

**The Development Bank of Southern Africa SOC Ltd.: Audited results for the
year ended 31 March 2017**

Overview

Development Bank of Southern Africa is a state owned entity, whose only shareholder is the Government of the Republic of South Africa. The summary of Annual Financial results is published on SENS to provide information to holders of DBSA debt instruments. The full set of financial statements is available on the DBSA website at: www.dbsa.org

Preparation of the financial statements

The Annual Financial Results have been prepared under the supervision of Ms Zodwa Mbele CA (SA), the Acting Chief Financial Officer.

The directors take full responsibility for the preparation of the summary of annual financial results and for correctly extracting the financial information from the underlying audited financial statements for inclusion in the SENS announcement.

Basis of preparation

Accounting policies adopted and methods of computation are consistent with those applied to the Annual Financial Statements at 31 March 2016. 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 the financial results

The Financial Results of DBSA for the year ended 31 March 2017 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.

Salient features of the Bank's solid financial performance

- Increase in profitability for the year: R2.8bn (2016: R2.6bn).
- Increase in net interest income: R3.7bn (2016: R3.2bn).
- Improvement in cost to income ratio: 18.8% (2016: 27.6%).
- Cash flow generated from operations: R3.7bn (2016: R3.0bn).

- Sustainable earnings of R3.6bn (2016: 1.3bn) a 157% increase. Sustainable earnings is net profit adjusted for foreign exchange and revaluation of financial instruments.

Further key impressions of the financial results and activities

The Bank continued to focus on its developmental mandate role, whilst maintaining financial sustainability as follows:

- Development loans and equity investments disbursements of R12.4bn, a decrease of 27% compared to the R17.1bn disbursed during 2015/16.
- Impairment charge for the year amounting to R339m (2016: R1.4bn). Thus the provision for loan impairment increased by 10% to R4.2bn (2016: R3.8bn). Despite additional impairment charge, the quality of the loan book remains within acceptable parameters, demonstrated by non-performing loans at 3.3% of the total loan book (2016: 3.7%).
- Operating income decreased by 20% to R4.0bn (2016: R5.0bn) due to a loss in foreign exchange of R619m (2016: R1.0bn gain) and a loss on financial instruments of R44m (2016: gain of R442m). Included in other income is R664m relating to a realised gain on equity investment.
- Debt-to-equity ratio of 97.4% including callable capital of R20bn (2016: 152.4% including callable capital of R4.8bn) is within the regulatory limit of 250%.
- Return on equity remained stable at 9.2% (2016: 9.7%).

Events after the reporting period

The DBSA credit rating was downgraded following the sovereign credit down grade. The short term risk associated with the downgrade to the DBSA relates to the dollar book and at this point is largely restricted to a non-material incremental cost to the organization.

Outlook & Economic conditions

The less buoyant economic condition led to the DBSA not achieving its disbursement target. The conditions are likely to persist, thereby putting pressure on the DBSA business. The Bank is however well positioned to weather the volatility through its renewed focus on structured infrastructure solutions, project preparation, new infrastructure programmes, partnerships and maintenance of public infrastructure.

Statement of Financial Position as at 31 March 2017

	2017	2016
in thousands of rand		
Assets		
Cash and cash equivalents	2 299 247	2 084 565
Trade and other receivables	121 982	138 533
Investment securities	1 069 085	1 265 218
Derivative assets held for risk management	846 141	1 163 533
Post-retirement medical benefits investment	45 251	49 978
Equity investments	5 972 509	6 278 575
Development bonds	1 290 319	1 290 296
Development loans	71 505 178	69 494 954
Property and equipment	415 409	501 202
Intangible assets	87 958	79 142
Total assets	83 653 079	82 345 996
Liabilities		
Other payables	838 591	894 795
Provisions	126 630	152 533
Liability for funeral benefits	3 226	3 100
Liability for post-retirement medical benefits	40 712	239 289
Debt securities	36 454 261	35 271 135
Funding: lines of credit	14 015 426	16 371 534
Derivative liabilities held for risk management	142 857	148 551
Total liabilities	51 621 703	53 080 937
Equity		
Share capital	200 000	200 000
Retained earnings	17 514 577	14 544 861
Permanent government funding	11 692 344	11 692 344
Revaluation reserve on land and buildings	198 322	269 256
Cash flow hedge reserve	141 680	123 050
Reserve for general loan risks	2 287 491	2 436 358
Available for sale reserve	(3 038)	(810)
Total equity	32 031 376	29 265 059
Total liabilities and equity	83 653 079	82 345 996

Statement of Comprehensive Income for the year ended 31
March 2017

in thousands of rand	2017	2016
Interest income	7 373 094	6 541 028
Interest expense	(3 703 760)	(3 355 429)
Net interest income	3 669 334	3 185 599
Net fee income	318 266	275 914
Net foreign exchange (loss) /gain	(618 649)	1 002 172
Net (loss)/gain from financial assets and liabilities	(43 354)	442 630
Other operating income	734 090	134 355
Other income	390 353	1 855 071
Operating income	4 059 687	5 040 670
Project preparation	(24 453)	(14 651)
Development expenditure	(27 181)	(43 869)
Net impairment loss on financial assets	(339 449)	(1 426 159)
Personnel expenses	(603 608)	(730 937)
Other expenses	(202 180)	(213 653)
Depreciation and amortisation	(31 249)	(30 593)
Profit from operations	2 831 567	2 580 808
Grants	(10 718)	(4 129)
Profit for the year	2 820 849	2 576 679

Statement of Other Comprehensive Income for the year ended 31 March 2017 in thousands of rand

	2017	2016
Profit for the year	2 820 849	2 576 679
Items that will not be reclassified to profit and loss		
Gain on revaluation of land and buildings	(70 934)	-
Items that may be reclassified subsequently to profit and loss		
Unrealised gain on cash flow hedges	12 846	142 063
Gain/(loss) on cash flow hedges reclassified to statement of comprehensive income	5 784	(135 301)
Fair value adjustment of available-for-sale financial assets	(2 228)	(1 067)
	16 402	5 695
Other comprehensive (loss)/income	(54 532)	5 695
Total comprehensive income for the year	2 766 317	2 582 374

Condensed statement of changes in equity

	2017	2016
in thousands of rand		
Balance at beginning of the year	29 265 059	23 682 685
Government recapitalisation	-	3 000 000
Profit for the year	2 820 849	2 576 679
Unrealised gain on cash flow hedges	12 846	142 063
Gain/(loss) on cash flow hedges reclassified to statement of comprehensive income	5 784	(135 301)
Fair value adjustment of available for sale financial assets	(2 228)	(1 067)
Loss on revaluation of land and buildings	(70 934)	-
Total equity at end of the year	32 031 376	29 265 059

Summarised Statement of Cash Flows for the year ended 31 March 2017

Cash flows generated from operating activities	3 766 622	3 025 315
Cash flows used in development activities	(2 831 455)	(11 199 428)
Cash flows (utilised) in /generated from investing activities	(857 505)	167 432
Cash flows generated from financing activities	155 973	6 085 967
Effect of exchange rate movement on cash balances	(18 953)	103 616
Net increase/(decrease) in cash and cash equivalents	214 682	(1 817 098)
Cash and cash equivalents at the beginning of the year	2 084 565	3 901 663
Cash and cash equivalents at the end of the year	2 299 247	2 084 565