Development Bank of Southern Africa Limited

Registration number: 1600157FN

JSE alpha code: DIDBS

("DBSA or "the Bank")

REVIEWED CONDENSED INTERIM FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 SEPTEMBER 2020

Overview

DBSA is a development finance institution; whose only shareholder is the Government of the Republic of South Africa. This summary of the condensed interim financial results is published on SENS to provide information to the holders of the Bank's listed debt instruments. The condensed interim 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 34 and requirements of section 27 to 31 of the Companies Act of South Africa (Act No.71 of 2008), these being the relevant and corresponding sections specified in the Development Bank of Southern Africa Act. The condensed interim financial statements and the auditor's unmodified review conclusion are available on the DBSA website (*https://www.dbsa.org*).

Review of the condensed interim financial statements

DBSA's auditor, the Auditor General of South Africa (hereafter referred to as the AG) conducted a review of the condensed interim financial statements for the period ended 30 September 2020 in accordance with International Standard on Review Engagements 2410, '*Review of Interim Financial Information Performed by the Independent Auditor of the Entity*'. The AG has expressed an unmodified review conclusion on the condensed interim financial statements for the period ended 30 September 2020.

Context of the condensed interim financial statements

During March 2020, most countries closed their borders and implemented lockdown measures to contain the spread of COVID-19. Many countries have since reopened their economies, which brought with it a resurgence in COVID-19 cases, especially in Europe. South Africa moved to Alert Level 1 in September 2020. The South African government released the Economic Reconstruction and Recovery plan to accelerate the infrastructure-led economic recovery. All of the short-term economic indicators point to some form of a normalization in GDP growth towards the third quarter of 2020. However, these indicators have not fully recovered the losses made in the second quarter. The economic recovery will likely be slow and choppy, similar to what is expected at a global level.

Preparation of the condensed interim financial statements

The directors take full responsibility for the preparation and for correctly extracting the financial information from the underlying reviewed condensed interim financial statements for inclusion in this SENS announcement.

Basis of preparation

The condensed interim financial statements have been prepared in accordance with the recognition, measurement and disclosure requirements of International Financial Reporting Standards ("IFRS") and the presentation requirements IAS 34 '*Interim Financial Reporting*', Section 27 to 31 of the Companies Act, No 71 of 2008, and the Development Bank of Southern Africa Act. The condensed interim financial statements have been prepared on the historical cost basis, except for 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, Land and buildings, Post-retirement medical aid benefit investment, Funeral benefit and post-retirement medical aid liability.

Accounting policies adopted and methods of computation are consistent with those applied to the annual financial statements as at 31 March 2020. The preparation of the interim financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis.

Key impressions of the financial results and activities

Funding and liquidity management

The Bank's liquidity and capital positions remain strong. 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 and concluded bond market private placements. Total debt increased from R61bn as at 31 March 2020 to R64bn as at 30 September 2020. The increase in debt capital was used to fund the Bank's development activities and infrastructure financing activities and increase Bank's liquidity holdings.

Capital adequacy

The debt-to-equity ratio including R20 billion callable capital as at 30 September 2020 amounted to 110% (31 March 2020: 108%), well below the Bank's regulatory debt-to-equity ratio cap of 250%. The Bank's capital ratio expressed as a percentage of balance sheet shareholder capital to unweighted total assets as at 30 September 2020 amounted to approximately 37% (March 2020: 37%). Callable capital is defined as authorized share capital but not yet issued. The Bank's equity position increased from R37.6bn as at 31 March 2020 to R38.3bn as at 30 September 2020.

Loan asset quality and expected credit losses provisions

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 ongoing economic recession and recovery prospects. Given the current deterioration in the macroeconomic base, the Bank experienced a rise in expected credit loss provisions for the year ended 31 March 2020. However, as at 30 September 2020, expected credit losses increased by 2.5% to R10.4 billion (31 March 2020: R10.2 billion). Further, when compared to same 6 month interim period in the prior year, the total expected credit loss charge decreased from R1.1bn to R269m. As at 30 September 2020, gross non-performing loans to total gross development loan book ratio increased from approximately 7% to approximately 8%.

Asset growth

The Bank's total asset base increased by 3.2% from R100bn as at 31 March 2020 to R104bn as at 30 September 2020 primarily due to increase in liquidity holdings. Despite the growth in the asset base, net interest income on the gross development loans increased despite the cut in interest rates by SARB. Development loan disbursements for the interim period amounted to R9.1bn, representing an increase of more than 155% when compared with prior year interim period development loan disbursement of R3.5bn. As at 30 September 2020, the equity investment portfolio decreased by 12.5% from R5.9bn as at 31 March 2020 to R5.2bn due to currency movements, capital repayments and COVID-19 mark-to-market adjustments.

Profitability and efficiency

The Bank has remained profitable despite a challenging environment which has been worsened by the outbreak of the COVID-19 pandemic. The net profit for period decreased by R211m from R805m at September 2019 to R594m as at 30 September 2020. When compared to 30 September 2019, the decrease in net profit is primarily driven by a foreign exchange loss amounting to R354m. However, the Bank remains efficient in managing operational costs and the cost optimisation strategy continues to be effective. The total cost-to-income ratio for September 2020 amounted to 27% (September 2019: 27%) and this ratio continues to be on track with the Bank's cost optimization strategy.

Condensed Statement of Financial Position as at 30 September 2020

in thousands of rand	30 September 2020 Reviewed	31 March 2020 Audited
Assets		
Cash and cash equivalents at amortised cost	8 508 132	3 458 836
Trade receivables and other assets	301 184	328 069
Investment securities	566 149	1 787 361
Investments under resale agreements at amortised cost	600 315	-
Derivative assets held for risk management purposes	824 707	812 053
Other financial assets	39 450	36 152
Development loans held at fair value through profit or loss	22 413	22 413
Equity investments held at fair value through profit and loss	5 242 903	5 993 951
Development bonds at amortised cost	1 288 277	1 288 278
Development loans at amortised cost	85 852 286	86 240 264
Property, equipment and right of use of assets	412 033	417 518
Intangible assets	76 028	80 220
Total assets	**103 733 877**	**100 465 115**
Equity and liabilities		
Trade, other payables and accrued interest on debt funding	999 148	696 324
Repurchase agreements at amortised cost	1 549 781	587 338
Derivative liabilities held for risk management purposes	355 322	784 835
Liability for funeral and post-retirement medical benefits	42 885	42 885
Debt funding designated at fair value through profit or loss	1 557 523	1 505 805
Debt funding held at amortised cost	60 725 664	59 040 495
Provisions and lease liabilities	173 783	229 856
Total liabilities	**65 404 106**	**62 887 538**
Equity		
Share capital	200 000	200 000
Retained income	23 596 463	23 005 253
Permanent government funding	11 692 344	11 692 344
Other reserves	350 220	191 749
Reserve for general loan risks	2 490 744	2 488 231
Total equity	**38 329 771**	**37 577 577**
Total equity and liabilities	**103 733 877**	**100 465 115**

Condensed Statement of Comprehensive Income for the period ended 30 September 2020	30 September 20206 Months Reviewed	30 September 2019 6 Months Reviewed
in thousands of rand		
Interest income		
Interest income calculated using the effective interest rate	3 992 046	4 016 996
Other interest income	88 981	134 007
Interest expense		
Interest expense calculated using the effective interest rate	(1 789 442)	(1 687 975)
Other interest expense	(58 573)	(289 411)
Net interest income	**2 233 012**	**2 173 617**
Net fee income	14 061	96 617
Net foreign exchange (loss)/gain	(353 879)	280 366
Net loss from financial assets and financial liabilities	(450 188)	(104 742)
Investment and other income	42 114	40 710
Other operating (loss)/ income	**(747 892)**	**312 951**
Operating income	**1 485 120**	**2 486 568**
Project preparation expenditure	(23 261)	(25 592)
Development expenditure	(15 015)	(22 515)
Expected credit losses on financial assets held at amortised cost	(269 309)	(1 062 323)
Personnel expenses	(433 729)	(409 445)
General and administration expenses	(120 865)	(141 755)
Depreciation and amortisation	(16 094)	(14 604)
Profit from operations	**606 847**	**810 334**
Grants paid	(13 124)	(5 427)
Profit for the period	**593 723**	**804 907**

Condensed Statement of Other Comprehensive Income for the period ended 30 September 2020	30 September 2020 6 Months Reviewed	30 September 2019 6 Months Reviewed
in thousands of rand		
Profit for the period	**593 723**	**804 907**
Items that will not be reclassified to profit and loss		
Movement due to changes in own credit risk on financial liabilities designated at fair value through profit or loss	2 362	(18 552)
Items that may be reclassified subsequently to profit and loss		
Unrealised gain/ (loss) on cash flow hedges	370 766	(63 420)
(Gain)/loss on cash flow hedges reclassified to profit and loss	(214 657)	53 167
	156 109	**(10 253)**
Other comprehensive gain/(loss)	**158 471**	**(28 805)**
Total comprehensive income for the period	**752 194**	**776 102**

Condensed statement of changes in equity for the period ended 30 September 2020	30 September 2020 6 Months Reviewed	30 September 2019 6 Months Reviewed
in thousands of rand		
Balance at 1 April	**37 577 577**	**37 172 254**
Profit for the period	593 723	804 907
Movement due to changes in own credit risk on financial liabilities designated at fair value through profit or loss	2 362	(18 552)
Unrealised gain/(loss) on cash flow hedges	370 766	(63 420)
(Gain)/loss on cash flow hedges reclassified to profit and loss	(214 657)	53 167
Balance at 30 September 2020	**38 329 771**	**37 948 356**

Condensed Statement of Cash Flows for the period ended 30 September 2020	30 September 2020 6 Months Reviewed	30 September 2019 6 Months Reviewed
In thousands of rand		
Net cash generated from operating activities	2 578 454	1 293 500
Net cash (used in)/generated from development activities	(1 922 453)	258 710
Net cash generated from investing activities	690 192	463 947
Net cash generated from/(utilised by) financing activities	3 869 354	(1 216 885)
Effect of exchange rate movement on cash balances	(166 251)	(34 028)
Net increase in cash and cash equivalents	**5 049 296**	**765 244**
Cash and cash equivalents at the beginning of the year	3 458 836	2 922 876
Cash and cash equivalents at the end of the period	**8 508 132**	**3 688 120**

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 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 implementation of the country's Infrastructure Fund and playing an active role in crafting enhancement of municipal service delivery through the District Delivery Model. The Bank's continued success hinges on its ability to grow 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 springboard for success in the future and will continue to focus on disbursing to infrastructure projects to grow developmental impact in line with its mandate.

30 November 2020

Debt Sponsor

Nedbank Corporate and Investment Banking, a division of Nedbank.