

Development Bank of Southern Africa Limited

Registration number: 1600157FN

JSE alpha code: DIDBS

("DBSA or "the Bank")

## **COVID-19 Update**

### **Context and introduction**

The COVID-19 pandemic continues to impact human lives and economic activities in South Africa. Whilst the full impact and extent of the pandemic is still not fully understood or quantified in economic terms, the distress on affected economies and human lives will continue. In South Africa, the easing of the lockdown restrictions in June 2020 has enabled the resumption of more economic activities. However, infections continue to rise at an alarming rate in South Africa. Coupled with the economic recession, earlier credit ratings downgrades and low commodity prices, risks remain elevated. DBSA as a key stakeholder in economic development has set aside R150m towards the fight against the COVID-19 pandemic.

### **Funding, Liquidity and capital positions**

The Bank's liquidity and capital positions remain strong despite the recent Moody's Investors Service downgrade of the DBSA long-term foreign currency issuer credit rating to a notch below that of the sovereign, and of the Bank's long-term national scale issuer rating to Aa3.za, from Aa1.za. Notwithstanding the disruption of the local fixed income market, the DBSA has been successful in raising funding from international development finance institutions as well as international and local commercial banks. The Bank's debt to equity level for March 2020 is expected to remain significantly below its regulated debt-to-equity ratio cap of 250%. In the same vein, the Bank's capital ratio expressed as a percentage of shareholder capital to unweighted total assets as at end March 2020 is expected to approximate 37%.

### **Expected credit losses and asset quality**

IFRS 9 requires that the Bank considers forward looking information in the calculation of expected credit losses. In doing so, the Bank is required to make reasonable forward-looking assumptions. However, forecasting under the current environment is complex and expected credit loss provisions have a high variability potential because of the influence from the developing economic recession and recovery prospects. Given the current deterioration in the macroeconomic base, the Bank expects a rise in expected credit loss provisions as clients get affected. The Bank will be materially increasing its expected coverage levels through higher expected credit loss portfolio provisions when compared to the prior year. However, the IFRS 9 Stage 3 non-performing loan ratio is expected to be in line with half year ratio of approximately 7%. The Bank has not offered any blanket relief to clients as a result of COVID-19 pandemic.

### **Profitability & Efficiency**

Current estimates are that the Bank will remain profitable. The full year profits to March 2020 will, however, be lower than March 2019 full year profits due to the Bank adjusting for the estimated effects of the COVID-19 pandemic on the performing loan portfolio by increasing expected loss provision in the March 2020 financial results. DBSA's cost optimisation strategy continues to be effective and the cost-to-income ratio for March 2020 is expected to continue to track below the internal limit of 35%.

### **Asset growth**

Balance sheet growth as at 31 March 2020 is expected at around 12% up from the prior year, offset by a marginal decrease in net interest income on the back of the recent SARB interest rate cuts. Development loan disbursements are expected to increase by more than 75% when compared to 2019 levels.

### **Outlook**

Despite the challenging economic environment, the DBSA has a strong leadership and management team steering the Bank through the challenging COVID-19 pandemic driven recessionary environment whilst following 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, whilst making progress in the establishment of the country's Infrastructure Fund and playing an active role in crafting enhancement of municipal service delivery through the District Delivery Model.

The financial information on which this statement is based has not been reviewed and reported on by DBSA's auditors. The financial results for the full year ending on 31 March 2020 are currently expected to be published on or about 30 September 2020.

3 August 2020

Debt Sponsor

Nedbank Corporate and Investment Banking