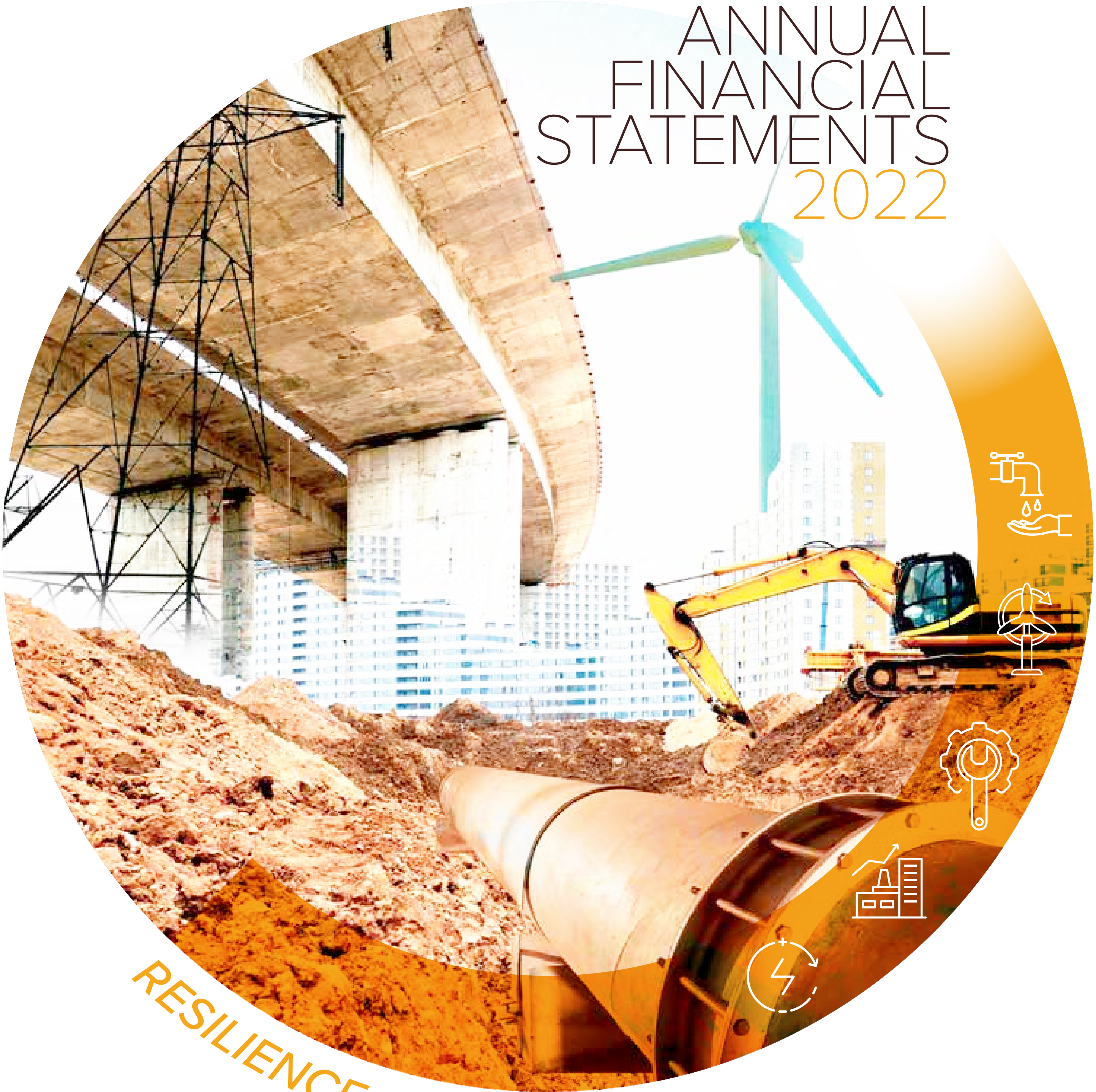
DBSA

DEVELOPMENT BANK OF SOUTHERN AFRICA

Building Africa's Prosperity

ANNUAL FINANCIAL STATEMENTS 2022



RESILIENCE • RECOVERY


DBSA

CONTENTS

Our reporting suite for the year ended 31 March 2022 consists of three reports.

IAR The 2022 Integrated Annual Report, which is our primary communication with our stakeholders.

AFS The 2022 Annual Financial Statements, which includes the directors' report and the independent auditor's report.

SR The 2022 Sustainability Review, which provides further information on our sustainability performance.

The reports and statements set out below comprise the Annual Financial Statements presented to the shareholder:

REPORTS

STATEMENTS

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

REFERENCE INFORMATION

CHIEF EXECUTIVE OFFICER AND CHIEF FINANCIAL OFFICER RESPONSIBILITY STATEMENT

FOR THE YEAR ENDED 31 MARCH 2022

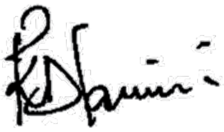
The executive directors, whose names are stated below, hereby confirm that:

a) The Annual Financial Statements set out on pages 17 to 145, 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 2022

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 Limited 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 auditor's, 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 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 145 were approved by the Board of Directors on 30 June 2022 and are signed on its behalf by:

Prof M Swilling
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 2022

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 (the Bank) set out on pages 17 to 145, which comprise the statement of financial position as at 31 March 2022, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, 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 Bank as at 31 March 2022, and its financial performance and cash flows for the year then ended in accordance with the International Financial Reporting Standards (IFRS), and the requirements of the Public Finance Management Act 1 of 1999 (PFMA), Development Bank of Southern Africa Act 13 of 1997 (Amended Act 41 of 2014) and sections 27 to 31 of the Companies Act 71 of 2008 (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' *International code of ethics for professional accountants (including International Independence Standards*) (IESBA code) 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
Valuation of development loans: expected credit losses (ECLs) on development loans	
The Bank determines the ECL relating to development loans in line with the requirements of IFRS 9, *Financial instruments*. This determination is complex and requires a high level of judgement and assumptions. The Bank uses various models and assumptions to estimate the ECL. It applies judgement to identify the most appropriate model for each type of asset and determine the assumptions used in these models, including assumptions that relate to key credit risk drivers. The Bank uses a series of quantitative and qualitative criteria to determine if a loan has experienced a significant increase in credit risk. It incorporates forward-looking information (FLI) into its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition. 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 major components of the ECL include the probability of default (PD), exposure at default (EAD) and loss given default (LGD). The PD is defined as an estimate of the likelihood of default over a given time horizon. The EAD is an estimate of the exposure at a future default date considering expected changes in the exposure after the reporting date. The 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), I performed: » enhanced risk assessment procedures relating to obtaining an understanding of the ECLs; and » separate risk assessment procedures for inherent risk and control risk relating to ECLs and its related disclosures using the principles from IFRS 9. After considering the requirements of ISA 540 (Revised) and ISA 330, a combined audit approach was followed to respond to the risk identified in ECL on development loans. My audit procedures included assessing the appropriateness of the ECL in terms of the requirements of IFRS 9. I evaluated the design, implementation and the operating effectiveness of the following controls: » The governance processes 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 » Accounting Authority oversight over ECL. I assessed the controls related to management's annual credit reviews. This included confirming that the credit reviews were performed in accordance with the Bank's policy and that the Investment Committee approved the assigned credit risk ratings.

Key audit matter	How the matter was addressed in the audit

Valuation of development loans: Expected credit losses (ECLs) on development loans (continued)

The Bank's PD estimates incorporate an FLI component determined based on a multivariate non-linear generalised additive model. The model significant FLI drivers are historical macroeconomic variables and observed default rates. During the current and comparative periods, the Bank's FLI estimates were significantly impacted by the ailing economy because of the severe pressures posed by COVID-19 pandemic.

The impact of COVID-19 presents an unknown future and management is expected to estimate and provide assumptions on the ECLs considering the future impact of COVID-19.

In the current financial year, the Bank developed an in-house macroeconomic model that replaced the previous Econometrix model.

The LGD is determined based on the Bank's exposures, historical default rates and financial factors. Adjustments are often effected based on the latest information.

Due to the continuing impact of the COVID-19 pandemic and the deteriorating economic climate in the emerging markets and developing economies, the Bank provided for approximately R3.4 billion as an IFRS 9 overlay in the current year. This overlay covered additional industry and country risk in the Bank's portfolio not captured by the base ECL model output. Management believed these overlays were necessary in response to the base model output that recommended a reversal of the ECLs. The Bank's base ECL models have not been recalibrated since 2017 and management is in the process of recalibrating these models.

The disclosures associated with the ECL allowance on development loans are set out in the following notes to the Annual Financial Statements:

» Note 14 – Development loans
» Note 42 – Risk management

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

I critically evaluated the significant increase in credit risk triggers and assumptions applied by management in determining ECLs for both performing and non-performing loans. I also evaluated management's assessment of the recoverability of loans and collateral. I found these estimates to be within a reasonable range of my expectations.

In addition, I engaged an auditor's expert to assess the appropriateness and reasonability of the credit risk models and assumptions used by management in determining the ECL using a challenger model. An assessment of the independence and competence of the expert was performed in line with ISA 620.

The expert's assessment included the following:

» Gaining an understanding of the nature of the underlying assets.
» Reviewing the ECL methodology for compliance with IFRS 9 principles and best practices.
» Independent review of the ECL model calculations for accuracy and consistency with the Bank methodology.
» Performing a challenger ECL model, using independent inputs for the PDs, EADs, LGDs and FLI.
» Performing benchmarking, trend analysis and providing feedback on the ECL methodologies.

Based on work performed by the auditor's expert, I noted that the Bank's ECL models had not been recalibrated as planned. In light of the extent of management overlays applied in the current year, I have recommended a re-calibration of the Bank's ECL base models. However, I found management's credit risk models and the assumptions used to determine the ECL to be reasonable and consistent with my expectations. I have determined management's estimate to be within a reasonable range of my expectations, including the overlays applied.

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

Key audit matter	How the matter was addressed in the audit
Valuation of equity investments held at fair value through profit or loss (FVTPL)	
The Bank measures equity investments at FVTPL. The equity investments portfolio does not have an active market and as a result, the bank uses valuation techniques to establish fair value. A net asset value approach is used to determine the fair value of equity investments. Furthermore, marketability discounts are applied where appropriate to adjust for any identified investment risks. The determination of net asset value using fair value techniques includes estimates that are susceptible to management judgement and bias that may result in a misstatement. Due to the significance of the judgements made in determining the fair value of equity investments and the extent of work required to address this matter, the valuation of equity investments was identified as a matter of significance in the audit of the Bank's current year Annual Financial Statements. Equity investments held at fair value consist of direct investments in equity and third-party managed funds. The Bank normally uses market references to measure the instruments. Management's adjustments consider the impact of market uncertainty due to recovery after COVID-19 and the ongoing Russia-Ukraine war which affected estimates of resale values, marketability discounts and premiums, and the cost of debt. I considered these adjustments to be subjective and therefore requiring further attention. The disclosures associated with the equity investments held at FVTPL are set out in the following note: » Note 11 – Equity investments held at FVTPL.	In terms of the requirements of ISA 540 (Revised), I performed separate risk assessment procedures for inherent risk and control risk relating to equity investments and their related disclosures using the principles of IFRS 13. As per the requirements of ISA 540 and in conjunction with ISA 330, a combined audit approach was followed to respond to the risk identified in equity investments through profit or loss. My audit procedures included assessing the appropriateness of the valuation technique used by management to value equity investments held at FVTPL, including performing reasonability tests on the use of the net asset value valuation technique and applying marketability discounts based on comparable industry norms and practices. A further reasonability assessment of the valuation techniques and assumptions used to value the underlying assets was performed for third-party funds. I evaluated the design, implementation and operating effectiveness of the governance processes in place to approve the valuation of equity investments. I obtained third-party confirmations from fund managers to confirm the participatory interest of the Bank in the fund. I 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 value approach. Based on the nature of the investments held by the Bank, I concluded that the net asset value approach adopted by management is appropriate to value the equity investments. I evaluated the reasonability of the net asset value and the marketability discount, considering market uncertainty due to COVID-19 recovery and the Russia-Ukraine war. Where audited valuations were available, I assessed the reasonableness of the fund statement by comparing the valuations to audited Annual Financial Statements. Where audited valuations were not available, I evaluated the objectivity and reasonability of previous estimates from the fund managers providing the underlying valuations of the investments, also taking into account the reasonability of prior year estimates. I assessed the appropriateness of adjustments made by the Bank to the fund's statement values by conducting independent market benchmarks. I performed an assessment of the fair value hierarchy levels as disclosed using the principles of IFRS 13 on an investment level and was able to conclude alignment with the Bank's view on the appropriateness of the fair value hierarchies assigned to each investment.
Derivative assets/liabilities held for risk management	
There is a risk of incorrect valuation of derivatives at fair value because of the level of judgement required and the complexity of assumptions used in determining the appropriate valuation techniques. Valuation of derivatives requires significant judgement in determining the appropriate valuation techniques. Fair value calculations depend on various sources of external and internal data and 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's audit of the Annual Financial Statements.	In terms of the requirements of ISA 540 (Revised), I performed separate risk assessment procedures for inherent and control risk relating to derivatives and the related disclosures using the principles of IFRS 13. After considering the requirements of ISA 540 and ISA 330, a combined audit approach was followed to respond to the risk identified in derivatives through profit or loss. My audit procedures included assessing the appropriateness of the valuation technique used by management to value derivatives. I 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.

Key audit matter | **How the matter was addressed in the audit**

Derivative assets/liabilities held for risk management (continued)

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). 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

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. CVA and DVA on a portfolio level, including the assumptions and methodology used in determining the CVA and DVA adjustments.

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

In respect of the derivatives population, I performed an independent recalculation of the fair values of derivative asset/liability positions.

I assessed the completeness, accuracy, and adequacy of the disclosures. In addition, I also assessed the classification as a derivative instrument and a hedging instrument in line with IFRS 9.

I found management's valuation of the derivative to be within range and consistent with my expectations.

I assessed the disclosure relating to derivatives and concluded that it is in line with the requirements of IFRS 9 and 13.

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, PFMA, DBSA Act and the applicable requirements of the Companies Act, 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 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 Act 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 Bank'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 Bank 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 objective presented in the Bank's annual performance report for the year ended 31 March 2022:

Objectives	Pages in the annual performance report
Objective – Accelerating development impact	15 – 16

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

FOR THE YEAR ENDED 31 MARCH 2022

14. I performed procedures to determine whether the reported performance information 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

OTHER MATTERS

16. I draw attention to the matters below:

Achievement of planned targets

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

Adjustment of material misstatements

18. I identified a material misstatement in the annual performance report submitted for auditing. This material misstatement was in the reported performance information of the accelerating development impact objective. As management subsequently corrected the misstatement, I did not raise any material findings on the usefulness and reliability of the reported performance information.

REPORT ON THE AUDIT OF COMPLIANCE WITH LEGISLATION

Introduction and scope

19. 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.

20. 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

21. The Accounting Authority is responsible for the other information. The other information comprises the information included in the Integrated Annual Report, which includes the director's report and the Audit and Risk Committee's report. The other information does not include the Annual Financial Statements, the auditor's report and the selected objective presented in the annual performance report that has been specifically reported on in the auditor's report.

22. My opinion on the Annual Financial Statements and findings on the reported performance information and compliance with legislation does not cover the other information, and I do not express an audit opinion or any form of assurance conclusion on it.

23. 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.

24. If, based on the work I have performed, I conclude that there is a material misstatement in this other information, I am required to report that fact. I have nothing to report in this regard.

INTERNAL CONTROL DEFICIENCIES

25. 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 controls.

Auditor-General

Pretoria

1 July 2022

AUDITOR-GENERAL
SOUTH AFRICA

Auditing to build public confidence

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 the Bank's compliance with respect to the selected subject matters.

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 communicate 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 2022

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 2022.

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.

FINANCIAL RESULTS AND ACTIVITIES

The financial results of the Bank are fully disclosed on pages 17 to 145. The key financial indicators for the year under review are:

- Net profit of R3.8 billion (31 March 2021: R1.4 billion);
- Sustainable earnings of R3.6 billion (31 March 2021: R2.3 billion);
- Net interest income increased by 18% to R5.8 billion (31 March 2021: R4.9 billion);
- Impairment losses decreased to R1.0 billion (31 March 2021: R1.2 billion);
- NPL percentage ratio on gross loan book of 4.6% (31 March 2021: 7.7%);
- Net NPL percentage ratio of 1.8% (31 March 2021: 3.4%);
- Operating income increased by 19% to R6.1 billion (31 March 2021: R5.1 billion);
- Cost-to-income ratio improved to 24% (31 March 2021: 25%);
- Cash flow generated from operations remained flat at R4.5 billion (31 March 2021: R4.5 billion);
- Total assets remained flat at R100.0 billion (31 March 2021: to R100.0 billion);
- Development loans and equity disbursements amounted to R13.2 billion (31 March 2021: R13.6 billion);
- ROE on sustainable earnings 8.8% (31 March 2021: 6.0%);
- ROE on net profit 9.3% (31 March 2021: 3.7%);
- Debt-to-equity ratio excluding R20 billion callable capital 130% (31 March 2021: 152%); and
- Debt-to-equity ratio including R20 billion callable capital 88% (31 March 2021: 101%). 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 of 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 in 2020, the subsequent waves of infections since then, 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 not fully known what the long term impact on Bank's operations would be. 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 despite government easing of restrictions, the risk of further outbreaks remain and depending on severity of the new waves of infections, it is expected that COVID-19 will continue to affect bank's 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. There was a disruption of the local fixed income market on the back of COVID-19 outbreak in the prior year and the despite that risk, the DBSA continues to be successful in raising funding from international development finance institutions as well as international and local commercial banks and asset managers.

RISKS AND UNCERTAINTIES ASSOCIATED WITH UKRAINE-RUSSIA WAR

Any crisis irrespective of origin and location has an impact on business and industries. The crisis has resulted in increased food prices. Further, rising oil prices can result in more inflation, and this will have knock-on effect on clients, value of money and interest rates. Further the impact of the war negatively affected supply chain processes resulting in disruption of imports and exports for some countries with trade links with both Ukraine and Russia. Oil producing countries will generate more oil sales while importers pay more for fuel and gas. The DBSA portfolio includes both oil importers and oil exporters. While the full impact of the war remains uncertain at year end, any such conflict is expected to affect the DBSA clients across the continent given the close trade links with the affected countries and African countries in which the Bank conducts business.

DIVIDEND

The Bank is currently revising its dividend policy, post-repeal, in consultation with its shareholder, the National Treasury. No dividends were declared for the current reporting period.

SHARE CAPITAL

Authorised capital amounts to R20.2 billion, which is divided into 2 020 000 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 *Government 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 (31 March 2021: 2 020 000) at par value of R10 000 each.

CALLABLE CAPITAL (AUTHORISED BUT UNISSUED SHARE CAPITAL)

2 000 000 ordinary shares (31 March 2021: 2 000 000) at a par value of R10 000 each.

ISSUED SHARE CAPITAL

20 000 ordinary shares (31 March 2021: 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 judgments 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	107	56
Annual borrowing programme	6	3.5*
Foreign currency borrowing	33	22
Domestic Medium Term Note Programme per JSE	80	24

** The net repaid of R3.5 billion was made during the year (31 March 2021: net raised R2.4 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
Prof M Swilling[2]	Independent Non-executive Director, Chairman	3	2 October 2020	1 October 2023
Ms M Janse van Rensburg[3]	Independent Non-executive Director	2	1 April 2019	31 March 2022
Adv M Kganedi	Independent Non-executive Director	1	2 October 2020	1 October 2023
Mr G Magomola	Independent Non-executive Director	1	2 October 2020	1 October 2023
Mr P Matji	Independent Non-executive Director	1	2 October 2020	1 October 2023
Mr B Mudavanhu	Independent Non-executive Director	2	2 October 2020	1 October 2023
Mr B Nqwababa	Independent Non-executive Director	1	2 October 2020	1 October 2023
Ms M Nqaleni[4]	Shareholder Representative	2	1 April 2019	31 March 2022
Ms P Nqeto	Independent Non-executive Director	2	2 October 2020	1 October 2023
Ms A Sing	Independent Non-executive Director	3	2 October 2020	1 October 2023
During the year				
Mr E Godongwana[1]	Independent Non-executive Director, Chairman	1	1 April 2019	6 August 2021
Ms M Janse van Rensburg[3]	Independent Non-executive Director	3	1 April 2022	31 March 2025

1. *Resigned on 6 August 2021.*
2. *Appointed to the Board effective from 22 September 2021.*
3. *Term ended. Reappointed to the Board effective 1 April 2022 to 31 March 2025.*
4. *Term ended.*

The details of the directors' emoluments and related party transactions are set out in notes 41 and 43 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-à-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 aforementioned, 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.

BUSINESS AND REGISTERED ADDRESS

The Bank's business and registered address details appear on page 149.

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 R40 million (31 March 2021: R23 million).

CHANGES IN ACCOUNTING POLICIES

The accounting policies applied during the year ended 31 March 2022 are in all material respects consistent with those applied in the Annual Financial Statements for the year ended 31 March 2021.

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 52 of the Annual Financial Statements on page 145.

LITIGATION

The directors are not aware of any litigation against the Bank other than that disclosed under contingent liabilities in note 45 of the Annual Financial Statements on page 141.

RELATED PARTY TRANSACTIONS

Details of the Bank's related party transactions are set out in note 43 of the Annual Financial Statements on page 140.

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 48 of the Annual Financial Statements on page 143;

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.

ANNUAL PERFORMANCE REPORT

FOR THE YEAR ENDED 31 MARCH 2022

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 comprehensive mandate of achieving development impact while maintaining financial sustainability. The Balanced Scorecard (BSC) translates key strategic objectives into measurable outcomes as approved by the Board of Directors. The BSC is the key instrument used to implement and monitor the achievement of predetermined strategic objectives. The table on page 15 compares the planned and realised performance on the high-level corporate performance objectives for the year ended 31 March 2022.

The DBSA continued to work towards achieving exceptional results even in the extremely difficult conditions during the 2021/22 financial year, meeting 69% of its targets. Notable achievements include both financial outcomes such as return on sustainable earnings and net interest income, and development outcomes such as jobs facilitated, Dlabs outputs and empowerment support as detailed in the table on page 15.

The targets for the following key performance indicators were either not met or partially achieved:

- **Disbursements to M2/M3 municipalities (direct and indirect lending):** The underperformance is largely attributable to uncompetitive funding offers brought on by the Bank's high cost of capital. In the year under review, the Bank lost tenders amounting to R1.1 billion primarily on account of pricing. The year has also seen fewer municipalities coming to market to seek funding. The October 2021 local government elections and changes to municipal leadership caused a temporary disruption to their normal planning cycles. There are ongoing engagements within the Bank to find sustainable remedial measures and the revised approach to municipalities will, in time, help reverse this trend.
- **Disbursements to economic infrastructure:** The underperformance is largely attributed to projects that the Bank is currently working on taking longer than anticipated as well as high competition in the market. It is also on account of delays in the finalisation of the Round 5 of the Independent Power Producer Programme and the Risk Mitigation IPP Procurement Programme (RMIPPP) procurement.
- **Third-party funds catalysed:** The underperformance is attributable to the Bank not playing too prominent a role in attracting third party funds and investing in instruments with little or no catalytic effect because of the prevailing economic conditions. Pursuit of leveraging or crowding-in private sector funds remains a core pillar of the Bank's strategy and every opportunity will be explored.
- **Disbursements generated through DBSA programme management offices, infrastructure plans and feasibility studies:** The underperformance is largely attributable to delays experienced in the feasibility studies of the Student Housing Infrastructure Programme which resulted to the projects unable to start disbursing in the current financial year.
- **Value of infrastructure delivered:** The underperformance is largely attributable to time lost due to the lockdown as well as work stoppages occasioned by the 'construction mafia' on operational sites when construction resumed. The latter has been flagged by the Bank as a key risk to general infrastructure roll-out in the country. Relevant authorities should deal with it decisively to create a conducive environment for an infrastructure led economic recovery.
- **Value of projects/programmes committed through the Infrastructure Fund:** The underperformance is attributed to the misalignment of key performance indicators contained in the approved Infrastructure Fund business plan and the one measured in the Corporate Balanced Scorecard of the Bank. Requests for the amendment of KPIs in the corporate plan were not received by year end.
- **Degree of achievement of pilot districts developmental outcomes measures:** The targets were conceptualised prior to finalisation of the One Plans. As a result, a misalignment was created between the One Plan targets and targets contained in the Corporate Balance Scorecard leading to the underperformance. Attempts at creating the necessary alignment proved unsuccessful by year-end.
- **Number of student beds through SHIP programme:** The underperformance is attributed to delays in construction programs and the residual effects of COVID-19 restrictions. The Bank requested a revision of the target at mid-year and the approval was not obtained by year-end.
- **Value of projects approved for funding by DBSA's existing Climate and Environmental Facilities:** The under-performance is mainly attributable to the non-resolution of foreign exchange issues related to the foreign portion of funding. This has resulted in the planned disbursements to projects not taking place by year-end.
- **Number of transactions through the High Impact Investment Portfolio:** The underperformance is attributed to delays in converting projects from due diligence to approval stage during the financial year. It is anticipated that greater traction will be realised in the new year as uptake increases.
- **Support provided to Emerging Contractors through the Contractors' Working Capital Facility:** The under-performance is mainly attributable to the fact that a greater part of the year was spent developing products, systems and processes. As a result, the pilot phase commenced with fewer transactions than was anticipated. The meticulous effort that went into planning for upscaling this product bodes well for the future.
- **Establish a ring fenced SMME lending fund in collaboration with others:** The underperformance is mainly attributable to navigating and finding appropriate off balance sheet structures with key public sector counterparts. Consequently, approval by the governance structure of the Bank was delayed. We remain confident that the correct structure has been put in place with a credible counterparty.

PERFORMANCE INFORMATION

Objective	Key performance indicator	Target	Results
CORE MEASURES – FINANCIAL OUTCOMES			
Maintain financial sustainability	**Financial focus: Financial outcomes**		
	» ROE (calculated on sustainable earnings)	2.76%	8.8%
	» Net interest income	R4.4 billion	R5.8 billion
	» Cost-to-income ratio (DBSA)	44.3%	23.7%
	» Balance sheet growth (Development loans)	2%	2%
	Financial focus: Internal lever		
Sustainable growth	**Total disbursements**	**R13.5 billion**	**R12.9 billion**
	» Top 5 metropolitan cities (direct and indirect lending)	R3.5 billion	R4.5 billion
	» M2/M3 municipalities (direct and indirect lending)	R0.7 billion	R44 million
	» Other social infrastructure (excl. municipalities)	R0.6 billion	R0.7 billion
	» Economic infrastructure	R4.5 billion	R3.4 billion
	» Rest of Africa	R4.2 billion	R4.3 billion
	» Third party funds catalysed	R31 billion	R15.1 billion
Increase self-originated disbursement opportunities	» Disbursements generated through DBSA programme management offices, infrastructure plans and feasibility studies/ total SA disbursements	R1.4 billion	R1.2 billion
	» Value of Infrastructure delivered	R3.7 billion	R3.3 billion
Municipal support activities	» Value of infrastructure unlocked in under-resourced municipalities	R1.2 billion	R2.1 billion
CORE MEASURES – DEVELOPMENT OUTCOMES			
	Development focus: Development impact sustainable growth		
Accelerating development impact	Development Impact Index (sum of components below excl. climate disbursements		
Development outcomes	» Number of jobs created (financing business)	9 000	19 380
	» Number of jobs created (IDD)	8 800	9 230
Increase South African fixed capital formation	» Value of projects/programmes committed through the Infrastructure Fund	R3.7 billion	Nil
	» Percentage of DBSA RSA disbursement (fundamental infrastructure only)	60% of total disbursement	66% of total disbursement
Increase outcomes in South African districts	» Degree of achievement of pilot districts developmental outcomes measures	Execution of the targets contained in One Plans	Nil
Increase outcomes through programme outputs	» Number of student beds through SHIP programme	4 700 beds	Nil
Increasing sustainable impact of funded projects	» Value of projects approved for funding by DBSA's existing Climate and Environmental Facilities (e.g. CFF, EGIP etc.)	R400 million	Nil
Innovation initiatives	» Number of DLABS	Two fully executed and functional programmes + three new DLABS disbursing	Two fully executed and functional programmes + three new DLABS disbursing
	» Number of permanent employment opportunities through the DLABS	10	61

ANNUAL PERFORMANCE REPORT (continued)

FOR THE YEAR ENDED 31 MARCH 2022

Objective	Key performance indicator	Target	Results
Innovation initiatives	» Number of individuals that have successfully completed future skills programmes (training, learnerships, entrepreneurship and employment-ready skills)	150	1 046
	» Number of LED start-up enterprises supported through the DLAB precincts. (Micro Enterprises, SMMEs, etc	20	244
	» Number of transactions through the High Impact Investment Portfolio	Two transactions approved for funding Two transactions committed for funding	Two transactions committed for funding and no transactions approved for funding
Transformation	» Number of transactions that are committed for DBSA funding to black-owned entities (50% shareholding and above)	5	5
	» Number of transactions that are committed for DBSA funding to black women-owned entities (30% shareholding and above)	3	3
	» Percentage of procurement spend on black women-owned suppliers for IDD third party fund (50% and above shareholding)	30% of total procurement spend from B-BBEE suppliers	36% of total procurement spend from B-BBEE suppliers
Support to small and medium enterprises	» Support provided to emerging contractors through the contractors' working capital facility	R250 million	R9.1 million
	» Establish a ring fenced SMME lending fund in collaboration with others	R250 million	Nil
ENABLERS			
Increase DBSA efficiency and effectiveness	» Digital DBSA (digitalisation, automation and process re-engineer)	Two business processes automated for our core business	Four business processes automated for our core business
Develop a high performance and accountability culture	» Timeous submission of Performance contracts, PDP and Performance Appraisals, Leave management and similar HR processes	More than 80% of the PSC sent on time and quality More than 80% performance review meeting conducted Approval of >80% of PDPs and adherence toPDP	More than 80% of the PSC sent on time and quality More than 80% performance review meeting conducted Approval of >80% of PDPs and adherence to PDP
Excel in strategy execution	» Conduct corporate strategy review and identify strategic opportunities	Conduct at least one review per division annually	Conduct at least one review per division annually
Smart partnerships	» Client satisfaction survey	3.7	3.9
	» Stakeholder survey	3.0	4.0
GOVERNANCE AND COMPLIANCE PERSPECTIVE			
Improve DBSA governance and risk management	» Irregular, unauthorised and fruitless and wasteful expenditure	Classify 0.0% (R value) of expenses as irregular, unauthorised and fruitless and wasteful expenditure	No expenses (Rnil) that are classified as irregular, unauthorised and fruitless and wasteful expenditure
	» Ethical behaviour	Decisive consequence management for unethical behaviour	One case of unethical conduct during the year. The Bank proactively and decisively disposed of the matter within four months leading to a dismissal
	» 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	Achieved a clean audit opinion

STATEMENT OF FINANCIAL POSITION

AS AT 31 MARCH 2022

in thousands of rands	Notes	2022	2021
Assets			
Cash and cash equivalents at amortised cost	5	7 990 108	8 978 608
Trade receivables and other assets	6	259 293	296 376
Investment securities	7	444 287	455 215
Derivative assets held for risk management purposes	8.1	458 243	750 831
Other financial asset	9	43 067	42 451
Development loans held at fair value through profit or loss	10	19 309	16 847
Equity investments held at fair value through profit or loss	11	4 976 507	5 007 459
Development bonds at amortised cost	13	1 151 903	1 279 235
Development loans at amortised cost	14	84 177 054	82 733 448
Property, equipment and right of use of assets	15	444 847	405 685
Intangible assets	16	63 423	81 569
Total assets		**100 028 041**	**100 047 724**
Equity and liabilities			
Liabilities			
Trade, other payables and accrued interest on debt funding	17.1	890 743	739 962
Repurchase agreements at amortised cost	21	–	868 042
Derivative liabilities held for risk management purposes	8.2	34 240	127 276
Liability for funeral and post-employment medical benefits	19	48 529	47 630
Debt funding designated at fair value through profit or loss	20	688	1 513 997
Debt funding held at amortised cost	21	55 535 354	56 982 792
Provisions and lease liabilities	18	91 795	114 485
Deferred income	17.2	515 667	503 086
Total liabilities		**57 117 016**	**60 897 270**
Equity			
Share capital	22	200 000	200 000
Retained income		28 881 710	24 366 254
Permanent government funding	23	11 692 344	11 692 344
Other reserves	24	281 800	345 917
Reserve for general loan risk	25	1 855 171	2 545 939
Total equity		**42 911 025**	**39 150 454**
Total equity and liabilities		**100 028 041**	**100 047 724**

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 MARCH 2022

in thousands of rands	Notes	2022	2021
Interest income			
Interest income calculated using the effective interest rate	26	8 831 968	8 161 023
Other interest income	26	146 337	180 080
Interest expense			
Interest expense calculated using the effective interest rate	27	(3 085 112)	(3 335 021)
Other interest expense	27	(100 424)	(114 441)
Net interest income	27	**5 792 769**	**4 891 641**
Net fee income	28	279 794	187 858
Net foreign exchange gain/(loss)	29	156 130	(892 773)
Net loss from financial assets and financial liabilities	30	(606)	(354 454)
Investment and other income	31	56 523	57 864
Other operating income/(loss)		**491 841**	**(1 001 505)**
Operating income		**6 284 610**	**3 890 136**
Project preparation expenditure	32	(48 466)	(37 802)
Development expenditure	33	(71 687)	(78 240)
Impairment losses	34	(1 004 938)	(1 164 724)
Personnel expenses	35	(867 998)	(835 131)
General and administration expenses	36	(402 268)	(286 813)
Depreciation and amortisation	37	(36 684)	(32 287)
Profit from operations		**3 852 569**	**1 455 139**
Grants paid	38	(27 412)	(32 510)
Profit for the year		**3 825 157**	**1 422 629**

STATEMENT OF OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 MARCH 2022

in thousands of rands	Notes	2022	2021
Profit for the year		**3 825 157**	**1 422 629**
Items that will not be reclassified to profit or loss			
Loss on revaluation of land and buildings	24.1	–	(5 661)
Movement in own credit risk for funding held at fair value through profit or loss	24.3	(34 424)	2 097
Remeasurement of funeral and post-employment medical benefit liabilities		(469)	(3 920)
		(34 893)	**(7 484)**
Items that may be reclassified subsequently to profit or loss			
Unrealised (loss)/gain on cash flow hedges	24.2	(59 239)	344 362
Loss/(gain) on cash flow hedges reclassified to profit or loss	24.2	29 546	(186 630)
		(29 693)	**157 732**
Other comprehensive (loss)/gain		**(64 586)**	**150 248**
Total comprehensive income for the year		**3 760 571**	**1 572 877**

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 MARCH 2022

in thousands of rands	Share capital	Permanent government funding	Reserve for general loan risk
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 comprehensive income	**–**	**–**	**57 708**
Balance as at 1 April 2021	**200 000**	**11 692 344**	**2 545 939**
Profit for the year	–	–	–
Other comprehensive income			
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 from general loan risk reserve	–	–	(690 768)
Total comprehensive income	**–**	**–**	**(690 768)**
Balance at 31 March 2022	**200 000**	**11 692 344**	**1 855 171**
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 reserve on land and building	**Cash flow hedge reserve**	**Own credit risk reserve**	**Total of other reserves**	**Retained income**	**Total equity**
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**
–	–	–	–	3 825 157	3 825 157
–	–	(34 424)	(34 424)	–	(34 424)
–	–	–	–	(469)	(469)
–	(59 239)	–	(59 239)	–	(59 239)
–	29 546	–	29 546	–	29 546
–	–	–	–	690 768	–
–	**(29 693)**	**(34 424)**	**(64 117)**	**4 515 456**	**3 760 571**
182 434	**99 353**	**13**	**281 800**	**28 881 710**	**42 911 025**
24.1	24.2	24.3	24		

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 MARCH 2022

in thousands of rands	Notes	2022	2021
Cash flows from operating activities			
Net profit adjusted for non-cash items and items separately disclosed	39	(450 478)	(745 023)
Interest received		7 653 072	8 300 905
Interest paid		(2 750 437)	(3 109 040)
Dividends received		11 324	4 420
Net cash generated from operating activities		**4 463 481**	**4 451 262**
Cash flows from development activities			
Development loan disbursements		(12 919 784)	(13 459 403)
Development loan principal repayments		11 308 037	11 002 729
Equity investments disbursements	11.1	(246 514)	(102 122)
Equity investments repayments	11.1	177 823	235 693
Grants, development and project preparation expenditure paid		(75 879)	(70 312)
Increase in deferred income		15 014	462 130
Increase in advances to National Mandates		(3 149)	(46 147)
Net cash used in development activities		**(1 744 452)**	**(1 977 432)**
Net cash generated from operating and development activities		**2 719 029**	**2 473 830**
Cash flows from investing activities			
Purchase of property and equipment		(51 107)	(10 699)
Disposal of property and equipment		–	317
Purchase of intangible assets		(9 078)	(12 342)
Disposal of financial market instruments		38 636	1 354 087
Net cash (utilised by)/generated from investing activities		**(21 549)**	**1 331 363**
Cash flows from financing activities			
Gross financial market liabilities repaid		(13 338 479)	(21 187 343)
Gross financial market liabilities raised		9 753 203	23 539 700
Net cash (utilised by)/generated from financing activities		**(3 585 276)**	**2 352 357**
Net (decrease)/increase in cash and cash equivalents		**(887 796)**	**6 157 550**
Effect of exchange rate movements on cash balances	29	(100 704)	(637 778)
Movement in cash and cash equivalents		**(988 500)**	**5 519 772**
Cash and cash equivalents at the beginning of the year	5	8 978 608	3 458 836
Cash and cash equivalents at the end of the year	5	**7 990 108**	**8 978 608**

ACCOUNTING POLICIES

FOR THE YEAR ENDED 31 MARCH 2022

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 Limited 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.

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; and
» Land and buildings.

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 Annual 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 Annual 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 the 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. If the business model for the remaining assets is not appropriate or if there is a change in business model, a prospective change to the classification of those assets will take place.

(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.

(iii) Identification of substantial modifications

When financial instruments measured at amortised cost are restructured, reorganised or otherwise altered in a manner consistent with the definition of a modification as noted in note 1.2.5 or 1.2.7 (vii), each such modification is evaluated to determine whether or not it results in a substantial modification.

In deciding whether or not a modification is substantial, on occasion the application of judgement may be required in those instances where it may not be patently obvious that the restructured loan is substantially different to the original loan. In such cases judgement is applied in evaluating the impact, both quantitative and qualitative, of changes to the instrument, taken both separately and in aggregate. Judgement is applied in the evaluation of the nature and extent of changes between the initial and modified instruments as well as the impact of such changes, in order to determine whether such changes indicate a fundamental alteration of either the DBSA or borrower's legal rights and/or obligations.

(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 judgments 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 it's ability to continue as a going concern.

The Bank continues to monitor the COVID-19 pandemic impact on impairments, pricing and profitability to ensure that the Bank remains financially and operationally sustainable. The Bank has continued to be 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

Fair value measurement

The objective of fair value measurement is to estimate the price at which asset can be sold or a liability transferred in an orderly transaction between market participants at the measurement date, considering current market conditions. Fair value measurements considers the following among other factors:

» The particular asset that is being measured (considered as the appropriate unit of account).

» The most advantageous market for the asset.

» The most appropriate valuation technique for measurement, considering the availability of market-observable inputs and assumptions.

Significant management judgement is applied in the determination of the selection of the appropriate valuation technique, fair value and fair value hierarchy assessments. Such manage judgement is applied taking into account the following context:

» whether the necessary criteria for identification of a 'market' have been met;

» whether the market identified is active or inactive, in terms of volume and frequency of activity;

» identification of the principal market (being that market with the highest greatest volume and level of activity for the relevant instrument);

» considering whether the principal market is in fact the appropriate and most advantageous market to be utilised;

» in the absence of an active market, selection of the appropriate valuation technique(s) to be applied to each investment to determine a fair value estimate;

» where valuation techniques are used, evaluating the observability of each valuation input, in the context of the public availability of such information, considering relevant jurisdictional considerations and the assessment of the relative weight that market participants would use when pricing the instrument; and

» where valuation techniques are used, assessing the (relative) significance of each particular valuation input to the entire measurement, considering factors specific to the instrument being valued.

Fair value measurements of individual instruments are categorised within Level 1, 2 or 3 of the fair value hierarchy based on the assessed observability of the lowest level input that is significant to the entire measurement. In making the determination as to the relative significance of inputs to the entire measurement of any particular asset, the DBSA considers the (relative) impact of each valuation input and the sensitivity of the fair value measurement to changes in such valuation inputs.

Inputs and valuation techniques – Listed equities

Where equity investments comprise holdings in publicly listed entities, fair value is determined using unadjusted prices quoted (from an exchange, broker, or pricing service, as applicable) in active markets for identical assets or liabilities, where this is readily available, and the price represents actual and regularly occurring market transactions. If such information is not available, fair value is measured using another valuation technique that maximises the use of relevant observable inputs and minimises the use of unobservable inputs.

Inputs and valuation techniques – Unlisted equities

Where equity investments comprise holdings in unlisted entities (i.e. private-equity investments), fair value is determined using appropriate valuation methodologies. The selection of the appropriate methodology is based on management judgement taken in the context of the nature and structure of the investment and may include an analysis of the investee entity's financial performance and/or position, risk profile and prospects, asset/enterprise value analysis, recent transactions for identical/similar instruments.

The fair value of unlisted direct investments is determined using appropriate valuation techniques that may include, but are not limited to, discounted-cash flow analysis, net-asset-value calculations, and directors' valuations. In some cases, the underlying investments of the unlisted funds included listed investments on regulated markets. Investments in private equity funds are valued by fund managers periodically in accordance with international private equity and venture capital valuation guidelines. These guidelines take into consideration the prescripts of IFRS and set out recommendations that represent current best practice on the valuation of a private equity and venture capital investments. The guidelines 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 prices of recent investment, earnings multiples, discounted cash flows or earnings (of underlying businesses), discounted cash flows (from the investment) and industry valuation benchmarks.

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)

(v) Valuation of equity investments (continued)

Valuation adjustments

In determining the fair value estimate and the appropriate fair value hierarchy of each instrument, management applies judgement in considering the necessity and impact of any adjustments to fair value estimates derived using valuation techniques. The impact of such valuation adjustments is intended to be representative of the *premia* or discounts which market participants would reasonably be expected to apply in determining a fair market price. Such valuation adjustments may be applied for several reasons including but not limited to:

» Liquidity risk adjustment
» Control premium or discount
» Prudence valuation adjustment
» Generic risk adjustment
» Specific risk premium or discount

Where such valuation adjustments are required, management applies judgement when determining the relative significance of the valuation adjustment to the entire fair value measurement and not only the magnitude of the discount (in percentage terms) when assessing whether the adjustment impacts the fair value hierarchy, in accordance with internal policy. However, in those instances where the valuation discount is the most significant input to the entire measurement the DBSA applies the following policy guidelines for fair value hierarchy determination:

Approved policy range regarding percentage adjustments to fair value	Fair value hierarchy level
0% to 10%	Level 1
10% to 20%	Level 2
Greater than 20%	Level 3

As indicated above, the DBSA's policy provides for discounts ranging from 0% to 30% with no discounts applied to listed instruments. This policy is supported by the periodic sensitivity analysis conducted on the relevant portfolio.

(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 JSE Limited. In determining the changes in fair value of debt securities designated at fair value through profit or loss 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 Limited.

(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 adjustments include adjustments for the credit risk of the derivative counterparty (CVA) as well as the Bank's own credit risk (DVA). The CVA/DVA model 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 adjustments 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 incentives, restructuring costs and litigation provisions.

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 ECLs

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 ECLs.

» 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, have been taken into account in ECL estimates.

» 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.

(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 41).

In the ordinary course of lending business, loans can be distressed and Stage 3 loans/NPL loans are managed by the BSRU. The recovery process for the Bank as a DFI can be long and varies depending on each loan circumstances and in all cases the DBSA seeks to maximise recovery of 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 recovery process exceeds benefit with no reasonable prospect of further recoveries; and at that point; the Bank write-off loans. The approvals for write-offs is a strict Bank governance process and write-offs are approved by Investment Committee, Audit and Risk Committee and Board.

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

The COVID-19 pandemic continues to have an ever-evolving pervasive impact, with the scale and duration of the pandemic affecting every region and sector to which the organisation's investment mandate extends. While the most restrictive policies initially implemented by national governments have largely been undone, and are not likely to be repeated, the moderate fiscal policies implemented to safeguard economies against the pandemic have similarly run their course.

Despite the risk of future waves of infection and the potential for economic disruption, the declining levels of fiscal resources have driven policy changes during the period under review which resulted in increasing consumer inflation and interest rates.

Given the unprecedented nature of the pandemic, together with the uncertainty regarding the eventual scale and duration, it is not yet possible to accurately predict the extent of its impact on the organisation's financial position and performance. While the specific areas of judgement detailed in note 1 of the accounting policies did not change, due to the continued dynamic nature of COVID-19, the Bank's experience of the economic and financial impact of the pandemic continues to affect a number of key areas of management judgement, consistent with the uncertainty inherent in 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 FVTPL (note 10)
» Equity investments held at FVTPL (note 11)
» Development bonds at amortised cost (note 13)
» Development loans at amortised cost (note 14)
» ECLs on financial assets held at amortised cost (note 34)

Significant judgements and estimates impacted by COVID-19

An overview of the areas where additional judgement has been applied and includes references to the relevant sections in the notes to the Annual Financial Statements, where additional information has been included is summarised below:

(i) Impairment of financial instruments (ECL 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 ECL 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 continue to represent the organisations's best estimate of 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 in 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 number of the Bank's customers experienced liquidity challenges resulting from disruptions of project timelines and/or revenue generating activities. 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 on a client-by-client basis, evaluated on the substantive merit of each application.

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 1.2.5, 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

COVID-19 continues to have a profound impact on global economic activity and output. With the divergent recovery noted between emerging and developed economies, the significant uncertainty noted in the prior period remains a key factor in consideration of the ECLs of credit exposures. 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 DBSA's internal credit models have not been re-calibrated to take into account the effect of the pandemic. Given the fact that outcome of the pandemic and its correlation to the Bank's defined scenarios remains unpredictable together with the fact that any determination of potential outcomes remains complex and subjective, the DBSA has opted to retain the application of post-model adjustments where appropriate. Post-model adjustments continue to be subject to the appropriate governance process.

The COVID-19 pandemic and its effects continues to evolve and it remains difficult to predict the full extent of the impact. The heightened uncertainty and volatility continues to impact borrowers across all geographies, sectors and client segments. In order to manage and mitigate the potential for risk elements not captured by quantitative models, management adjustments continue to be retained and applied, in addition to ECL model outputs, to provide a more appropriate assessment of the Bank's risk profile.

The nature of the DBSA's lending activities exposes the organisation to significant risk concentrations within often interrelated sectors and client segments. While the lending portfolio is managed based on a measure of diversification the common thread underpinning the majority of the entity's credit risk portfolio is its exposure to public sector entities. Accordingly stress factors, whether macroeconomic or sector/client specific have an increased probability to result in contagion between discrete sectors or segments.

Accordingly the post-model adjustments applied give due consideration to factors, including, but not limited to:

- geographical or regional risk concentrations;
- large exposure or single name risk concentrations;
- industry and/or sector risk factors; and
- the potential interrelationships between categories of clients.

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. STATEMENT OF COMPLIANCE (continued)

1.2 Financial instruments (continued)

1.2.1 Financial assets (continued)

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' cash flows.

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 FVTPL	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
Other financial assets	To collect contractual cash flows	FVTPL	Cash flows that are not solely payment of principal and interest on the principal
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 FVTPL):

- 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

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

(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 FVTPL 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 FVTPL.

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. STATEMENT OF COMPLIANCE (continued)

1.2 Financial instruments (continued)

1.2.1 Financial assets (continued)

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.

1.2.1.5 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. STATEMENT OF COMPLIANCE (continued)

1.2 Financial instruments (continued)

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.

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 measurement

The Bank accounts for its financial liabilities either as:

» held at FVTPL; 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 FVTPL) 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 FVTPL 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 FVTPL	Forms part of the asset-liability management purpose	FVTPL
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	FVTPL
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

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 FVTPL 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 includes 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 (CVA) as well as the Bank's own credit risk (DVA). Collateral is taken into account in calculating the CVA/DVA, if any.

(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).

1. STATEMENT OF COMPLIANCE (continued)

1.2 Financial instruments (continued)

1.2.2 Financial liabilities (continued)

(e) Modification of financial liabilities (continued)

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, the change in fair value is recognised in other comprehensive income.

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.

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.

1. STATEMENT OF COMPLIANCE (continued)

1.2 Financial instruments (continued)

1.2.5 Impairment of financial instruments (continued)

(ii) Determining the staging for ECLs (continued)

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 ECLs 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 Annual Financial Statements. To reflect this, qualitative adjustments or overlays are occasionally made as temporary adjustments when such differences are significantly material.

(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.

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 (continued)

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 impairment for credit losses.

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.

1.3 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 main sources of hedge ineffectiveness in these hedging relationships are changes in terms of the hedged item, changes in terms of the hedging instrument, changes in counterparty's credit risk, changes in the Bank's credit risk.

1. STATEMENT OF COMPLIANCE (continued)

1.3 Hedge accounting (continued)

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 debt when all reasonable steps have been taken to recover the debt. Write-offs are presented under as ECLs on financial assets.

Any recoveries due to enforcement activities are treated as bad debt recovered in the year which such recoveries are made.

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 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.

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 FVTPL 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.

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. STATEMENT OF COMPLIANCE (continued)

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

1.8.1. Property and equipment (continued)

1.8.1.3 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 Bank 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.

The Bank has elected to account for short term leases and leases of low-value assets using the practical expedients. These leases relate to items of computer equipment. Instead of recognising a right of use asset and lease liability, the payments in relation to these are recognised as an expense in profit or loss on a straight line basis over the lease term.

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 FVTPL in which case it is measured at fair value with changes in FVTPL. 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.

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% (MS1–7)
» Medium risk minimum of 5% (MS8–13)
» High risk minimum of 7% (MS14–MS17)

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 ECL 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. STATEMENT OF COMPLIANCE (continued)

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 ECL 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.

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 using the input method. There is no significant financing component for management fees.

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. There is no significant financing component for lending fees.

Non-lending fees
The fees relate to non-lending services provided to customers and are recognised when the service obligation is completed. There is no significant financing component for non-lending fees.

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 FVTPL. 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 Annual 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 Annual 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 assets is based on the valuation performed by the fund managers.

1. STATEMENT OF COMPLIANCE (continued)

1.19 Determination of fair values (continued)

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 FVTPL.

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.

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. STATEMENT OF COMPLIANCE (continued)

1.19 Determination of fair values (continued)

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 Annual 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 Annual 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.

1.26 Fund administered 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 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*** – Effective for annual periods on or after 1 January 2022.

Annual Improvements to IFRS Standards 2018–2020: Extension of an optional exemption permitting a subsidiary that becomes a first-time adopter after its parent to measure cumulative translation differences using the amounts reported by its parent, based on the parent's date of transition to IFRSs. A similar election is available to an associate or joint venture.

» **IFRS 3: *Business Combinations*** – Effective for annual periods on or after 1 January 2022.

Reference to the Conceptual Framework: The amendment updates a reference in IFRS 3 to the Conceptual Framework for Financial Reporting without changing the accounting requirements for business combinations.

» **IFRS 9: *Financial Instruments*** – Effective for annual periods on or after 1 January 2022:

Annual Improvements to IFRS Standards 2018– 2020: The amendment clarifies which fees an entity includes when it applies the '10 per cent' test in assessing whether to derecognise a financial liability.

» **IAS 1: *Presentation of Financial Statements*** – Effective for annual periods on or after 1 January 2023:

Annual Improvements to IFRS Standards 2018–2020: The amendment clarifies which fees an entity includes when it applies the '10 per cent' test in assessing whether to derecognise a financial liability.

Classification of Liabilities as Current or Non-current: Narrow-scope amendments to IAS 1 to clarify how to classify debt and other liabilities as current or non-current.

Disclosure of Accounting Policies: The amendments require companies to disclose their material accounting policy information rather than their significant accounting policies, with additional guidance added to the Standard to explain how an entity can identify material accounting policy information with examples of when accounting policy information is likely to be material.

» **IAS 8: *Accounting Policies, changes in accounting estimates and errors*** – Effective for annual periods on or after 1 January 2023:

Definition of Accounting Estimates: The amendments clarify how companies should distinguish changes in accounting policies from changes in accounting estimates, by replacing the definition of a change in accounting estimates with a new definition of accounting estimates. Under the new definition, accounting estimates are 'monetary amounts in financial statements that are subject to measurement uncertainty'. The requirements for recognising the effect of change in accounting prospectively remain unchanged.

» **IAS 16: *Property, Plant and Equipment*** – Effective for annual periods on or after 1 January 2022:

Property, Plant and Equipment: Proceeds before intended use: The amendments prohibit an entity from deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling such items, and the cost of producing those items, in profit or loss.

1.2 Amended standards effective for the current financial year

The second phase of Interest Rate Benchmark Reform (IBOR) resulted in amendments to IFRS 7, IFRS 9, IFRS 16 and IAS 39 requirements to enable entities to deal with the effects on financial instruments and to continue providing useful information to stakeholders. These amendments are highlighted below:

Modification of financial instruments

The change to the alternative risk free rates may result in changes to the contractual cash flows of the related financial instruments. This may trigger an assessment in order to determine whether there has been a significant change in the cash flows that may result in derecognition of the financial instruments. The amendment to IFRS 9 allows the entities to continue recognising the financial instruments provided that the adjustments were as a result of the reform and were made on an economically equivalent basis.

The practical expedient above will be applied to the development loans. Any other changes to the contractual cash flows that are as a result of the interest rate benchmark reform are accounted for in terms of the Bank's modification policy (refer to accounting policy 1.2.5 for further information relating to the modification policy).

Hedge accounting

The amendment also provides specific hedge accounting relief, including that an entity will not have to discontinue hedge accounting solely because it makes changes required by the reform to hedge designations and hedge documentation if the hedge meets the other hedge accounting criteria. The Bank is currently in phase 1 of the ibor reforms.

Risks

The amendments also require entities to provide additional information about new risks arising from the reform and how it manages the transition to Alternative Reference Rates (ARRs). The Bank will transition to ARRs as each interest rate benchmark is replaced. Refer to note 42 for additional risk disclosures.

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 Division; and
» Treasury and balance sheet management.

2. SEGMENTAL INFORMATION (continued)

in thousands of rands	RSA Municipalities 2022	RSA Municipalities 2021	RSA Economic and Social 2022	RSA Economic and Social 2021	Rest of Africa 2022	Rest of Africa 2021
Interest income calculated using EIR	3 226 173	2 907 893	3 288 274	3 283 058	2 022 410	1 737 426
Other interest income	1 558	–	71 276	45 484	16 781	15 011
Total interest income	**3 227 731**	**2 907 893**	**3 359 550**	**3 328 542**	**2 039 191**	**1 752 437**
Interest expense calculated using EIR	(1 289 116)	(1 303 487)	(1 281 676)	(1 539 830)	(433 865)	(461 783)
Other interest expense	–	–	–	–	–	–
Total interest expense	**(1 289 116)**	**(1 303 487)**	**(1 281 676)**	**(1 539 830)**	**(433 865)**	**(461 783)**
Net interest income	**1 938 615**	**1 604 406**	**2 077 874**	**1 788 712**	**1 605 326**	**1 290 654**
Net fee income	16	2 443	42 755	31 245	121 656	73 486
Dividends[1]	–	–	11 324	4 420	–	–
Other operating income[1]	7 966	10 677	5 574	4 218	10 285	13 124
Non-interest income/(loss)	**7 982**	**13 120**	**59 653**	**39 883**	**131 941**	**86 610**
Operating income	**1 946 597**	**1 617 526**	**2 137 527**	**1 828 595**	**1 737 267**	**1 377 264**
Operating expenses[2]	(355 442)	(306 203)	(371 479)	(358 105)	(290 043)	(261 953)
Depreciation and amortisation	(11 525)	(9 151)	(13 488)	(12 628)	(10 314)	(9 332)
Impairments	(1 483 068)	(225 727)	225 016	(56 462)	258 750	(876 975)
Expenses	**(1 850 035)**	**(541 081)**	**(159 951)**	**(427 195)**	**(41 607)**	**(1 148 260)**
Development expenditure[3]	(46 943)	(63 725)	–	–	–	–
Project preparation	–	–	–	(2 590)	–	–
Revaluation of development loans[4]	–	–	–	–	(13 507)	(5 237)
Revaluation of equity investments[4]	–	–	76 956	(130 365)	(123 305)	(218 405)
Grants[5]	–	–	–	–	–	–
Sustainable earnings[5]	**49 619**	**1 012 720**	**2 054 532**	**1 268 445**	**1 558 848**	**5 362**
Net foreign exchange gain/(loss)[6]	–	–	–	–	–	–
Net (loss)/gain from financial assets and liabilities[4]	(847)	–	–	–	–	–
Profit/(loss) for the year	**48 772**	**1 012 720**	**2 054 532**	**1 268 445**	**1 558 848**	**5 362**
Capital expenditure	–	–	–	–	–	–
Development loans	30 846 337	29 249 937	34 928 628	35 832 581	18 402 089	17 650 930
Development bonds	1 151 903	1 279 235	–	–	–	–
Equity investments	–	–	2 099 223	2 104 962	2 877 284	2 902 497
Other assets	184 616	4 988	461 306	394 641	20 559	17 923
Total assets	**32 182 856**	**30 534 160**	**37 489 157**	**38 332 184**	**21 299 932**	**20 571 350**
Total liabilities	**17 339 248**	**15 739 322**	**19 157 861**	**22 055 419**	**12 737 033**	**13 567 297**

* *The All Other segment includes Project Preparation and Corporate assets.*

1. *Dividends (R11 324) and other operating income (R45 199) make up other income (R56 423) in the statement of comprehensive income.*
2. *Operating expenses (R1 270 266) comprises of personnel expenses (R867 998) and general and administration expenses (R402 268).*
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 (R46 349), gain on development loans (R13 507) and net gain from financial assets and liabilities (R59 250) make up net loss from financial assets and financial liabilities (R606) 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	
2022	**2021**	**2022**	**2021**	**2022**	**2021**	**2022**	**2021**
–	–	295 111	232 646	–	–	8 831 968	8 161 023
–	–	56 722	119 585	–	–	146 337	180 080
–	**–**	**351 833**	**352 231**	**–**	**–**	**8 978 305**	**8 341 103**
–	–	(80 455)	(29 921)	–	–	(3 085 112)	(3 335 021)
–	–	(100 996)	(114 318)	572	(123)	(100 424)	(114 441)
–	**–**	**(181 451)**	**(144 239)**	**572**	**(123)**	**(3 185 536)**	**(3 449 462)**
–	**–**	**170 382**	**207 992**	**572**	**(123)**	**5 792 769**	**4 891 641**
149 622	123 520	(49 888)	(59 514)	15 633	16 678	279 794	187 858
–	–	–	–	–	–	11 324	4 420
14 294	14 048	–	5	7 080	11 372	45 199	53 444
163 916	**137 568**	**(49 888)**	**(59 509)**	**22 713**	**28 050**	**336 317**	**245 722**
163 916	**137 568**	**120 494**	**148 483**	**23 285**	**27 927**	**6 129 086**	**5 137 363**
(190 952)	(172 761)	3 427	49 632	(65 777)	(72 554)	(1 270 266)	(1 121 944)
(969)	(824)	(388)	(352)	–	–	(36 684)	(32 287)
–	–	–	–	(5 636)	(5 560)	(1 004 938)	(1 164 724)
(191 921)	**(173 585)**	**3 039**	**49 280**	**(71 413)**	**(78 114)**	**(2 311 888)**	**(2 318 955)**
–	–	–	–	(24 744)	(14 515)	(71 687)	(78 240)
–	–	–	–	(48 466)	(35 212)	(48 466)	(37 802)
–	–	–	–	–	–	(13 507)	(5 237)
–	–	–	–	–	–	(46 349)	(348 770)
–	–	–	–	(27 412)	(32 510)	(27 412)	(32 510)
(28 005)	**(36 017)**	**123 533**	**197 763**	**(148 750)**	**(132 424)**	**3 609 777**	**2 315 849**
–	–	156 130	(892 773)	–	–	156 130	(892 773)
–	–	59 479	(6 742)	618	6 295	59 250	(447)
(28 005)	**(36 017)**	**339 142**	**(701 752)**	**(148 132)**	**(126 129)**	**3 825 157**	**1 422 629**
–	**–**	**–**	**–**	**57 620**	**29 429**	**57 620**	**29 429**
–	–	–	–	–	–	84 177 054	82 733 448
–	–	–	–	–	–	1 151 903	1 279 235
–	–	–	–	–	–	4 976 507	5 007 459
179 309	207 894	8 313 271	9 836 860	563 516	565 276	9 722 577	11 027 582
179 309	**207 894**	**8 313 271**	**9 836 860**	**563 516**	**565 276**	**100 028 041**	**100 047 724**
196 787	**197 367**	**3 071 234**	**4 869 848**	**4 614 853**	**4 468 017**	**57 117 016**	**60 897 270**

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 2022					
Cash and cash equivalents at amortised cost	5	7 990 108	–	7 990 108	7 990 108
Trade receivables and other assets	6	162 249	–	162 249	162 249
Investment securities	7	–	444 287	444 287	444 287
Derivative assets held for risk management purposes*	8.1	–	458 243	458 243	458 243
Other financial asset	9	–	43 067	43 067	43 067
Development loans at FVTPL**	10	–	19 309	19 309	19 309
Equity investments held at FVTPL**	11	–	4 976 507	4 976 507	4 976 507
Development bonds at amortised cost	13	1 151 903	–	1 151 903	1 253 936
Development loans at amortised cost	14	84 177 054	–	84 177 054	96 090 947
		93 481 314	**5 941 413**	**99 422 727**	**111 438 653**

* *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	–	444 287	–	444 287
Derivative assets held for risk management purposes	–	458 243	–	458 243
Development loans at FVTPL	–	–	19 309	19 309
Other financial asset	–	43 067	–	43 067
Equity investments held at FVTPL	60 672	2 256 544	2 659 291	4 976 507
	60 672	**3 202 141**	**2 678 600**	**5 941 413**
Financial assets held at amortised cost for which fair values are disclosed				
Cash and cash equivalents at amortised cost	–	7 990 108	–	7 990 108
Trade receivables and other assets	–	–	162 249	162 249
Development bonds at amortised cost	–	1 253 936	–	1 253 936
Development loans at amortised cost	–	–	96 090 947	96 090 947
	–	**9 244 044**	**96 253 196**	**105 497 240**
Total fair value of financial assets	**60 672**	**12 446 185**	**98 931 796**	**111 438 653**

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 assets	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**

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 assets	–	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**

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 2022					
Derivative liabilities held for risk management purposes*	8.2	–	34 240	34 240	34 240
Trade, other payables and accrued interest on debt funding	17.1	687 750	–	687 750	687 750
Debt funding designated at FVTPL	20	–	688	688	688
Debt funding held at amortised cost**	21	55 535 354	–	55 535 354	58 394 422
		56 223 104	**34 928**	**56 258 032**	**59 117 100**

* *Derivative liabilities held for risk management are mandatorily held at fair value through profit or loss.*

** *The accrued interest portion of R449 million on funding debt securities held at amortised cost is presented under trade, other payables and accrued interest line. Total debt funding at amortised cost inclusive of accrued interest of R55.98 billion is made up of accrued interest of R449 million plus principal of R55.54 billion. The total fair value of the Bank's funding is R58 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	–	688	–	688
Derivative liabilities held for risk management purposes*	–	34 240	–	34 240
	–	**34 928**	**–**	**34 928**
Financial liabilities held at amortised cost for which fair values are disclosed				
Trade, other payables and accrued interest on debt funding	–	449 582	238 168	687 750
Debt funding held at amortised cost	–	58 394 422	–	58 394 422
	–	**58 844 004**	**238 168**	**59 082 172**
Total fair value of financial liabilities	**–**	**58 878 932**	**238 168**	**59 117 100**

4. FINANCIAL LIABILITIES BY CATEGORY (continued)

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	17.1	560 753	–	560 753	560 753
Debt funding designated at FVTPL	20	–	1 513 997	1 513 997	1 513 997
Debt funding at amortised cost**	21	56 982 792	–	56 982 792	61 334 041
Repurchase agreements held at amortised costs	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 FVTPL.*

** *The accrued interest portion of R371 million on funding debt securities held at amortised cost is presented under trade, other payables and accrued interest 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 designated 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 at amortised cost	–	61 334 041	–	61 334 041
Repurchase agreements held at amortised costs	–	869 134	–	869 134
	–	**62 589 623**	**174 305**	**62 763 928**
Total fair value of financial liabilities	**–**	**64 230 896**	**174 305**	**64 405 201**

* *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	2022	2021
5. CASH AND CASH EQUIVALENTS AT AMORTISED COST		
Cash and cash equivalents consist of:		
Call deposits	6 426 066	4 818 237
Cash in bank	1 564 042	4 160 371
Balance at end of the year	**7 990 108**	**8 978 608**

The weighted average interest rate earned on call deposits detailed above was 4.25% (31 March 2021: 4.51%). 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	2022	2021

6. TRADE RECEIVABLES AND OTHER ASSETS

Financial assets at amortised cost

Trade receivables	179 209	179 374
Less provision for ECL on trade receivables	(18 460)	(12 825)
Net carrying amount trade receivables	**160 749**	**166 549**
Accrued interest	1 429	1 604
Deposits	4	4
Staff loans*	67	41
Total financial assets	**162 249**	**168 198**

* *Staff loans are for employees and are interest free. The interest that should have been payable on this account is R5 175 at a rate of 7.75% (31 March 2021: R2 852 at the rate of 7%).*

Non-financial assets

Payroll expenses receivable	786	801
Prepayments	93 824	125 765
Subsistence and travel	936	86
VAT	1 498	1 526
Total non-financial assets	**97 044**	**128 178**
Balance at end of the year	**259 293**	**296 376**

Analysis of trade receivables and other assets

Current portion	209 242	169 810
Non-current portion	50 051	126 566
Balance at end of the year	**259 293**	**296 376**

Reconciliation of provision for expected credit losses on trade receivables

Balance at beginning of the year	12 825	7 264
Increase in provision for ECL on trade receivables (refer to note 34)	5 635	5 561
Balance at end of the year	**18 460**	**12 825**

Staff loans, deposits, accrued interest and trade receivables are held at amortised cost. Staff loans and deposits are regarded as having a low probability of default, therefore the ECL is insignificant.

ECLs is 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 ECLs for trade receivables.

Default rate used for the calculation of ECLs for trade receivables is detailed below:

Default rates	%	%
Infrastructure Delivery Division trade receivables	0	0
Other trade receivables	17 and 100	17 and 100
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 ECL is measured at an amount equal to the lifetime ECLs (simplified approach):

in thousands of rands	Days >90	Days 61–90	Days 31–60	Days 1–30	Total
31 March 2022					
Infrastructure Delivery Division trade receivables – Expected loss rate of 0%					
Gross carrying amount	49 562	1 794	14 985	50 516	116 857
Provision for lifetime ECL	–	–	–	–	–
Net carrying amount at end of the year	**49 562**	**1 794**	**14 985**	**50 516**	**116 857**
Other trade receivables – Expected loss rate of 17% and 100%					
Gross carrying amount	6 701	994	4 271	48 533	60 499
Provision for lifetime ECL	(6 486)	(392)	(1 256)	(8 473)	(16 607)
Net carrying amount at end of the year	**215**	**602**	**3 015**	**40 060**	**43 892**
Ex-employees – Expected loss rate of 100%					
Gross carrying amount	1 853	–	–	–	1 853
Provision for lifetime ECL	(1 853)	–	–	–	(1 853)
Net carrying amount at end of the year	–	–	–	–	–
Total net carrying amount at end of the year	**49 777**	**2 396**	**18 000**	**90 576**	**160 749**

in thousands of rands	Days >90	Days 61–90	Days 31–60	Days 1–30	Total
31 March 2021					
Infrastructure Delivery Division 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 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 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 end of the year	–	–	–	–	–
Total net carrying amount at end of the year	**22 887**	**15 532**	**10 525**	**117 605**	**166 549**

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 ECLs:

	Default rate			
in thousands of rands	**0%**	**17% and 100%**	**100%**	**Total**
31 March 2022				
Reconciliation of gross carrying amount				
Balance at the beginning of the year	145 220	32 201	1 953	179 374
Movements for the year	(28 363)	28 298	(100)	(165)
Gross carrying amount at end of the year	**116 857**	**60 499**	**1 853**	**179 209**
Reconciliation of provision for ECL				
Balance at the beginning of the year	–	(10 872)	(1 953)	(12 825)
Increase in provision for ECL	–	(5 735)	100	(5 635)
Provision for ECL at end of the year	**–**	**(16 607)**	**(1 853)**	**(18 460)**
Net carrying amount at end of the year	**116 857**	**43 892**	**–**	**160 749**
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 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 end of the year	**–**	**(10 872)**	**(1 953)**	**(12 825)**
Net carrying amount at end of the year	**145 220**	**21 329**	**–**	**166 549**

6. TRADE RECEIVABLES AND OTHER ASSETS (continued)

Included in trade receivables are*:

in thousands of rands	2022	2021
Mandates		
City of Johannesburg	144	–
District Development Model	209	8 064
Eastern Cape Department of Education	1 709	1 346
Ekurhuleni Metropolitan Municipality	12 966	40 077
Free State Department of Education	10 730	7 161
Gauteng Department of Agriculture	4 998	–
Global Environmental Facility	404	–
Infrastructure Delivery Management System	5 753	2 577
Infrastructure Fund	5 341	4 626
Infrastructure Investment Programme for South Africa (IIPSA)	6 877	5 700
KfW HIV/VCT 2 Programme	347	347
KwaZulu-Natal Department of Education	2 703	37 970
Limpopo Department of Economic Development	330	38
Limpopo Department of Education	257	976
Limpopo Department of Health	853	15 214
Limpopo Department of Public Works	217	374
National Department of Basic Education for Accelerated Infrastructure Schools Programme	22 649	8 874
National Department of Correctional Services	928	–
National Department of Defence	39	48
National Department of Energy – IPP Office	7 250	4 835
National Department of Health	8 429	8 846
National Department of Public Works	27 801	10 163
National Department of Trade and Industry	175	3 370
National Treasury Cities Support Programme (NTCSP)	8 962	6 946
National Treasury Project Preparation Fund	–	1 803
North West Department of Education	2 198	–
North West Department of Public Works	3 984	–
Student Housing Infrastructure Programme Management	39 176	2 374
World Economic Forum – Sustainable Development Investment Partnership Programme	154	703
Balance at end of the year for mandates	**175 583**	**172 432**
Other programmes and receivables		
African World Heritage Fund (AWHF)	–	35
Bank SETA	16	15
Former employees	1 853	1 953
KfW SADC Water Fund	685	891
Msunduzi Local Municipality	–	850
Other trade receivables	884	1 116
Pan African Capacitation Building Platform (PACBP)	188	18
Proparco	–	64
Rustenburg Local Municipality	–	2 000
Balance at year end for other programmes and receivables	**3 626**	**6 942**
Balance at end of the year for trade receivables	**179 209**	**179 374**

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

in thousands of rands	2022	2021

7. INVESTMENT SECURITIES

Investment securities consist of the following:

Investment securities mandatorily held at fair value through profit or loss

Investment in segregated funds	33 480	32 699
Municipal bonds – listed	329 794	337 872
State owned entities bonds – listed	81 013	84 644
Balance at end of the year	**444 287**	**455 215**

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 (31 March 2021: R16.4 million).

Investment securities reconciliation

Balance at beginning of the year	455 215	1 787 361
Fair value movements	(9 995)	23 698
Additions, disposals and maturities	–	(1 309 000)
Premium and discounts	(933)	(46 844)
Balance at end of the year	**444 287**	**455 215**

Analysis of investment securities

Current portion	97 408	16 395
Non-current portion	346 879	438 820
Balance at end of the year	**444 287**	**455 215**

8. DERIVATIVE ASSETS AND LIABILITIES HELD FOR RISK MANAGEMENT PURPOSES

in thousands of rands	2022	2021
8.1. Derivative assets held for risk management purposes		
Risk type:		
Interest rate derivatives	–	17 243
Foreign exchange derivatives	458 243	733 588
Balance at end of the year	**458 243**	**750 831**

Included in derivative assets is a credit valuation adjustment (CVA) of R22 million (31 March 2021: R91 million).

8.2. Derivative liabilities held for risk management purposes

Risk type:		
Interest rate derivatives	(13 617)	(34 504)
Foreign exchange derivatives	(20 623)	(92 772)
Balance at end of the year	**(34 240)**	**(127 276)**

Included in derivative liabilities is a debit valuation adjustment (DVA) of RNil (31 March 2021: RNil).

8.3. Net derivatives held for risk management purposes

Derivatives designated as fair value hedges	(13 617)	(10 940)
Derivatives designated as cash flow hedges	352 552	485 274
Derivatives held for risk management not designated hedges – economic hedges	85 068	149 221
Net derivatives at end of the year	**424 003**	**623 555**

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 FVTPL. Such derivatives are used for managing the exposures to foreign currency and interest rate risks.

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.

in thousands of rands		2022	2021
Instrument type	**Accounting treatment**		
Annual break swap	No hedge accounting applied	–	(8 266)
Debt funding – FVTPL	Fair value hedge accounting	(688)	(1 513 997)
Interest rate swap	Fair value hedge accounting	(13 617)	(10 940)
Municipal bonds	Fair value hedge accounting	329 794	337 872
State-owned entity bonds	Fair value hedge accounting	81 013	84 644
Grand total		**396 502**	**(1 110 687)**

Hedge accounting

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

		Carrying amount			
in thousands of rands	Nominal amount	Assets	Liabilities	Changes in fair value used for calculating hedge ineffectiveness	Line item in the financial statements
31 March 2022					
Fair value hedges					
Interest rate risk					
Interest rate swaps	180 000	–	(13 617)	16 288	Derivative financial instruments
Cash flow hedges					
Foreign exchange rate risk					
Cross currency swaps	304 696	157 957	(596)	(3 388)	Derivative financial instruments
Currency options	5 841 520	195 191	–	(81 997)	Derivative financial instruments
Total	**6 146 216**	**353 148**	**(596)**	**(85 385)**	–

8. DERIVATIVE ASSETS AND LIABILITIES HELD FOR RISK MANAGEMENT PURPOSES (continued)

8.3. Net derivatives held for risk management purposes (continued)

Hedge accounting (continued)

in thousands of rands	Carrying amount of the hedge item – Assets	Carrying amount of the hedge item – Liabilities	Accumulated amount of fair value hedge adjustments on the hedged item included in the carrying amount of the hedge item – Assets	Accumulated amount of fair value hedge adjustments on the hedged item included in the carrying amount of the hedge item – Liabilities	Changes in fair value used for calculating hedge ineffectiveness	Cash flow hedge reserve	Line item in the financial statements
31 March 2022							
Fair value hedges							
Interest rate risk							
Net residual risk in fair value portfolio	198 927	–	–	–	(16 288)	–	Debt funding and investment securities
Cash flow hedges							
Foreign exchange risk rate							
Debt funding	–	–	–	–	3 386	(20 021)	Debt funding at amortised cost
Currency options	–	–	–	–	178 840	(79 332)	Debt funding held at amortised cost, development loans at amortised cost and equity investments at FVTPL
Total	**198 927**	**–**	**–**	**–**	**165 938**	**(99 353)**	

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 item in the financial statement
31 March 2022			
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 recognised in OCI
31 March 2022					
Cashflow hedges					
Cross currency swaps	(40 153)	(2)	Net (gain)/loss from financial assets and financial liabilities	20 003	Net (gain)/loss from financial assets and financial liabilities
Options	(19 086)	96 843	Net (gain)/loss from financial assets and financial liabilities	9 543	Net (gain)/loss from financial assets and financial liabilities
Total	**(59 239)**	**96 841**		**29 546**	

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**	

in thousands of rands	Carrying amount of the hedge item Assets	Carrying amount of the hedge item Liabilities	Accumulated amount of fair value hedge adjustments on the hedged item included in the carrying amount of the hedge item Assets	Accumulated amount of fair value hedge adjustments on the hedged item included in the carrying amount of the hedge item Liabilities	Changes in fair value used for calculating hedge ineffectiveness	Cash flow hedge reserve	Line item in the financial statements
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)**	

in thousands of rands	Ineffectiveness recognised in profit or loss	Ineffectiveness recognised in OCI	Line item in the financial statement
31 March 2021			
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 recognised in OCI
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 financial liabilities
Options	381 720	(49 071)	Net (gain)/loss from financial assets and financial liabilities	(205 273)	Net (gain)/loss from financial assets and financial liabilities
Total	**344 362**	**(49 073)**		**(186 630)**	

in thousands of rands	2022	2021
9. OTHER FINANCIAL ASSET		
Market value of investments	**43 067**	**42 451**
This asset represents the fair value of the Medipref investment held with Sanlam.		
Balance at beginning of the year	42 451	36 152
Income	5 206	4 144
Expenses	(508)	(1 267)
Contributions paid	(4 091)	(4 078)
Increase in market value	9	7 500
Balance at end of the year	**43 067**	**42 451**
10. DEVELOPMENT LOANS HELD AT FAIR VALUE THROUGH PROFIT OR LOSS		
Balance at beginning of the year	99 566	99 895
Movements for the year	15 969	(329)
Gross development loans at FVTPL	**115 535**	**99 566**
Fair value movements	(96 226)	(82 719)
Balance at end of the year	**19 309**	**16 847**
Movements during the year		
Interest accrued	16 781	15 011
Foreign exchange adjustments	(812)	(15 340)
Movement for the year	**15 969**	**(329)**
10.1 Fair value adjustment		
Balance at the beginning of the year	(82 719)	(77 482)
Current year fair value adjustment (Refer to note 30)	(13 507)	(5 237)
Balance at the end of the year	**(96 226)**	**(82 719)**
10.2 Maturity analysis of development loans at FVTPL		
Due after three months but within one year	115 535	99 566
10.3 Sectoral analysis of development loans at FVTPL		
Energy – electricity	115 535	99 566

in thousands of rands	2022	2021

10.4 Geographical analysis of development loans at FVTPL

Sierra Leone	115 535	99 566
USD included in development loans at FVTPL	7 911	6 743

10.5 Client classification of development loans at FVTPL

Private sector intermediaries	115 535	99 566

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

Fixed	115 535	99 566

10.7 Analysis of development loans FVTPL

Current portion*	115 535	99 566

* *Due to COVID-19 induced delays, the project timelines have been re-estimated resulting in a further 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	4 976 507	5 007 459

11.1 Equity investments held at FVTPL

Cost		
Balance at beginning of the year	3 445 516	3 579 087
Acquisitions	246 514	102 122
Capital return	(177 823)	(235 693)
Balance at end of the year	**3 514 207**	**3 445 516**
Fair value adjustment		
Balance at beginning of the year	101 591	423 479
Current year fair value adjustment (refer to note 30)	(46 349)	(348 770)
Realised capital gain (refer to note 31)	3 143	26 882
Balance at the end of the year	**58 385**	**101 591**
Foreign exchange adjustments		
Balance at beginning of the year	1 460 352	1 991 385
Unrealised loss (refer to note 29)	(121 063)	(618 896)
Realised gain (refer to note 29)	64 626	87 863
Balance at the end of the year	**1 403 915**	**1 460 352**
Fair value at the end of the year	**4 976 507**	**5 007 459**

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 ‘Fund of Fund’ 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 note 11.2).

11.2 Period since initial investment

Less than one year but within four years	290 562	53 333
Four years but within nine years	431 093	395 487
10 years and older	4 254 852	4 558 639
Balance at end of the year	**4 976 507**	**5 007 459**

in thousands of rands	2022	2021

11. EQUITY INVESTMENTS HELD AT FVTPL (continued)

11.3 Sectoral analysis of equity investments

in thousands of rands	2022	2021
Commercial:	2 771 527	2 655 212
Commercial – Construction	71 369	63 273
Commercial – Financial	120 160	–
Commercial – Fund	2 382 458	2 415 840
Communications	197 540	176 099
Institutional infrastructure	878 572	981 652
Residential facilities	1 326 408	1 370 595
Balance at end of the year	**4 976 507**	**5 007 459**

11.4 Geographical analysis of equity investments

in thousands of rands	2022	2021
South Africa	1 773 165	1 553 212
International (the rest of the Africa excluding South Africa)	3 203 342	3 454 247
Balance at end of the year	**4 976 507**	**5 007 459**

11.5 US dollar and Euro amounts included in the above Africa and International equity investments

in thousands of rands	2022	2021
US dollar amount included	**154 518**	**146 337**
Euro amount included	**33 445**	**36 298**

11.6 Analysis of equity investments

in thousands of rands	2022	2021
Current portion	36 580	–
Non-current portion	4 939 927	5 007 459
Balance at end of the year	**4 976 507**	**5 007 459**

12. FAIR VALUE OF 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

Assets and liabilities 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

Assets and liabilities 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. Assets and liabilities 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 assets and liabilities:

in thousands of rands	Notes	Level 1	Level 2	Level 3	Total
31 March 2022					
Fair value disclosures					
Assets held at FVTPL					
Investment securities	3	–	444 287	–	444 287
Derivative assets held for risk management purposes	3	–	458 243	–	458 243
Development loans at FVTPL	3	–	–	19 309	19 309
Other financial asset	3	–	43 067	–	43 067
Equity investments held at FVTPL*	3	60 672	2 256 544	2 659 291	4 976 507
Land and buildings	15	–	–	413 021	413 021
Financial assets held at amortised cost for which fair values are disclosed					
Cash and cash equivalents	3	–	7 990 108	–	7 990 108
Trade receivables and other assets	3	–	–	162 249	162 249
Development bonds	3	–	1 253 936	–	1 253 936
Development loans	3	–	–	96 090 947	96 090 947
Total financial assets		**60 672**	**12 446 185**	**99 344 817**	**111 851 674**

* *Exchange rate movements are a material driver of the fair value of equity instruments categorised as level 2. The fair value of R2.2 billion (31 March 2021: R2.1 billion) includes foreign currency translation impact of R1.4 billion (31 March 2021: R1.5 billion) which is driven by observable currency exchange rates.*

	Notes	Level 1	Level 2	Level 3	Total
Financial liabilities held at FVTPL					
Derivative liabilities held for risk management	4	–	34 240	–	34 240
Debt funding designated at FVTPL	4	–	688	–	688
Financial liabilities held at amortised cost for which fair values are disclosed					
Trade, other payables and accrued interest on debt funding	4	–	449 582	238 168	687 750
Debt funding held at amortised cost	4	–	58 394 422	–	58 394 422
Total financial liabilities		**–**	**58 878 932**	**238 168**	**59 117 100**

	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**

12. FAIR VALUE OF ASSETS AND LIABILITIES (continued)

	Notes	Level 1	Level 2	Level 3	Total
31 March 2021					
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 costs	4	–	869 134	–	869 134
Total financial liabilities		**–**	**64 230 896**	**174 305**	**64 405 201**

Reconciliation of level 3 financial assets held at FVTPL:

in thousands of rands	2022	2021
Equity investments held at FVTPL		
Balance at the beginning of year	2 797 224	2 176 335
Transfers into level 3*	–	758 461
Decrease in fair value of equity investments (refer to note 30)**	(137 933)	(137 572)
Balance at end of the year	**2 659 291**	**2 797 224**

* *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.*

** *The total unrealised loss of R138 million (31 March 2021: R138 million) was included in the net loss from financial assets and financial liabilities in the statement of comprehensive income.*

	2022	2021
Development loans at FVTPL		
Balance at the beginning of year	16 847	22 413
Other movements (refer to note 10)	15 969	(329)
Decrease in fair value of development loans at FVTPL (refer to note 30)***	(13 507)	(5 237)
Balance at end of the year	**19 309**	**16 847**

*** *The total unrealised loss of R14 million (31 March 2021: R5 million) was included in the net loss from financial assets and financial liabilities in the statement of comprehensive income.*

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

	2022		2021	
in thousands of rands	Fair value	Hierarchy level	Fair value	Hierarchy level
Financial instruments				
Derivative assets (a)	458 243	2	750 831	2
Investment securities (b)	444 287	2	455 215	2
Development loans at FVTPL (f)	19 309	3	16 847	3
Equity investments (c)	4 976 507	1, 2 and 3	5 007 459	1, 2 and 3
Other financial asset (d)	43 067	2	42 451	2
Financial assets	**5 941 413**	**–**	**6 272 803**	**–**
Derivative liabilities (a)	34 240	2	127 276	2
Debt funding designated at FVTPL (e)	688	2	1 513 997	2
Financial liabilities	**34 928**		**1 641 273**	

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. Inputs include the quoted market prices.

(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 judgment 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 this phase there is active secondary market for the underlying investment that are being exited. Adjustments to 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 Net Asset Value (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.

12. FAIR VALUE OF ASSETS AND LIABILITIES (continued)

Valuation techniques used to determine fair value (continued)

(c) Equity investments (continued)

(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-cashflow 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%–30%. However, the actual discount rate applied for level 2 and 3 equity investment ranged between 15%–20% and in the prior year this was 10%–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 is 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, 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.

Level 1 inputs	Level 2 inputs	Level 3 inputs
Quoted prices in active markets	Quoted prices for similar assets or liabilities in active markets	Marketability 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; and » 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
	Development loans	Where there is a significant increase in bid/ask spread
	Where there is 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 FVTPL

Market observable bond prices from the interest rate market of the Johannesburg Stock Exchange. Inputs include the quoted market 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. The inputs include published reference interest rates.

(h) **Land and buildings**

The fair value of land and buildings is calculated using the capitalised net rental approach. This involves estimating the net market monthly rental income that the property would command if the property is rented at valuation date in the open market. The inputs include the capitalisation rate.

13. DEVELOPMENT BONDS AT AMORTISED COST

in thousands of rands	2022	2021
Municipal bonds	1 151 903	1 279 235

13.1 Analysis of development bonds

Balance at the beginning of the year	1 290 219	1 290 855
Movement during the year (refer to note 13.2)	194	(636)
Gross development bonds	**1 290 413**	**1 290 219**
Provision for ECL on development bonds (refer to note 13.3)	(138 510)	(10 984)
Balance at end of the year	**1 151 903**	**1 279 235**

13.2 Movements during the year

Interest accrued (refer to note 26)	122 054	122 001
Gross interest repayments	(121 860)	(122 637)
Net movements for the year	**194**	**(636)**

13.3 Reconciliation of provision for ECLs on development bonds

Balance at the beginning of the year	10 984	2 577
Increase in provision for ECL on development bonds (refer to note 34)	127 526	8 407
Balance at end of the year	**138 510**	**10 984**

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

Client classification		
Local government	1 290 413	1 290 219
Regional		
South Africa	1 290 413	1 290 219
Geography		
Gauteng	1 290 413	1 290 219
Sector		
Energy	1 290 413	1 290 219

13. DEVELOPMENT BONDS AT AMORTISED COST (continued)

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 ECLs:

in thousands of rands	Stage 1	Stage 2	Stage 3	Total
31 March 2022				
Reconciliation of gross carrying amount				
Balance at the beginning of the year	517 865	772 354	–	1 290 219
Changes in interest accrual	51 104	70 950	–	122 054
Repayments	(51 104)	(70 756)	–	(121 860)
Balance at the end of the year	**517 865**	**772 548**	**–**	**1 290 413**
Reconciliation of provision for expected credit loss				
Balance at the beginning of the year	189	10 795	–	10 984
Subsequent change in ECL due to changes in risk parameters (PDs, LGDs and EAD)	14 871	112 655	–	127 526
Balance at end of the year	**15 060**	**123 450**	**–**	**138 510**

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 macro-economic data.

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				
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 EAD)	(50)	8 457	–	8 407
Balance at end of the year	**188**	**10 796**	**–**	**10 984**

in thousands of rands	2022	2021
13.6 Expected credit losses		
ECL charge to the statement of comprehensive income (refer to note 34)	127 526	8 407
13.7 Analysis of current and non-current portion of development bonds		
Current	38 413	38 219
Non-current	1 252 000	1 252 000
Gross development bonds	**1 290 413**	**1 290 219**
Provision for ECL	(138 510)	(10 984)
Balance at the end of the year	**1 151 903**	**1 279 235**

14. DEVELOPMENT LOANS AT AMORTISED COST

14.1 Analysis of development loans

in thousands of rands	2022	2021
Balance at the beginning of the year	94 098 188	96 425 614
Movements during the year (refer to note 14.1.1).	1 777 863	(2 327 426)
Gross development loans	**95 876 051**	**94 098 188**
Provision for ECL on development loans (refer to note 14.9)	(11 698 997)	(11 364 740)
Net development loans at the end of the year	**84 177 054**	**82 733 448**

14.1.1 Movements during the year

Loans disbursed – current year	12 919 784	13 459 403
Effective interest income on development loans (refer to note 26)	8 414 801	7 806 377
Movement in deferred fee	(70 516)	(80 342)
Transfers from other assets**	23 728	–
Contractual interest on stage 3	(147 138)	149 537
Development loans written off (refer to note 14.9)	(542 565)	(84 906)
Foreign exchange adjustment	(732 462)	(4 956 804)
Development loans acquired through business combination*	–	64 052
Recovery of amounts impaired prior to business combination*	–	14 284
Gross loan repayments	(18 492 889)	(18 831 746)
Fees raised	250 633	189 984
Modification gains/(losses)	157 693	(57 265)
Other administrative adjustments	(3 206)	–
Loans de-recognised due to substantial modification	(1 877 507)	(14 434)
New loans recognised after substantial modification	1 877 507	14 434
Movements for the year	**1 777 863**	**(2 327 426)**

14.2 Maturity analysis of gross development loans

Long term development loans		
Due within 1 (one) year	11 081 829	17 651 879
Due after 1 (one) year but within 2 (two) years	6 800 009	6 268 919
Due after 2 (two) years but within 3 (three) years	6 914 377	5 739 378
Due after 3 (three) years but within 4 (four) years	6 933 847	6 492 633
Due after 4 (four) years but within 5 (five) years	7 168 717	–
Due after 4 (four) years but within 9 (nine) years	32 593 078	34 536 403
Due after 9 (nine) years but within 14 (fourteen) years	17 862 170	18 197 447
Due after 14 (fourteen years)	6 513 807	5 211 529
Total long term development loans	**95 867 834**	**94 098 188**
Bridging finance development loans		
Due within 1 (one) year	6 170	–
Due after 1 (one) year but within 2 (two) years	2 047	–
Total bridging finance development loans	**8 217**	**–**
Total development loans	**95 876 051**	**94 098 188**

During the period under review, the DBSA approved the creation of a Bridging Finance Programme. Advances under the programme are provided to the Infrastructure Delivery Division (IDD) Contractors to enable the same to meet current working capital commitments and are of a short term nature. Accordingly due to the dissimilar credit risk profile and maturity profiles, these advances are disclosed separately as 'Bridging finance development loans'.

* *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 44.*

** *During the period under review, the DBSA discovered transactions and balances related to development loan activities which were not included in the correct accounts, these balances were transferred as noted.*

in thousands of rands	2022	2021
14. DEVELOPMENT LOANS AT AMORTISED COST (continued)		
14.3 Sectoral analysis of gross development loans		
Long term development loans		
Commercial – fund	235 039	309 658
Commercial – manufacturing	74 286	81 848
Commercial – mining	111 000	111 000
Commercial – tourism	306 776	288 341
Commercial – other	181 980	250 088
Communication and transport infrastructure	16 605 083	11 331 393
Energy – electricity	45 406 918	49 223 342
Oil and gas	3 410 671	4 699 533
Energy – non-grid standalone	44 215	105 930
Human resources development	1 674 501	1 441 292
Institutional infrastructure	–	11
Residential facilities	2 382 612	2 523 238
Roads and drainage	16 386 075	14 332 692
Sanitation	795 849	826 144
Social infrastructure	5 633 870	5 768 971
Water	2 618 959	2 804 707
Total long term development loans	**95 867 834**	**94 098 188**
Bridging finance development loans		
Human resources development	8 217	–
Total bridging finance development loans	**8 217**	**–**
Total development loans	**95 876 051**	**94 098 188**
14.4 Geographical analysis of gross development loans		
Long term development loans		
Eastern Cape	865 443	1 560 534
Free State	1 565 148	1 620 362
Gauteng	46 617 648	43 614 375
KwaZulu-Natal	5 292 284	4 859 704
Limpopo	861 414	920 979
Mpumalanga	635 384	689 661
North West	664 333	565 374
Northern Cape	8 621 361	9 319 170
Western Cape	5 194 075	5 261 676
Rest of Africa	25 550 744	25 686 353
Total long term development loans	**95 867 834**	**94 098 188**
Bridging finance development loans		
KwaZulu-Natal	7 012	–
North West	1 205	–
Total bridging finance development loans	**8 217**	**–**
Total development loans	**95 876 051**	**94 098 188**

in thousands of rands	2022	2021
Rest of Africa		
Angola	6 049 302	4 871 394
Congo	1 094 519	1 424 463
Côte d'Ivoire	3 536 724	2 956 912
Democratic Republic of Congo	186 150	–
Ethiopia	589 576	663 818
Ghana	3 995 646	4 259 567
Kenya	189 471	260 856
Lesotho	226 294	307 926
Madagascar	316 501	332 533
Mauritius	12 813	696 074
Mozambique	711 568	699 235
Multi-regional	–	69 998
Namibia	–	80 000
Senegal	6 702	–
Swaziland	35 346	41 474
Tanzania	700 471	509 155
Zambia	5 803 301	5 845 510
Zimbabwe	2 096 360	2 667 438
Total	**25 550 744**	**25 686 353**
Euro amount included in the Rest of Africa loans	**338 490**	**252 389**
US dollar amounts included in the above Rest of Africa loans	**1 357 013**	**1 481 044**

14.5 Client classification of gross development loans

	2022	2021
Long term development loans		
Development finance institutions	–	69 998
Educational institutions	1 463 181	1 119 406
Local government	32 131 506	29 177 647
National and provincial government	8 972 035	6 486 246
Private sector intermediaries	25 049 097	28 224 832
Public utilities	28 252 015	29 020 059
Total long term development loans	**95 867 834**	**94 098 188**
Bridging finance development loans		
Private sector intermediaries	8 217	–
Total development loans	**95 876 051**	**94 098 188**

14.6. Fixed and variable interest rate gross development loans

	2022	2021
Long term development loans		
Fixed interest rate loans	41 832 994	42 393 359
Variable interest rate loans	54 034 840	51 704 829
Total long term development loans	**95 867 834**	**94 098 188**
Bridging finance development loans		
Variable	8 217	–
Total bridging finance development loans	**8 217**	**–**
Total development loans	**95 876 051**	**94 098 188**

in thousands of rands	2022	2021
14. DEVELOPMENT LOANS AT AMORTISED COST (continued)		
14.7 Credit impaired loans (included in total development loans)		
14.7.1 Sectoral analysis of gross credit impaired loans		
Non-performing loans (stage 3)		
Commercial – manufacturing	74 286	81 848
Commercial – mining	111 000	111 000
Commercial – tourism	306 776	288 341
Commercial – other	150 424	212 372
Communication and transport infrastructure	719 862	1 110 578
Energy	1 410 838	1 502 032
Human resources development	255 955	268 829
Oil and gas	–	1 560 474
Residential facilities	249 473	249 718
Roads and drainage	549 814	675 944
Sanitation	142 811	170 039
Social infrastructure	265 594	741 045
Water	200 056	298 549
Total non-performing loans	**4 436 889**	**7 270 769**
Purchased or originated credit-impaired loans		
Oil and gas	1 094 520	–
Human resources development	16 255	–
Total purchased or originated credit-impaired loans	**1 110 775**	**–**
Total credit-impaired loans	**5 547 664**	**7 270 769**
14.7.2 Geographical analysis of gross credit-impaired loans		
Non-performing loans (stage 3)		
Free State	46 755	352 714
Gauteng	857 659	888 926
Limpopo	313 523	318 248
Mpumalanga	382 504	394 794
North West	138 766	145 968
Northern Cape	102 740	93 596
Rest of Africa	2 594 942	5 076 523
Total non-performing loans	**4 436 889**	**7 270 769**
Purchased or originated credit-impaired loans		
North West	16 255	–
Rest of Africa	1 094 520	–
Total purchased or originated credit-impaired loans	**1 110 775**	**–**
Total credit-impaired loans	**5 547 664**	**7 270 769**
Rest of Africa		
Congo	1 094 520	1 297 089
Lesotho	–	299 523
Mauritius	12 812	696 074
Mozambique	308 172	315 479
Zambia	1 672 706	1 682 603
Zimbabwe	601 252	785 755
Total	**3 689 462**	**5 076 523**

in thousands of rands	2022	2021
14.7.3 Client classification on gross credit-impaired loans		
Non-performing loans (stage 3)		
Educational institutions	1 653	2 221
Local government	443 990	758 430
Private sector intermediaries	2 117 838	4 504 770
Public utilities	1 873 408	2 005 348
Total non-performing loans	**4 436 889**	**7 270 769**
Purchased or originated credit-impaired loans		
Educational Institutions	16 255	–
Private sector intermediaries	1 094 520	–
Total purchased or originated credit-impaired loans	**1 110 775**	**–**
Total credit-impaired loans	**5 547 664**	**7 270 769**

14.8 Client concentration of gross development loans

	2022	2021
One client as percentage of total loan portfolio (%)	13.7	16.3
Seven clients as percentage of total loan portfolio (%)	50.9	48.2
Ten clients as percentage of total loan portfolio (%)	58.9	55.7

14.9 Provision for ECLs on development loans reconciliation

	2022	2021
Balance at the beginning of the year	**11 364 740**	**10 185 350**
Impairment of current year interest (refer to note 14.1)	(147 138)	149 537
Loans written off during the year (refer to note 14.1)	(542 565)	(84 906)
Administrative corrections	(3 206)	–
Recovery of amounts impaired prior to business combination	–	14 284
ECLs (refer to note 34)	1 027 166	1 100 475
Credit-impaired (stage 3 and POCI)	(258 745)	634 365
Stage 1 and 2	1 285 911	466 110
Balance at the end of the year	**11 698 997**	**11 364 740**

14.10 Analysis of impairment charge

	2022	2021
Credit-impaired loans		
Stage 3 and POCI ECLs	(258 745)	634 365
Stage 1 and 2 loans		
Stage 1 ECLs	909 624	(76 834)
Stage 2 ECLs	376 287	542 944
Balance at end of the year	**1 027 166**	**1 100 475**

14. DEVELOPMENT LOANS AT AMORTISED COST (continued)

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 2022					
Long term development loans					
Balance at the beginning of the year	53 730 020	33 081 869	7 270 769	15 530	94 098 188
Transfer from stage 1 to stage 2	(1 806 665)	1 806 665	–	–	–
Transfer from stage 2 to stage 1	40 043	(40 043)	–	–	–
Transfer from other assets	–	–	23 728	–	23 728
Transfer from stage 3 to stage 2	–	364 700	(364 700)	–	–
Write-offs	–	–	(542 565)	–	(542 565)
Disbursements	11 444 958	1 464 094	2 515	–	12 911 567
Repayments	(10 087 499)	(7 638 951)	(546 637)	(219 534)	(18 492 621)
New loans recognised after substantial modification	538 244	–	–	1 339 263	1 877 507
Loans derecognised due to substantial modification	(216 073)	–	(1 661 434)	–	(1 877 507)
Effective interest on development loans during the year	4 789 049	2 981 043	438 201	–	8 208 293
Interest at credit-adjusted effective interest rate	–	–	–	135 797	135 797
Contractual interest on stage 3	–	(1 053)	(145 890)	–	(146 943)
Other administrative adjustments	(1 228)	(314)	(1 664)	–	(3 206)
Foreign exchange movements	(295 441)	(239 980)	(36 760)	(160 281)	(732 462)
Other movements – fees	234 262	15 869	234	–	250 365
Modification gain/(loss)	(2 385)	158 986	1 092	–	157 693
Gross carrying amount of long term development loans	**58 367 285**	**31 952 885**	**4 436 889**	**1 110 775**	**95 867 834**
Bridging finance development loans					
Disbursements	8 217	–	–	–	8 217
Repayments	(268)	–	–	–	(268)
Other movements – fees	268	–	–	–	268
Gross carrying amount of bridging finance development loans	**8 217**	**–**	**–**	**–**	**8 217**
Total gross carrying amount	**58 375 502**	**31 952 885**	**4 436 889**	**1 110 775**	**95 876 051**
Less provisions for ECL	(1 333 626)	(6 249 674)	(3 248 208)	(867 489)	(11 698 997)
Balance at the end of the year	**57 041 876**	**25 703 211**	**1 188 681**	**243 286**	**84 177 054**

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
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 movements – 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 ECL	(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**

14.12 Maximum exposure to loss

The gross carrying amount of development loans receivables and thus the maximum exposure to loss is as follows:

in thousands of rands	2022	2021
Development loans receivable net of ECLs		
Stage 1 loans	58 375 502	53 730 020
Stage 2 loans	31 952 885	33 081 869
Stage 3 loans	4 436 889	7 270 769
POCI	1 110 775	15 530
Loss allowance	(11 698 997)	(11 364 740)
Development loans receivable net of ECLs	**84 177 054**	**82 733 448**

14. DEVELOPMENT LOANS AT AMORTISED COST (continued)

14.13 Reconciliation of ECLs of development loans

The table below shows the reconciliation of provision for ECLs of development loans:

in thousands of rands	Stage 1 – 12-month ECL	Stage 2 – Lifetime ECL	Stage 3 – Lifetime ECL	POCI	Total
31 March 2022					
Balance at the beginning of the year	425 229	5 874 755	5 057 721	7 035	11 364 740
Transfer from stage 1 to stage 2	(24 942)	376 064	–	–	351 122
Transfer from stage 2 to stage 3	961	(689)	–	–	272
Transfer from stage 3 to stage 2	–	12 780	(4 203)	–	8 577
Disbursements	119 312	–	–	–	119 312
Other administrative adjustments	(1 227)	(314)	(1 665)	–	(3 206)
Suspended interest	–	(1 053)	(145 890)	(195)	(147 138)
New loans recognised after substantial modification	–	–	–	860 800	860 800
Substantial modification	–	–	(873 872)	–	(873 872)
Write-offs**	–	–	(542 565)	–	(542 565)
Foreign exchange movements	(3 035)	(71 231)	(40 861)	–	(115 127)
Subsequent changes in ECL due to changes in risk parameters (PDs, LGDs, EAD)*	817 328	59 362	(200 457)	(151)	676 082
Balance at end of the year	**1 333 626**	**6 249 674**	**3 248 208**	**867 489**	**11 698 997**
ECL allowance recognised to income statement	**909 624**	**376 287**	**(1 119 394)**	**860 649**	**1 027 166**

* The ECL on development loans has increased marginally year-on-year mainly in response to a marginal deterioration in the credit risk of the development loan portfolio. The continued impact of the COVID-19 pandemic, together with the effect of the unwinding of pandemic era relief policies, notably rising consumer inflation and interest rates, are key contributors to both domestic and international credit risk elements. In addition, incidents of global conflict, though outside the organisation's mandated investment area, have an adverse impact on the DBSA's borrowers, as these result in disruptions in food supply chains together, upward volatility in key commodity prices, driving up borrowing costs (resulting in liquidity stress) and finally restricting access to capital markets for the DBSA's borrowers.

In response to credit risk factors identified at both the macro-economic and client level, the Bank has deemed it appropriate to recognise an additional R3.4 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 R14 million (31 March 2021: R11 million). The total contractual amount outstanding on development loans with write-offs during the period and are still subject to enforcement activity is Rnil (31 March 2021: R355 million). The write-offs had no material impact on net profit for the Bank because these loans had been fully provided for in terms of ECL allowances. All amounts written off comprised stage 3 or non-performing development loans were 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 had been 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 ECLs at initial recognition of purchased or originated credit-impaired assets at original recognition was R860 million (31 March 2021: R7.5 million).

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)
Suspended interest	–	–	149 341	196	149 537
Disbursements	54 052	397 513	7 231	–	458 796
Repayments	(183)	(1 471)	(809)	–	(2 463)
Loans derecognised due to substantial modification	–	–	–	6 839	6 839
Write-offs and waivers	–	–	(84 907)	–	(84 907)
Foreign exchange movements	(21 079)	(529 044)	(528 064)	–	(1 078 187)
Other movements – fees	–	–	–	–	–
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**

in thousands of rands	2022	2021
Expected credit losses		
ECL charged to the statement of comprehensive income (refer to note 34)	1 027 166	1 100 475

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

	2022	2021
Long term development loans		
Current	11 081 828	15 872 167
Non-current	84 786 006	78 226 021
Total long term development loans	**95 867 834**	**94 098 188**
Bridging finance development loans		
Current	6 170	–
Non-current	2 047	–
Total bridging finance development loans	**8 217**	**–**
Gross loan book	**95 876 051**	**94 098 188**
Provision for ECLs	(11 698 997)	(11 364 740)
Amortised cost	**84 177 054**	**82 733 448**

14. DEVELOPMENT LOANS AT AMORTISED COST (continued)

14.15 Modification of financial assets measured at amortised cost:

Gross loan book

in thousands of rands	Stage 1		Stage 2		Stage 3		
	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 2022							
Development loans	65 728	(2 385)	5 041 878	158 986	253 251	1 092	157 693
31 March 2021							
Development loans	775 427	462	4 983 117	(57 727)	–	–	(57 265)

During the period under review the Bank provided relief in the form of payment holidays, payment reorganisations and loan restructures to specific clients, upon request. The above table provides information on loans which were modified (non-substantially) while they had loss allowances measured at amounts equal to lifetime ECLs and the modification resulting in a modification gain or loss being recognised.

Substantial modifications concluded during the period were concluded on a net present value neutral basis with no gains or losses noted.

15. PROPERTY, EQUIPMENT AND RIGHT OF USE OF ASSETS

in thousands of rands	2022 Cost/ valuation	Accumulated depreciation	Carrying value
Land	92 300	–	92 300
Buildings	371 916	(51 195)	320 721
Furniture and fittings	17 056	(15 752)	1 304
Motor vehicles	3 152	(1 276)	1 876
Office equipment	36 694	(16 978)	19 716
Computer equipment	92 206	(83 780)	8 426
Leasehold improvements	770	(770)	–
Lease equipment	3 880	(3 880)	–
Leasehold property	3 291	(2 787)	504
Total	**621 265**	**(176 418)**	**444 847**

in thousands of rands	2021 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**

Reconciliation of property, equipment and right of use of assets – 2022

in thousands of rands	Opening balance	Additions	Disposals	Depreciation	Closing balance
Land	92 300	–	–	–	92 300
Buildings	277 700	47 360	–	(4 339)	320 721
Furniture and fittings	1 360	103	–	(159)	1 304
Motor vehicles	2 048	–	–	(172)	1 876
Office equipment	22 228	197	(29)	(2 680)	19 716
Computer equipment	7 908	8 994	(12)	(8 464)	8 426
Lease equipment	1 497	–	–	(1 497)	–
Lease property	644	537	–	(677)	504
	405 685	**57 191**	**(41)**	**(17 988)**	**444 847**

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
Leasehold property	1 877	–	–	–	–	(1 233)	644
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
	417 518	**10 698**	**1 264**	**(229)**	**(5 661)**	**(17 905)**	**405 685**

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 on 31 March 2021 to R92 million.

No revaluations were performed in the current financial year.

Buildings

The existing buildings were erected in 1987 at a cost of R35.2 million. Improvements were carried out to the value of R47 million (31 March 2021: RNil) on the buildings in the current financial year which have not yet been brought into use. The buildings were fair valued by an independent valuator on 31 March 2021 to R278 million. No valuations were performed in the current financial year, the valuation will be performed by an expert on 31 March 2023.

The historical carrying value of the existing buildings is R221 million (31 March 2021: R222 million).

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

16. INTANGIBLE ASSETS

	2022			2021		
in thousands of rands	Cost	Accumulated amortisation	Carrying value	Cost	Accumulated amortisation	Carrying value
Computer software	218 799	(155 376)	63 423	218 249	(136 680)	81 569

in thousands of rands	Opening balance	Additions	Amortisation	Closing balance
Reconciliation of intangible assets – 2022				
Computer software	81 569	550	(18 696)	63 423
Reconciliation of intangible assets – 2021				
Computer software	80 220	15 731	(14 382)	81 569

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	2022	2021
Financial liabilities at amortised cost		
Accrued interest (financial market liabilities – amortised cost)	449 582	371 226
Accrued interest – repurchase agreements	–	15 222
Trade payables	237 781	171 388
Current portion of lease liabilities	387	2 917
Balance at end of the year	**687 750**	**560 753**
Non-financial liabilities		
Bonus provision	192 353	171 025
PAYE, VAT and Compensation Commissioner	10 640	8 184
Balance at end of the year	**202 993**	**179 209**
Trade, other payables and accrued interest on debt funding	**890 743**	**739 962**

In line with the best practice, accrued interest on financial market liabilities held at FVTPL 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		
Current portion	**890 743**	**739 962**
Analysis of trade payables – agencies		
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		
Accounts payable	82 597	45 061
Payroll	9	2 428
Accruals	154 353	123 077
Balance at the end of the year	**236 959**	**170 566**
Total trade payables	**237 781**	**171 388**

Included in trade payables is bonus provision as reconciled below:

in thousands of rands	Opening balance	Utilised during the year	Current year provision	Closing balance
31 March 2022				
Bonus provision	**171 025**	**(154 805)**	**176 133**	**192 353**
31 March 2021				
Bonus provision	**139 922**	**(138 011)**	**169 114**	**171 025**

17.2 Deferred income

in thousands of rands	2022	2021
Balance at beginning of the year	503 086	15 145
Business combinations	–	461 468
Current movements	15 028	16 070
Interest income and recoveries on loans	1 522	16 146
Deferred income recognised during the year	(3 969)	(5 743)
Balance at end of the year	**515 667**	**503 086**

18. PROVISIONS AND LEASE LIABILITIES

18.1 Provisions

in thousands of rands	Opening balance	Current year provision	Utilised during the year/reversed	Closing balance
Reconciliation of provisions – 2022				
Developmental expenditure	65 482	–	(7 966)	57 516
Provision for ECLs on loan commitments	126	2 304	–	2 430
Strategic initiatives – COVID-19	48 877	–	(17 156)	31 721
	114 485	**2 304**	**(25 122)**	**91 667**
Reconciliation of provisions – 2021				
Developmental expenditure	72 382	824	(7 724)	65 482
Provision for ECLs 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**

Provision for developmental expenditure

In response to meeting mandate requirements, the Bank approved the granting of assistance to municipalities in the Market 2 (secondary cities)/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, technical assistance and non-lending support to municipalities.

Provision for ECLs on loan commitments

The provision for development loans and commitments represents the ECLs on loan commitments. The ECL 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 ECLs on loan commitment exceeds the gross 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 the combating of this pandemic. DBSA responded as a key stakeholder.

18.2 Lease liabilities

Reconciliation of lease liabilities – 2022

in thousands of rands	Opening balance	Additions	Change in estimate	Interest accrued	Repay-ments	Current portion	Total
Leases	2 917	187	350	147	(3 086)	(387)	128

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)	–

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	2022	2021
Provisions	91 667	114 485
Lease liabilities	128	–
Total provisions and lease liabilities	**91 795**	**114 485**

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 2021: 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 2022.

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

in thousands of rands	2022	2021
Balance at beginning of the year	2 185	2 241
Increase/(decrease) in liability	466	(56)
Balance at the end of the year	**2 651**	**2 185**

Gain in change in economic assumptions of R0.134 million (31 March 2021: RNil), gain in demographic assumptions of R0.107 (31 March 2021: Gain of R0.306 million) and loss in change in pensioner data of R0.704 million (31 March 2021: RNil).

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 from its current bank account monthly.

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

Balance at the beginning of the year	45 445	40 644
Interest cost	4 582	4 654
Current service cost (includes interest to year-end)	64	49
Benefits paid	(4 219)	(4 127)
Actuarial loss for the year	6	4 225
Balance at the end of the year	**45 878**	**45 445**

Losses for the year were due to changes in experience adjustments of R1.249 million (31 March 2021: Gain of R0.375 million) and gain in financial assumptions of R1.150 million (31 March 2021: Loss of R4.6 million) and a gain in changes in methodology of R0.093 million (31 March 2021: RNil).

The duration of the liability as at 31 March 2022 is nine years. The forecasted expected contributions to the plan for the next reporting period 31 March 2023 is R4.4 million.

IFRS 9: Amendments: Interest Rate Benchmark Reform does not affect the rates used to discount the post-employment benefit obligations. According to IAS 19, the rate used to discount post-employment benefit obligations should be determined with reference to market yields on high quality corporate bonds. In countries where there is no deep market in such bonds, the market yields on government bonds should be used. South Africa does not have a deep market in high quality corporate bonds and as such the recommended assumptions have been set with reference to the Nominal Bond Curve, as compiled by the Johannesburg Stock Exchange of South Africa. This is an interest free rate.

Total funeral and post-employment medical benefits liabilities	**48 529**	**47 630**
Analysis of funeral and post-employment medical benefits liabilities		
Current portion	4 490	4 299
Non-current portion	44 039	43 331
Balance at the end of the year	**48 529**	**47 630**
The amount recognised as an expense in the statement of comprehensive income in respect of the defined benefit plan is as follows:		
Interest cost	4 582	4 654
Current service cost	64	49
Total charge for the year (included in personnel expenses in the statement of comprehensive income – refer note 35)	**4 646**	**4 703**
The amount recognised as an expense in the statement of other comprehensive income in respect of the defined benefit plan is as follows:		
Actuarial loss for the year	**6**	**4 225**

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

	2022	2021
Discount rate (before taxation (%))	10.7	10.6
Medical aid inflation rate (%)	8.0	8.2

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
Sensitivity results from current valuations			
Medical aid inflation rate (%)	**8**	**(1)**	**1**
Accrued liability 31 March 2022 (R'000)	45 878	42 394	49 931
% change	–	(7.6)	8.8
Current service cost + interest cost 2022/23 (R'000)	4 735	4 353	5 178
% change	–	(8.1)	9.4
Sensitivity results from previous valuation			
Medical aid inflation rate (%)	**8.2**	**(1)**	**1**
Current service cost + interest cost 2021/22 (R'000)	4 646	4 250	5 113
% change	–	(8.5)	10.1

in thousands of rands	2022	2021
19.5 The obligation for the three years prior to 31 March 2021 is as follows:		
March 2020		40 644
March 2019		42 416
March 2018		44 604
19.6 Defined contribution plan		
The total amount expensed during the period (including group life assurance and income continuity benefits)	80 435	71 201

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, 1956 (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 March 2022 was 604 (31 March 2021: 606).

20. DEBT FUNDING DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS

	2022	2021
Debt securities	**688**	**1 513 997**
Balance at beginning of the year	1 513 997	1 505 805
Discounts and premiums	1 394	627
Fair value adjustments	(1 635)	149 965
Interest repayment	(89 733)	(142 400)
Capital repaid	(1 423 335)	–
Balance at end of the year	**688**	**1 513 997**
Analysis of debt funding designated at FVTPL:		
Current portion	688	12 981
Non-current portion	–	1 501 016
Balance at end of the year	**688**	**1 513 997**

Debt securities designated at FVTPL 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 FVTPL 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 FVTPL incorporates own credit risk adjustment of R13 thousand (31 March 2021: R34 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 2022 designated at FVTPL was R24 thousand higher than the contractual amount due at maturity of R665 thousand. The carrying amount of debt funding held at FVTPL for 31 March 2022 is inclusive of accrued interest amounting to R7 thousand.

in thousands of rands	2022	2021
21. DEBT FUNDING HELD AT AMORTISED COST		
Debt securities	35 260 480	33 604 308
Lines of credit	20 274 874	23 378 484
Balance per statement of financial position	**55 535 354**	**56 982 792**
Accrued interest (refer to note 17)	449 582	371 226
Balance at end of the year including accrued interest	**55 984 936**	**57 354 018**
Reconciliation of debt funding at amortised cost		
Balance at beginning of the year	56 982 792	59 040 495
Capital raised	8 371 185	20 114 267
Capital repaid	(9 579 240)	(18 042 298)
Amortisation of discounts, premiums and transaction costs	392 415	297 835
Foreign exchange adjustments on lines of credit	(631 798)	(4 427 507)
Accrued interest (refer to note 17)	449 582	371 226
Balance at end of the year including accrued interest	**55 984 936**	**57 354 018**
Analysis of debt funding at amortised cost		
Current portion	15 087 550	9 012 134
Non-current portion	40 447 804	47 970 658
Balance at end of the year	**55 535 354**	**56 982 792**

R24 billion is currently registered and listed on the JSE Securities Exchange as at 31 March 2022.

	2022	2021
JSE DMTN Programme reconciliation		
JSE DMTN programme amount	80 000 000	80 000 000
Bonds in issue	(23 827 461)	(26 444 116)
Bond amount available for issuance	**56 172 539**	**53 555 884**

The Financial Sector Conduct Authority published on 31 July 2020 the approval of the amendments to the JSE Limited 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 Debt Requirements, the Bank appointed Mr E Dietrich as the Debt Officer. The mandatory requirements of the Debt Requirements have been disclosed in the Integrated annual report.

Debt securities carried at amortised cost consists of Eurorand bond issues, Money Market issuances, bridging bonds 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 2022 and 31 March 2021.

The total carrying amount of funding debt securities held at amortised cost inclusive of accrued interest amount of R355 million is R35.62 billion.

The total carrying amount of funding lines of credit held at amortised cost inclusive of accrued interest amount of R37 million is R20.31 billion.

Floating rate notes – nominal values

	2022	2021
Floating rate notes – Medium term notes	12 914 000	13 445 000

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.

Debt funding at amortised costs – Repurchase agreements

	2022	2021
Balance at the beginning of the year	868 042	587 338
Capital raised	1 380 109	3 425 749
Capital repaid	(2 248 151)	(3 145 045)
Balance per the statement of financial position	**–**	**868 042**
Accrued interest (refer to note 17)	–	15 222
Balance at the end of the year including accrued interest	**–**	**883 264**

in thousands of rands	2022	2021
Analysis of funding of repurchase agreements		
Current	–	883 264
Balance at the end of the year	**–**	**883 264**

There were no investment securities and development bonds relating to repurchase agreements pledged with financial institutions as at 31 March 2022 (31 March 2021: R895 million).

22. SHARE CAPITAL

Authorised

2 020 000 ordinary shares (31 March 2021: 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 Government 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 2021: 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 beginning 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	182 434	188 095
Loss on revaluation of land and buildings (refer to note 15)	–	(5 661)
Balance at end of the year	**182 434**	**182 434**

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

24.2 Cash flow hedge reserve

Balance at the beginning of the year	129 046	(28 686)
Unrealised (loss)/gain on cash flow hedges	(59 239)	344 362
Loss/(gain) reclassified to profit or loss	29 546	(186 630)
Balance at the end of the year	**99 353**	**129 046**

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	34 437	32 340
Movements due to own credit risk on financial liabilities designated at FVTPL	(34 424)	2 097
Balance at end of the year	**13**	**34 437**

The own credit risk reserve shows the change in fair value attributable to changes in credit risk on debt securities in issue. It is calculated using the credit spread observed for recent issuances of similar debt, adjusted for subsequent changes in the credit spread observed on NCDs.

Total of other reserves		
Revaluation reserve on land and buildings	182 434	182 434
Cash flow hedge reserve	99 353	129 046
Own credit risk reserve	13	34 437
Total other reserves	**281 800**	**345 917**

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.

in thousands of rands	2022	2021
25. RESERVE FOR GENERAL LOAN RISK		
Balance at the beginning of the year	2 545 939	2 488 231
Transfer (from)/to general loan reserve	(690 768)	57 708
Balance at the end of the year	**1 855 171**	**2 545 939**

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

in thousands of rands	2022	2021
Cash and cash equivalents	295 113	232 645
Development bonds (note 13.2)	122 054	122 001
Effective interest income on development loans (note 14.1.1)	8 414 801	7 806 377
Total interest income calculated using the effective interest rate	**8 831 968**	**8 161 023**

Other interest income

Interest received on financial assets held at fair value through profit

in thousands of rands	2022	2021
Derivatives hedging assets	14 489	34 733
Development loans at FVTPL	16 781	15 011
Equity investments – interest received from mezzanine instruments	71 276	45 483
Investment securities	43 791	84 853
Total other interest income	**146 337**	**180 080**
Total interest income	**8 978 305**	**8 341 103**

26.1 Interest income on development loans per staging

in thousands of rands	2022	2021
Stage 1 loans	4 859 360	4 439 549
Stage 2 loans	2 981 043	2 887 312
Stage 3 loans	438 405	478 475
POCI	135 993	1 041
Total interest income on effective interest rate	**8 414 801**	**7 806 377**

26.2 Effective interest income on development loans per client classification

in thousands of rands	2022	2021
Development finance institutions	736	7 711
Educational institutions	100 315	95 779
Local government	3 097 100	2 768 433
National and provincial government	522 895	309 245
Private sector intermediaries	2 211 337	1 839 069
Public utilities	2 482 418	2 786 140
Total interest income on effective interest rate	**8 414 801**	**7 806 377**

27. INTEREST EXPENSE

Interest expense calculated using the effective interest rate

in thousands of rands	2022	2021
Bank and other payables	1 915	3 931
Debt funding held at amortised cost	3 083 197	3 331 090
Total interest expense calculated using the effective interest rate	**3 085 112**	**3 335 021**

Other interest expense

Interest expense on financial liabilities held at FVTPL

in thousands of rands	2022	2021
Derivatives hedging liabilities	(11 486)	(28 266)
Funding: debt securities at FVTPL	111 910	142 707
Total other interest expense	**100 424**	**114 441**
Total interest expense	**3 185 536**	**3 449 462**
Net interest income (note 26 less note 27)	**5 792 769**	**4 891 641**

in thousands of rands	2022	2021
28. NET FEE INCOME		
Gross fee income		
Lending fees	163 749	101 130
Management fees	166 058	146 715
Non-lending fees	888	918
Total fee income	**330 695**	**248 763**
Gross fee expense		
Fees on funding	15 320	15 177
Guarantee fees	34 466	39 981
Other fees	1 115	5 747
Total fee expense	**50 901**	**60 905**
Net fee income	**279 794**	**187 858**
Disaggregation of gross fee income		
Lending fees		
RSA Municipalities	16	675
RSA Economic and Social	41 271	29 995
Rest of Africa	122 462	70 460
Total lending fees	**163 749**	**101 130**
Management fees		
RSA Municipalities	–	1 767
RSA Economic and Social	1 483	1 250
Rest of Africa	207	4 418
Infrastructure Delivery Division	148 806	122 912
Other divisions	15 562	16 368
Total management fees	**166 058**	**146 715**
Non-lending fees		
Infrastructure Delivery Division	816	608
Other divisions	72	310
Total non-lending fees	**888**	**918**

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.

Trade receivables

As at 31 March 2022 the Bank had R66 million (31 March 2021: R60 million) in trade receivable assets relating to management fees and R7 million (31 March 2021: R8 million) relating to lending fees. As at 31 March 2022 the Bank had no trade payables as a result of contracts with customers.

Reconciliation of trade receivables

	2022	2021
Balance at the beginning of the year	59 588	49 769
Repayments during the year	(51 269)	(49 294)
Raised and not paid during the year	57 535	59 113
Balance at the end of the year	**65 854**	**59 588**

28. NET FEE INCOME (continued)

Impairment on fee receivables and contract assets

During 2022, 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 2022, 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	2022	2021
Management fees comprises:		
African World Heritage Fund (AWHF)	1 426	1 426
Climate Finance Facility Trust	1 449	–
District Development Model	–	1 767
Eastern Cape Department of Education	2 295	1 987
Ekurhuleni Metropolitan Municipality	134	14 358
Free State Department of Education	9 330	6 997
Gauteng Department of Agriculture	1 311	–
Green Climate Fund	596	–
Infrastructure Delivery Management System	1 091	1 249
Infrastructure Investment Programme for South Africa (IIPSA)	–	791
KfW SADC Water Fund	216	722
KwaZulu-Natal Department of Education	13 826	13 854
Limpopo Department of Economic Development	552	1 180
Limpopo Department of Education	175	210
Limpopo Department of Health	1 104	–
Limpopo Department of Public Works	2 288	3 510
National Department of Basic Education for Accelerated Infrastructure Schools Programme	47 129	24 330
National Department of Cooperative Governance & Traditional Affairs	–	105
National Department of Correctional Services	795	–
National Department of Defence	938	2 616
National Department of Energy – Independent Power Producer Office	4 018	6 910
National Department of Health	18 341	13 810
National Department of Public Works	30 761	28 850
National Department of Sports Arts and Culture	770	398
National Department of Trade and Industry	3 954	3 313
National Treasury Cities Support Programme (NTCSP)	1 421	1 790
North West Department of Education	12 677	870
North West Department of Public Works	1 077	2 013
Other entities	3 594	13 659
SADC PPDF KWF Phase 2	1 889	–
Student Housing Infrastructure Programme	2 901	–
Total management fees	**166 058**	**146 715**

in thousands of rands	2022	2021
29. NET FOREIGN EXCHANGE GAIN/(LOSS)		
Unrealised – financial assets/liabilities at amortised cost		
Cash and cash equivalents: loss	(100 704)	(637 778)
Development loans: loss	(704 457)	(5 445 311)
Funding lines of credit: gain	152 235	5 295 312
Unrealised – financial assets/liabilities at fair value through profit or loss		
Equity investments: loss (refer to note 11.1)	(121 063)	(618 896)
Hedging derivatives – funding: gain/loss	(230 954)	538 631
Hedging derivatives development loans: gain	41 193	29 966
Total unrealised foreign exchange loss	**(963 750)**	**(838 076)**
Realised– financial assets/liabilities at amortised cost		
Development loans: gain	172 330	534 919
Realised – financial assets/liabilities at FVTPL		
Equity investments: gain (refer to note 11.1)	64 626	87 863
Funding and hedging gain/(loss)	491 626	(864 598)
Hedging derivatives: gain	391 298	187 119
Total realised foreign exchange: gain/(loss)	**1 119 880**	**(54 697)**
Net foreign exchange: gain/(loss)	**156 130**	**(892 773)**

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

	2022	2021
Interest rate derivatives*		
Realised	(13 879)	43 321
Unrealised	74 604	(104 481)
Net gain/(loss) from interest rate derivatives	**60 725**	**(61 160)**
Foreign exchange derivatives*		
Realised	4 605	3 117
Unrealised	(54 703)	(25 513)
Net loss from foreign exchange derivatives	**(50 098)**	**(22 396)**
Investment securities at FVTPL – unrealised		
Government bonds	–	41 105
Municipal bonds	(8 078)	(73)
Investment in segregated funds	(595)	(738)
State owned entities bonds	(2 699)	435
Total investment securities at FVTPL – unrealised	**(11 372)**	**40 729**
Investment securities at FVTPL – realised		
State-owned entities, government and municipal bonds	**–**	**46 066**
Debt securities		
Designated at FVTPL – unrealised	112 817	(9 982)
At amortised cost – realised	(1 726)	–
Designated at FVTPL – realised	(51 713)	–
Total debt securities	**59 378**	**(9 982)**
Equity investments		
Held at FVTPL – unrealised (refer to note 11.1)	**(46 349)**	**(348 770)**
Development loans		
Development loans at FVTPL	**(13 507)**	**(5 237)**
Other financial assets		
Held at FVTPL – unrealised	**617**	**6 296**
Total net loss from financial assets and liabilities	**(606)**	**(354 454)**

* Included in the net gain/(loss) on derivatives held for risk management at FVTPL is a CVA adjustment gain of R69 million (31 March 2021: loss of R30 million) and a DVA adjustment of RNil (31 March 2021: loss of R48 million).

in thousands of rands	2022	2021
30. NET LOSS FROM FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)		
The total unrealised losses for the year related to level 3 positions held at year end are set below:		
Equity investments (refer to note 12)	(137 933)	(137 572)
Development loans at FVTPL (refer to note 12)	(13 507)	(5 237)
Total unrealised losses for the year related to level 3 positions held at year end	**(151 440)**	**(142 809)**
31. INVESTMENT AND OTHER INCOME		
Investment income		
Dividend income	11 324	4 420
Realised gain on equity investments	3 143	26 882
Non-investment income		
(Loss)/profit on disposal of property and equipment	(40)	132
Sundry income	42 096	26 430
Total	**56 523**	**57 864**
32. PROJECT PREPARATION EXPENDITURE		
Expenditure incurred on the planning, project definition, pre-feasibility, feasibility and structuring phase of projects	**48 466**	**37 802**
33. DEVELOPMENT EXPENDITURE		
In support of secondary and under-resourced municipalities	**71 687**	**78 240**
34. IMPAIRMENT LOSSES		
Trade receivables and other assets (refer to note 6)	5 635	5 561
Development bonds (refer to note 13.3)	127 526	8 407
Modification (gain)/loss on financial assets	(157 693)	57 265
Development loans (refer to note 14.9)	1 027 166	1 100 475
Loan commitments (refer to note 46)	2 304	(6 984)
Total charge to profit or loss	**1 004 938**	**1 164 724**
35. PERSONNEL EXPENSES		
Post-retirement medical benefits liability movement (refer note 19.2)	4 646	4 703
Personnel expenses	863 352	830 428
Total	**867 998**	**835 131**
Included in other personnel expenses are the following:		
Chief Executive Officer and Chief Financial Officer remuneration (refer to note 41.1)	17 357	16 699
Executive members' remuneration (refer to note 41.1)	49 054	44 444
Total executive remuneration	**66 411**	**61 143**
36. GENERAL AND ADMINISTRATION EXPENSES		
Auditor's remuneration	15 395	14 765
Communication costs	12 234	11 567
Consulting fees	75 855	30 210
Information technology costs	51 957	47 496
Legal expenses	22 018	17 547
Low value assets	413	1 806
Non-executive directors' fees paid (refer to note 41.2)	8 780	9 618
Other expenses	83 475	67 854
Public relations activities	15 052	25 813
Strategic initiatives – other	90 165	51 601
Subsistence and travel	26 924	8 536
Total	**402 268**	**286 813**

in thousands of rands	2022	2021

37. DEPRECIATION AND AMORTISATION (REFER NOTE 15 AND 16)

Computer equipment	8 464	7 869
Furniture and fittings	159	195
Intangible assets	18 696	14 382
Lease equipment	1 497	1 497
Lease property	677	1 233
Motor vehicles	172	272
Office equipment	2 680	2 500
Revalued buildings	4 339	4 339
Total	**36 684**	**32 287**

38. GRANTS PAID

Bright Kid Foundation	365	12 413
COVID-19 Humanitarian Intervention	–	100
DBSA Youth Challenge Competition	–	72
Early Childhood Development	800	–
Education Grant	25	31
Non-profit organisation COVID relief	6 375	–
Emfuleni School Sanitation	6 006	1 369
Free State Integrated Health and Education Support	–	500
KZN Umbelethisi Programme	–	1 500
Learners Transport	1 802	–
Mobile Tablet Trolley Project	–	224
Orphaned and Vulnerable Children Centre	–	100
Poultry Project	5 290	1 261
Public Sector Audit Committee Forum Contribution	96	96
Rise against Hunger	–	1 475
Scholar Transport in Ukhanya District	–	815
Schools COVID-19 Support	–	2 386
Schools Capacity Support	500	–
Symphonia for South Africa	533	9 903
Umhlanjana River Pedestrian Bridge	5 620	265
Total	**27 412**	**32 510**

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

39. NET PROFIT ADJUSTED FOR NON-CASH ITEMS AND ITEMS SEPARATELY DISCLOSED

Net profit for the year	3 825 157	1 422 629
Dividends received (refer to note 31)	(11 324)	(4 420)
Management fees – segregated funds	102	243
Depreciation and amortisation (refer to note 37)	36 684	32 287
Loss/(profit) on disposal of property and equipment (refer to note 31)	40	(132)
Grants, development expenditure and project preparation expenditure paid	147 565	148 552
Net gain from financial assets and liabilities	380 009	546 417
Fees received	241 055	178 525
Fees accrued	(173 839)	(186 506)
Debt guarantee fee raised	33 320	38 873
Net foreign exchange (gain)/loss (refer to note 29)	(156 130)	892 773
Capital gain on equity investments (refer to note 31)	(3 143)	(26 882)
Impairment losses (refer to note 34)	1 004 938	1 164 724
Change in liability for funeral benefits and post-retirement medical benefit	899	4 745
Net interest income (refer to note 27)	(5 792 769)	(4 891 641)
Movements in provisions and lease liabilities	(91 929)	(181 861)
Decrease in trade receivables and other assets	8 277	11 563
Increase in trade, other payables and accrued interest on debt funding	100 610	105 088
Total	**(450 478)**	**(745 023)**

40. RECONCILIATION OF FINANCIAL LIABILITIES FROM FINANCING ACTIVITIES

in thousands of rands	2022	2021
Balance at the beginning of the year	59 751 279	61 563 097
Financial market liabilities repaid	(13 250 726)	(21 187 343)
Financial market liabilities raised	9 751 294	23 540 016
Interest repayment	(2 683 523)	(3 151 245)
Fair value movements	(1 635)	149 965
Interest accrual	2 660 691	2 979 717
Premiums, discounts and transaction costs	393 809	298 462
Foreign exchange rate movement	(635 565)	(4 441 390)
Balance at the end of the year	**55 985 624**	**59 751 279**

Included in opening balance is debt securities held at FVTPL of R1.51 billion, debt funding at amortised costs of R57.35 billion and Repos R883 million. Included in closing balance for year ended March 2022 is debt funding designated at FVTPL of R688 thousand, debt funding held at amortised cost of R55.98 billion and repos RNil.

41. SCHEDULE OF 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	Subsistence and travel R	Cellphone allowance R	Performance bonus R	Retention bonus R	2022 R	2021 R
Executive directors								
Mr P K Dlamini	6 422 069	1 207 705	–	–	1 827 585	2 552 493	12 009 852	11 772 905
Ms B Mosako	2 776 925	489 231	–	26 400	644 116	1 410 528	5 347 200	4 925 876
Executive managers								
Mr P A Currie[1]	4 291 621	507 748	1 371	36 300	894 734	2 008 330	7 740 104	6 979 300
Mr E Dietrich	2 607 706	694 752	2 333	66 000	714 814	1 426 206	5 511 811	5 027 146
Mr M Hillary	2 616 692	527 192	–	26 400	635 125	1 357 723	5 163 132	4 725 807
Mr M Kubelo	2 726 318	329 667	–	26 400	537 886	1 270 890	4 891 161	4 400 638
Ms N Mbele	2 591 260	523 985	1 367	26 400	599 371	1 345 355	5 087 738	4 715 999
Ms M S Motsepe	2 256 582	757 080	–	26 400	579 826	1 301 486	4 921 374	4 505 942
Mr M Rakgate	–	–	–	–	–	–	–	3 129 844
Mr C Ramphele	2 683 777	259 039	14 591	26 400	552 041	1 270 890	4 806 738	4 445 675
Ms C Koffman	2 570 085	329 915	23 843	33 000	–	1 305 000	4 261 843	486 064
Mr M Vivekanandan	3 330 402	792 386	23 924	39 600	769 576	1 714 541	6 670 429	6 028 172
Total	**34 873 437**	**6 418 700**	**67 429**	**333 300**	**7 755 074**	**16 963 442**	**66 411 382**	**61 143 368**

[1] *Retired on 28 February 2022.*

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

	Fees for services as directors R	Subsistence and travel R	2022 R	2021 R
Mr E Godongwana[1]	453 259	–	453 259	1 474 531
Prof M Swilling	1 296 407	–	1 296 407	1 096 443
Ms M Janse van Rensburg	1 108 799	217	1 109 016	1 140 885
Adv M Kganedi	521 101	217	521 318	298 704
Mr G Magomola	806 435	217	806 652	319 518
Mr M Matji	704 314	–	704 314	318 652
Ms Z Monnakgotla	–	–	–	807 630
Mr B Mudavanhu	867 362	217	867 579	851 650
Ms L Motsherane	–	–	–	265 148
Ms B Ndamase	–	–	–	367 849
Mr L Nematswerane	–	–	–	349 022
Ms L Noge-Tungamirai	–	–	–	957 344
Ms P Nqeto	1 203 052	433	1 203 485	–
Mr B Nqwababa	805 982	217	806 199	331 312
Ms A Sing	1 011 830	217	1 012 047	1 038 869
	8 778 541	**1 735**	**8 780 276**	**9 617 557**

[1] *Resigned on 6 August 2021.*
Directors' 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.

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 re-pricing risk caused by mismatches in the amount of assets and liabilities re-pricing 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 Assets and Liabilities Management Committee (ALCO), is charged with managing and containing the Bank's interest rate risk exposures within 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 re-pricing 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 NIII 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 re-pricing profile as at 31 March 2022 is encapsulated in the table on page 104. As reflected in the 12-month cumulative repricing gap, the Bank is asset sensitive, with an immediate 100 basis points upward or downward shift in short term rates expected to result in an increase/(decrease) in net interest income over the projected 12-month period of approximately R207.86 million (31 March 2021: R217.3 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 2022, the Bank had a ZAR interest rate swap portfolio with a total notional amount of R180 million (31 March 2021: R1.07 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 2022 was R13.6 million (31 March 2021: R17.26 million), comprising of assets of RNil (31 March 2021: R17.24 million) and liabilities of R13.6 million (31 March 2021: R34.5 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 2022:

in millions of rands		<1M
Cash and cash equivalents	EUR	108
	USD	1 338
	ZAR	6 544
Investment securities	ZAR	33
Development bonds	ZAR	–
Development loans	USD	4 418
	EUR	808
	ZAR	6 871
Derivatives held for risk management purposes – cross currency swaps	ZAR	360
	EUR	–
Derivative assets held for risk management – interest rate swaps	ZAR	–
	USD	–
Derivative assets held for risk management purposes – foreign exchange contracts	ZAR	1 821
Total financial market assets		**22 301**
Derivative liabilities held for risk management purposes – cross currency swaps	EUR	–
	USD	(380)
	ZAR	–
Debt funding at amortised cost and FVTPL – funding bonds	ZAR	(2 931)
	EUR	–
Debt funding at amortised cost – funding lines of credit	EUR	–
	USD	(730)
	ZAR	–
Derivative liabilities held for risk management purposes – interest rate swaps	ZAR	–
	USD	–
Debt funding at amortised cost – money market debt	ZAR	(125)
Derivative liabilities held for risk management purposes – forward exchange contracts	EUR	(485)
	USD	(1 314)
Total financial market liabilities		**(5 965)**
Repricing gap		**16 336**
Cumulative repricing gap		**16 336**

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

	1–3M	3–12M	1–2 Yrs	2–3 Yrs	3–4 Yrs	4–5 Yrs	>5 Yrs	Total
	–	–	–	–	–	–	–	108
	–	–	–	–	–	–	–	1 338
	–	–	–	–	–	–	–	6 544
	–	75	130	181	–	–	–	419
	–	–	–	502	–	–	750	1 252
	2 606	7 635	302	535	280	272	312	16 360
	991	3 655	–	–	–	–	–	5 454
	24 667	1 431	1 745	1 953	1 894	2 347	27 174	68 082
	–	–	–	–	–	–	–	360
	24	95	119	83	48	48	146	563
	180	–	–	–	–	–	–	180
	484	–	–	–	–	–	–	484
	–	–	–	–	–	–	–	1 821
	28 952	**12 891**	**2 296**	**3 254**	**2 222**	**2 667**	**28 382**	**102 965**
	–	–	–	–	–	–	–	–
		–	–	–	–	–	–	(380)
	(50)	(56)	(65)	(42)	(18)	(18)	(76)	(325)
	(9 983)	(7 796)	(2 093)	(3 000)	–	(500)	(5 125)	(31 428)
	–	–	–	–	–	–	(3 232)	(3 232)
	(1 215)	(448)	(188)	(102)	(67)	(67)	(208)	(2 295)
	(3 303)	(12 291)	(80)	(82)	(85)	(64)	(116)	(16 751)
	(1 253)	(38)	–	–	–	–	–	(1 291)
	–	–	(180)	–	–	–	–	(180)
	–	–	–	–	–		–	–
	(225)	(250)	–	–	–	–	–	(600)
	(485)		–	–	–	–	–	(970)
	–	–	–	–	–	–	–	(1 314)
	(16 514)	**(20 879)**	**(2 606)**	**(3 226)**	**(170)**	**(649)**	**(8 757)**	**(58 766)**
	12 438	**(7 988)**	**(310)**	**28**	**2 052**	**2 018**	**19 625**	
	28 774	**20 786**	**20 476**	**20 504**	**22 556**	**24 574**	**44 199**	

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
Cash and cash equivalents	ZAR	4 937
	USD	3 195
	EUR	847
Investment securities	ZAR	33
Development bonds	ZAR	–
Development loans	USD	2 829
	EUR	1 022
	ZAR	3 980
Derivatives held for risk management purposes – cross currency swaps	ZAR	1 079
	EUR	–
Derivative assets held for risk management – interest rate swaps	ZAR	–
	USD	–
Derivative assets held for risk management purposes – foreign exchange contracts	USD	–
Total financial market assets		**17 922**
Derivative liabilities held for risk management purposes – cross currency swaps	EUR	
	USD	(1 152)
	ZAR	–
Fund under Repurchase agreement	ZAR	–
Debt funding at amortised cost and FVTPL –funding bonds	ZAR	(2 378)
	EUR	–
Debt funding at amortised cost – funding lines of credit	EUR	(1 126)
	USD	–
	ZAR	–
Derivative liabilities held for risk management purposes – interest rate swaps	ZAR	–
	USD	–
Debt funding at amortised cost – money market debt	ZAR	(50)
Derivative liabilities held for risk management purposes – forward exchange contracts	EUR	–
Total financial market liabilities		**(4 706)**
Repricing gap		**13 216**
Cumulative repricing gap		**13 216**

1–3M	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
3 551	8 512	350	333	469	211	436	16 691
1 195	2 087	–	–	–	–	–	4 304
24 603	4 247	1 599	1 671	1 707	1 702	28 038	67 547
–	–	–	–	–	–	–	1 079
90	166	256	202	109	71	294	1 188
180	500	–	–	325	–	–	1 005
–	–	70	–	–	–	–	70
–	–	–	–	–	–	–	–
29 619	**15 512**	**2 350**	**2 336**	**3 293**	**1 984**	**29 518**	**102 534**
(297)	–	–	–	–	–	–	(1 449)
(138)	(56)	(65)	(65)	(42)	(18)	(94)	(478)
(868)	–	–	–	–	–	–	(868)
(10 611)	(1 553)	(9 285)	(2 093)	–	–	(4 711)	(30 631)
–	–	–	–	–	–	(3 464)	(3 464)
(90)	(503)	(256)	(202)	(109)	(71)	(295)	(2 652)
(4 817)	(13 083)	(115)	(81)	(83)	(86)	(182)	(18 447)
(2 299)	(54)	–	–	–	–	–	(2 353)
(825)	–	–	(180)	–	–	–	(1 005)
(70)	–	–	–	–	–	–	(70)
(125)	(725)	–	–	–	–	–	(900)
–	–	–	–	–	–	–	–
(20 140)	**(15 974)**	**(9 721)**	**(2 621)**	**(234)**	**(175)**	**(8 746))**	**(62 317**
9 479	**(462)**	**(7 371)**	**(285)**	**3 059**	**1 809**	**20 772**	
22 695	**22 233**	**14 862**	**14 577**	**17 636**	**19 445**	**40 217**	

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 2022, the Bank had cross-currency swaps with a notional amount of R704 million (31 March 2021: R1.9 billion). In addition, the Bank had foreign exchange contracts with notional amount of R2.3 billion (31 March 2021: RNil) and foreign exchange option hedges with notional amount of R5.9 billion (31 March 2021: R7.2 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:

	2022		2021	
in thousands of rands	EUR	USD	EUR	USD
Assets				
Cash and cash equivalents	6 654	91 635	48 910	216 336
Development loans	338 490	1 364 924	252 389	1 481 044
Equity investments	33 445	154 518	36 298	146 337
Future net interest income	–	–	4 599	36 020
Total assets	**378 589**	**1 611 077**	**342 196**	**1 879 737**
Liabilities				
Debt funding and lines of credit	(341 995)	(1 147 071)	(353 116)	(1 249 254)
Total liabilities	**(341 995)**	**(1 147 071)**	**(353 116)**	**(1 249 254)**
Net open position before hedging	**36 594**	**464 006**	**(10 920)**	**630 483**
Cross-currency swaps	34 808	(26 000)	68 618	(98 106)
Foreign exchange contracts	(60 000)	(56 886)	–	–
Currency options	–	(292 183)	(22 323)	(164 535)
Net open position after hedging	**11 402**	**88 937**	**35 375**	**367 842**

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.

42.7 Foreign currency exchange rate (FX) sensitivity analysis

Sensitivity	%	EUR/ZAR	EUR potential impact	USD/ZAR	USD potential impact	FX sensitivity combined
	(15)	13.7399	(27 646)	12.4132	(194 822)	(222 468)
	(10)	14.5481	(18 431)	13.1434	(129 881)	(148 312)
	(5)	15.3564	(9 215)	13.8736	(64 941)	(74 156)
	–	16.1646	–	14.6038	–	–
	5	16.9728	9 215	15.3340	64 941	74 156
	10	17.7811	18 431	16.0642	129 881	148 312
	15	18.5893	27 646	16.7944	194 822	222 468
Spot exchange rate used		**16.1646**		**14.6038**		

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 DBSA 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 2022 was R8.2 billion (31 March 2021: R9.7 billion). This includes cash and cash equivalents of R8 billion (31 March 2021: R9.0 billion), segregated money market funds of R33 million (31 March 2021: R33 million) and SOE and municipal bonds of R205 million (31 March 2021: R743 million).

42.9 Available liquidity

in thousands of rands	2022	2021
High quality liquid assets		
Cash and cash equivalents	7 990 108	8 978 608
Other less liquid assets		
Investment in segregated funds	33 480	32 699
Municipal bonds – nominal value	130 000	668 000
SOE bonds – nominal value	75 000	75 000
Total available liquidity	**8 228 588**	**9 754 307**

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 amounted to approximately R1.9 billion (31 March 2021: R1.2 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 quarterly basis. The 12-month cumulative liquidity gap as at 31 March 2022 was R404 million (31 March 2021: R7.53 billion).

42. RISK MANAGEMENT (continued)

42.9 Available liquidity (continued)

The table below analyses the contractual liquidity gap for 31 March 2022:

in millions of rands		<1M	1–3M
Cash and cash equivalents	ZAR	6 544	–
	USD	1 338	–
	EUR	108	–
Investment securities	ZAR	33	–
Development bonds	ZAR	–	–
Development loans	EUR	–	–
	USD	129	618
	ZAR	55	1 018
Derivative assets held for risk management purposes – cross currency swaps	EUR	–	24
	ZAR	–	–
Derivative assets held for risk management purposes – forward exchange contracts	USD	–	484
	ZAR	1 821	–
Total financial market assets		**10 028**	**2 144**
Derivative liabilities held for risk management purposes – cross currency swaps	USD	–	–
	ZAR	–	(12)
Debt funding at amortised cost and FVTPL – funding bonds	ZAR	–	–
	EUR	–	–
Debt funding at amortised cost – lines of credit	EUR	–	(84)
	USD	–	(17)
	ZAR	–	(7)
Fund under repo	ZAR	–	–
Debt funding at amortised cost – money market debt	ZAR	(125)	(225)
Derivative liabilities held for risk management purposes – forward exchange contracts	EUR	(485)	(485)
	USD	(1 314)	–
Total financial market liabilities		**(1 924)**	**(830)**
Liquidity gap		**8 104**	**1 314**
Cumulative liquidity gap		**8 104**	**9 418**

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 toward 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
–	–	–	–	–	–	6 544
–	–	–	–	–	–	1 338
–	–	–	–	–	–	108
75	130	181	–	–	–	419
–	–	502	–	–	750	1 252
308	717	1 112	982	906	1 431	5 456
2 472	2 941	2 624	1 956	1 720	3 900	16 360
2 745	2 975	3 594	3 573	4 297	49 825	68 082
95	119	83	48	48	146	563
360	–	–	–	–	–	360
–	–	–	–	–	–	484
–	–	–	–	–	–	1 821
6 055	**6 882**	**8 096**	**6 559**	**6 971**	**56 052**	**102 787**
(380)	–	–	–	–	–	(380)
(59)	(71)	(48)	(24)	(24)	(86)	(324)
(9 327)	(4 393)	(8 442)	(550)	(2 913)	(5 803)	(31 428)
–	–	–	–	–	(3 232)	(3 232)
(1 305)	(208)	(123)	(89)	(91)	(394)	(2 294)
(3 725)	(1 232)	(1 235)	(4 158)	(1 216)	(5 168)	(16 751)
(23)	(1 230)	(18)	(13)	–	–	(1 291)
–	–	–	–	–	–	–
(250)	–	–	–	–	–	(600)
–	–	–	–	–	–	(970)
–	–	–	–	–	–	(1 314)
(15 069)	**(7 134)**	**(9 866)**	**(4 834)**	**(4 244)**	**(14 683)**	**(58 584)**
(9 014)	**(252)**	**(1 770)**	**1 725**	**2 727**	**41 369**	
404	**152**	**(1 618)**	**107**	**2 834**	**44 203**	

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 FVTPL – 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 toward 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)

42.10 Cash flow hedges nominal values

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 2022												
Cross currency swaps	EUR	18	–	18	–	35	35	71	61	38	30	306
Total financial market assets		**18**	**–**	**18**	**–**	**35**	**35**	**71**	**61**	**38**	**30**	**306**
Cross currency swaps	EUR	(18)	–	(18)	–	(35)	(35)	(71)	(61)	(38)	(30)	(306)
	USD	–	–	–	–	–	–	–	–	–	–	–
	ZAR	(9)	–	(9)	–	(18)	(18)	(36)	(32)	(24)	(20)	(166)
Total financial market liabilities		**(27)**	**–**	**(27)**	**–**	**(53)**	**(53)**	**(107)**	**(93)**	**(62)**	**(50)**	**(472)**
Liquidity gap		**(9)**	**–**	**(9)**	**–**	**(18)**	**(18)**	**(36)**	**(32)**	**(24)**	**(20)**	
Cumulative liquidity gap		**(9)**	**(9)**	**(18)**	**(18)**	**(36)**	**(54)**	**(90)**	**(122)**	**(146)**	**(166)**	

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)**	

42.11 Concentration of debt funding

	2022 %	2021 %
Concentration of debt funding as per source of funding		
Domestic bond markets	43	45
Domestic money markets	3	7
European bond markets	8	7
International Development Finance Institution	30	30
International money markets	10	11
International unlisted bonds	6	–
	100	**100**
Concentration of debt funding per currency		
USD	28	29
EUR	10	10
ZAR	62	61
	100	**100**

42.12 Equity and development loans at FVTPL

Definition of equity investment risk

Equity investment risk refers to the risk of changes in the value (both adverse and favourable) of either listed or unlisted equity investments. The key drivers to the equity risks are included under market risk and these include price risk, interest rate risk and currency risk. Equity investments are an alternative development funding mechanism in addition the key funding product being development loans, and these may include direct investments in shares or investments in third party managed funds.

Approach to management of equity investment risk

The DBSA's approach to the management of equity investment risk is managed in terms of the investment life cycle phase:

Unlisted equity investments

Evaluation of potential investments: All proposed investments are subject to the same DBSA's formal credit and deal screening process and investment decisions are approved by the appropriate governance forum. The investment process follows exactly the same process as the loan process.

Investment holding phase: All investments are subject to performance management and monitoring, both in terms of quantitative and qualitative risk factors. The investment monitoring process followed is the same as the loan process monitoring. The DBSA continuously engages the management of investee entities through both formal and informal channels to keep abreast of material changes in business and operational risk factors and the impact of macro-economic change on operations and underlying investment valuations. The DBSA *modus operandi* is to negotiate the appointment of suitable qualified delegated staff members to serve as members of key governance forums of investee entities.

Investment valuation: The DBSA values each investment according to the most appropriate valuation methodology, aligned with industry best practice.

Harvest/exit phase: All proposed exits from existing investments are subject to appropriate approvals and evaluation of the actual return against suitable benchmarks.

Listed equity investments

Listed investment holdings commonly originate by way of capital distributions in the form of dividends in specie by unlisted investee entities. The DBSA monitors the market value of listed investments in order to ensure that market losses are minimised whilst concurrently seeking to identify appropriate exit prices, in the context of the current market trends, applicable minimum return rates and benchmarks.

Portfolio level sensitivity analysis – Change in fair value due to general macro-economic stress

Sensitivity analyses were performed on the entire equity portfolio to determine the possible effect of changes in the entire fair value of the portfolio. In calculating the sensitivities for investments using a top-down approach, the entire fair value adjustment was stressed with a factor ranging from –10% to +10%. The range selected is derived from management's experience of variations in investment values over an extended time period.

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 R47 million decrease in the equity values as at 31 March 2022, and a 10% decrease in fair value adjustment results in a R38 million increase in the equity values as at 31 March 2022.

Equity investments

in thousands of rands	10% decrease in fair value	Fair value adjustment	10% increase in fair value
31 March 2022			
Equity instruments listed and unlisted	51 907	46 349	63 442
Listed	–	(11 325)	–
Unlisted	51 907	57 674	63 442
31 March 2021			
Equity instruments listed and unlisted	383 647	348 770	313 893
Listed	–	21 437	–
Unlisted	383 647	327 333	313 893

42. RISK MANAGEMENT (continued)

42.12 Equity and development loans at FVTPL (continued)

Equity investments (continued)

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 below:

Sensitivity analysis

in thousands of rands	Fair value gain	Variance	Valuation	Variance %
31 March 2022				
Actual	8 909	–	2 659 291	
Stressed – worst case	891	(891)	2 658 400	(0.03)
Stressed – positive case	891	891	2 660 182	0.03
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)

Sensitivity analysis – Marketability discounts

Sensitivity analyses are performed on the equity portfolio to determine the possible effect on the reported fair values 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 -15% to +15% and prior year (-10% to +10%). The effect of each change on the value of the investment was disclosed below:

in thousands of rands	Base value	15% increase in marketability discount	Fair value – actual	15% decrease in marketability discount
31 March 2022				
Listed				
Level 1	60 672	60 672	60 672	60 672
Unlisted				
Level 2	2 543 025	2 199 847	2 256 544	2 313 241
Level 3	3 093 657	2 573 296	2 659 291	2 745 288
Total	**5 697 354**	**4 833 815**	**4 976 507**	**5 119 201**
% change in fair value		**(2.87)**		**2.87**

For 15% movement in marketability discount rate the fair value change on the equity portfolio was +/-2.87%.

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**

Sensitivity analysis – Currency exchange rates

The reported fair value of certain equity investments are highly sensitive to currency exchange rates, based on the nature and structure of the noted investments. In terms of the fair value hierarchy approach outlined in IFRS 13, the DBSA has determined currency exchange rate to be the single most significant lowest level input driving the fair values of the noted investments. Accordingly the DBSA calculates the sensitivity of the portfolio to changes in key exchange rates, in order to determine the impact of such changes on the fair value of the portfolio. For the current period the applied range is determined by calculating the difference between the year end exchange rate and the three average year-end exchange rate for the preceding three financial year ends. For 8% movement in foreign exchange rate the fair value change on the equity portfolio was +/-4.62%. The exchange rates used at measurement date are USD/ZAR at R14.6038 and EUR/ZAR at R16.1646.

in thousands of rands	8% decrease in effective exchange rate	Fair value – actual	8% increase in effective exchange rate
31 March 2022			
Listed			
Level 1			
ZAR	60 672	60 672	60 672
Unlisted			
Level 2			
USD	2 085 633	2 256 544	2 427 455
Level 3			
EUR	497 370	540 619	583 869
USD	181 737	197 540	213 344
ZAR	1 921 132	1 921 132	1 921 132
Total	**4 746 544**	**4 976 507**	**5 206 472**
% change in fair value	**(4.62)**		**4.62**

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 USD/ZAR – R14.7665 and EUR/ZAR – R17.3182.

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**

42. RISK MANAGEMENT (continued)

42.12 Equity and development loans at FVTPL (continued)

Marketability discount rates applied

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.

in thousands of rands	Level 1	Level 2	Level 3	Total
31 March 2022				
Discount rate applied				
0%–12.5%	60 672	–	–	60 672
12.5%–15.0%	–	109 729	53 041	162 770
15.0%–16.5%	–	2 146 815	1 218 530	3 365 345
20.0%–22.5%	–	–	1 316 353	1 316 353
22.5%–25.0%	–	–	71 367	71 367
Total	**60 672**	**2 256 544**	**2 659 291**	**4 976 507**

in thousands of rands	Level 1	Level 2	Level 3	Total
31 March 2021				
Discount rate applied				
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**

Development loans held at fair value

The most significant inputs affecting the fair value of development loans are ZAR/USD swap rates, ZAR/USD exchange rate and the estimated risk discount factor applied to the value of cash flows due on contractual payment dates. The table below details the changes to the reported fair value which will result in changes to the risk discount factor applied:

in thousands of rands	Base value	10% increase in risk discount factor	Fair value – actual	10% decrease in risk discount factor
31 March 2022				
Level 3	115 535	8 367	19 309	30 251
		(56.7%)		**56.7%**

A 10% movement in the risk discount rate applied results in a fair value change of approximately +/-57%.

in thousands of rands	Base value	10% increase in risk discount factor	Fair value – actual	10% decrease in risk discount factor
31 March 2021				
Level 3	99 566	7 301	16 847	26 394
		(56.7%)		**56.7%**

A 10% movement in the risk discount rate applied results in a fair value change of approximately +/-57%.

42.13 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 in 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, that 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 board and corporate level 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 probability of default. 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.

42. RISK MANAGEMENT (continued)

42.13 Credit risk (continued)

Credit risk ratings (continued)

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.

Rating grade	Mid joint PD (%)	Lower bound PD (%)	Upper bound PD (%)	Mapping to S&P	Mapping to Moody's
MS 1	0.01	–	0.02	AAA	Aaa
MS 2	0.02	0.02	0.03	AA+	Aa1
MS 3	0.03	0.03	0.04	AA	Aa2
MS 4	0.04	0.04	0.05	AA-	Aa3
MS 5	0.05	0.05	0.06	A+	A1
MS 6	0.06	0.06	0.08	A	A2
MS 7	0.10	0.08	0.14	A-	A3
MS 8	0.17	0.14	0.24	BBB+	Baa1
MS 9	0.30	0.24	0.40	BBB	Baa2
MS 10	0.50	0.40	0.68	BBB-	Baa3
MS 11	0.85	0.68	1.13	BB+	Ba1
MS 12	1.40	1.13	1.90	BB	Ba2
MS 13	2.40	1.90	3.20	BB-	Ba3
MS 14	4.00	3.20	5.50	B+	B1
MS 15	7.00	5.50	9.50	B	B2
MS 16	12.00	9.50	16.00	B-	B3
MS 17.1	17.20	16.00	22.10	CCC	Caa
MS 17.2	28.51	22.10	36.80	CCC	Caa
MS 17.3	47.40	36.80	61.10	CCC	Caa
MS 17.4	78.70	61.10	99.99	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 sub-committee of Investment Committee.

The requirement to comply with IFRS9 in 2018/19 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 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-compliant 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 2021/22 Annual Financial Statements.

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 counterparties; 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 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 for IFRS 9 purposes should there be no demonstrable significant increase in credit risk from initial recognition to reporting date.

42.14 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.

42. RISK MANAGEMENT (continued)

42.14 Credit risk exposure (continued)

The reviews include assessment of the impairment triggers and reversals within the asset portfolio, 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:

Credit exposure per class of financial instruments

in thousands of rands	Maximum exposure to credit risk	Provision for ECLs	Collateral held as security
31 March 2022			
Cash and cash equivalents	7 990 108	–	–
Development bonds at amortised cost	1 290 413	(138 510)	–
Development loans at amortised cost	95 876 051	(11 698 997)	474 448
Development loans at FVTPL	19 309	–	–
Loan commitments	10 129 902	(2 430)	–
Trade receivables and other assets	179 209	(18 460)	–
	115 484 992	**(11 858 397)**	**474 448**
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**

The table below provides breakdown of a municipal book:

in thousands of rands	Market 1*	Market 2**	Market 3***	Total 2022	Market 1*	Market 2**	Market 3***	Total 2021
Low risk	27 331	443 755	45 690	516 776	3 265 599	1 288 029	141 313	4 694 941
Medium risk	21 459 632	2 675 368	350 082	24 485 082	14 703 227	1 993 161	423 424	17 119 812
High risk	5 281 397	1 571 634	276 617	7 129 648	5 092 144	1 746 226	524 523	7 362 893
	26 768 360	**4 690 757**	**672 389**	**32 131 506**	**23 060 970**	**5 027 416**	**1 089 260**	**29 177 646**

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

The risk assignment for low, medium and high risk is explained in the table on page 123.

Credit quality analysis

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

in thousands of rands		2022	2021
Internal rate grade	**Internal rate description**		
MS1	Low risk	–	–
MS2	Low risk	–	54 167
MS3	Low risk	198 786	214 662
MS4	Low risk	–	–
MS5	Low risk	196 479	134 671
MS6	Low risk	–	455 458
MS7	Low risk	4 925 372	9 041 977
MS8	Medium risk	9 130 179	19 099 214
MS9	Medium risk	3 056 946	2 654 086
MS10	Medium risk	17 952 857	4 742 997
MS11	Medium risk	22 736 182	23 209 844
MS12	Medium risk	11 709 248	8 618 974
MS13	Medium risk	1 156 136	1 204 173
MS14	High risk	7 750 743	10 334 292
MS15	High risk	4 805 875	2 447 725
MS16	High risk	2 331 990	398 825
MS17.1	High risk	717 495	18 145
MS17.2	High risk	–	412 009
MS17.3	High risk	–	–
MS17.4	High risk	4 770 874	3 786 200
Default	Default	4 436 889	7 270 769
		95 876 051	**94 098 188**

42. RISK MANAGEMENT (continued)

42.14 Credit risk exposure (continued)

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, ECLs and other securities at the reporting date.

in thousands of rands	Stage 1	Stage 2	Stage 3	POCI	2022 Total	2021 Total
Financial assets						
Development loans at amortised cost						
Stage 3						
Municipalities	–	–	443 990	–	443 990	758 430
Other	–	–	3 992 899	1 110 775	5 103 674	6 527 869
Allowance for ECLs						
Municipalities	–	–	(107 787)	–	(107 787)	(110 389)
Other	–	–	(3 140 421)	(867 489)	(4 007 910)	(4 954 367)
Net carrying amount	**–**	**–**	**1 188 681**	**243 286**	**1 431 967**	**2 221 543**
Net carrying amount: Municipalities	–	–	336 203	–	336 203	648 041
Net carrying amount: Other	–	–	852 478	243 286	1 095 764	1 573 502
Net carrying amount	**–**	**–**	**1 188 681**	**243 286**	**1 431 967**	**2 221 543**
Low risk (MS1–MS7)						
Stage 1 and 2						
Municipalities	516 776	–	–	–	516 776	4 694 942
Other	4 803 861	–	–	–	4 803 861	5 205 994
Allowance for ECLs						
Municipalities	(15 503)	–	–	–	(15 503)	(927)
Other	(3 785)	–	–	–	(3 785)	(5 269)
Net carrying amount	**5 301 349**	**–**	**–**	**–**	**5 301 349**	**9 894 740**
Net carrying amount: Municipalities	501 273	–	–	–	501 273	4 694 015
Net carrying amount: Other	4 800 076	–	–	–	4 800 076	5 200 725
Net carrying amount	**5 301 349**	**–**	**–**	**–**	**5 301 349**	**9 894 740**
Medium risk (MS8–MS13)						
Stage 1 and 2						
Municipalities	24 026 484	458 598	–	–	24 485 082	17 119 813
Other	26 934 732	14 321 734	–	–	41 256 466	42 409 474
Allowance for ECLs						
Municipalities	(720 795)	(13 988)	–	–	(734 783)	(17 835)
Other	(352 857)	(790 800)	–	–	(1 143 657)	(1 367 497)
Net carrying amount	**49 887 564**	**13 975 544**	**–**	**–**	**63 863 108**	**58 143 955**
Net carrying amount: Municipalities	23 305 689	444 610	–	–	23 750 299	17 101 978
Net carrying amount: Other	26 581 875	13 530 934	–	–	40 112 809	41 041 977
Net carrying amount	**49 887 564**	**13 975 544**	**–**	**–**	**63 863 108**	**58 143 955**

in thousands of rands	Stage 1	Stage 2	Stage 3	POCI	2022 Total	2021 Total
High risk (MS14–MS17.4)						
Stage 1 and 2						
Municipalities	324 592	6 361 066	–	–	6 685 658	6 604 464
Other	1 769 057	10 811 487	–	–	12 580 544	10 777 202
Allowance for ECLs						
Municipalities	(9 761)	(881 421)	–	–	(891 182)	(281 406)
Other	(230 925)	(4 563 465)	–	–	(4 794 390)	(4 627 050)
Net carrying amount	**1 852 963**	**11 727 667**	**–**	**–**	**13 580 630**	**12 473 210**
Net carrying amount: Municipalities	314 831	5 479 645	–	–	5 794 476	6 323 058
Net carrying amount: Other	1 538 132	6 248 022	–	–	7 786 154	6 150 152
Net carrying amount	**1 852 963**	**11 727 667**	**–**	**–**	**13 580 630**	**12 473 210**
Gross carrying amount	**58 375 502**	**31 952 885**	**4 436 889**	**1 110 775**	**95 876 051**	**94 098 188**
Provision for ECL	(1 333 626)	(6 249 674)	(3 248 208)	(867 489)	(11 698 997)	(11 364 740)
Net carrying amount	**57 041 876**	**25 703 211**	**1 188 681**	**243 286**	**84 177 054**	**82 733 448**
Development bonds at amortised cost						
Medium risk (MS8–MS13)						
Stage 1 and 2						
Municipalities	517 865	772 548	–	–	1 290 413	1 290 219
Gross carrying amount	**517 865**	**772 548**	**–**	**–**	**1 290 413**	**1 290 219**
Provision for ECL	(15 060)	(123 450)	–	–	(138 510)	(10 984)
Net carrying amount	**502 805**	**649 098**	**–**	**–**	**1 151 903**	**1 279 235**
Loan commitments						
Stage 3						
Other	–	–	719 962	–	719 962	713 965
Low risk (MS1–MS7)						
Stage 1 and 2						
Municipalities	–	–	–	–	–	–
Other	4 584 327	–	–	–	4 584 327	250 000
Total	**4 584 327**	**–**	**–**	**–**	**4 584 327**	**250 000**
Medium risk (MS8–MS13)						
Stage 1 and 2						
Municipalities	–	37 900	–	–	37 900	–
Other	2 924 496	100 113	–	–	3 024 609	2 990 889
Total	**2 924 496**	**138 013**	**–**	**–**	**3 062 509**	**2 990 889**
High risk (MS14–MS17.4)						
Stage 1 and 2**						
Municipalities	105 000	–	–	–	105 000	–
Other	1 085 045	572 921	–	–	1 657 966	1 277 301
Total	**1 190 045**	**572 921**	**–**	**–**	**1 762 966**	**1 277 301**
Gross carrying amount	**8 698 868**	**710 934**	**719 962**	**–**	**10 129 764**	**5 232 155**
Provision for ECL	(2 429)	(1)	–	–	(2 430)	(126)
Net carrying amount	**8 696 439**	**710 933**	**719 962**	**–**	**10 127 334**	**5 232 029**

* An additional R138 000 has been committed for development loans held at FVTPL.
** Refer to page 123 for risk rating in relation to IFRS 9 staging.

42. RISK MANAGEMENT (continued)

42.14 Credit risk exposure (continued)

Cash and cash equivalents

The Bank held cash and cash equivalents of R8 billion at 31 March 2022. The cash and cash equivalents are held with financial institution counterparties that are rated at least AA+ and 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 2022, the gross carrying amount of credit-impaired loans amounted to R5 billion (31 March 2021: R7 billion) and the value of identifiable collateral held against those loans amounted to R99 million (31 March 2021: R187 million).

The carrying amount of collateral taken in possession during the year is RNil (31 March 2021: RNil).

The fair value of collateral held in respect of the above amounted to R474 million (31 March 2021: R625 million). 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 subject to collateral requirements	2022	2021
Development loans	Bank account	75	354 511	436 491
Development loans	Floating charge	0	–	6 231
Development loans	Guarantee	11	54 442	54 442
Development loans	Mortgage bond	14	65 495	128 257
Total			**474 448**	**625 421**

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 and POCI

in thousands of rands	Gross exposure	Provision for ECL	Carrying amount	Fair value of collateral held
31 March 2022				
Development loans	5 547 664	(4 115 697)	1 431 967	99 173
31 March 2021				
Development loans	7 270 769	(5 057 721)	2 213 048	187 811

Expected credit losses (ECL)

The amount of 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 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 ECLs 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.

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 ECLs 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 ECLs 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 ECLs 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, 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
MS 1	6	MS 7	Stage 2
MS 2	6	MS 8	Stage 2
MS 3	6	MS 9	Stage 2
MS 4	6	MS 10	Stage 2
MS 5	6	MS 11	Stage 2
MS 6	5	MS 11	Stage 2
MS 7	4	MS 11	Stage 2
MS 8	4	MS 12	Stage 2
MS 9	3	MS 12	Stage 2
MS 10	3	MS 13	Stage 2
MS 11	2	MS 13	Stage 2
MS 12	2	MS 14	Stage 2
MS 13	2	MS 15	Stage 2
MS 14	2	MS 16	Stage 2
MS 15	2	MS 17.1	Stage 2
MS 16	1	MS 17.1	Stage 2
MS17.1	1	MS 17.2	Stage 2
MS17.2	1	MS 17.3	Stage 2
MS17.3	1	MS 17.4	Stage 2
MS17.4	Default	Default	Stage 3

42. RISK MANAGEMENT (continued)

42.14 Credit risk exposure (continued)

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 ECLs.

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 days-past-due (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.

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 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 certain circumstances	Lifetime expected losses
Stage 3	Interest and/or principal repayments are 90 days past due	Lifetime expected 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 ECLs

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, senior management changes;
» Data from credit reference agencies, press articles, 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 macro-economic 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 macro-economic 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.

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 rehabilitation process in the BSRU policy of the Bank, the Bank measures the loss allowance at an amount equal to 12-month ECLs at the current reporting date if its stage 1. The BSRU Unit monitors defaulted clients until curing process is successfully completed. BSRU does regular loan risk reviews; review reports are submitted to Bank governance committees for approval. When clients when successfully rehabilitated, they are monitored for a period of time until the clients are moved to performing loan book where there are monitored by Loan Management Unit.

42. RISK MANAGEMENT (continued)

42.14 Credit risk exposure (continued)

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 macro-economic 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 2022 and 2021.

The key indicators are:

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

In estimating the ECLs, 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 ECL assessment, the Bank uses reasonable and supportable information available without undue effort and costs.

In estimating the ECLs, 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 macro-economic 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.

The ECLs are an estimate and therefore there is an inherent degree of subjectivity and that the current estimate of the ECLs 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 ECLs, 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 interest rates such as GDP growth rates, exchange rate and inflation.

The Bank conducts back testing of macro-economic forecasts. Further, the Bank has introduced a Financial Planning Working Group, which reports to ALCO and Investment Committee comprising of 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 directionally relationship between changes in expected credi loss and results of observable data. The overlays are subject to strict governance and approval process by the Bank's Investment Committee and Audit and Risk Committee.

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

Economic variable	2021	2022	2023	2024
South African CPI				
Mild case	4.32	6.30	5.30	5.20
Base case	4.20	5.60	4.50	4.40
Best case	4.05	5.90	5.10	5.00
Sub-Saharan nominal GDP				
Mild case	(3.83)	3.50	3.60	3.60
Base case	4.59	3.80	4.10	4.00
Best case	5.73	4.60	5.20	4.90
Crude oil				
Mild case	59.88	81.50	72.70	71.40
Base case	62.88	93.60	82.70	80.40
Best case	64.38	103.50	92.70	91.40
Three-month Libor				
Mild case	0.18	0.80	1.80	2.00
Base case	0.23	0.90	1.90	2.10
Best case	0.38	1.10	2.10	2.30
USD/ZAR exchange rate				
Mild case	16.77	16.80	17.30	17.50
Base case	15.27	15.30	15.50	15.90
Best case	14.14	14.40	14.30	14.40

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 TTC (through the cycle) 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.

42. RISK MANAGEMENT (continued)

42.14 Credit risk exposure (continued)

Incorporation of forward-looking information (continued)

Weightings of best, worst and base case	Best case	Base case	Worst case
Weightings (%)	5	45	50

Macro-economic factors

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

Measurement of ECLs

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 ECLs.

	2022 %	2021 %	2020 %
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 ECLs. There have been changes in the assumptions used however, there have been no changes in the estimation techniques used to measure the ECLs except the changes due to COVID-19 where a multivariate approach was used.

Methods used to determine	Method	Inputs	Assumptions	Estimation techniques
12-month and lifetime ECLs	Expected loss methods based on PD, LGD and EAD; ECLs are discounted to the reporting date using the effective interest rate.	PD, LGD and EAD over current PDs survival rate and ECLs.	Current PDs are the output of the calibrated in subsequent years are determined based on survival rate, seasoning and cyclically 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 effect, term structure analysis for seasoning effect, macro-economic 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 data base.
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 data base. 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:

	Actual weight %	Adjusted weight %	% change	Actual ECL (R'000)	Adjusted ECL (R'000)	% change ECL
Base case	45	50	5	2 114 465	2 349 405	11
Worst case	50	45	(5)	5 367 104	5 112 006	(5)
Best case	5	5	–	242 671	242 671	–
Weighted ECL – Stages 1 and 2				7 724 240	7 704 082	(0.3)
Credit-impaired ECL				4 115 697	4 115 697	–
Total ECL				**11 839 937**	**11 819 779**	**(0.2)**

42. RISK MANAGEMENT (continued)

42.14 Credit risk exposure (continued)

Measurement of ECLs (continued)

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:

Scenarios

	Weight %	Unweighted ECL R'000	Difference to weighted ECL R'000	% difference to weighted ECL
Base case	100	11 630 666	(209 271)	(1.8)
Worst case	100	12 033 816	193 879	1.6
Best case	100	11 784 576	(55 361)	(0.5)

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 was 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 involves.

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%:

Development loans

	10% decrease in management value	Actual R'000	10% increase in management value R'000
Credit-impaired ECL (Stage 3 NPL & POCI)	4 257 318	4 115 697	3 974 059
% change	3.42	(3.46)	

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	
	2022	2021	2022	2021
Concentration of risk				
Gross carrying amount/amount committed (R'000)	95 876 051	94 098 188	10 129 902	5 232 294
Concentration by Sector: Energy %	47.36	52.42	29.57	44.44
Concentration by Country: South Africa %	73.35	72.70	73.72	64.71
Concentration by location: Currency (ZAR) %	73.38	72.89	73.72	62.44

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 2022	Total 2021
Stage 3						
South Africa	–	–	1 841 947	16 255	1 858 202	2 209 776
Rest of Africa	–	–	2 594 942	1 094 520	3 689 462	5 076 523
Total	**–**	**–**	**4 436 889**	**1 110 775**	**5 547 664**	**7 286 299**
Provision for ECL						
South Africa	–	–	(1 312 509)	(6 688)	(1 319 197)	(1 287 453)
Rest of Africa	–	–	(1 935 699)	(860 801)	(2 796 500)	(3 777 303)
Total	**–**	**–**	**(3 248 208)**	**(867 489)**	**(4 115 697)**	**(5 064 756)**
Carrying amount: South Africa	–	–	529 438	9 567	539 005	922 323
Carrying amount: Rest of Africa	–	–	659 243	233 719	892 962	1 299 220
Carrying amount – Stage 3	**–**	**–**	**1 188 681**	**243 286**	**1 431 967**	**2 221 543**
Stage 1 and 2						
South Africa	48 348 705	20 118 400	–	–	68 467 105	66 202 058
Rest of Africa	10 026 797	11 834 485	–	–	21 861 282	20 609 831
Total	**58 375 502**	**31 952 885**	**–**	**–**	**90 328 387**	**86 811 889**
Provision for ECL						
South Africa	(1 042 966)	(1 981 948)	–	–	(3 024 914)	(1 911 657)
Rest of Africa	(290 660)	(4 267 726)	–	–	(4 558 386)	(4 388 327)
Total	**(1 333 626)**	**(6 249 674)**	**–**	**–**	**(7 583 300)**	**(6 299 984)**
Carrying amount: South Africa	47 305 739	18 136 452	–	–	65 442 191	64 290 401
Carrying amount: Rest of Africa	9 736 137	7 566 759	–	–	17 302 896	16 221 504
Stage 1 and 2	**57 041 876**	**25 703 211**	**–**	**–**	**82 745 087**	**80 511 905**
Gross carrying amount	58 375 502	31 952 885	4 436 889	1 110 775	95 876 051	94 098 188
Provision for ECL	(1 333 626)	(6 249 674)	(3 248 208)	(867 489)	(11 698 997)	(11 364 740)
Net carrying amount	**57 041 876**	**25 703 211**	**1 188 681**	**243 286**	**84 177 054**	**82 733 448**

ECL balance sheet balance excludes interest in suspense of R311 million (31 March 2021: R694 million).

ECL

in thousands of rands	2022	2021
12-month ECL	1 333 626	936 872
Lifetime ECL – not credit impaired	6 249 674	5 363 094
Lifetime ECL – credit impaired	2 936 797	4 363 438
Purchased – credit impaired	867 489	6 839
Total	**11 387 586**	**10 670 243**

(b) Development bonds

in thousands of rands	12-month ECL	Lifetime ECL – not credit impaired	Lifetime ECL – credit impaired	Total 2022	Total 2021
Performing					
Municipal	517 865	772 548	–	1 290 413	1 290 219
Provision for ECL	(15 060)	(123 450)	–	(138 510)	(10 984)
Carrying amount	**502 805**	**649 098**	**–**	**1 151 903**	**1 279 235**

The maximum exposure relating to development bond is R1.3 billion (31 March 2021: R1.3 billion).

42. RISK MANAGEMENT (continued)

42.14 Credit risk exposure (continued)

Expected credit losses (continued)

(c) Trade receivables and other assets

in thousands of rands	Default rate 0%	Default rate 17% and 100%	Default rate 100%	Total 2022	Total 2021
Trade receivables					
Trade debtors	116 857	60 499	1 853	179 209	179 374
Provision for ECL	–	(16 607)	(1 853)	(18 460)	(12 825)
Net carrying amount of trade receivables	**116 857**	**43 892**	**–**	**160 749**	**166 549**
Financial and other assets					
Deposits				4	4
Interest accrued				1 429	1 604
Payroll expenses receivable				786	801
Prepayments				93 824	125 765
Staff loans				67	41
Subsistence and travel				936	86
VAT receivable				1 498	1 526
Total other assets				**98 544**	**129 827**
Balance at the end of the year				**259 293**	**296 376**

(d) Commitments (loans signed, but not yet fully disbursed)

in thousands of rands		2022	2021
Low risk	– Other	4 584 327	250 000
Medium risk	– Municipal	37 900	2 990 889
	– Other	3 024 609	–
High Risk	– Municipal	105 000	–
	– Other	2 378 066	1 991 405
Gross carrying amount		**10 129 902**	**5 232 294**
Provision for ECL		(2 430)	(126)
Net carrying amount		**10 127 472**	**5 232 168**

(e) Loans that are past due not individually impaired

	31 March 2022					31 March 2021				
in thousands of rands	Total	<3 months	3–6 months	6–12 months	>12 months	Total	<3 months	3–6 months	6–12 months	>12 months
Overdue amounts	68 315	66 845	1 468	2	–	39 932	39 810	49	73	–
Not yet due	3 690 872	–	–	–	–	3 682 289	–	–	–	–
Total	**3 759 187**	**66 845**	**1 468**	**2**	**–**	**3 722 221**	**39 810**	**49**	**73**	**–**

An amount of R67 million (31 March 2021: R39 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 R121 million (31 March 2021: 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	2022	2021
Bonds	386 000	1 638 000
Cash and equivalents	7 990 108	8 978 608
Derivatives	446 031	714 599
Segregated funds	33 480	32 699
Total	**8 855 619**	**11 363 906**

42.15 Capital management

The Bank 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 that the Bank continued access to funds at optimal rates in support of its mission to provide affordable development finance solution.
- 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 2022, the debt to equity stood at 130% (31 March 2021: 152%). The capital ratio is calculated as shareholders' capital divided by unweighted assets, where unweighted assets comprise total assets (as shown on 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 2022, the capital ratio stood at 43 % (31 March 2021: 39%).

42.16 COVID-19 impact

Asset portfolio

Credit models

The base credit models applied in finalising ECLs 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 models are currently being reviewed and the review will be completed in the 2022/2023 financial year.

Forward-looking information models

IFRS 9 requires assessment of credit risk to incorporate forward-looking information. Credit models should recognise ECLs considering all reasonable and supportable information, including that which is forward-looking. The model methodology was re-assessed to determine applicability given the current market conditions. In response to COVID-19 pandemic the DBSA Credit Lab revised the Forward-Looking Model based on linear regression methodology. Given the COVID-19 and economic conditions, linear regression model proved to be unreliable by under and overestimating ECLs 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 PD's in order to appropriately determine the ECLs as at year end. The full extent of COVID-19 pandemic remains unknown and evolving at financial year end. Management has, however, estimated 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 FLI forecasting casting window and there after 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 COVID-19 pandemic. There was no change of staging automatic triggers in response to COVID-19 and the Bank applied banking guidance provided where loans with satisfactory performance prior to 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 2022 is reviewed (in a manner consistent with the prior year) using data available as at 31 March 2022 but obtained in early April 2022.

42. RISK MANAGEMENT (continued)

42.16 COVID-19 impact (continued)

Asset portfolio (continued)

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 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 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 Investment Committee Technical Committee.

A new MS17 Framework was approved by 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 adds to a well-structured rating system which provide a good means of differentiating degree of credit risk of different exposures and allow 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 overall continuing negative trend on most macro-economic 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 ECLs, 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 0.2%;
» Increase in worst case by 10% causes ECL to increase by approximately 0.3%; and
» Increase in worst case by 15% causes ECL to increase by approximately 0.5%.

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.

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 sub-committee 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 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 hedging accounting and concluded that forecast transactions remain highly probable. The Bank's cash flow hedges comprise predominantly of 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.

42.17 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 extends beyond 31 March 2022. Various groups have been established which are comprising of various skills sets and professionals across the Bank to work on reference rate reform transition. 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 39 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 Financial Stability Board initiated a reform of the major interest reference rates to new alternative reference rates which are more reliable and robust. The ICE Benchmark Administration (IBA, administrator of LIBOR) issued a publication in March 2021 regarding the replacement of reference interbank rates and their cessation dates. The LIBOR rates which the Bank is exposed to will cease to be published on 30 June 2023. The Bank has decided on which alternative rates will be used for amending existing contracts and for new contracts. The South African Reserve Bank is in a process of replacing JIBAR, however the end date for JIBAR publication has not been communicated. The Bank continues to monitor developments in the local regulator (SARB) on local reference rate reforms (JIBAR) and is engaging with local bodies as well as international developments regarding the reference rate reform.

The Bank has been preparing for the IBOR reform and there is a dedicated project management team that ensures that all project deliverables are effectively and efficiently met. The Bank's project governance structure was established, and the key function is to provide direction and approve key decisions and project metrics. The reference rate project is overseen by the Reference Rate Reform project Steering Committee. In addition to the Steering Committee, the project operations are managed by the reference rate reform Operations Committee (OpsCo) which comprises heads of business units across the Bank. The Bank has established various workstreams that are cross functional and led by different heads to ensure effective risk management, ownership, accountability, and smooth transition to alternative reference rates. Updates on key developments are summarised below:

Contract reviews and amendments

The Bank has completed the review of all affected loan agreements within the asset and liability portfolios that are affected by the IBOR reform. The Bank has had engagements with the affected clients and the process of amending the existing contracts is in progress and is expected to be completed by 30 June 2023.

ICT systems and model

The changes to systems and adoption of new methodologies is an area of significant management focus. The Bank system upgrades are substantially completed as at year yead and are currently in testing phase.

Risk management

Effective risk management is critical to the success of the project. The project is structured in a manner that allows effective risk management. Below is a summary of the key risks that the Bank is exposed to as a result of the IBOR reform:

Market risk – liquidity risk associated with the ARR, misalignment with the market transition timelines.

Model risk – risk of the credit and valuation models not being able to accommodate the new interest rates.

Legal risk – risk of being non-compliant to the agreements previously agreed with clients.

Operational risk – the risk of DBSA systems not being able to Incorporate the required interest rate changes as negotiated as per the existing and new contracts, risk of strategies, procedure manuals, processes and policies not being updated for the ARRs.

Financial risk – failure to incorporate the new rates in the pricing tool adequately resulting in inappropriate pricing of deals.

Compliance/regulatory risk – risk that the bank is exposed to regulatory sanctions due to failing to meet the regulatory expectations in relation to the transition.

Reputational risk – the risk to the bank's reputation from failing to adequately prepare for the transition.

Conduct risk – risk of client dissatisfaction with the new rates negotiated for the transition.

42. RISK MANAGEMENT (continued)

42.17 Reference rate reform (continued)

Risk management (continued)

The Bank predominately has USD and EUR exposure to financial instruments and the table below shows the Bank's exposure at the year end to significant IBORs subject to reform that have yet to transition to RFRs as at the current year end. The table excludes exposures to IBOR that will expire before transition is required:

The table below shows IBOR exposure in ZAR currency amount:

in thousands of rands	Non-derivative financial assets – carrying value	Non-derivative financial liabilities – carrying value	Loan commitments	Derivatives nominal amount
LIBOR tenors				
31 March 2022				
USD LIBOR (1 month)	2 575 193	–	108 038	–
USD LIBOR (3 months)	834 795	–	–	–
USD LIBOR (6 months)	10 791 097	13 654 649	2 196 987	–
Total	**14 201 085**	**13 654 649**	**2 305 025**	**–**

The table below shows IBOR exposure in USD currency amount:

	Non-derivative financial assets – carrying value	Non-derivative financial liabilities – carrying value	Loan commitments	Derivatives nominal amount
LIBOR tenors				
31 March 2022				
USD LIBOR (1 month)	176 337	–	7 398	–
USD LIBOR (3 months)	57 163	–	–	–
USD LIBOR (6 months)	738 924	935 007	150 439	–
Total	**972 424**	**935 007**	**157 837**	**–**

43. RELATED PARTIES

43.1 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.

43.2 Transactions with related parties

The following is a summary of transactions with related parties during the year and balances due at end of year.

43.2.1 National public entities

The total book debt of loans extended to national public entities amounts to R19.4 billion (31 March 2021: R19.6 billion). None of these loans are non-performing.

43.2.2 National mandates

The net amount outstanding at year end amounted to R175 million (31 March 2021: R172 million) (refer note 6).

in thousands of rands	2022	2021

44. BUSINESS COMBINATIONS

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:

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)
	–	–

45. CONTINGENCIES

45.1 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.

46. COMMITMENTS

At the reporting date, the Bank had the following commitments:

Capital commitments	150 081	150 081
Development expenditure	19 624	19 624
Development loan commitments	10 129 902	5 232 294
Equity investments commitments	672 440	730 403
Project preparation expenditure	153 654	141 751
Gross carrying amount	**11 125 701**	**6 274 153**
Provision for ECLs	(2 430)	(126)
Net commitments at end of the year	**11 123 271**	**6 274 027**

46.1 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	180 078	–
Local government	142 900	–
National and provincial government	408 703	1 761 210
Private sector intermediaries	2 715 427	2 204 083
Public utilities	6 682 794	1 267 001
Balance at end of the year	**10 129 902**	**5 232 294**

Geography		
Eastern Cape	105 000	–
Free State	4 250 000	–
Gauteng	1 230 546	294 411
KwaZulu-Natal	296 032	250 000
North-West	91 542	–
Northern Cape	1 061 794	1 130 181
Western Cape	104 665	32 370
Rest of Africa	2 990 323	3 525 332
Total	**10 129 902**	**5 232 294**

in thousands of rands	2022	2021
46. COMMITMENTS (continued)		
Rest of Africa		
Angola	464 883	–
Congo	108 038	183 056
Ethiopia	48 269	48 807
Ghana	571 697	740 005
Angola	–	355 043
Mozambique	1 109 656	1 122 019
Madagascar	–	95 569
Mauritius	6 500	423
Sierra Leone	137	139
Tanzania	673 967	973 016
Zimbabwe	7 176	7 255
Total	**2 990 323**	**3 525 332**
Sector		
Water	4 500 000	250 000
Roads and drainage	7 175	7 255
Energy – Electricity	3 264 699	2 653 662
Energy – Non-grid standalone	100 000	100 000
Communication and transport	1 613 684	1 550 965
Social infrastructure	–	236 540
Oil and gas	343 919	–
Education	195 425	–
Sanitation	105 000	433 872
Total	**10 129 902**	**5 232 294**

The table below shows the reconciliation of the opening balance to the closing balance of development loan commitments gross carrying amount and provision for ECLs:

in thousands of rands	Stage 1	Stage 2	Stage 3	Fair value	Total
31 March 2022					
Reconciliation of carrying amount					
Balance at beginning of the year	4 067 578	450 612	713 965	139	5 232 294
Transfer from stage 1 to stage 2	(370 407)	370 407	–	–	–
New loan commitments issued	16 789 340	1 518 050	–	–	18 307 390
Disbursements	(11 453 174)	(1 464 094)	(2 516)	–	(12 919 784)
Withdrawals	(223 199)	(127 257)	8 612	–	(341 844)
Foreign exchange losses	(111 270)	(36 784)	(99)	(1)	(148 154)
Balance at end of the year	**8 698 868**	**710 934**	**719 962**	**138**	**10 129 902**

Reconciliation of provision for expected credit losses

in thousands of rands	Stage 1	Stage 2	Stage 3	Total
Balance at beginning of the year	125	1	–	126
New loan commitments issued	41	–	–	41
Subsequent changes in ECLs due to changes in risk parameters (PDs, LGDs, EAD)	2 263	–	–	2 263
Balance at end of the year	**2 429**	**1**	**–**	**2 430**

Expected credit losses

in thousands of rands	Stage 1	Stage 2	Stage 3	2022
ECLs recognised in the income statement excluding interest in suspense and write-off	(2 304)	–	–	(2 304)

in thousands of rands	Stage 1	Stage 2	Stage 3	Fair value	Total
31 March 2021					
Reconciliation of carrying amount					
Balance at 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 end of the year	**4 067 578**	**450 612**	**713 965**	**139**	**5 232 294**

Reconciliation of provision for ECLs

in thousands of rands	Stage 1	Stage 2	Stage 3	Total
Balance at beginning of the year	7 110	–	–	7 110
Transfer from stage 1 to stage 2	(102)	102	–	–
New loan commitments issued	125	1	–	126
Withdrawal	(12)	–	–	(12)
Subsequent changes in ECLs due to changes in risk parameters (PDs, LGDs, EAD)	(6 996)	(102)	–	(7 098)
Balance at end of the year	**125**	**1**	**–**	**126**

Expected credit losses

	Stage 1	Stage 2	Stage 3	2021
ECLs recognised in the income statement excluding interest in suspense and write-off	(6 984)	–	–	(6 984)

46.2 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.

in thousands of rands	2022	2021
47. LEASE OBLIGATIONS		
Minimum lease payments due (IFRS 16)		
– within one year	386	2 917
– in second to fifth year inclusive	150	–
Total	**536**	**2 917**

The Bank has entered into commercial lease 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.

48. IRREGULAR, FRUITLESS AND WASTEFUL EXPENDITURE

48.1 Irregular expenditure

	2022	2021
Balance at beginning of the year	766	2 744
Incurred in the current year	–	608
Condoned	(766)	(2 586)
Balance at end of the year	**–**	**766**
Details of irregular expenditure		
Contract increased in expenditure due to increase in scope	–	45
Contracts continued post expiry date	–	563
Total	**–**	**608**

Incidents of irregular expenditure occurred during the previous years. Consequence management measures have been applied as relevant to each case.

in thousands of rands	2022	2021
49. FUNDS ADMINISTERED ON BEHALF OF THIRD PARTIES		
Balance at beginning of the year	1 806 053	1 794 988
Funds received	4 371 801	3 419 784
Interest, foreign exchange and other movements	86 631	(419 284)
Funds disbursed	(3 931 816)	(2 989 435)
Balance at end of the year	**2 332 669**	**1 806 053**

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 Development Bank of Southern Africa (DBSA). As per the MOA it was agreed that the DBSA and the National Treasury will each contribute 50% towards the operating costs of the Infrastructure Fund for the first five years of the agreement. During the financial year, the DBSA committed an amount of R52 million towards the operational costs of the IF and the amount is disclosed under general and administration expenses.

50. THIRD PARTY MANAGED FUNDS COST RECOVERED

Third party funds and mandates

African World Heritage Fund	5 351	4 852
Climate Finance Facility Trust	–	655
District Development Model	40 270	22 550
Gauteng Department of Agriculture	–	419
Global Environment Facility	3 470	–
Infrastructure Delivery Management System	1 670	2 443
Infrastructure Fund	29 132	4 022
Infrastructure Investment Programme for South Africa (IIPSA)	1 845	4 050
Jobs Fund	1 544	2 588
KfW SADC Water Fund	2 282	2 465
National Department of Basic Education for Accelerated Infrastructure Schools Programme	7 539	3 629
National Department of Energy – Independent Power Producer Office (IPPO)	49 364	52 682
National Department of Health	3 655	4 908
National Department of Public Works	–	22 988
National Treasury Cities Support Programme (NTCSP)	11 767	10 837
Pan African Capacity Building Platform (PACBP)	4 822	4 146
Student Housing Infrastructure Programme	8 340	3 355
World Economic Forum – Sustainable Development Investment Partnership Programme	1 614	611
Total costs recovered	**172 665**	**147 200**

Third party managed funds managed per division

Finance	39 305	15 608
Infrastructure Delivery	28 758	42 593
Project Preparation	64 332	66 449
Coverage	40 270	22 550
Total	**172 665**	**147 200**

Cost recovery for each division

Corporate Services	166 530	75 232
Finance	644	13 021
Infrastructure Delivery	5 304	54 327
Project Preparation	187	4 620
Total	**172 665**	**147 200**

51. 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.

52. EVENTS AFTER THE REPORTING PERIOD

52.1 Adjusting events

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 page 103).

52.2 Non-adjusting events

52.2.1 The term of office of Ms Malijeng Nqaleni as a director and shareholder representative came to an end with effect from 1 April 2022. Ms Malijeng Ngqaleni also ceased to be a member of Infrastructure Delivery and Knowledge Management Committee (IDKC) with effect from 1 April 2022.

52.2.2 Ms Martie Janse van Rensburg has been re-appointed as an independent non-executive director of the DBSA Board for a term of three years effective from 1 April 2022 to 31 March 2025.

52.2.3 Advocate Maseapo Kganedi resigned with effect from 30 April 2022.

ABBREVIATIONS AND ACRONYMS

ALCO	Assets & Liability Management Committee
ARR	Accounting Rate of Return
AWHF	African World Heritage Fund
B-BBEE	Broad-Based Black Economic Empowerment
BSC	Balanced Scorecard
BSRU	Business Support and Recovery Unit
CFO	Chief Financial Officer
COVID-19	Coronavirus disease 2019
CPI	Consumer Price Index
CVA	Credit value adjustment
DBSA	Development Bank of Southern Africa Limited
DDM	District Development Model
DEFF	Department of Environment, Forestry and Fisheries
DFI	Development Finance Institution
DFID	The United Kingdom's Department for International Development
DPD	Days Past Due
DVA	Debit value adjustment
EAD	Exposure at default
ECL	Expected credit loss
EIR	Effective interest rate
ERR	Early risk review
Etc	Et cetera
EUR	Euro (currency)
FVTPL	Fair value through profit or loss
GAM	Generalised Additive Model
GDP	Gross domestic product
GRA	Group Risk Assurance
HRC	Human Resources Committee
IASB	International Accounting Standards Board
IBA	ICE Benchmark Administration Limited
IBOR	Interbank Offered Rate
ICT	Information and communications technology
IDD	Infrastructure Delivery Division
IDKC	Infrastructure Delivery and Knowledge Management Committee
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
JIBAR	Johannesburg Interbank Average Rate

JSE	Johannesburg Stock Exchange Limited
KfW	The German Agency, Kreditanstalt für Wiederaufbau
KZN	KwaZulu-Natal
LGD	Loss given default
LIBOR	London Interbank Offered Rate
MEVs	Macroeconomic Variables
MISA	Municipal Infrastructure Support Agency
MoA	Memorandum of Agreement
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
ODRs	Observed Default Rates
OECD	Organisation for Economic Co-operation and Development
OpsCo	Operations Committee
PAA	Public Audit Act, No. 25 of 2004
PACBP	Pan African Capacity Building Platform
PAYE	Pay As You Earn
PD	Probability of default
PEG	Price Earnings Growth
PFMA	Public Finance Management Act, No. 1 of
POCI	Purchased or originated credit impaired
RAROC	Risk Adjusted Return On Capital
RMIPPP	Risk Mitigation IPP Procurement Programme Procurement.
ROE	Return on equity
RSA	Republic of South Africa
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
SOE	State-Owned Entity
SPPI	Solely payments of principal and interest
TTC	Through The Cycle
USD	United States dollar (currency)
VAT	Value Added Taxation
ZAR	South African rand (currency)

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	Rand Merchant Bank (a division of FirstRand Bank Limited)
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

www.dbsa.org