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 ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2023

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 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 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 2023 ("annual financial statements" or "AFS") are available on the DBSA website: 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

South Africa continues to experience crippling power cuts, volatile commodity prices, transport and logistical constraints, barriers to sector investment, structural rigidities in the labor market, and low economic growth performance. In addition, South Africa has an elevated public debt level and a wage bill that presents a challenge to the country's ability to balance emergency shocks, social spending and much needed infrastructure investment. Further, the economy is facing rising interest rates, high food and energy prices and the knock on effect on rising inflation (which is outside the inflation target range). In addition, the governance challenges and financial positions of municipalities crucial to service delivery and infrastructure roll out remains a concern.

Globally, the Ukraine-Russia war exacerbated a number of pre-existing adverse global economic trends which included rising inflation, extreme poverty, food insecurity and increased climate change risk. The Bank has exposures in a number of African countries some of which are facing slow pace of recovery from the COVID-19 pandemic (the "pandemic") which had created an unprecedented health and economic crisis. With the exception of countries like Angola, many African countries' public debt to GDP ratio increased during the pandemic and has remained elevated with a number of African countries requiring IMF support, debt relief and debt restructure to remain fiscally sustainable. The global economic outlook remains skewed to the downside given the risks associated with fast rise in policy rates, banking sector vulnerabilities and risk of contagion, lingering global supply chain disruptions and geopolitical tensions and increased risk of geoeconomic policy fragmentation. Despite the challenges noted above, 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 outcomes beyond the confines of its own balance sheet.

Preparation of the annual financial statements

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 2023 ("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 2022 ("prior year", "last year" or "2022 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

Funding and liquidity management

Despite a very difficult operating environment, DBSA successfully raised funding from a diverse pool of international development finance institutions, local and international banks and the domestic fixed income market amounting to R11bn equivalent. Further the Bank's loan book remained resilient in a difficult environment with high cash collections of approximately R18bn (comprising interest R9.5bn and capital R8.5bn). During the year under review, the Bank's R7.8 billion outstanding DV23 bond issue was redeemed, which together with other debt capital repayments brought the total debt redemptions for the year to approximately R13.1bn equivalent. Liquidity holdings remained within policy parameters with total liquid assets of R6.2bn as at 31 March 2023, down from R8bn as at 31 March 2022. The Bank's total outstanding debt funding increased by R3bn from R56bn as at 31 March 2022 to R59bn as at 31 March 2023. Loan and bond disbursement activities increased to R13.7bn when compared to last year's R12.9bn. Overall, the Bank's funding and liquidity position remains strong.

Capital adequacy

The Bank continues to have strong capital buffers for unexpected loss events. The Bank's capital base substantially increased by R5.2bn (to a total of R48bn) during the current year when compared to last year's R3.8bn increase in the equity base. As a result, the debt-to-equity ratio, including the R20bn callable capital as at 31 March 2023, improved marginally to 87% (31 March 2022: 88%), 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 124% (31 March 2022: 130%). 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 44% as at 31 March 2023 from approximately 43% as at 31 March 2022. Overall, the Bank remains well capitalized.

Loan asset quality and expected credit loss provisions (impairments)

The DBSA loan book performance has remained resilient under a difficult operating environment. The loan book, on average, remains largely moderate risk when compared to last year and non-performing ratios improved when compared to prior year. During the year under review the gross development loans and development bonds reached a record of R108.14bn on the back of increased disbursements, currency exchange movements and prevailing high interest rate environment.

The single largest risk that the DBSA faces from its lending activities is credit risk. The Bank has remained conservative in provisioning and proactive in loan management and monitoring given the evolving 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, currency movements, pockets of sovereign debt distress and rocky recovery prospects.

Despite a marginal improvement in the macro-economic base compared to the prior years affected by the pandemic, the Bank experienced a marginal increase in expected credit loss balance sheet provisions amounting to approximately R650m, on the back of changes in the overall risk profile of the loan book and in particular the municipal sector. The key driver in the increase in expected credit loss (IFRS 9 stage 1 to stage 2 migration) was experienced in the municipal sector in South Africa and increased provisions for Ghana; and this was offset by positive credit risk migration of exposures in Angola and Zimbabwe. During the year under review, the bank successfully restructured key exposures in Zimbabwe following years of intense credit monitoring and consistent client payment behavior.

The balance sheet provision for expected credit losses (impairment provision) increased by 4% to R12.1bn (31 March 2022: R11.7bn). Despite the overall balance sheet provisions being marginally up, the expected credit loss coverage level on the total development loan book reduced from 12.2% (31 March 2022) to 11.5% (31 March 2023) due to new disbursements (which carry lower ECLs as stage 1 loans), successful loan restructures of the distressed portfolio, solid cash collections within the portfolio offset by write offs associated with clean-up of legacy exposures within the distressed loan book. The write offs processed during the year were with respect of fully provided distressed legacy assets and had no impact on current year profitability.

A significant increase was noted in IFRS 9 Stage 2 loans which increased by 42% from R31.9bn to R45.4bn and this increase was driven by significant increase in credit risk within South Africa and in particular municipalities sector. The expected credit loss coverage ratio on stage 2 loans remains conservative at 18% (31 March 2022: 19%). However, there was no material increase in expected credit loss charge when compared to the prior year since the Bank in 2021/2022 had proactively taken IFRS 9 provisions in light of early signs of increased credit risk in the municipal sector.

The impairments charge in the income statement increased marginally by 5%, from approximately R1bn in the prior year to approximately R1.05bn in the current year. IFRS 9 stage 3 net non-performing loan ratio (net non-performing loans to net development loan book) decreased from 1.4% as at 31 March 2022 to 1.1% of the total loan book as at 31 March 2023. IFRS 9 Stage 3 gross non-performing loan ratio (gross non-performing loans to total gross development loan book) decreased from approximately 4.6% as at 31 March 2022 to approximately 3.3% as at 31 March 2023 on the back of cash collections, write offs, successful loan restructures and currency movements. The expected credit loss coverage ratio for Stage 3 (non-performing) loans decreased to 69.3% at year end from 73.2% at 31 March 2022, mainly due to successful loan restructures, credit risk migration, currency movement and cash collections. Overall, the expected credit loss provisions remains adequately and appropriately conservative.

Total assets

The Bank's total asset base increased to R108.56bn as at 31 March 2023 to when compared to the prior year total of R100bn due to new disbursements and currency movements. Despite a tough operating environment, the Bank continued to record strong cash collections on development loans with total cash repayments (capital and interest) amounting to approximately R18bn (31 March 2022: R19bn). Total development and bond disbursements amounted to over R13.7bn (March 2022: R12.9bn), representing a 6% increase from the prior year. As at 31 March 2023, the equity investment portfolio increased from R4.9bn (31 March 2022) to R5.1bn due to new disbursements, fair value adjustments and currency movements.

Profitability & efficiency

Despite a challenging environment, net profit for the year increased by 36% from R3.8bn in the prior year to new record amounting to R5.2bn in the current year. Similar to 31 March 2022, the net profit for the year continued to be driven from the Bank's core lending activities and the loan book remained resilient in a rising interest rate environment. During the current year, the Bank experienced a solid growth in net interest income amounting to 19% when compared to prior year.

The DBSA funds projects in United States Dollar ("USD") and Euro outside South Africa. Consequently, the Bank has a net foreign currency asset position after hedging amounting to USD124m and EUR37m as at 31 March 2023 remained within risk policy parameters. Given the depreciation of the South African ZAR against the USD and Euro during the year; foreign currency exchange rate gains amounted to R860m, when compared to gains of R156m in the prior year. The Bank does not fully hedge the foreign currency position and closely monitors and manages its exposure to foreign exchange rate risk through the use of natural hedges and derivative hedging strategies.

The Bank remains efficient in managing operational costs and the cost optimisation strategy continues to be effective. The total cost-to-income ratio for the year ended 31 March 2023, remained relatively unchanged at 24% (31 March 2022: 24%) and the ratio continues to track in line with the Bank's cost optimization strategy.

Development impact performance highlights

The development impact highlights are summarized in the table below:

Operational performance

R60.2bn	**Total infrastructure support**
R14.2bn	Funds catalysed
R13.7bn	Total loans and bonds disbursements
R4.8bn	Infrastructure implementation support delivered
R25.4bn	Value of prepared projects approved
R2.1bn	Infrastructure unlocked for under-resourced municipalities

Development impact

2 208	Learners benefited from two newly built schools
64 400	Learners benefited from 85 refurbished schools
1 524	Local SMMEs and subcontractors employed in the construction of projects
R3.8bn	Value of infrastructure delivered by black-owned entities, of which R1.4 billion delivered by black women-owned entities
R785m	Benefit accrued to local small, medium, and micro enterprises (SMMEs) and subcontractors employed in the construction of projects
162	Department of Basic Education (DBE) SAFE VIP toilets constructed
10 362	Temporary and permanent jobs created

Fund managers contribution

3 842 965	Tonnes of food and food-related products delivered to date
144 519	Total smallholder farmers and micro-entrepreneurs impacted
14 006	Permanent jobs sustained in the agricultural sector
8	Kilometres of road and rail network built
48 008	Kilometres of fibre built

STATEMENT OF FINANCIAL POSITION AS AT 31 MARCH 2023		
in thousands of rands	**2023**	**2022**
Assets		
Cash and cash equivalents at amortised cost	6 166 069	7 990 108
Trade receivables and other assets	402 066	259 293
Investment securities	359 881	444 287
Derivative assets held for risk management purposes	64 543	458 243
Other financial assets	40 452	43 067
Development loans held at fair value through profit or loss	48 309	19 309
Equity investments held at fair value through profit or loss	5 149 050	4 976 507
Development bonds at amortised cost	2 154 345	1 151 903
Development loans at amortised cost	93 679 089	84 177 054
Property, equipment and right of use of assets	441 149	444 847
Intangible assets	59 626	63 423
Total assets	**108 564 579**	**100 028 041**
Equity and Liabilities		
Liabilities		
Trade, other payables, and accrued interest on debt funding	1 088 791	890 743
Derivative liabilities held for risk management purposes	612 920	34 240
Liability for funeral and post-employment medical benefits	44 767	48 529
Debt funding designated at fair value through profit or loss	-	688
Debt funding held at amortised cost	58 469 380	55 535 354
Provisions and lease liabilities	173 858	91 795
Deferred income	542 819	515 667
Total liabilities	**60 932 535**	**57 117 016**
Equity and reserves		
Share capital	200 000	200 000
Retained income	33 158 903	28 881 710
Permanent government funding	11 692 344	11 692 344
Other reserves	(211 586)	281 800
Reserve for general loan risk	2 792 383	1 855 171
Total equity and reserves	**47 632 044**	**42 911 025**
Total equity, reserves and liabilities	**108 564 579**	**100 028 041**

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 MARCH 2023

in thousands of rands	2023	2022
Interest income		
Interest income calculated using the effective interest rate	10 422 335	8 831 968
Other interest income	258 112	146 337
Interest expense		
Interest expense calculated using the effective interest rate	(4 159 075)	(3 085 112)
Other interest expense	(3 195)	(100 424)
Net interest income	**6 518 177**	**5 792 769**
Net fee income	334 691	279 794
Net foreign exchange gain	860 205	156 130
Net gain/(loss) from financial assets and financial liabilities	86 745	(606)
Investment and other income	97 864	56 523
Other operating income	**1 379 505**	**491 841**
Operating income	**7 897 682**	**6 284 610**
Project preparation expenditure	(14 306)	(48 466)
Development expenditure	(274 323)	(71 687)
Impairment losses	(1 054 078)	(1 004 938)
Personnel expenses	(914 408)	(867 998)
Other operating expenses	(366 299)	(402 268)
Depreciation and amortisation	(31 557)	(36 684)
Profit from operations	**5 242 711**	**3 852 569**
Grants paid	(32 720)	(27 412)
Profit for the year	**5 209 991**	**3 825 157**

STATEMENT OF OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 MARCH 2023

in thousands of rands	2023	2022
Profit for the year	5 209 991	3 825 157
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)	(34 424)
Remeasurement of funeral and post-employment medical benefit liabilities	4 414	(469)
Total items that will not be reclassified to profit or loss	**(39 533)**	**(34 893)**
Items that may be reclassified subsequently to profit or loss		
Unrealised loss on cash flow hedges	(167 680)	(59 239)
Gain/(loss) on cash flow hedges reclassified to profit or loss	(281 759)	29 546
Total items that may be reclassified subsequently to profit or loss	**(449 439)**	**(29 693)**
Other comprehensive loss	**(488 972)**	**(64 586)**
Total comprehensive income for the year	**4 721 019**	**3 760 571**

CONDENSED STATEMENT OF CHANGES IN EQUITY AS AT 31 MARCH 2023

in thousands of rands	2023	2022
Balance at beginning of the year	42 911 025	39 150 454
Profit for the year	5 209 991	3 825 157
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)	(34 424)
Remeasurement of funeral and post-employment medical benefit liabilities	4 414	(469)
Unrealised loss gain on cash flow hedges	(167 680)	(59 239)
Gain/(loss) on cash flow hedges reclassified to profit or loss	(281 759)	29 546
Balance at end of the year	**47 632 044**	**42 911 025**

CONDENSED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 MARCH 2023

in thousands of rands	2023	2022
Cash flows from operating activities	5 111 213	4 463 481
Cash flow from development activities	(4 989 616)	(1 744 452)
Cash flow from investing activities	30 688	(21 549)
Cash flow from financing activities	(2 276 415)	(3 585 276)
Net decrease in cash and cash equivalents	**(2 124 130)**	**(887 796)**
Effect of exchange rate movements on cash balances	300 091	(100 704)
Movement in cash and cash equivalents	**(1 824 039)**	**(988 500)**
Cash and cash equivalents at the beginning of the year	7 990 108	8 978 608
Cash and cash equivalents at the end of the year	**6 166 069**	**7 990 108**

Events after the reporting period

As indicated in the SENS dated 26 May 2023, DBSA detected an abnormality during a routine check of its information systems and further inquiry confirmed a breach of the Bank’s information systems which immediately prompted the Bank’s disaster recovery protocol. The breach had no impact on the results for the year ended 31 March 2023. The Bank is currently investigating the breach in partnership with the Bank’s data security partners and forensic investigators. The findings of the investigation will inform further action. (To be updated with new information/developments)

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.

3 August 2023

Debt Sponsor

RAND MERCHANT BANK (A division of FirstRand Bank Limited)