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

(“DBSA” or the “Bank”)

## REVIEWED CONDENSED INTERIM FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 SEPTEMBER 2021

### Overview

DBSA is a development finance institution; whose only shareholder is the Government of the Republic of South Africa. This summary of the condensed financial results for the interim period ended 30 September 2021 (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 34 and the requirements of sections 27 to 31 of the Companies Act of South Africa (Act No.71 of 2008) (“Companies Act”), these being the relevant and corresponding sections specified in the Development Bank of Southern Africa Act (Act No. 13 of 1997) (“DBSA Act”). The condensed interim financial statements for the six-month period ended 30 September 2021 (“condensed interim financial statements’” or “interims” and the auditor’s unmodified review conclusion are available on the DBSA website at https://www.dbsa.org/investor-relations

### Review of the condensed interim financial statements

DBSA’s auditor, the Auditor General of South Africa (hereinafter referred to as the “AG”) conducted a review of the condensed interim financial statements in accordance with the 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.

**Context of the condensed interim financial statements**

The past 18 months have largely been overshadowed by the global COVID-19 pandemic (the "pandemic"), which resulted in intermittent lockdown measures to contain the spread of the virus. At the height of the pandemic, the global shut down resulted in 125 countries instituting some form of lockdown. Many countries were faced with finding a balance between containment of the virus while continuing to support economic growth.

Most countries have found ways to balance the resumption of economic activity, with intermittent lockdown restrictions, in times when COVID-19 flareups occur. A combination of increased demand as well as accommodative monetary and fiscal policies has placed significant upside risk to the global inflation trajectory. As central banks in developed economies start to unwind COVID-19 related support, emerging market economics, including South Africa, will likely follow suit. Following increases of 10.6% in the fourth quarter of 2020 and 4.2% in the first quarter of 2021, South African real gross domestic product ("GDP") growth surprised on the upside for the fourth consecutive quarter, increasing by 4.7% on a quarter-on-quarter seasonally adjusted and annualised basis in the second quarter of 2021. The second quarter growth recovery was driven by, amongst others, improvements in the trade, catering and accommodation, electricity, construction, and personal services sectors. Socio-economic hardships continue to impact South Africans, with the official unemployment rate increasing to a record high of 34.4% in the second quarter of 2021. From a DBSA point of view, global policy and financial market uncertainty has made the operating environment challenging.

Despite the impact of the pandemic, DBSA remained 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. Through this strategy, the Bank aims to crowd in third party funding through de-risking projects using early-stage project preparation and structuring and innovative solutioning.

**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 IFRS and the presentation requirements of IAS 34 '*Interim Financial Reporting*', sections 27 to 31 of the Companies Act, 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 and methods of computation adopted are consistent with those applied to the annual financial statements as at 31 March 2021. The preparation of the condensed 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, DBSA has been successful in raising funding from international development finance institutions, international and local commercial banks and concluded private placements.

The Bank's total debt funding decreased from R59bn as at 31 March 2021 to R57bn as at 30 September 2021. Despite a reduction in debt funding, loan disbursement activities amounted to approximately R6.9bn. Repayments from the loan book reached R8.5bn (comprising principal loan repayments of R4.5bn and interest repayments of R4bn). The total liquidity position of the Bank substantially decreased by R2.3bn, from R9bn as at 31 March 2021 to approximately R6.7bn as at 30 September 2021, representing a decrease of 26% in cash and cash equivalents year-on-year. The Bank policy is to manage liquidity levels along the lines of the Basel 30-liquidity coverage ratio. From the onset of the Covid-19 driven market dislocation however, liquidity has more conservatively been managed at a level closer to 90-day cover. As at 30 September 2021, the 30-day liquidity coverage ratio amounted to 1 271% (31 March 2021: 879%).

***Capital adequacy***

The Bank continues to have strong capital buffers for unexpected events. The debt-to-equity ratio, including the R20bn callable capital as at 30 September 2021, improved to 94% (31 March 2021: 101%), 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, increased to 41% as at 30 September 2021 from approximately 39% as at 31 March 2021. The Bank's balance sheet equity position increased by R2.2bn during the interim period, from R39.1bn as at 31 March 2021 to R41.3bn as at 30 September 2021.

***Loan asset quality and expected credit losses provisions***

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, 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 uncertainty around ongoing economic 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 R395m, on the back of marginal deterioration in the overall risk of the loan book and average probability of default of the loan book increasing marginally when compared to the year ended 31 March 2021 ("prior year"). The Bank's expected credit loss coverage levels on the loan book remained relatively unchanged at approximately 11.9% from 31 March 2021 to 30 September 2021. As at 30 September 2021, the expected credit loss coverage ratios for Stage 1 and Stage 2 loans increased to 7.3% (7.2%: 31 March 2021) and coverage ratio for Stage 3 and credit-impaired loans increased to 74.3% from 69.5% as at 31 March 2021. This resulted in the balance sheet provision for expected credit losses (impairment provision) increasing by approximately 3% to R11.7bn (31 March 2021: R11.4bn) in line with concomitant loan book growth of approximately 3%. However, when compared to the interim period ended 30 September 2020 ("prior interim period"), the expected credit loss provision (impairments) charge in the income statement increased by 47%, from R269m in the prior interim period to approximately R395m in the current interim period.

The 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 2% of the total loan book as at 30 September 2021. The IFRS 9 Stage 3 gross non-performing loan ratio (gross non-performing loans to total gross development loan book) decreased from approximately 7.6% as at 31 March 2021 to approximately 6.8% as at 30 September 2021. When compared to the prior interim period, the gross non-performing loan ratio decreased from 8.2% as at 30 September 2020 to 6.8% as at 30 September 2021.

***Asset growth***

The Bank's total asset base remained at the R100bn level as at 30 September 2021 when compared to 31 March 2021, despite loan repayments amounting to approximately R8.5bn as this was offset by currency movements of R502m and new disbursements amounting to R6.9bn for the interim period. Development loan disbursements decreased by 24%, from R9.1bn in the prior interim period to R6.9bn in the current interim period. As at 30 September 2021, the equity investment portfolio increased by 2.3%, from R5bn as at 31 March 2021 to R5.1bn, as a result of new acquisitions of R111m, currency movements of approximately R54m and fair value adjustments of R36m offset by capital repayments of R81m.

***Profitability and efficiency***

The operating environment remains challenging. Despite a challenging environment worsened by the outbreak of the pandemic, net profit for the interim period increased from R594m in the prior interim period to R2.2bn in the current interim period. The net profit for the interim period arose mainly from the core lending activities of the Bank and also from relatively lower expected credit loss charge on the back of cash collections from the distressed book when compared to full prior year. There was solid growth in net interest income during the interim period, amounting to 29% when compared to the prior interim period. The return on equity for the interim period increased to 5.6% when compared to 3.7% for the prior year.

DBSA lends in USD and Euro to fund projects outside of South Africa. Consequently, the Bank has a net foreign currency asset position and given the depreciation of the ZAR against the USD and Euro during the interim period; foreign currency exchange rate gains amounted to R179m compared to a foreign currency exchange rate loss of R354m in the prior year. Whilst the foreign currency position is not fully hedged, the Bank closely monitors and manages its exposure to foreign exchange rate risk using 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 interim period was 22% (27%: 30 September 2020) and the ratio continues to track in line with the Bank's cost optimization strategy.

**Condensed Statement of Financial Position as at 30 September 2021**

| in thousands of Rand | 30 September 2021 Reviewed | 31 March 2021 Audited |
|---|---|---|
| **Assets** | | |
| Cash and cash equivalents at amortised cost | 6 667 999 | 8 978 608 |
| Trade receivables and other assets | 275 328 | 296 376 |
| Investment securities | 451 101 | 455 215 |
| Derivative assets held for risk management purposes | 395 912 | 750 831 |
| Other financial assets | 41 796 | 42 451 |
| Development loans held at fair value through profit or loss | 17 236 | 16 847 |
| Equity investments held at fair value through profit and loss | 5 127 088 | 5 007 459 |
| Development bonds at amortised cost | 1 230 311 | 1 279 235 |
| Development loans at amortised cost | 85 676 767 | 82 733 448 |
| Property, equipment and right of use of assets | 429 853 | 405 685 |
| Intangible assets | 67 468 | 81 569 |
| **Total assets** | **100 380 859** | **100 047 724** |
| **Equity and liabilities** | | |
| Trade, other payables and accrued interest on debt funding | 725 383 | 739 962 |
| Repurchase agreements at amortised cost | 1 380 109 | 868 042 |
| Derivative liabilities held for risk management purposes | 136 747 | 127 276 |
| Liability for funeral and post-retirement medical benefits | 47 630 | 47 630 |
| Debt funding designated at fair value through profit or loss | 1 498 803 | 1 513 997 |
| Debt funding held at amortised cost | 54 635 748 | 56 982 792 |
| Provisions and lease liabilities | 113 182 | 114 485 |
| Deferred income | 509 757 | 503 086 |
| **Total liabilities** | **59 047 359** | **60 897 270** |
| **Equity** | | |
| Share capital | 200 000 | 200 000 |
| Retained income | 26 581 755 | 24 366 254 |
| Permanent government funding | 11 692 344 | 11 692 344 |
| Other reserves | 294 378 | 345 917 |
| Reserve for general loan risks | 2 565 023 | 2 545 939 |
| **Total equity** | **41 333 500** | **39 150 454** |
| **Total equity and liabilities** | **100 380 859** | **100 047 724** |

**Condensed Statement of Comprehensive Income for the period ended 30 September 2021**

| in thousands of Rand | 30 September 2021 Reviewed | 30 September 2020 Reviewed |
|---|---|---|
| ***Interest income*** | | |
| Interest income calculated using the effective interest rate | 4 360 292 | 3 992 046 |
| Other interest income | 91 418 | 88 981 |
| ***Interest expense*** | | |
| Interest expense calculated using the effective interest rate | (1 505 245) | (1 789 442) |
| Other interest expense | (62 590) | (58 573) |
| **Net interest income** | **2 883 875** | **2 233 012** |
| Net fee income | 139 565 | 14 061 |
| Net foreign exchange gain/(loss) | 179 087 | (353 879) |
| Net gain/(loss) from financial assets and financial liabilities | 67 606 | (450 188) |
| Investment and other income | 36 511 | 42 114 |
| **Other operating income/(loss)** | **422 769** | **(747 892)** |
| **Operating income** | **3 306 644** | **1 485 120** |
| Project preparation expenditure | (30 459) | (23 261) |
| Development expenditure | (30 149) | (15 015) |
| Impairment losses | (394 667) | (269 309) |
| Personnel expenses | (450 015) | (433 729) |
| General and administration expenses | (138 868) | (120 865) |
| Depreciation and amortisation | (18 261) | (16 094) |
| **Profit from operations** | **2 244 225** | **606 847** |
| Grants paid | (9 640) | (13 124) |
| **Profit for the period** | **2 234 585** | **593 723** |

| Condensed Statement of Other Comprehensive Income for the period ended 30 September 2021 | 30 September 2021 Reviewed | 30 September 2020 Reviewed |
|---|---|---|
| **in thousands of Rand** | | |
| **Profit for the period** | **2 234 585** | **593 723** |
| **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 | **(4 643)** | **2 362** |
| **Items that may be reclassified subsequently to profit and loss** | | |
| Unrealised (loss)/ gain on cash flow hedges | (83 679) | 370 766 |
| Loss/(gain) on cash flow hedges reclassified to profit and loss | 36 783 | (214 657) |
| | **(46 896)** | **156 109** |
| **Other comprehensive (loss)/gain** | **(51 539)** | **158 471** |
| **Total comprehensive income for the period** | **2 183 046** | **752 194** |

| Condensed statement of changes in equity for the period ended 30 September 2021 | 30 September 2021 Reviewed | 30 September 2020 Reviewed |
|---|---|---|
| **in thousands of Rand** | | |
| **Balance at 1 April** | **39 150 454** | **37 577 577** |
| Profit for the period | 2 234 585 | 593 723 |
| Movement due to changes in own credit risk on financial liabilities designated at fair value through profit or loss | (4 643) | 2 362 |
| Unrealised (loss)/gain on cash flow hedges | (83 679) | 370 766 |
| Loss/(gain) on cash flow hedges reclassified to profit and loss | 36 783 | (214 657) |
| **Balance at 30 September** | **41 333 500** | **38 329 771** |

| Condensed Statement of Cash Flows for the period ended 30 September 2021 | 30 September 2021 Reviewed | 30 September 2020 Reviewed |
|---|---|---|
| **In thousands of Rand** | | |
| Net cash generated from operating activities | 2 693 041 | 2 578 454 |
| Net cash used in development activities | (2 518 015) | (1 922 453) |
| Net cash(utilised by)/ generated from investing activities | (26 512) | 690 192 |
| Net cash (utilised by)/ generated from financing activities | (2 405 397) | 3 869 354 |
| Effect of exchange rate movement on cash balances | (53 726) | (166 251) |
| **Net (decrease)/ increase in cash and cash equivalents** | **(2 256 883)** | **5 215 547** |
| 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 period** | **6 667 999** | **8 508 132** |

**Events after the reporting period**

There were no other adjusting events that occurred after the reporting date other than the impact of the pandemic.

**Outlook**

Despite the challenging economic environment, 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 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 2021

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