

Development Bank of Southern Africa Limited

Registration number: 1600157FN

JSE alpha code: DIDBS

**The Development Bank of Southern Africa Limited: Audited results for the year
ended 31 March 2018**

Overview

Development Bank of Southern Africa Limited (hereafter referred to as "Bank") is a development finance institution, whose only shareholder is the Government of the Republic of South Africa. The summary of the audited annual financial results is published on SENS to provide information to holders of the Bank's debt instruments.

Audit of the financial results

The Auditor General of South Africa has audited the financial results of the Bank for the year ended 31 March 2018. In his audit report, which is available for inspection at the Auditor General's Registered Office, the Auditor General of South Africa 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 2018.

Context of the annual financial statements

The year under review was characterised by low business confidence, low growth, country credit rating downgrades by S&P Global and Fitch, and delays in signing of the independent power purchase agreements. Nevertheless, 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 is aiming at increasingly crowding in third party funding, de-risking projects through early stage project development and improved innovation.

Preparation of the annual financial statements

The annual financial statements have been prepared under the supervision of 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

Accounting policies adopted and methods of computation are consistent with those applied to the annual financial statements at 31 March 2017. The annual

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 and 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.

Key impressions of the financial results and activities

Net profit for the year is R2.28bn (31 March 2017:R2.82bn). Included in the prior year financial results were realised gains amounting to R600m relating to the exit of private equity investment. Adjusting for the significant realisation from the exit strategy on the equity investments, the net profit remains constant. Total assets increased by 6.6% largely due to an increase in net development loans of R3.5bn to R75.1bn (31 March 2017: R71.5bn). The total impairment provision for credit losses increased by 16% to R4.82bn (31 March 2017: R4.16bn). The loan book asset quality remains acceptable as demonstrated by the non-performing loans ratio of 4.5% (31 March 2017: 3.3%), well within the Bank's threshold of 6%. Cash generated from operations increased from R3.76bn to R4.04bn.

Key indicators of the Bank's financial performance for the year ended 31 March 2018

- Profitability: R2.28bn (31 March 2017: R2.82bn).
- Sustainable earnings of R2.76bn (31 March 2017: R3.56bn). Sustainable earnings is net profit adjusted for foreign exchange and revaluation of financial instruments.
- Net interest income increased by 5%: R3.84bn (31 March 2017: R3.67bn)
- Impairment charge for the year amounting to R623m (31 March 2017: R339m)
- Operating income decreased by 5% to R3.84bn (31 March 2017: R4.06bn)
- Cost to income ratio: 22% (31 March 2017: 18%)
- Cash flow generated from operations: R4bn (31 March 2017: R3.8bn)
- Total assets increased by 6.6% to R89.2bn (March 2017 to R83.7bn)
- Development loans and equity disbursements was R12.2bn (31 March 2017: R12.4bn)
- Return on equity 8.3% (March 2017: 9.2%)
- Debt-to-equity ratio excluding R20bn callable capital of 156.2% (31 March 2017 158.1%)
- Debt-to-equity ratio including R20bn callable capital of 98.7% (31 March 2017 97.4%). Callable capital is shares authorised, but not yet issued. The debt to equity ratio remains well within the Bank's regulatory limit of 250%.

Events after the reporting period

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

Outlook

The success in the year ending 31 March 2019 hinges on the Bank's ability to grow developmental impact against the context of an improved economic environment that is aided by improved business confidence as well as a strong global economic recovery. The Bank has recently completed the implementation of a new operating model that promotes high levels of client-centricity and that enables the development and delivery of innovative infrastructure solutions. The Bank will continue to focus on disbursing to infrastructure projects to grow developmental impact in line with its mandate.

Statement of Financial Position as at 31 March 2018

In thousands of rands

	2018	2017
Assets		
Cash and cash equivalents	3 741 853	2 299 247
Trade receivables and other assets	399 621	121 982
Investment securities	1 420 920	1 069 085
Derivative assets held for risk management	1 240 445	846 141
Post-retirement medical benefits investment	45 446	45 251
Equity investments	5 535 351	5 972 509
Development bonds	1 290 361	1 290 319
Development loans	75 047 479	71 505 178
Property and equipment	398 760	415 409
Intangible assets	91 710	87 958
Total assets	89 211 946	83 653 079
Liabilities		
Trade payables and deferred income	1 204 264	838 591
Provisions	66 640	126 630
Liability for funeral benefits	2 152	3 226
Liability for post-retirement medical benefits	44 604	40 712
Debt securities held at fair value through profit and loss	6 473 055	6 336 487
Debt securities held at amortised cost	33 363 703	30 117 774
Funding: lines of credit	13 677 213	14 015 426
Derivative liabilities held for risk management	59 240	142 857
Total liabilities	54 890 871	51 621 703
Equity		
Share capital	200 000	200 000

Statement of Comprehensive Income for the year
ended 31 March 2018

in thousands of rands

	2018	2017
Interest income	7 750 606	7 373 094
Interest expense	(3 905 259)	(3 703 760)
Net interest income	3 845 347	3 669 334
Net fee income	190 196	318 266
Net foreign exchange loss	(302 057)	(618 649)
Net loss from financial assets and liabilities	(131 605)	(43 354)
Other income	242 540	734 090
Other operating (loss)/income	(926)	390 353
Operating income	3 844 421	4 059 687
Project preparation	(7 094)	(24 453)
Development expenditure	(15 154)	(27 181)
Net impairment loss on financial assets	(623 178)	(339 449)
Personnel expenses	(702 880)	(603 608)
General and administration expense	(177 601)	(202 180)
Depreciation and amortisation	(25 871)	(31 249)
Profit from operations	2 292 643	2 831 567
Grants	(9 766)	(10 718)
Profit for the year	2 282 877	2 820 849
Retained income	19 472 969	17 514 577
Permanent government funding	11 692 344	11 692 344
Revaluation reserve on land and buildings	183 809	198 322
Cash flow hedge reserve	151 883	141 680
Reserve for general loan risks	2 611 976	2 287 491
Available for sale reserve	8 094	(3 038)
Total equity	34 321 075	32 031 376
Total liabilities and equity	89 211 946	83 653 079

Statement of Other Comprehensive Income for the year ended 31 March 2018

in thousands rands

	2018	2017
Profit for the year	2 282 877	2 820 849
Items that will not be reclassified to profit and loss		
Loss on revaluation of buildings	(14 513)	(70 934)
Items that may be reclassified subsequently to profit and loss		
Unrealised gain on cash flow hedges	121 616	12 846
(Gain)/loss on cash flow hedges reclassified to statement of comprehensive income	(111 413)	5 784
Unrealised gain/(loss) of available-for-sale financial assets	11 132	(2 228)
	21 335	16 402
Other comprehensive gain/(loss)	6 822	(54 532)
Total comprehensive income for the year	2 289 699	2 766 317

Condensed statement of changes in equity for the year ended 31 March 2018

In thousands of rands

	2018	2017
Balance at beginning of the year	32 031 376	29 265 059
Profit for the year	2 282 877	2 820 849
Unrealised gain on cash flow hedges	121 616	12 846
(Gain)/loss on cash flow hedges reclassified to statement of comprehensive income	(111 413)	5 784
Fair value adjustment of available for sale financial assets	11 132	(2 228)
Loss on revaluation of land and buildings	(14 513)	(70 934)
Total equity at end of the year	34 321 075	32 031 376

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

In thousands of rand

Cash flows generated from operating activities	4 039 466	3 766 622
Cash flows utilised in development activities	(5 606 062)	(2 831 455)
Cash flows utilised by investing activities	(444 179)	(857 505)
Cash flows generated from financing activities	3 543 653	155 973
Effect of exchange rate movement on cash balances	(90 272)	(18 953)
Net increase in cash and cash equivalents	1 442 606	214 682
Cash and cash equivalents at the beginning of the year	2 299 247	2 084 565
Cash and cash equivalents at the end of the year	3 741 853	2 299 247

Further information will be available on www.dbsa.org

21 September 2018

Debt Sponsor: Nedbank CIB, a division of Nedbank Limited