Development Bank of Southern Africa Limited

(Reconstituted and incorporated in terms of section 2 of the Development Bank of Southern Africa Act, 1997)

Registration number: 1600157FN

JSE company code: DIDBS

LEI code: 25490071AZ4HOFUNIH94

(the "DBSA" or the "Bank")

AUDITED ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2022

Overview

The DBSA is a development finance institution; whose only shareholder is the Government of the Republic of South Africa. This summary of the financial results for the year ended 31 March 2022 (the "results") is published on the JSE Limited ("JSE") Stock Exchange News Service ("SENS") to provide the information to the holders of the Bank's listed debt securities. The results are prepared in accordance with the requirements of International Financial Reporting Standards ("IFRS") and its interpretations as issued by the International Accounting Standards Board ("IASB"), the presentation requirements of IAS 1 and the requirements of sections 27 to 31 of the Companies Act of South Africa (Act No.71 of 2008) (the "Companies Act"), these being the relevant and corresponding sections specified in the Development Bank of Southern Africa Act (Act No. 13 of 1997) (the "DBSA Act"). The annual financial statements and annual report of the Bank for the year ended 31 March 2022 ("annual financial statements" or "AFS") are available on the DBSA website: https://www.dbsa.org/investor-relations

Audit of the annual financial statements

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

Context of the annual financial statements

The year ended 31 March 2022 continued to be overshadowed by the COVID-19 pandemic (the "pandemic") and the Russia-Ukraine war which dominated global macro-economic conditions and forecasts. Overall, South Africa continues to face a myriad of challenges such as, poverty, inequality, power supply disruptions, slow service delivery and a high unemployment rate which was worsened by the pandemic. The economic fallout from the pandemic necessitated the implementation of unconventional monetary and fiscal policy measures across the world and these are being unwound.

In addition to the already known effects, the macroeconomic uncertainty caused disruption to economic activities, supply chain activities, and the overall recovery might be delayed. However, in South Africa, an infrastructure-led recovery was identified as an important driver of the post-lockdown recovery plan. Fitch Ratings has revised the Outlook on South Africa's Long-Term Foreign-Currency Issuer Default Rating ("IDR") to Stable from Negative and affirmed the IDR at 'BB-'. The revision of the Outlook to Stable reflects the faster than expected economic recovery, the unexpected strong fiscal performance this year and significant improvements to key GDP-based credit metrics following the re-basing of national accounts.

Despite the challenges noted above, the DBSA remains focused, in line with its mandate, on pursuing its growth strategy designed to augment disbursements through emphasis on its catalytic role aimed at contributing to sustainable infrastructure development beyond the confines of its own balance sheet.

Preparation of the annual financial statements

The directors take full responsibility for the preparation of this announcement and confirm that financial information has been correctly extracted from the underlying audited annual financial statements for inclusion in this announcement.

Basis of preparation

The annual financial statements have been prepared in accordance with the recognition, measurement and disclosure requirements of IFRS, the Public Finance Management Act of South Africa (Act No. 1 of 1999) (the "PFMA"), sections 27 to 31 of the Companies Act, the DBSA Act and the JSE Debt Listings Requirements. Except for where indicated in the annual financial statements available on the DBSA website, the accounting policies and practices applied during the financial year ended 31 March 2022 ("current year" or "year under review") are in all material respects consistent with those applied in the annual financial statements for the financial year ended 31 March 2021 ("prior year", "last year" or "2021 financial year").

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

Key impressions of the financial results and activities

Funding and liquidity management

The Bank's liquidity and capital positions remain strong. The total liquidity position of the Bank substantially decreased by R989m, from R9bn as at 31 March 2021 to approximately R8bn as at 31 March 2022, representing a decrease of 11% in cash and cash equivalents year-on-year. The DBSA has been successful in raising funding from international and local commercial banks as well as from the local fixed income market. The Bank's total debt funding decreased from R59bn as at 31 March 2021 to R56bn as at 31 March 2022. Despite a reduction in debt funding, loan disbursement activities amounted to approximately R12.9bn. Repayments from the loan book reached R19bn (comprising principal loan repayments of R12bn and interest repayments of R7bn).

Capital adequacy

The Bank continues to have strong capital buffers for unexpected loss events. There was a significant increase in the Bank's equity base amounting to R3.8bn during the current year when compared to last year's increase in the equity base of R1.4bn. The debt-to-equity ratio, including the R20bn callable capital as at 31 March 2022, improved to 88% (31 March 2021: 101%), well below the Bank's regulatory debt-to-equity ratio cap of 250%. Callable capital refers to shares authorized but not yet issued. The Bank's capital ratio, expressed as a percentage of balance sheet shareholder capital to unweighted total assets, increased to 43% as at 31 March 2022 from approximately 39% as at 31 March 2021.. The Bank's balance sheet equity position increased by R3.8bn during the current year, from R39.2bn as at 31 March 2021 to R42.9bn as at 31 March 2022.

Loan asset quality and expected credit loss provisions (impairments)

In terms of IFRS 9, the Bank is required to consider forward looking information in the estimation of expected credit losses on the development loan book. In doing so, the DBSA is required to make reasonable forward-looking assumptions. However, forecasting under the current environment is complex and expected credit loss provisions have a higher variability potential because of the influence from the many factors including the sluggish economy and recovery prospects.

Despite a marginal improvement in the macro-economic base compared to the prior year, the Bank experienced an increase in expected credit loss provisions amounting to approximately R1bn, on the back of marginal deterioration in the overall risk profile of the loan book and average probability of default of the loan book increasing marginally when compared to the prior year. The Bank increased its expected credit loss coverage levels on the development loan book from approximately 12.1% as at 31 March 2021 to approximately 12.2% as at 31 March 2022. This resulted in the balance sheet provision for expected credit losses (impairment provision) increasing by 4% to R11.8bn (31 March 2021: R11.4bn). However, when compared to the prior year, the impairments charge in the income statement decreased by 14%, from R1.2bn in the prior year to approximately R1bn in the current year. IFRS 9 stage 3 net non-performing loan ratio (net non-performing loans to net development loan book) decreased from 2.6% as at 31 March 2021 to 1.4% of the total loan book as at 31 March 2022. IFRS 9 Stage 3 gross non-performing loan ratio (gross non-performing loans to total gross development loan book) decreased from approximately 7.7% as at 31 March 2021 to approximately 4.6% as at 31 March 2022 on the back of cash collections, successful loan restructures and currency movements.

The expected credit loss coverage ratio for Stage 3 (non-performing) loans increased to 73.2% at year end from 69.5% at 31 March 2021, mainly due to restructures and transfers to Stage 2 of balances with comparatively lower coverage rates as well as write-offs.

Total assets

The Bank's total asset base remained at the R100bn level as at 31 March 2022 when compared to the prior year, as loan book growth was offset by marginal decreases in the cash balances, currency movements and fair value movements on the equity investment portfolio. The Bank continued to record strong cash collections on development loans with cash repayments (capital and interest) amounting to approximately R19bn (31 March 2021: R19bn). New development loan disbursements amounted to R12.9bn (March 2021: R13.5bn) and this represents a 4% decrease from prior year. As at 31 March 2022, the equity investment portfolio decreased marginally by less than 1% from R5bn in the prior year to R4.9bn in the current year due to currency movements of approximately R56m, capital repayments of R178m and fair value adjustments of R43m.

Profitability & Efficiency

Despite a challenging environment, net profit for the year increased by 168%, from approximately R1.4bn in the prior year to R3.8bn in the current year. The net profit for current year ended 31 March 2022 arose from the core lending activities of the Bank. There was solid growth in net interest income during the current year, amounting to 18% when compared to the prior year. Impairment charges reduced by 13.8% as the impact of the pandemic on expected credit losses stabilised. In the current year, impairment charges decreased to R1bn from R1.2bn in the prior year. The DBSA lends in United States Dollar and Euro to fund projects outside South Africa. Consequently, the Bank has a net foreign currency asset position and given the appreciation of the South African ZAR against the United States Dollar and Euro during the year; foreign currency exchange rate gains amounted to R156m compared to foreign currency exchange rate losses of R893m in the prior year when the South African ZAR weakened against the United States Dollar and Euro. The Bank does not fully hedge the foreign currency position and closely monitors and manages its exposure to foreign exchange rate risk through the use of natural hedges and derivative hedging strategies. The Bank remains efficient in managing operational costs and the cost optimization strategy continues to be effective. The total cost-to-income ratio for the year ended 31 March 2022 decreased to 24% (25%: 31 March 2021) and the ratio continues to track in line with the cost optimisation strategy.

Development impact performance

The DBSA successfully delivered infrastructure to the total value of R33.4bn, of which R15.1bn was infrastructure catalysed. In addition, the Bank achieved R3.3bn in infrastructure delivered and was able to unlock infrastructure within under resourced municipalities amounting to R2.1bn. During the year under review, 931 learners benefited from 1 newly built school and 56 958 learners benefited from 104 refurbished schools. Interventions at the municipal level resulted in the successful completion of 13 projects. Overall, R2.9bn of the Bank's infrastructure spend benefitted B-BBEE companies, of which 36% have women ownership greater than 30%. In absolute numbers, 1 543 small, micro and medium enterprises ("SMMEs") benefited from the infrastructure that has been delivered to date, of which 152 are women-owned SMMEs.

Statement of financial position as at 31 March 2022

in thousands of Rands	2022	2021
Assets		
Cash and cash equivalents at amortised cost	7 990 108	8 978 608
Trade receivables and other assets	259 293	296 376
Investment securities	444 287	455 215
Derivative assets held for risk management purposes	458 243	750 831
Other financial assets	43 067	42 451
Development loans held at fair value through profit or loss	19 309	16 847
Equity investments held at fair value through profit or loss	4 976 507	5 007 459
Development bonds at amortised cost	1 151 903	1 279 235
Development loans at amortised cost	84 177 054	82 733 448
Property, equipment and right of use of assets	444 847	405 685
Intangible assets	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	890 743	739 962
Repurchase agreements at amortised cost	-	868 042
Derivative liabilities held for risk management purposes	34 240	127 276
Liability for funeral and post-employment medical benefits	48 529	47 630
Debt funding designated at fair value through profit or loss	688	1 513 997
Debt funding held at amortised cost	55 535 354	56 982 792
Provisions and lease liabilities	91 795	114 485
Deferred income	515 667	503 086
Total liabilities	**57 117 016**	**60 897 270**
Equity		
Share capital	200 000	200 000
Retained income	28 881 710	24 366 254
Permanent government funding	11 692 344	11 692 344
Other reserves	281 800	345 917
Reserve for general loan risk	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	2022	2021
Interest income		
Interest income calculated using the effective interest rate	8 831 968	8 161 023
Other interest income	146 337	180 080
Interest expense		
Interest expense calculated using the effective interest rate	(3 085 112)	(3 335 021)
Other interest expense	(100 424)	(114 441)
Net interest income	**5 792 769**	**4 891 641**
Net fee income	279 794	187 858
Net foreign exchange gain/(loss)	156 130	(892 773)
Net loss from financial assets and financial liabilities	(606)	(354 454)
Investment and other income	56 523	57 864
Other operating income/(loss)	**491 841**	**(1 001 505)**
Operating income	**6 284 610**	**3 890 136**
Project preparation expenditure	(48 466)	(37 802)
Development expenditure	(71 687)	(78 240)
Impairment losses	(1 004 938)	(1 164 724)
Personnel expenses	(867 998)	(835 131)
General and administration expenses	(402 268)	(286 813)
Depreciation and amortisation	(36 684)	(32 287)
Profit from operations	**3 852 569**	**1 455 139**
Grants paid	(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	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	-	(5 661)
Movement in own credit risk for funding held at fair value through profit or loss	(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	(59 239)	344 362
Loss/(gain) on cash flow hedges reclassified to profit or loss	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**

Condensed statement of changes in equity as at 31 March 2022

in thousands of Rands	2022	2021
Balance at beginning of the year	39 150 454	37 577 577
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	-	(5 661)
Movement in own credit risk for funding held at fair value through profit or loss	(34 424)	2 097
Remeasurement of funeral and post-employment medical benefit liabilities	(469)	(3 920)
Unrealised (loss)/ gain on cash flow hedges	(59 239)	344 362
Loss/(gain) on cash flow hedges reclassified to profit or loss	29 546	(186 630)
Balance at end of the year	**42 911 025**	**39 150 454**

Condensed statement of cash flows for the year ended 31 March 2022

in thousands of Rands	2022	2021
Cash flows from operating activities	4 463 481	4 451 262
Cash flow from development activities	(1 744 452)	(1 977 432)
Cash flow from investing activities	(21 549)	1 331 363
Cash flow 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	(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	8 978 608	3 458 836
Cash and cash equivalents at the end of the year	**7 990 108**	**8 978 608**

Events after the reporting period

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

Outlook

Despite the challenging economic environment, the DBSA has a strong leadership and management team steering the Bank through the challenging pandemic, whilst following the principles of good corporate governance. The Bank has a resilient balance sheet and continues to play a significant role in infrastructure development through lending and non-lending activities. The Bank’s continued success hinges on its ability to increased developmental impact using its own balance sheet and partnering with others. Both domestic and global economic factors are critical to the achievement of the Bank’s objectives. The Bank has a healthy pipeline of projects that form a solid platform for success in the future and will continue to focus on disbursing to infrastructure projects to grow developmental impact in line with its mandate.

19 August 2022

Debt Sponsor
RAND MERCHANT BANK (A division of FirstRand Bank Limited)