

Development Bank of Southern Africa Limited

Registration number: 1600157FN

JSE Company Code: BIDBS

**The Development Bank of Southern Africa Limited: Reviewed results for the period ended 30 September 2017**

**Overview**

Development Bank of Southern Africa Limited (hereafter referred as "Bank") is a state owned entity, whose only shareholder is the Government of the Republic of South Africa. The summary of the interim financial results is published on SENS to provide information to holders of the Bank's debt instruments.

**Independent review of results by Auditors**

The condensed interim financial statements of the Bank for the six months ended 30 September 2017 have been reviewed by the Bank's auditor, Nkonki Inc. In their review report, which is available for inspection at the Bank's registered office, Nkonki Inc. stated that the review was conducted in accordance with International Standard on Review Engagements 2410, *Review of Interim Information Performed by the Independent Auditor of the Entity*, and have expressed a conclusion on the condensed interim financial statements.

**Context of the condensed interim financial statements**

Whilst there has been growth in the South African economy in the last quarter, coming out of the technical recession, business confidence and economic growth continues to be weak. The main contributing sectors for this growth were forestry, agriculture and fishing sectors. The Bank continues to suffer the adverse impact of the subdued economy, resulting into minimised opportunities for the catalytic infrastructure financing. Consequently, the Bank's disbursements to date are below the Bank's half year target of R9bn.

The Bank will continue to pursue the implementation of its growth strategy designed to augment disbursements by focusing on its 'catalytic' role to enable sustainable infrastructure development. To give effect to this strategy, the Bank is increasingly aiming at crowding in third party funding by de-risking project finance structures, increasing investment in early stage project development and developing new structured products.

**Preparation of the condensed interim financial statements**

The condensed interim financial statements have been prepared under the supervision of Zodwa Mbele, the Acting Chief Financial Officer.

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 the SENS announcement.

## **Basis of preparation**

Accounting policies adopted and methods of computation are consistent with those applied to the annual financial statements as at 31 March 2017. The condensed interim financial statements are prepared on the historical cost basis except that the following assets and liabilities are stated at their fair value: derivative financial instruments, financial instruments at fair value through profit and loss, available-for-sale financial assets, land and buildings, post-retirement medical benefit and funeral benefit obligations measured at actuarial values. The condensed interim financial statements are in conformity with IAS 34, Interim Financial Reporting. The preparation of condensed interim financial statement requires management to make judgments, estimates and assumptions that affect the application of accounting policies and reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates.

## **Key impressions of the financial results and activities**

For the period ending 30 September 2017, net profit increased by 40% year-on-year due to an increase in net interest income of 7%, a 39% decrease in impairment to R 272m (30 September 2016: R443), a net gain on foreign exchange of R110m (30 September 2016: loss of R473m) and a gain on financial instruments of R39m (30 September 2016: loss of R131m). The total assets increase of 4.6% was mostly driven by an increase in development loans to R73.7bn (31 March 2017: R71.5bn). The total impairment provision for credit losses increased by 6% to R4.4bn (31 March 2017: R4.1bn). Despite additional impairment charge, the loan book asset quality remains acceptable and within the expected parameter of 6% as demonstrated by non-performing loans ratio of 4.4 % ( 31 March 2017: 3.3%).

## **Key highlights of the Bank's financial performance for the interim period ended 30 September 2017**

- 40% increase in profitability: R1.5bn (30 September 2016: R1.0bn).
- 7% increase in net interest income: R1.9bn (30 September 2016: R1.7bn).
- Cost to income ratio: 24% (30 September 2016: 18%).
- Cash flow generated from operations: R1.7bn (30 September 2016: R1.8bn).
- Impairment charge for the year amounting to R272m (30 September 2016: R443m).
- 11% decrease in sustainable earnings of R1.4bn (30 September 2016: R1.6bn). Sustainable earnings is net profit adjusted for foreign exchange and revaluation of financial instruments.
- Operating income increased by 14% to R2.2bn (30 September 2016: R1.9bn).
- Total assets increased by 4.6% to R83.6bn (March 2017 to R87.4bn). Development loans and equity disbursements was R5.9bn (30 September 2016 R6.7bn).
- Return on equity remained significantly unchanged at 8.8% (March 2017: 9.2%).
- Debt-to-equity ratio excluding R20bn callable capital of 157.7% (31 March 2017 158.1%)

- Debt-to-equity ratio including R20bn callable capital 98.7% (31 March 2017 99.3%). Callable capital is shares authorised but not yet issued. Debt to equity ratio is within the Bank's regulatory limit of 250%.

#### Events after the reporting period

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

#### Outlook

The success to the year ending 31 March 2018 hinges on the Bank's ability to continue delivering on its mandate, within the low economic growth environment. The key challenge at this stage will be to meet the disbursement target for the year. The conditions are likely to persist, thereby putting pressure on the Bank's business. The Bank is however well positioned to weather the volatility through its renewed focus on structured infrastructure solutions, project preparation, new infrastructure programmes and partnerships.

#### Condensed Income Statement for the six months ended 30 September 2017

in thousands of rand	Six months ended 30 Sept 2017 Reviewed	Six months ended 30 Sept 2016 Reviewed
<b>Net interest income</b>	<b>1 904 262</b>	<b>1 777 647</b>
Other income	230 730	673 471
Net foreign exchange gain/(loss)	110 487	(473 714)
<b>Net operating income</b>	<b>2 245 479</b>	<b>1 977 404</b>
Grants	(8 045)	(7 299)
Net impairment loss on financial assets	(272 210)	(442 768)
Personnel expenses	(376 290)	(335 149)
Other expenses	(122 485)	(133 642)
Depreciation and amortisation	(12 101)	(17 688)
<b>Profit for the period</b>	<b>1 454 348</b>	<b>1 040 858</b>

#### Condensed Statement of Comprehensive Income for the six months ended 30 September 2017

	Six months ended 30 Sept 2017 Reviewed	Six months ended 30 Sept 2016 Reviewed
<b>Profit for the period</b>	<b>1 454 348</b>	<b>1 040 858</b>
Other comprehensive (loss)/profit	(7 052)	69 374
<b>Total comprehensive income</b>	<b>1 447 296</b>	<b>1 110 232</b>

Statement of Financial Position at 30 September 2017

in thousands of rand	As at 30 Sept 2017 Reviewed	As at 31 March 2017 Audited
<b>Assets</b>		
Cash and cash equivalents	3 080 105	2 299 247
Other receivables	500 294	121 982
Investment securities	1 362 090	1 069 085
Derivative assets held for risk management	941 439	846 141
Post-retirement medical benefits investment	46 437	45 251
Equity investments	6 059 527	5 972 509
Development bonds	1 290 592	1 290 319
Development loans	73 712 741	71 505 178
Property and equipment	411 574	415 409
Intangible assets	87 138	87 958
<b>Total assets</b>	<b>87 491 937</b>	<b>83 653 079</b>
<b>Liabilities</b>		
Other payables	1 088 735	838 591
Provisions	124 199	126 630
Liability for funeral benefits	3 226	3 226
Liability for post-retirement medical benefits	40 712	40 712
Funding: debt securities held at amortised cost	6 413 915	6 336 487
Funding: debt securities held at FVTPL	32 058 145	30 117 774
Funding: lines of credit	14 209 921	14 015 426
Derivative liabilities held for risk management	74 412	142 857
<b>Total liabilities</b>	<b>54 013 265</b>	<b>51 621 703</b>
<b>Equity</b>		
Share capital	200 000	200 000
Retained earnings	18 857 189	17 514 577
Permanent government funding	11 692 344	11 692 344
Revaluation reserve on land and buildings	198 322	198 322
Hedging reserve	130 733	141 680
Reserve for general loan risks	2 399 227	2 287 491
Fair value reserve	857	(3 038)
<b>Total equity</b>	<b>33 478 672</b>	<b>32 031 376</b>
<b>Total liabilities and equity</b>	<b>87 491 937</b>	<b>83 653 079</b>

**Condensed statement of changes in equity for the six months period ended 30 September 2017**

<b>in thousands of rand</b>	<b>Six months ended 30 Sept 2017 Reviewed</b>	<b>Six months ended 30 Sept 2016 Reviewed</b>
<b>Balance at beginning of the year</b>	<b>32 031 376</b>	<b>29 265 059</b>
National Treasury capital injection		
Profit for period	1 454 348	1 040 858
Net unrealised (loss)/ gain on cash flow hedges	(10 947)	69 746
Change in hedging reserve	3 895	(372)
<b>Total equity at end of the period</b>	<b>33 478 672</b>	<b>30 375 291</b>

**Condensed statement of cash flow for the six months period ended 30 September 2017**

	<b>Six months ended 30 Sept 2017 Reviewed</b>	<b>Six months ended 30 Sept 2016 Reviewed</b>
Cash flows generated from operating activities	1 730 457	1 856 545
Cash flows used in development activities	(2 045 309)	(1 084 132)
Cash flows used in investing activities	(285 557)	(329 787)
Cash flows generated from/(used in) financing activities	1 376 361	(705 321)
Effect of exchange rate movement on cash balances	4 906	(15 402)
<b>Net decrease in cash and cash equivalents</b>	<b>780 858</b>	<b>(278 097)</b>
<b>Cash and cash equivalents at the beginning of the year</b>	<b>2 299 247</b>	<b>2 084 565</b>
<b>Cash and cash equivalents at the end of the period</b>	<b>3 080 105</b>	<b>1 806 468</b>

Debt Sponsor: Nedbank Corporate and Investment Bank, a division of Nedbank Limited