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")

AUDITED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2024

Overview

The DBSA is a development finance institution; whose only shareholder is the Government of the Republic of South Africa. This summary of the financial results for the year ended 31 March 2024 (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 1 and the requirements of sections 27 to 31 of the Companies Act of South Africa (Act No.71 of 2008) (the "Companies Act"), these being the relevant and corresponding sections specified in the Development Bank of Southern Africa Act (Act No. 13 of 1997) (the "DBSA Act"). The annual financial statements and annual report of the Bank for the year ended 31 March 2024 ("annual financial statements" or "AFS") are available on the DBSA website at: https://www.dbsa.org/investor-relations

Audit of the annual financial statements

The annual financial statements have been audited by the Bank's auditor, the Auditor-General of South Africa (hereafter referred to as the "AG"). The AG in her audit report, which is available for inspection at the Bank's Registered Office and in the annual financial statements that are available on the DBSA website, stated that her audit was conducted in accordance with the International Standards on Auditing and has expressed an unqualified audit opinion on the annual financial statements.

Context of the annual financial statements

The Bank's performance has remained resilient and strong under a slow economic recovery environment. The global economic growth has remained fairly resilient and the inflationary pressures have persisted for longer than expected with central banks keeping policy rates elevated. Although inflation is subsiding, various risks to the global outlook may slow the disinflationary process. Geopolitical tensions, including trade disputes and trade fragmentation, regional conflicts and geoeconomic fragmentation, continue to pose a risk to global economic stability and Gross Domestic Product.

Growth in the Sub-Saharan Africa is expected to recover. However, sensitivity to the changes in global economic conditions, extreme climate shocks, currency depreciation, high borrowing cost and subsequent high debt repayments increase the regions' economic vulnerability. Several African countries are facing sovereign debt distress with some already engaged with the International Monetary Fund on debt restructure to make them fiscally viable.

In South Africa, subdued economic growth is expected to persist given the energy security and reliability challenges, logistical constraints and inflation. The long-standing slow implementation of structural reforms to respond to high unemployment, crime and inequality, power shortages, and logistical challenges that are creating productivity and trade bottlenecks remains a concern. Facilitating the resolution of the municipality sector challenges which include the pressure on revenue collections, financial management and governance challenges remains among the DBSA's strategic focus areas.

Despite these global and domestic risks, the DBSA's growth strategy remains focused on catalyzing development, fostering partnerships, and mobilizing resources to address developmental challenges and unlocking the full potential of the African continent. The DBSA aims to create lasting sustainable development outcomes through infrastructure development and strategic partnerships within the confines of our balance sheet.

Preparation of the announcement

The directors take full responsibility for the preparation of this announcement and confirm that financial information has been correctly extracted from the underlying audited annual financial statements for inclusion in this announcement.

Basis of preparation

The annual financial statements have been prepared in accordance with the recognition, measurement and disclosure requirements of IFRS, the Public Finance Management Act of South Africa (Act No. 1 of 1999) (the "PFMA"), sections 27 to 31 of the Companies Act, the DBSA Act and the JSE Debt Listings Requirements. Except for where indicated in the annual financial statements available on the DBSA website, the accounting policies and practices applied during the financial year ended 31 March 2024 ("current year" or "year under review") are in all material respects consistent with those applied in the annual financial statements for the financial year ended 31 March 2023 ("prior year", "last year" or "2023 financial year"). The annual financial statements are prepared on a historical cost basis except for the following assets and liabilities that are stated at their fair value: derivative financial instruments, financial instruments held at fair value through profit and loss, financial instruments designated at fair value through profit and loss, land and buildings and equity investments. The preparation of the annual financial statements requires management to make judgments, estimates and assumptions that affect the application of the accounting policies and the reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates.

Key impressions of the financial results and activities

Highlights from the financial results:

The key financial indicators for the year under review are:

Solid earnings and continued profitability
- Net interest income increased by 18% to R7.7 billion (31 March 2023: R6.5 billion).
- Operating income of R7.8 billion (31 March 2023: R7.9 billion).
- Net profit of R4.6 billion (31 March 2023: R5.2 billion).
- Sustainable earnings of R4.5 billion (31 March 2023: R4.2 billion).
- ROE on sustainable earnings 9.0% (31 March 2023: 9.3%).
- ROE on net profit 9.3% (31 March 2023: 11.5%).

Effective cost optimization strategies
- Cost to income ratio improved to 21.0% (31 March 2023: 23.5%).

Asset growth and strong disbursements levels
- Total assets increased by 9% to R118.3 billion (31 March 2023: R108.6 billion).
- Total development loans and development bonds increased by 7% to R115bn (31 March 2023: R108bn).
- Disbursements amounted to R17bn (31 March 2023: R13.7bn).
- Development loans, development bonds and equity disbursements amounted to R17 billion (31 March 2023: R13.7 billion).

Strong and record cash collections from loan book
- Cash flow generated from operations increased to R5.4 billion (31 March 2023: R5.1 billion).
- Total loan book repayments increased by 28% to R23bn (31 March 2023: R18bn).

Asset quality - resilient asset portfolio under difficult operating environment
- Gross NPL% ratio of 3.9% (31 March 2023: 3.2%).
- Net NPL% ratio of 1.5% (31 March 2023: 1.1%).
- Impairment losses increased to R1.4 billion (31 March 2023: R1.1 billion).

Capital adequacy and leverage ratios well within regulatory limits.
- Debt-to-equity ratio excluding R20 billion callable capital of 123% (31 March 2023: 124%).
- Debt-to-equity ratio including R20 billion callable capital 89% (31 March 2023: 87%).
- Callable capital is authorised shares but not yet issued. Debt to equity ratio is within the Bank’s regulatory limit of 250%.

Income statement commentary

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 11% decrease in net profit from R4.6bn in the current year when compared to R5.2bn reported in the prior year. The decrease in the net profit when compared to the prior year was attributable to lower foreign currency gains during the year under review. The net interest income increased by 18% during the current year, when compared to the 13% reported in prior year. The return on equity for the current year decreased to 9.3% when compared to 11.5% for the prior year due to lower levels of profitability and increased equity base when compared to the prior year.

The DBSA predominantly 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 current year when compared to the prior year; foreign currency exchange rate gains amounted to R128m (R860m 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 current year improved marginally to 21% (31 March 2023: 24%) and the ratio continues to be in line with the Bank's cost optimization strategy and well below the limit of 35%.

Balance sheet commentary

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

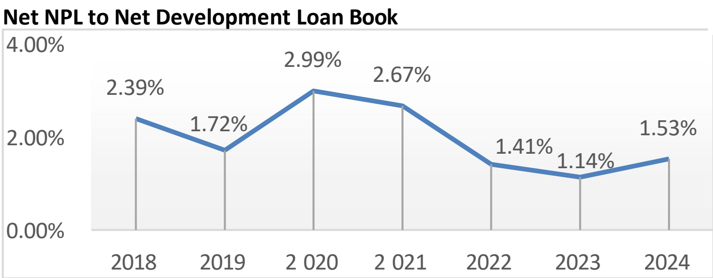
The single largest risk that the DBSA faces from its lending activities is credit risk. The DBSA continues with the aggressive collections' strategy, proactive portfolio management and conservative in its approach to provisioning when responding to changes in credit risk observed in the portfolio and operating environment. 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, logistical challenges and increased municipal risk in RSA, rising consumer indebtedness, currency movements, sovereign debt distress in some African countries and overall volatile recovery prospects.

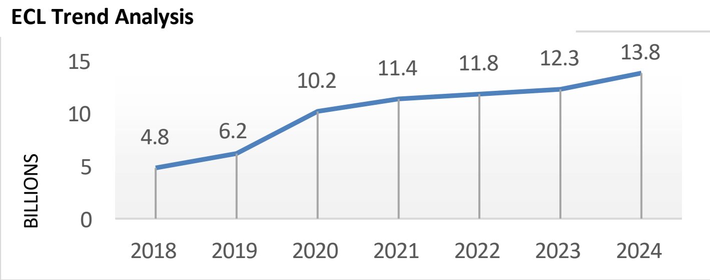
For the year under review, the Bank experienced an increase in expected credit loss balance sheet provisions (on development loans and bonds) of 12.42% amounting to approximately R1.4bn from R12.3bn (31 March 2023) to R13.8bn (31 March 2024). The increase is in response to changes in the credit risk profile, growth in the loan book and the negative macro-economic environment.

The DBSA's loan book remained resilient in a difficult environment. The cash collections from the loan book for the current year amounted to a record R23.7bn (comprising R10.6bn interest and R13.1bn capital) and development loan disbursement amounted to R16.9bn when compared to the R12.7bn in the prior year. 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 year end reporting period.

Following the overall balance sheet provisions increase, the expected credit loss coverage level on the total development loan and bonds book increased from 11.4% (31 March 2023) to 12.0% (31 March 2024) in response to the changes in the risk profile of the book. The loans that were restructured successfully in the prior year ended 31 March 2023 continue to perform. The IFRS 9 stage 1 loans reduced to 49% of the loan book from 53% as at 31 March 2023 due to risk migration. The IFRS 9 Stage 2 loans increased to approximately 46% of the loan book from 43% as at 31 March 2023; with South African exposures in the transport, municipal and energy sectors comprising of a significant portion of the stage 2 loans.

The total impairments charge in the income statement increased by 35.5% from approximately R1.05bn in the prior year to approximately R1.4bn for the current year. IFRS 9 stage 3 net non-performing loan ratio (net non-performing loans to net development loan book) increased from 1.14% as at 31 March 2023 to 1.53% of the total loan book as at 31 March 2024. 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 3.27% as at 31 March 2023 to approximately 3.98% as at 31 March 2024.





The increase in the gross non- performing ratio and net non-performing ratio was driven by credit exposures in Ghana and Ethiopia which migrated from Stage 2 to Stage 3 during the year. The expected credit loss coverage ratio for Stage 3 (non-performing) loans decreased to 66% as at 31 March 2024 from 69% as at 31 March 2023, mainly due to credit risk movements, collections, currency movements and valuation of collateral.

The gross loan book remains mostly medium risk (MS8-MS13 rating) rated despite the medium risk rating percentage reducing from 73% in 2023 to approximately 63% of the loan portfolio in 2024. The high risk (MS14-MS17.4 rating) rated portfolio increased from 22% in the prior year to 28% of the loan portfolio as at 31 March 2024. The movements in the medium and high-risk classification were caused by changes in the credit risk profile of the book. 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 by 9% to R118bn as at 31 March 2024, from R108bn (31 March 2023) and this increase was due to increased disbursements and funding activities. Development loan disbursements increased from R12.7bn in the prior year to R16.9bn in the current year. As at 31 March 2024, the equity investment portfolio decreased by 7%, from R5.1bn as at 31 March 2023 to R4.8bn, the decline in portfolio arose from a combination of negative fair value adjustments and capital redemptions; and these adverse movements were partially offset by new disbursements (R24m) and currency movements (R197m). Cash and cash equivalents increased from R6.2bn to R10.8bn in line with the Bank liquidity risk management policy. The increase in cash was to fund disbursements and loan repayment requirements due in April 2024.

Funding and liquidity management

The Bank's liquidity and capital position remains strong, despite a difficult operating environment. The DBSA continues to raise funding from a diverse pool of funding sources which include debt capital markets, bilateral engagements with commercial banks, international syndications, money market, private placements and international development finance institutions. As at 31 March 2024, the 30-day liquidity coverage ratio amounted to 266% (31 March 2023: 229%). During the year under review, the Bank's total debt redemptions amounted to approximately R10.4bn. Liquidity holdings remained within policy parameters with total liquid assets of R10.8bn as at 31 March 2024, up from R6.2bn as at 31 March 2023. The Bank's total outstanding debt funding increased by R5.2bn from R58.5bn as at 31 March 2023 to R63.7bn as at 31 March 2024. The DBSA's loan book remained resilient in a difficult environment. As indicated under the asset quality section above, the cash collections from the loan book and development bonds for the year under review amounted to a record R23.7bn (comprising R10.6bn interest and R13.1bn capital) with total disbursements amounting to R17bn when compared to the R13bn in the prior year.

Leverage ratio and capital adequacy.

The Bank continues to have strong capital buffers for unexpected loss events. The Bank's capital base increased by R4.6bn (to a total of R52bn) during the year under review and this increase is R600m lower when compared to prior year R5.2bn increase in the equity base. As a result, the debt-to-equity ratio, including the R20bn callable capital as at 31 March 2024, increased marginally to 89% (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 marginally from 124% (31 March 2023) to 123% as at 31 March 2024. 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, remained unchanged at 44% as at 31 March 2024 when compared to 44% reported in the prior year. Overall, the Bank remains well capitalized.

Development impact performance

The development impact highlights are summarized in the table below:

Operational performance.

R72.9bn	Total infrastructure development support
R31.6bn	Funds catalysed
R17.0bn	Total loans and bonds disbursements
R4.6bn	Infrastructure implementation support delivered
R17.2bn	Value of prepared projects approved
R2.5bn	Infrastructure unlocked for under-resourced municipalities

Development outcomes

4 375	Learners benefited from 6 newly built schools
14 755	Learners benefited from 18 refurbished schools
17 289	Learners benefited from 116 DBE SAFE VIP toilet projects constructed
47 901	Learners benefited from 73 Limpopo DBE ablution facilities constructed
1 308	Local SMMEs and subcontractors employed in the construction of projects
R4.1bn	Value of infrastructure delivered by black-owned entities, of which R2.3 billion delivered by black women-owned entities
R615m	Benefit accrued to local small, medium, and micro enterprises (SMMEs) and subcontractors employed in the construction projects
31 638	Temporary and permanent jobs facilitated
1 594	Youth trained in future skills through the DLabs programme
479	Start-up enterprises supported through the DLabs programme

Fund managers contribution

3 852 023	Tons of food and food-related products delivered
109 029	Total smallholder farmers and micro-entrepreneurs impacted
32 519	Permanent jobs sustained in the different sectors sector
8	Kilometres of road and rail network built
47 967	Kilometres of fibre built

STATEMENT OF FINANCIAL POSITION AS AT 31 MARCH 2024		
in thousands of rands	**31 March 2024 Audited**	**31 March 2023 Audited**
Assets		
Cash and cash equivalents at amortised cost	10 803 772	6 166 069
Trade receivables and other assets	238 723	402 066
Investment securities	493 175	359 881
Derivative assets held for risk management purposes	9 545	64 543
Other financial assets	37 534	40 452
Development loans held at fair value through profit or loss	20 784	48 309
Equity investments held at fair value through profit or loss	4 808 783	5 149 050
Development bonds at amortised cost	2 065 754	2 154 345
Development loans at amortised cost	99 329 694	93 679 089
Property, equipment and right of use of assets	456 060	441 149
Intangible assets	51 051	59 626
Total assets	**118 314 875**	**108 564 579**
Equity and Liabilities		
Liabilities		
Trade, other payables, and accrued interest on debt funding	1 309 114	1 088 791
Repurchase agreements at amortised cost	1 194 651	-
Derivative liabilities held for risk management purposes	476 741	612 920
Liability for funeral and post-employment medical benefits	47 984	44 767
Debt funding held at amortised cost	62 499 696	58 469 380
Provisions and lease liabilities	167 548	173 858
Deferred income	578 495	542 819
Total liabilities	**66 274 229**	**60 932 535**
Equity and reserves		
Share capital	200 000	200 000
Retained income	37 865 501	33 158 903
Permanent government funding	11 692 344	11 692 344
Other reserves	(448 989)	(211 586)
Reserve for general loan risk	2 731 790	2 792 383
Total equity and reserves	**52 040 646**	**47 632 044**
Total equity, reserves and liabilities	**118 314 875**	**108 564 579**

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 MARCH 2024

in thousands of rands	31 March 2024 Audited	31 March 2023 Audited
Interest income		
Interest income calculated using the effective interest rate	12 773 775	10 422 335
Other interest income	178 874	258 112
Interest expense		
Interest expense calculated using the effective interest rate	(5 239 703)	(4 159 075)
Other interest expense	-	(3 195)
Net interest income	**7 712 946**	**6 518 177**
Net fee income	376 019	334 691
Net foreign exchange gain	128 497	860 205
Net (loss)/gain from financial assets and financial liabilities	(509 186)	86 745
Investment and other income	86 138	97 864
Other operating income	**81 468**	**1 379 505**
Operating income	**7 794 414**	**7 897 682**
Project preparation expenditure	(8 922)	(14 306)
Development expenditure	(193 656)	(274 323)
Impairment losses	(1 428 311)	(1 054 078)
Personnel expenses	(996 677)	(914 408)
Other operating expenses	(449 850)	(366 299)
Depreciation and amortisation	(42 571)	(31 557)
Profit from operations	**4 674 427**	**5 242 711**
Grants paid	(25 628)	(32 720)
Profit for the year	**4 648 799**	**5 209 991**

STATEMENT OF OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 MARCH 2024

in thousands of rands	31 March 2024 Audited	31 March 2023 Audited
Profit for the year	**4 648 799**	**5 209 991**
Items that will not be reclassified to profit or loss		
Loss on revaluation of land and buildings	-	(43 934)
Movement in own credit risk for funding held at fair value through profit or loss	-	(13)
Remeasurement of funeral and post-employment medical benefit liabilities	(2 794)	4 414
Total items that will not be reclassified to profit or loss	**(2 794)**	**(39 533)**
Items that may be reclassified subsequently to profit or loss		
Unrealised loss on cash flow hedges	(555 835)	(167 680)
Loss /(gain) on cash flow hedges reclassified to profit or loss	318 432	(281 759)
Total items that may be reclassified subsequently to profit or loss	**(237 403)**	**(449 439)**
Other comprehensive loss	**(240 197)**	**(488 972)**
Total comprehensive income for the year	**4 408 602**	**4 721 019**

CONDENSED STATEMENT OF CHANGES IN EQUITY AS AT 31 MARCH 2024

in thousands of rands	31 March 2024 Audited	31 March 2023 Audited
Balance as at 1 April	**47 632 044**	**42 911 025**
Profit for the year	4 648 799	5 209 991
Loss on revaluation of land and buildings	-	(43 934)
Movement in own credit risk for funding held at fair value through profit or loss	-	(13)
Remeasurement of funeral and post-employment medical benefit liabilities	(2 794)	4 414
Unrealised loss on cash flow hedges	(555 835)	(167 680)
Loss /(gain) on cash flow hedges reclassified to profit or loss	318 432	(281 759)
Balance at end of year	**52 040 646**	**47 632 044**

CONDENSED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 MARCH 2024

in thousands of rands	31 March 2024 Audited	31 March 2023 Audited
Cash flows from operating activities	5 426 355	5 111 213
Cash flow from development activities	(3 816 504)	(4 989 616)
Cash flow from investing activities	(201 123)	30 688
Cash flow from financing activities	3 016 193	(2 276 415)
Net increase/(decrease) in cash and cash equivalents	**4 424 921**	**(2 124 130)**
Effect of exchange rate movements on cash balances	212 782	300 091
Movement in cash and cash equivalents	**4 637 703**	**(1 824 039)**
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 year	**10 803 772**	**6 166 069**

Outlook

Despite the challenging economic environment, a strong leadership and management team has steered 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 increase 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 forms a solid foundation for future sustainability. The Bank will continue to focus on disbursing for infrastructure projects within its mandate, that stimulates economic development.

13 August 2024

Debt sponsor

Rand Merchant Bank (a division of FirstRand Bank Limited)