2020 hinges on the Bank's ability to grow developmental impact using its own balance sheet and partnering with others. Both domestic and global economic factors are critical to the achievement of the Bank's objectives. Government's commitment to revive and grow the economy is expected to improve business confidence and boost economic activity. This will positively impact the demand for infrastructure funding. The Bank has a healthy pipeline of projects that form a solid springboard for success in the future, and will continue to focus on disbursing to infrastructure projects to grow developmental impact in line with its mandate.

27 September 2019
Debt sponsor: Nedbank CIB, a division of Nedbank Limited