DEVELOPMENT BANK OF SOUTHERN AFRICA
Building Africa's Prosperity

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")

REVIEWED CONDENSED INTERIM FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 SEPTEMBER 2023

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 2023 (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, 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") and the JSE Debt Listings Requirements. The condensed interim financial statements for the six-month period ended 30 September 2023 ("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

Overall, the global economic recovery has slowed in light of the widening divergences among economic sectors and regions. The rise in central bank policy rates to manage inflation continues to weigh on economic activity. The balance of risks to global growth remains tilted to the downside. Inflation is expected to remain high and should further shocks occur, that could trigger more restrictive monetary policy response. The sovereign debt distress could spread to more countries. The borrowing costs for emerging markets remain high, thereby limiting the room for priority spending.

The risk of geoeconomic fragmentation is deepening given the risk of the world economy separation into further economic blocs which may contribute to uncertainty, increased volatility in commodity prices, negatively affecting multilateral cooperation. Africa's growth outlook is subject to significant downside risks, including subdued global growth weighing on Africa's exports, financial conditions exacerbating debt servicing costs; risks associated with extreme weather events and negative impact on fiscal positions. Several African countries are facing sovereign debt distress with some already engaged with the IMF on debt restructure to make them fiscally viable.

South Africa continues to experience subdued economic growth rates, worsened by energy security and reliability challenges, logistical constraints, rising interest rates to deal with inflation, rising consumer indebtedness, and specifically the heightened risk associated with the municipality sector. The local government sector has challenges associated with ballooning municipal debt levels, underspending on capital expenditure and pressure on revenue collections, and general financial management and governance challenges.

Despite the impact of the current economic challenges both locally and from an international perspective, 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. 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 of this announcement and confirm that the financial information has been correctly extracted 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, the DBSA Act and the JSE Debt Listings Requirements. 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 2023. 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 and are subject to DBSA governance processes.

Key impressions of the financial results and activities

Funding and liquidity management

The Bank's liquidity and capital position remains strong, despite a very difficult operating environment. DBSA continues to raise funding from a diverse pool of funding sources which include debt capital markets, bilateral engagements with commercial banks, bond market, money market, private placements and international development finance institutions. As at 30 September 2023, the 30-day liquidity coverage ratio amounted to 374% (31 March 2023: 229%). During the period under review, the Bank's total debt redemptions amounted to approximately R4.3bn. Liquidity holdings remained within policy parameters with total liquid assets of R8.8bn as at 30 September 2023, up from R6.2bn as at 31 March 2023. The Bank's total outstanding debt funding decreased marginally by R360m, from R58.5bn as at 31 March 2023 to R58.1bn as at 30 September 2023. The DBSA's loan book remained resilient in a difficult environment. The cash collections from the loan book for the interim period amounted to R12bn (comprising interest R4.7bn and capital R7.3bn) with development loan disbursements amounting to R4.4bn when compared to the R4.5bn in the prior interim period.

Leverage ratio and capital adequacy.

The Bank continues to have strong capital buffers for unexpected loss events. The Bank's capital base increased by R1.6bn (to a total of R49bn) during the interim period when compared to last year's R4.7bn increase in the equity base. As a result, the debt-to-equity ratio, including the R20bn callable capital as at 30 September 2023, improved marginally to 85% (31 March 2023: 87%), and remains well below the Bank's regulatory debt-to-equity ratio cap of 250%. The debt-to-equity ratio without callable capital improved to 120% (31 March 2023: 124%). 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 45% as at 30 September 2023 from approximately 44% as at 31 March 2023. Overall, the Bank remains well capitalized.

Loan and bond asset quality and expected credit loss provisions (impairments)

The single largest risk that the DBSA faces from its lending activities is credit risk. The Bank has continued to be aggressive when it comes to cash collections and equally conservative in its approach to provisioning in response to any significant increase in credit risk observed in the portfolio and operating environment. DBSA remains proactive in the loan management and monitoring given the current economic environment and negative outlook skewed to the downside.

Further, 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 and bond 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 by nature have a higher variability potential because of the influence from the many factors including the weak economy, power supply challenges in RSA, inflation levels, rising consumer indebtedness, currency movements, sovereign debt distress in a number of African countries and overall rocky recovery prospects.

For the interim period ended 30 September 2023, the Bank experienced an increase in expected credit loss balance sheet provisions (on development loans and bonds) of 7% amounting to approximately R715m from R12.3bn (31 March 2023) to R13.1bn (30 September 2023). The increase is in response to changes in the credit risk profile, growth in the loan book and the negative macro-economic environment. The DBSA's loan book remained resilient in a difficult environment. As indicated above under Funding and Liquidity Management, the cash collections from the loan book for the interim period amounted to R12bn (comprising interest R4.7bn and capital R7.3bn) and development loan disbursement amounted to R4.4bn when compared to the R4.5bn in the prior interim period. In South Africa, the municipal sector continues to face headwinds. Overall, in response to the novel risks associated with the sectors DBSA operates in, the Bank continues to make use of overlays to ensure proactive responses to evolving risks on and around interim reporting period.

The balance sheet provision for expected credit losses (impairment provision) increased by 7% to R13.1bn (31 March 2023: R12.3bn). Following the overall balance sheet provisions being marginally up, the expected credit loss coverage level on the total development loan and bonds increased from 12.2% (31 March 2023) to 12.4% (30 September 2023) in response to the changes in the risk profile of the book. The loans that were restructured successfully in the prior year ended March 2023 continue to perform. The IFRS 9 stage 1 loans amounted to 52% of the loan book (31 March 2023: 53%) The IFRS 9 Stage 2 loans remained unchanged at approximately 43% of the loan book (31 March 2023: 43%) and South African exposures in the municipal and electricity sector comprises a significant proportion of the stage 2 loans.

The total impairments charge in the income statement increased by 24.6%, from approximately R556m in the prior half year ("prior interim period"), to approximately R693m for the interim review. IFRS 9 stage 3 net non-performing loan ratio (net non-performing loans to net development loan book) increased from 1.1% as at 31 March 2023 to 2.46% of the total loan book as at 30 September 2023. Despite the strong cash collections in the distressed loan book (stage 3 loans), the IFRS 9 Stage 3 gross non-performing loan ratio (gross non-performing loans to total gross development loan book) increased from approximately 3.2% as at 31 March 2023 to approximately 4.72% as at 30 September 2023.

The increase in the gross non-performing ratio was driven by credit exposures in Ghana and Ethiopia which migrated from Stage 2 to Stage 3 during the interim period under review. The expected credit loss coverage ratio for Stage 3 (non-performing) loans decreased to 53% as at 30 September 2023 from 69% as at 31 March 2023, mainly due to credit risk movements, collections, currency movements and valuation of collateral.

Approximately, 72% of the loan portfolio remains medium risk rated (MS8-MS13 rating) and 22% of the portfolio is high risk rated (MS14-MS17.1) and 6% of the loan portfolio remain low risk rated (MS1-MS7); and this loan composition remained unchanged when compared to 31 March 2023 financial year. Overall, the expected credit loss provisions remains adequately and appropriately conservative and the Bank continues to be aggressive when it comes to cash collections, proactive in monitoring and management of the portfolio and conservative provisioning.

Total assets

The Bank's total asset base increased to R110bn as at 30 September 2023, from R108bn and this represents overall increase of 2% when compared to 31 March 2023. Development loan disbursements decreased marginally from R4.5bn in the prior interim period to R4.4bn in the current interim period. As at 30 September 2023, the equity investment portfolio decreased by 5%, from R5.1bn as at 31 March 2023 to R4.9bn, the decline in portfolio arose on the back of negative fair value adjustments and capital redemptions, these adverse movements were partially offset by new disbursements and currency movements. Cash and cash equivalents increased from R6.2bn to R8.8bn in line with the Bank liquidity risk management policy.

Profitability & efficiency

The current operating environment continues to remain challenging, coupled by rising interest rates, relatively high inflation and a volatile ZAR which continued to underperform in comparison to its peers. On the back of this the Bank continues to remain profitable, despite a 23% decrease in net profit for the current interim period of R2.1bn when compared to R2.8bn reported in the prior interim period. The decrease in the net profit when compared to the prior year was attributable to lower currency gains during the interim period under review. The n et interest income increased by 13% during the current interim period, when compared to the 14% reported in prior interim period. The return on equity for the current interim period decreased to 4.4% when compared to 6.4% for the prior year due to lower levels of profitability when compared to 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 lower levels of currency depreciation of the ZAR against the USD and Euro during the interim period when compared to the prior year; foreign currency exchange rate gains amounted to R141m (R825m in the prior interim period). 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 current interim period improved to 22% (24%: 30 September 2022) and the ratio continues to be in line with the Bank's cost optimization strategy and well below the limit of 35%.

CONDENSED STATEMENT OF FINANCIAL POSITION AS AT 30 SEPTEMBER 2023		
in thousands of rands	**30 September 2023 Reviewed**	**31 March 2023 Audited**
Assets		
Cash and cash equivalents at amortised cost	8 825 841	6 166 069
Trade receivables and other assets	481 532	402 066
Investment securities	478 634	359 881
Derivative assets held for risk management purposes	28 714	64 543
Other financial assets	37 685	40 452
Development loans held at fair value through profit or loss	48 309	48 309
Equity investments held at fair value through profit or loss	4 900 250	5 149 050
Development bonds at amortised cost	2 101 681	2 154 345
Development loans at amortised cost	92 858 835	93 679 089
Property, equipment and right of use of assets	448 832	441 149
Intangible assets	60 874	59 626
Total assets	**110 271 187**	**108 564 579**
Equity and Liabilities		
Liabilities		
Trade, other payables, and accrued interest on debt funding	1 204 897	1 088 791
Derivative liabilities held for risk management purposes	957 768	612 920
Liability for funeral and post-employment medical benefits	44 767	44 767
Debt funding held at amortised cost	58 110 103	58 469 380
Provisions and lease liabilities	146 078	173 858
Deferred income	563 690	542 819
Total liabilities	**61 027 303**	**60 932 535**
Equity and reserves		
Share capital	200 000	200 000
Retained income	35 672 868	33 158 903
Permanent government funding	11 692 344	11 692 344
Other reserves	(745 246)	(211 586)
Reserve for general loan risk	2 423 918	2 792 383
Total equity and reserves	**49 243 884**	**47 632 044**
Total equity, reserves and liabilities	**110 271 187**	**108 564 579**

CONDENSED STATEMENT OF COMPREHENSIVE INCOME FOR THE PERIOD ENDED 30 SEPTEMBER 2023

in thousands of rands	30 September 2023 Reviewed	30 September 2022 Reviewed
Interest income		
Interest income calculated using the effective interest rate	6 141 100	4 994 435
Other interest income	97 747	136 882
Interest expense		
Interest expense calculated using the effective interest rate	(2 520 859)	(1 845 028)
Other interest expense	(679)	(2 261)
Net interest income	**3 717 309**	**3 284 028**
Net fee income	137 426	124 684
Net foreign exchange gain	140 788	825 514
Net loss from financial assets and financial liabilities	(349 244)	(147 958)
Investment and other income	53 899	70 893
Other operating (loss)/income	**(17 131)**	**873 133**
Operating income	**3 700 178**	**4 157 161**
Project preparation expenditure	(1 486)	(9 956)
Development expenditure	(122 213)	(34 928)
Impairment losses	(693 011)	(555 851)
Personnel expenses	(492 266)	(460 805)
Other operating expenses	(224 177)	(301 916)
Depreciation and amortisation	(20 681)	(15 281)
Profit from operations	**2 146 344**	**2 778 424**
Grants paid	(844)	(1 239)
Profit for the year	**2 145 500**	**2 777 185**

CONDENSED STATEMENT OF OTHER COMPREHENSIVE INCOME FOR THE PERIOD ENDED 30 SEPTEMBER 2023

in thousands of rands	30 September 2023 Reviewed	30 September 2022 Reviewed
Profit for the year	**2 145 500**	**2 777 185**
Items that will not be reclassified to profit or loss		
Movement in own credit risk for funding held at fair value through profit or loss	-	**(6)**
Total items that will not be reclassified to profit or loss	**-**	**(6)**
Items that may be reclassified subsequently to profit or loss		
Unrealised loss on cash flow hedges	(851 310)	(703 263)
Loss on cash flow hedges reclassified to profit or loss	317 650	451 865
Total items that may be reclassified subsequently to profit or loss	**(533 660)**	**(251 398)**
Other comprehensive loss	**(533 660)**	**(251 404)**
Total comprehensive income for the year	**1 611 840**	**2 525 781**

CONDENSED STATEMENT OF CHANGES IN EQUITY FOR THE PERIOD ENDED 30 SEPTEMBER 2023

in thousands of rands	30 September 2023 Reviewed	30 September 2022 Reviewed
Balance as at 1 April	**47 632 044**	**42 911 025**
Net profit for the period	2 145 500	2 777 185
Movement in own credit risk for funding held at fair value through profit or loss	-	(6)
Unrealised loss gain on cash flow hedges	(851 310)	(703 263)
Loss on cash flow hedges reclassified to profit or loss	317 650	451 865
Balance as at 30 September	**49 243 884**	**45 436 806**

CONDENSED STATEMENT OF CASH FLOWS FOR THE PERIOD ENDED 30 SEPTEMBER 2023

in thousands of rands	30 September 2023 Reviewed	30 September 2022 Reviewed
Cash flows from operating activities	1 972 525	1 805 569
Cash flow from development activities	2 806 995	(620 391)
Cash flow from investing activities	(143 367)	(23 245)
Cash flow from financing activities	(2 048 835)	(343 393)
Net increase in cash and cash equivalents	**2 587 318**	**818 540**
Effect of exchange rate movements on cash balances	72 454	292 551
Movement in cash and cash equivalents	**2 659 772**	**1 111 091**
Cash and cash equivalents at the beginning of the year	6 166 069	7 990 108
Cash and cash equivalents at the end of the period	**8 825 841**	**9 101 199**

Outlook

Despite the challenging economic environment, the DBSA has a strong leadership and management team steering the Bank through these challenges, 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.

30 November 2023

Debt sponsor

RAND MERCHANT BANK (a division of FirstRand Bank Limited)