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 2024

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 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 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 and Specialist Securities Listings Requirements. The condensed interim financial statements for the six-month period ended 30 September 2024 ("condensed interim financial statements'" or "interims") and the auditor's unmodified review conclusion are available through a secure electronic manner at the election of the person requesting inspection and 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 global economic outlook remains lackluster, with risks to the growth outlook shifting to the downside, including the speed at which central banks will reduce borrowing costs, the escalation of geopolitical tension, and the possible changes in industrial and trade policies, which could see a sharp increase in trade tariffs. Any disruptive tax hikes and spending cuts could weaken economic activity, erode business confidence, and erode support for reform and spending needed to manage climate change risks. Amid high government debt in many economies, the threat of financial market volatility related to monetary policy readjustments could disrupt financial stability, becoming a catalyst for further sovereign debt distress particularly in emerging markets. Geoeconomic fragmentation could intensify, with higher barriers to the flow of goods, capital, and people implying a supply-side slowdown. As the global economy approaches a soft landing, the near-term priority for central banks is ensuring that inflation cools down smoothly without premature easing of policy or undue delays.

Economic growth in Africa is expected to remain stable as shocks related to extreme weather events and supply constraints dissipate. Nonetheless, ongoing risks to the region include sovereign debt challenges, double-digit inflation, climate risks and uncertainties related to the political environment. Locally, improved efficiencies in the energy and logistics sectors have sparked a new wave of optimism among domestic and international investors. Buoyed by the improved investors sentiment, the government bond yields have declined. However, the state of local government remains precarious, exacerbated by low economic activity, weak financial management, governance instability and the erosion of municipal revenues resulting in many municipalities being in financial distress.

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 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 and Specialist Securities 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 2024. 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

<u>Highlights from the financial results:</u>

The key financial indicators for the period under review are:

Solid earnings and continued profitability

- Net interest income increased by 8.2% to R4 billion (30 September 2024: R3.7 billion).
- Operating income decreased marginally by 2.8% to R3.6 billion (30 September 2023: R3.7 billion).
- Net profit increased marginally by 1% to R2.2 billion (30 September 2023: R2.1 billion).
- Sustainable earnings increased by approximately 32% of R2.5 billion (30 September 2023: R1.9 billion).
- Annualized ROE on sustainable earnings increased to 9.4% (30 September 2023: 8.1%).
- Annualized ROE on net profit decreased to 8.1% (30 September 2023: 8.9%).

Effective cost optimization strategies

- Cost to income ratio improved to 21.5% (30 September 2023: 22%).

Asset growth and strong disbursements levels

- Total assets decreased by 1% to R117 billion (31 March 2024: R118 billion).
- Total development loans and development bonds decreased by 2% to R112 billion (31 March 2024: R115 billion).
- Total disbursements (loans, bonds, equities) amounted to R7.1 billion (30 September 2023: R4.4 billion).

Strong and record cash collections from loan book

- Cash flow generated from operations increased by 60% to R3.2 billion (30 September 2023: R2 billion).
- Total loan book repayments increased by 3% to R12.4 billion (30 September 2023: R12 billion).

Asset quality - resilient asset portfolio under difficult operating environment

- Gross NPL% ratio decreased to 3.14% (31 March 2024: 3.9%).
- Net NPL% decreased to 1.08% (31 March 2024: 1.5%).
- Impairment losses decreased to R502 million (30 September 2023: R693 million).

Capital adequacy and leverage ratios well within regulatory limits.

- Debt-to-equity ratio excluding R20 billion callable capital improved to 107% (31 March 2024: 123%).
- Debt-to-equity ratio including R20 billion callable capital improved to 78% (31 March 2024: 89%).
- 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, buoyed by the improved investors sentiment, the exchange value of the rand has performed well, and government bond yields have declined, coupled with declining interest rates and relatively lower inflation. The Bank continues to be profitable. The net profit for the interim period increased marginally by 1% from R2.1 billion to R2.2 billion. The marginal increase in the net profit for the period under review stems from increase in net interest income, a lower currency gain reported following ZAR appreciation against the USD. Net interest income increased by 8.2% during the current interim period, when compared to the 13% reported in prior interim period. The annualized return on equity for the current interim period decreased to 8.1% when compared to 8.9% for the prior period due to an increased equity base of R49 billion to R56 billion.

The Bank has assets and liabilities that are denominated in USD and Euro. DBSA funds projects in USD and Euro outside of South Africa. Consequently, the Bank has a net foreign currency asset position (i.e. total foreign currency asset minus total foreign currency liabilities) amounting to equivalent USD204 million for both foreign currencies (31 March 2024: USD179 million). Given the ZAR appreciation against the USD and Euro during the interim period when compared to the prior year; foreign currency exchange rate losses in the income statement amounted to R217 million (R140 million gain in the prior interim period). Whilst the net 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 21.5% (22%: 30 September 2023) 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
Funding and liquidity management

The Bank’s liquidity and capital position remains strong, despite the challenging 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 2024, the 30-day liquidity coverage ratio amounted to 171% (31 March 2024: 266%). The Bank’s total debt redemptions for the six months amounted to approximately R5.5 billion (30 September 2023: R4.3 billion). Liquidity holdings remained within policy parameters with total liquid assets of R12.1 billion as at 30 September 2024, up from R10.8 billion as at 31 March 2024. The Bank’s total outstanding debt funding decreased by R3.4 billion, from R62.5 billion as at 31 March 2024 to R59.1 billion as at 30 September 2024. The DBSA’s loan book remained resilient in a difficult environment. The cash collections from the loan book for the interim period amounted to R12.4 billion (comprising interest R5.5 billion and capital R6.9 billion) with development loan disbursements amounting to R7.1 billion when compared to the R4.4 billion 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 R3.5 billion (to a total equity base of R56 billion) during the interim period when compared to last year’s R4.4 billion increase in the equity base. As a result, the debt-to-equity ratio, including the R20 billion callable capital as at 30 September 2024, improved to 78% (31 March 2024: 89%), 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 107% (31 March 2024: 123%). 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 (per statement of financial position), increased to 48% as at 30 September 2024 from approximately 44% as at 31 March 2024. The capital to unweighted development loans (loan book exposure) ratio increased from 52% to 57% . Overall, the Bank remains well capitalized.

Loan 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 potential for variability because of many factors including the sovereign debt challenges faced by several African countries, double-digit inflation, climate risks and uncertainties related to the political environment, rising consumer indebtedness and currency movements. In contrast RSA has seen improvement in energy supply and logistics sector, however the overall recovery prospects remain challenging.

For the interim period ended 30 September 2024, the Bank experienced a marginal increase in expected credit loss balance sheet provisions (on development loans and bonds) approximately R276 million from R13.8 billion (31 March 2024) to R14.1 billion (30 September 2024). The marginal increase is in response to changes in the credit risk profile, growth in the loan book and the challenging 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 R12.4 billion (comprising interest R5.5 billion and capital R6.9 billion) and development loan disbursement amounted to R7.1 billion when compared to the R4.4 billion 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 responsiveness around interim reporting period.

The expected credit loss coverage ratio on the total development loan and bonds book increased from 12.0% (31 March 2024) to 12.6% (30 September 2024) in response to the changes in the risk profile of the book. The loans that were restructured successfully in the prior year ended March 2024 continue to perform. The IFRS 9 stage 1 loans increased to 51% of the loan book from 49% as at 31 March 2024 due to risk migration and loan book growth. The IFRS 9 Stage 2 loans ratio decreased marginally from 46% as at 31 March 2024 to 45% (30 September 2024) and South African exposures in the transport, municipal, energy sectors comprise a significant proportion of the stage 2 loans.

IFRS 9 stage 3 net non-performing loan ratio (net non-performing loans to net development loan book) decreased from 1.53% as at 31 March 2024 to 1.09% of the total loan book as at 30 September 2024. The IFRS 9 Stage 3 gross non-performing loan ratio (gross non-performing loans to total gross development loan book) decreased from 3.98% as at 31 March 2024 to 3.19% as at 30 September 2024 due to successful loan restructures, loan migration and strong cash collections.

As at 30 September 2024, the total municipal portfolio comprises 29% of the total credit portfolio (31 March 2024: 32%) The metropolitan (Tier 1) exposures as at 30 September 2024 decreased marginally to 87% of total municipal exposures (31 March 2024: 88%). The intermediary municipalities (Tier 2) exposures increased marginally to 12% of total municipal exposures (31 March 2024: 11%). The under resourced municipalities (Tier 3) remained unchanged at 1% (31 March 2024: 1%). IFRS 9 stage 3 gross Non-Performing Loan ratio (gross non-performing municipal loans as a percentage of total municipal loans and bonds) decreased from 0.84% as at 31 March 2024 to 0.24% as at 30 September 2024, while the net non-performing loan ratio (net non-performing municipal loans to net municipal loans and bonds) decreased from 0.59% as at 31 March 2024 to 0.16% as at 30 September 2024. These ratios have been trending downwards due to effective portfolio management, strong cash collections and resilient asset performance in difficult operating environment. The total cash collections from the municipal portfolio amounted to R7 billion (collections from Stage 1 loans of R3.95 billion, collections from Stage 2 loans amounted to R3.01 billion and collections from Stage 3 and POCI loans amounted to R34 million.

The expected credit loss coverage ratio for total Stage 3 (non-performing) loans increased to 70% as at 30 September 2024 from 66% as at 31 March 2024, mainly due to a combination of factors including valuation of collateral, credit risk movements, collections, and currency movements. The coverage ratio for total stage 1 assets remains largely unchanged at 2% (31 March 2024: 2%) and coverage ratio for Stage 2 loans increased to approximately 19% (31 March 2024: 18%). The total impairments charge in the income statement decreased by 27.5%, from approximately R693 million in the prior period ended 30 September 2023 (“prior interim period”), to approximately R502 million for the interim review.

As at 30 September 2024, 65% (63%: 31 March 2024) of the total loan portfolio remains medium risk rated (MS8-MS13 rating) and 29% (28%: 31 March 2024) of the portfolio is high risk rated (MS14-MS17.1) and 6% (9%: 31 March 2024) of the loan portfolio remain low risk rated (MS1-MS7). The expected credit loss provisions remain adequately, and appropriately conservative and the Bank continues focus on cash collections, proactive monitoring, and management of the portfolio.

Total assets

The Bank’s total asset base decreased by 1% from R118 billion (31 March 2024) to R117 billion as at 30 September 2024 mainly due to currency appreciation which resulted in the gross loan book reduction of R2.6 billion. Development loan disbursements increased from R4.4 billion in the prior interim period to R7.1 billion in the current interim period. As at 30 September 2024, the equity investment portfolio decreased by 11%, from R4.9 billion as at 31 March 2024 to R4.3 billion due to fair value adjustments, capital redemption and currency movements. Cash and cash equivalents increased by 12% from R10.8 billion to R12.1 billion in line with the Bank liquidity risk management policy and loan disbursement requirements.

CONDENSED STATEMENT OF FINANCIAL POSITION AS AT 30 SEPTEMBER 2024		
in thousands of rands	**30 September 2024 Reviewed**	**31 March 2024 Audited**
Assets		
Cash and cash equivalents at amortised cost	12 144 324	10 803 772
Trade receivables and other assets	374 748	238 723
Investment securities	318 813	493 175
Derivative assets held for risk management purposes	836 898	9 545
Other financial assets	40 588	37 534
Development loans held at fair value through profit or loss	4 145	20 784
Equity investments held at fair value through profit or loss	4 283 926	4 808 783
Development bonds at amortised cost	1 505 322	2 065 754
Development loans at amortised cost	96 847 067	99 329 694
Property, equipment and right of use of assets	449 429	456 060
Intangible assets	54 623	51 051
Total assets	**116 859 883**	**118 314 875**
Equity and Liabilities		
Liabilities		
Trade, other payables, and accrued interest on debt funding	1 342 681	1 309 114
Repurchase agreements at amortised cost	-	1 194 651
Derivative liabilities held for risk management purposes	35 027	476 741
Liability for funeral and post-employment medical benefits	47 984	47 984
Debt funding held at amortised cost	59 087 264	62 499 696
Provisions and lease liabilities	132 346	167 548
Deferred income	687 435	578 495
Total liabilities	**61 332 737**	**66 274 229**
Equity and reserves		
Share capital	200 000	200 000
Retained income	40 351 428	37 865 501
Permanent government funding	11 692 344	11 692 344
Other reserves	869 531	(448 989)
Reserve for general loan risk	2 413 843	2 731 790
Total equity and reserves	**55 527 146**	**52 040 646**
Total equity, reserves and liabilities	**116 859 883**	**118 314 875**

CONDENSED STATEMENT OF COMPREHENSIVE INCOME FOR THE PERIOD ENDED 30 SEPTEMBER 2024

in thousands of rands	30 September 2024 Reviewed	30 September 2023 Reviewed
Interest income		
Interest income calculated using the effective interest rate	6 524 999	6 141 100
Other interest income	110 346	97 747
Interest expense		
Interest expense calculated using the effective interest rate	(2 612 371)	(2 520 859)
Other interest expense	(529)	(679)
Net interest income	**4 022 445**	**3 717 309**
Net fee income	149 825	137 426
Net foreign exchange (loss)/ gain	(217 084)	140 788
Net loss from financial assets and financial liabilities	(396 838)	(349 244)
Investment and other income	14 001	53 899
Other operating income	**(450 096)**	**(17 131)**
Operating income	**3 572 349**	**3 700 178**
Project preparation expenditure	(7 243)	(1 486)
Development expenditure	(113 742)	(122 213)
Impairment losses	(502 348)	(693 011)
Personnel expenses	(525 247)	(492 266)
Other operating expenses	(218 092)	(224 177)
Depreciation and amortisation	(19 508)	(20 681)
Profit from operations	**2 186 169**	**2 146 344**
Grants paid	(18 189)	(844)
Profit for the year	**2 167 980**	**2 145 500**

CONDENSED STATEMENT OF OTHER COMPREHENSIVE INCOME FOR THE PERIOD ENDED 30 SEPTEMBER 2024

in thousands of rands	30 September 2024 Reviewed	30 September 2023 Reviewed
Profit for the year	**2 167 980**	**2 145 500**
Items that will not be reclassified to profit or loss	-	-
Total items that will not be reclassified to profit or loss	**-**	**-**
Items that may be reclassified subsequently to profit or loss		
Unrealised gain/ (loss) on cash flow hedges	1 275 309	(851 310)
Loss on cash flow hedges reclassified to profit or loss	43 211	317 650
Total items that may be reclassified subsequently to profit or loss	**1 318 520**	**(533 660)**
Other comprehensive loss	**1 318 520**	**(533 660)**
Total comprehensive income for the year	**3 486 500**	**1 611 840**

CONDENSED STATEMENT OF CHANGES IN EQUITY FOR THE PERIOD ENDED 30 SEPTEMBER 2024

in thousands of rands	30 September 2024 Reviewed	30 September 2023 Reviewed
Balance as at 1 April	**52 040 646**	**47 632 044**
Net profit for the period	2 167 980	2 145 500
Unrealised gain/ (loss) gain on cash flow hedges	1 275 309	(851 310)
Loss on cash flow hedges reclassified to profit or loss	43 211	317 650
Balance as at 30 September	**55 527 146**	**49 243 884**

CONDENSED STATEMENT OF CASH FLOWS FOR THE PERIOD ENDED 30 SEPTEMBER 2024

in thousands of rands	30 September 2024 Reviewed	30 September 2023 Reviewed
Cash flows from operating activities	3 171 742	1 972 525
Cash flow from development activities	296 976	2 806 995
Cash flow from investing activities	157 213	(143 367)
Cash flow from financing activities	(2 137 110)	(2 048 835)
Net increase in cash and cash equivalents	**1 488 821**	**2 587 318**
Effect of exchange rate movements on cash balances	(148 269)	72 454
Movement in cash and cash equivalents	**1 340 552**	**2 659 772**
Cash and cash equivalents at the beginning of the year	10 803 772	6 166 069
Cash and cash equivalents at the end of the period	**12 144 324**	**8 825 841**

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.

4 December 2024

Debt sponsor

FirstRand Bank Limited