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

("DBSA" or the "Bank")

REVIEWED CONDENSED INTERIM FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 SEPTEMBER 2022

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 2022 (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 2022 ("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

The interim reporting period continues to be overshadowed by the Russia-Ukraine war which dominates global macro-economic conditions and forecasts. Overall, South Africa continues to face a myriad of challenges such a, poverty, inequality, power supply disruptions and slow service delivery. Unemployment improved marginally in the first half of the year, but declining formal employment numbers in the second quarter of 2022 paint a different picture. Locally, the South African economy took almost two years to recover from the impact of COVID -19 with two consecutive quarters of positive growth in real GDP in the fourth quarter of 2021 and the first quarter of this year. This progress has subsequently been reversed with real GDP declining by 0.7% in the second quarter of 2022. The prospect of a global recession coupled with the challenges South Africa currently faces will test its economic resilience to a large degree. Further to this, there is an imminent risk associated with South Africa's potential grey listing for failure to timely enact laws in line with Anti Money Laundering and Combating the Financing of Terrorism standards. Inflation has slowed for two consecutive months in August and September 2022 respectively, after peaking at global financial crisis levels in July 2022. In a bid to curb inflation towards the midpoint of the inflation target band, the SARB has raised interest rates by 225 basis points this year, bringing the overall repo rate to 6.25%. The anticipated interest rate hikes are still presumed to continue into the foreseeable future.

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 and for correctly extracting the financial information 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 2022. 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.

Key impressions of the financial results and activities

Funding and liquidity management

The Bank's liquidity and capital positions remain strong. Notwithstanding the disruption and challenges surrounding the local economy, of the local fixed income market, DBSA has been successful in raising funding from international development finance institutions, international and local commercial banks and concluded private placements.

The Bank's total debt funding increased from R55bn as at 31 March 2022 to R60bn as at 30 September 2022 primarily due to currency movements. Despite an increase in debt funding, loan disbursement activities amounted to approximately R4.5bn and Development bonds disbursement amounted to R1bn. Loan repayments from the loan book reached R8.4bn (comprising principal loan repayments of R4.7bn and interest repayments of R3.7bn). The total liquidity position of the Bank substantially increased by approximately R1.1bn, from R8bn as at 31 March 2022 to approximately R9.1bn as at 30 September 2022, representing an increase of 14% in cash and cash equivalents year-on-year. The Bank's policy is to manage liquidity levels in lines with the Basel 3-liquidity coverage ratio. Since the onset of the Covid- 19 driven market dislocation, liquidity is being conservatively managed at a level closer to 90-day cover. As at 30 September 2022, the 30-day liquidity coverage ratio amounted to 332% (31 March 2022: 1 271%).The DV23 bond with a nominal value of R7.8bn is due to mature in February 2023. In anticipation of the DV23 bond redemption, the following strategies have been undertaken, switch auctions, repurchasing of the DV23 bond prior to its maturity as well as stakeholder engagement.

Capital adequacy

The Bank continues to have strong capital buffers for unexpected events. The debt-to-equity ratio, including the R20bn callable capital as at 30 September 2022, increased to 93% (31 March 2022: 88%), and this remains well below the Bank's regulatory debt-to-equity ratio cap of 250%. The Bank's capital ratio, expressed as a percentage of balance sheet shareholder capital to unweighted total assets, marginally decreased to 42% as at 30 September 2022 from approximately 43% as at 31 March 2022 due to the growth in balance sheet assets. The Bank's balance sheet equity position increased by R2.5bn during the interim period, from R42.9bn as at 31 March 2022 to R45.4bn as at 30 September 2022.

Loan asset quality and expected credit losses provisions

IFRS 9 requires DBSA to consider forward looking information in the estimation of expected credit losses on the development loan book. In doing so, DBSA is required to make reasonable forward-looking assumptions. However, forecasting under the current environment is complex and expected credit loss provisions have a higher variability potential because of the influence from the uncertainty around ongoing economic prospects.

Despite a marginal improvement in the macro-economic base compared to same period the prior year, the Bank experienced an increase in expected credit loss provisions amounting to R520m, on the back of marginal deterioration in the overall credit risk profile of the loan book and average probability of default of the loan book increasing marginally when compared to the year ended 31 March 2022 ("prior year"). The Bank decreased its expected credit loss coverage levels on the loan book from approximately 12.2% as at 31 March 2022 to 11.8% as at 30 September 2022. This resulted in the balance sheet provision for expected credit losses (impairment provision) increasing by approximately 3% to R12bn (31 March 2022: R11.7bn), in line with gross loan book growth of approximately 6%. However, when compared to the interim period ended 30 September 2021 ("prior interim period"), the expected credit loss provision (impairments) charge in the income statement increased by 41%, from R395m in the prior interim period to approximately R556m in the current interim period.

The IFRS 9 stage 3 net non-performing loan ratio (net non-performing loans to net development loan book) decreased marginally from 1.4% as at 31 March 2022 to 1.3% of the total loan book as at 30 September 2022. The IFRS 9 Stage 3 gross non- performing loan ratio (gross non-performing loans to total gross development loan book) increased from approximately 4.6% as at 31 March 2022 to approximately 4.8% as at 30 September 2022. The expected credit loss coverage ratios for Stage 3 and credit-impaired loans increased to 76% from 73.2% as at 31 March 2022.

Asset growth

The Bank's total asset base reached a new record of R108bn as at 30 September 2022. This represented an overall increase of 8% when compared to 31 March 2022. Development loan disbursements decreased by 35%, from R6.9bn in the prior interim period to R4.5bn in the current interim period. As at 30 September 2022, the equity investment portfolio increased by 5%, from R5bn as at 31 March 2022 to R5.2bn, as a result of new disbursements, currency movements, capital redemptions and offsetting negative fair value adjustments.

Profitability and efficiency

Despite the operating environment remaining a challenging environment, net profit for the current interim period increased from R2.2bn in the prior interim period to R2.8bn . The net profit for the current interim period arose mainly from, solid growth in net interest income during the current interim period, amounting to 14% when compared to the prior interim period. The return on equity for the current interim period decreased to 6.4% when compared to 8.8% for 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 depreciation of the ZAR against the USD and Euro during the interim period; foreign currency exchange rate gains amounted to R826m compared to a foreign currency exchange rate gain of R179m 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 marginally increased to 24% (22%: 30 September 2021) and the ratio continues to track in line with the Bank's cost optimization strategy and limit of 35%.

Condensed Statement of Financial Position as at 30 September 2022

in thousands of Rands	30 September 2022 Reviewed	31 March 2022 Audited
Assets		
Cash and cash equivalents at amortised cost	9 101 199	7 990 108
Trade receivables and other assets	336 946	259 293
Investment securities	436 350	444 287
Derivative assets held for risk management purposes	493 688	458 243
Other financial assets	38 091	43 067
Development loans held at fair value through profit or loss	24 332	19 309
Equity investments held at fair value through profit and loss	5 230 246	4 976 507
Development bonds at amortised cost	2 160 232	1 151 903
Development loans at amortised cost	89 761 289	84 177 054
Property, equipment and right of use of assets	463 913	444 847
Intangible assets	64 763	63 423
Total assets	**108 111 049**	**100 028 041**
Equity and liabilities		
Trade, other payables and accrued interest on debt funding	980 624	890 743
Derivative liabilities held for risk management purposes	938 056	34 240
Liability for funeral and post-retirement medical benefits	48 529	48 529
Debt funding designated at fair value through profit or loss	676	688
Debt funding held at amortised cost	60 014 890	55 535 354
Provisions and lease liabilities	164 399	91 795
Deferred income	527 069	515 667
Total liabilities	**62 674 243**	**57 117 016**
Equity		
Share capital	200 000	200 000
Retained income	31 445 958	28 881 710
Permanent government funding	11 692 344	11 692 344
Other reserves	30 396	281 800
Reserve for general loan risks	2 068 108	1 855 171
Total equity	**45 436 806**	**42 911 025**
Total equity and liabilities	**108 111 049**	**100 028 041**

Condensed Statement of Comprehensive Income for the period ended 30 September 2022

in thousands of Rand	30 September 2022 Reviewed	30 September 2021 Reviewed
Interest income		
Interest income calculated using the effective interest rate	4 994 435	4 360 292
Other interest income	136 882	91 418
Interest expense		
Interest expense calculated using the effective interest rate	(1 845 028)	(1 505 245)
Other interest expense	(2 261)	(62 590)
Net interest income	**3 284 028**	**2 883 875**
Net fee income	124 684	139 565
Net foreign exchange gain	825 514	179 087
Net (loss)/gain from financial assets and financial liabilities	(147 958)	67 606
Investment and other income	70 893	36 511
Other operating income	**873 133**	**422 769**
Operating income	**4 157 161**	**3 306 644**
Project preparation expenditure	(9 956)	(30 459)
Development expenditure	(34 928)	(30 149)
Impairment losses	(555 851)	(394 667)
Personnel expenses	(460 805)	(450 015)
General and administration expenses	(301 916)	(138 868)
Depreciation and amortisation	(15 281)	(18 261)
Profit from operations	**2 778 424**	**2 244 225**
Grants paid	(1 239)	(9 640)
Profit for the period	**2 777 185**	**2 234 585**

Condensed Statement of Other Comprehensive Income for the period ended 30 September 2022	30 September 2022 Reviewed	30 September 2021 Reviewed
in thousands of Rands		
Profit for the period	**2 777 185**	**2 234 585**
Items that will not be reclassified to profit and loss		
Movements in own credit risk for funding held at FVTPL	(6)	(4 643)
Items that may be reclassified subsequently to profit and loss		
Unrealised loss on cash flow hedges	(703 263)	(83 679)
Loss on cash flow hedges reclassified to profit or loss	451 865	36 783
	(251 398)	**(46 896)**
Other comprehensive (loss)/gain	**(251 404)**	**(51 539)**
Total comprehensive income for the period	**2 525 781**	**2 183 046**

Condensed statement of changes in equity for the period ended 30 September 2022	30 September 2022 Reviewed	30 September 2021 Reviewed
in thousands of Rands		
Balance as at 1 April	**42 911 025**	**39 150 454**
Profit for the period	2 777 185	2 234 585
Movements in own credit risk for funding held at FVTPL	(6)	(4 643)
Unrealised loss on cash flow hedges	(703 263)	(83 679)
Loss on cash flow hedges reclassified to profit or loss	451 865	36 783
Balance as at 30 September	**45 436 806**	**41 333 500**

Condensed Statement of Cash Flows for the period ended 30 September 2022	30 September 2022 Reviewed	30 September 2021 Reviewed
In thousands of Rands		
Net cash generated from operating activities	1 805 569	2 693 041
Net cash used in development activities	(620 391)	(2 518 015)
Net cash utilised by investing activities	(23 245)	(26 512)
Net cash utilised by financing activities	(343 393)	(2 405 397)
Effect of exchange rate movement on cash balances	292 551	(53 726)
Net increase/(decrease) in cash and cash equivalents	**818 540**	**(2 256 883)**
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 period	**9 101 199**	**6 667 999**

Events after the reporting period

There were no other adjusting events that occurred after the reporting date other than the impact of the pandemic.

Outlook

Despite the challenging economic environment, DBSA has a strong leadership and management team steering the Bank through the challenging pandemic, 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 grow 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 springboard for success in the future and will continue to focus on disbursing to infrastructure projects to grow developmental impact in line with its mandate.

2 December 2022

Debt Sponsor
RAND MERCHANT BANK (A division of FirstRand Bank Limited)