

The Development Bank of Southern Africa
(Registration number 1600157FN)
JSE Company Code: BIDBS

Audited results for the year ended 31 March 2016

Preparation of the financial statements

The following individual was responsible for the oversight and preparation of the financial statements for the year ended 31 March 2016:

Kameshni Naidoo CA (SA), Chief Financial Officer

Basis of preparation

Accounting policies adopted and methods of computation are consistent with those applied to the Annual Financial Statements at 31 March 2015. The financial statements are prepared on the historical cost basis except for the following assets and liabilities which are stated at their fair value: derivative financial instruments, financial instruments at fair value through profit and loss, available-for-sale financial assets, land and buildings, post-retirement medical benefit measured at actuarial values. 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, 1997.

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.

Audit of results

The financial results of DBSA for the year ended 31 March 2016 have been audited by the Bank's auditor, Nkonki Inc. In their audit report, which is available for inspection at the Company's Registered Office, Nkonki Inc. stated that their audit was conducted in accordance with International Standards on Auditing, and have expressed an unmodified audit report on the year-end financial statements.

Key Highlights

- Record disbursement of R17.1bn (31 March 2015: R13bn) main contributors were to loans and equity disbursements.
- Increased in profitability for the year R2.6bn (31 March 2015: R1.2bn).
- Included in profit is an unrealised foreign exchange gain amounting to R1bn (31 March 2015: R490m).
- Cost to income ratio including IDD 28.7% (31 March 2015: 34.4%). Core banking business (excluding IDD) cost to income ratio of 25% (31 March 2015: 31%).
- Cash flow from operations R3bn (31 March 2015: R2.7bn).

- Capital injection received from National Treasury of R3bn in support of the growth strategy (31 March 2015: R2.5bn).
- 71% increase in sustainable earnings (net profit adjusted for: foreign exchange adjustment, revaluation of financial instruments and grants, but includes revaluation on equity investment).

Overview of the Financial results and activities

The Bank continues to implement its new business strategy and the key financial indicators for the year under review are:

- Operating income increased by 75% to R5.0bn (2014/15: R2.9bn) on the back of an increase in net interest income to R3.2bn (2014/15: R2.3bn), increase in foreign exchange gain to R1bn (2014/15: R490m) and gains on financial instruments to R442m (2014/15 loss: R300m).
- Cost-to-income ratio improved to 28.7% (2014/15: 34.4%).
- DBSA profitability increased to a net profit of R2.6bn compared to R1.2bn in 2014/15.
- Development loans, bonds and equity investments disbursements of R17.1bn, an increase of 32% compared to the R13bn disbursed during 2014/15. A new record level of disbursements.
- Impairment charge for the year amounting to R1.43bn (2015: R743m) is 91% above the prior comparative period. Provision for loan impairment increased by: 30% to R3.8bn (2014/15: R2.9bn) although the provision for loan impairment increased, the quality of the loan book remains within acceptable parameters with non-performing loans at 3.7% of the total loan book (2014/15: 5.08%), 1.4% improvement from prior year.
- Debt-to-equity ratio improved to 177.8% (2014/15: 195.6%).
- The National Treasury in support of the strategy and growth prospects provided a capital injection of R3bn during the period under review (2014/15: R2.5bn), being the last tranche of the R7.9bn capital injection commitment.
- Appropriate measures to improve the long-term financial sustainability of the Bank are currently in implementation.

Outlook

The financial position of the DBSA remains strong. The Bank continues to implement its strategy in delivery of developmental impact in a financially sustainable manner.

Statement of Financial Position as at 31 March 2016

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

Statement of Comprehensive Income for the year ended 31
March 2016

in thousands of rand

	2016	2015
Interest income	6 541 028	5 327 312
Interest expense	(3 355 429)	(3 002 929)
Net interest income	3 185 599	2 324 383
Net fee income	275 914	232 928
Net foreign exchange gain	1 002 172	489 673
Net gain/(loss) from financial assets and liabilities	442 630	(299 832)
Other operating income	134 355	139 971
Other income	1 855 071	562 740

Operating income	5 040 670	2 887 123
Project preparation	(14 651)	(6 138)
Development expenditure	(43 869)	(35 015)
Net impairment loss on financial assets	(1 426 159)	(743 361)
Personnel expenses	(730 937)	(607 271)
Other expenses	(213 653)	(253 175)
Depreciation and amortisation	(30 593)	(25 108)
Profit from operations	2 580 808	1 217 055
Grants	(4 129)	(2 914)
Profit for the year	2 576 679	1 214 141

Statement of Other Comprehensive Income for the year ended 31 March 2016 in thousands of rand

	2016	2015
Profit for the year	2 576 679	1 214 141
Items that will not be reclassified to profit and loss		
Gain on revaluation of land and buildings	-	15 769
Items that may be reclassified subsequently to profit and loss		
Unrealised gain/(loss) on cash flow hedges	142 063	(88 253)
(Loss)/gain on cash flow hedges reclassified to statement		

of comprehensive income	(135 301)	142 583
Unrealised loss on available-for-sale financial assets	(1 067)	(2 128)
	5 695	52 202
Other comprehensive income	5 695	67 971
Total comprehensive income for the year	2 582 374	1 282 112

Condensed statement of changes in equity

	2016	2015
in thousands of rand		
Balance at beginning of the year	23 682 685	19 900 573
Government recapitalisation	3 000 000	2 500 000
Profit for the year	2 576 679	1 214 141
Unrealised gain/(loss) on cash flow hedges	142 063	(88 253)
(Loss)/gain on cash flow hedges reclassified to statement of comprehensive income	(135 301)	142 583
Unrealised loss on available for sale financial assets	(1 067)	(2 128)

Gain on revaluation of land and buildings	-	15 769
Total equity at end of the year	29 265 059	23 682 685

Summarised Statement of Cash Flows for the year ended 31 March 2016

Cash flows generated from operating activities	3 025 315	2 660 756
Cash flows used in development activities	(11 199 428)	(6 397 688)
Cash flows generated from investing activities	167 432	(730 188)
Cash flows generated from/(utilised in) financing activities	6 085 967	4 199 575
Effect of exchange rate movement on cash balances	103 616	33 541
Net decrease in cash and cash equivalents	(1 817 098)	(234 004)
Cash and cash equivalents at the beginning of the year	3 901 663	4 135 667
Cash and cash equivalents at the end of the year	2 084 565	3 901 663

The full Annual Report is available for download on the following link:
<http://www.dbsa.org/EN/InvestorRelations/Pages/Investor-Relations.aspx>

22 September 2016

Debt Sponsor: The Standard Bank of South Africa Limited