



DEVELOPMENT BANK OF SOUTHERN AFRICA

TERMS OF REFERENCE

BOARD CREDIT & INVESTMENT COMMITTEE

2019

BOARD CREDIT & INVESTMENT COMMITTEE - TERMS OF REFERENCE

1. INTRODUCTION

Regulation 114 of the DBSA Act mandates a duly constituted Committee of the Board to transact such business as it is authorized on behalf of the Board.

The Credit and Investments Committee is a sub Committee of the Board of Directors and supports the Board in the execution of its duties. The Committee is accountable to the full Board to properly consider and evaluate any matter that it has been mandated. The Board of Directors has ultimate responsibility for any financial loss or reduction in shareholder value suffered by the Bank. It is therefore responsible for recognising all material risks to which the Bank is exposed to and ensuring that the requisite policies, resources and systems are in place to manage and mitigate these risks. In discharging its responsibilities the Board has to play a critical role in overseeing amongst other things the Bank's investment and loan approval process and the credit risk management process. The BCIC shall take approval decisions relating to DBSA investments (credit instruments, equity, and development) on behalf of the Board. The Committee will also assess management portfolio reporting. The Chairperson may propose that any decision within its mandate be escalated to the full Board for approval. Such a motion will be carried by a majority decision of non – executive members of the BCIC present at the meeting.

2. AUTHORITY

The Board Credit and Investments Committee ("the BCIC") is hereby constituted in terms of section 10 of the Development Bank of Southern Africa Act, Act 13 of 1997, (the Act) as read with the regulations issued in terms of the Act. The Committee shall act independently of management.

The Committee is authorised by the Board to consider any activity within its terms of reference. The Committee may obtain outside legal or other independent professional advice and to secure the attendance of outsiders with relevant experience and expertise if it considers this necessary.

The Committee is authorised to establish a sub-committee on an ad-hoc basis to review in detail, investigate or otherwise address any issue, and then report back to itself.

3. PURPOSE OF THE TERMS OF REFERENCE

These terms of reference are intended to provide a concise overview of:

- the delineation of the roles, functions, responsibilities and power of the BCIC;
- power delegated to Management of the Bank;
- the duties and responsibilities, policies and practices of the BCIC in respect of credit and investment matters, corporate governance, declarations and conflicts of interest, committee meetings, documentation and committee procedures.

4. COMPOSITION OF THE COMMITTEE AND APPOINTMENT

4.1 Members

Due to the mandate given to the Committee, it shall consist of two thirds of the constituted Board of Directors. The Chief Executive Officer (CEO) shall automatically be a member of the Committee.

The Board of Directors shall appoint a Chairperson who shall be an independent non-executive member of the DBSA Board. The Chairperson of the Committee shall not be the Chairperson of the DBSA Board of Directors. In the event that the Chairperson is not present at a meeting, the Committee shall elect an acting chair, who shall be an independent non-executive director.

4.2 Co-opted members

The BCIC may have co-opted members, with appropriate expertise and experience in fields relevant to areas of investments considered by the Committee such as credit analysis; credit risk management; legal (commercial contracts and agreements); project finance; portfolio management to add value to the decision-making process as provided in the Act. The appointment and remuneration of the co-opted members shall be subject to the arrangements applicable to DBSA Board members.

In order to facilitate co-option of members the Committee may establish a pool of experts to be invited to participate at deliberations of the Committee depending on the type of investments and sectors being considered.

As the Credit and Investment Committee is a committee of the Board, co-opted members will not be regarded as members of the Committee for decision-making purposes but are invited members to offer technical assistance and enhance the Committee's deliberations.

Upon co-option the DBSA Board of Directors shall enter into a written agreement with the co-opted member specifying the obligations and responsibilities of the co-opted member and the requisite terms and conditions governing such co-option.

A member that is co-opted to the Committee shall serve for a term of 1 year with the option to extend up to 3 years subject to satisfactory performance. The performance of the co-opted member shall be assessed by the Chairperson of the Committee in consultation with the members of the Committee.

4.3 Attendance

The following functionaries shall be required to attend meetings of the Committee, unless otherwise determined by the Chairperson of the Committee:

- Chief Risk Officer (CRO)
- Chief Investment Officer (CIO)
- Chief Internal Auditor
- GE – Financing Operations
- GE – Transacting
- GE – Coverage
- GE - Project Preparation

- GE - Treasury and Balance Sheet Management
- Group Legal Counsel

Other attendees will be allowed subject to specific prior agreement with the Corporate Secretary, who in turn will liaise with the Chairperson in this regard.

4.4 Secretary

The Corporate Secretary shall serve as the secretary of the Committee and records of the deliberations of the Committee shall be maintained in accordance with the requirements of the DBSA Act.

5. QUORUM FOR MEETINGS

The quorum for approval of credit and investment decisions within the mandate of the Committee shall be two thirds of the committee members in person or via teleconference or acceptable form of digital presence.

6. RESPONSIBILITIES AND FUNCTIONS

The Credit and Investments Committee shall be responsible for the following matters:

6.1 Credit and Investment Approval

The Committee will be responsible for the consideration and approval of:

- Subject to prudential guidelines, limits and policies approved by the Board of Directors, all credit and investment proposals of values exceeding the Credit approval limits of the Investment Committee, as delegated by the CEO (see the limits approved by BCIC below):

CURRENT DELEGATED COUNTERPARTY CREDIT APPROVAL LIMITS FOR THE INVESTMENT COMMITTEE

SOUTH AFRICA	MS1 – MS10	MS11-MS13	HIGHER THAN MS13
Public Sector	R1 000 million	R500 million	BCIC
Private Sector	R250 million	R125 million	BCIC
State Supported Programmes	R500 million	R250 million	BCIC

REST OF AFRICA	MS1 – MS10	MS11 – MS13	HIGHER THAN MS13
Low and medium Risk Countries	R1 billion	R300 million	BCIC
High Risk Countries	BCIC	BCIC	BCIC

*linked to country risk rating with a 10% variation allowance for movement in forex

PROJECT PREPARATION		
	IC	BCIC
South Africa and Common Monetary Area	<R15 million	>R15 million
International (Outside of Common Monetary area)	<\$2 million	>\$2 million

Prudential limits are established as part of the Annual Risk Appetite review and are set out in the Risk Appetite document

- b) Evaluating and specifying terms and conditions of credit and investment proposals considered as part of its mandate;
- c) New products and material changes in business scope.
- d) Projects specifically referred to it by the Board.
- e) Disposal/sale of assets.

6.2 Amendments to Credit Decisions

For the purpose of operational effectiveness, it will be necessary from time to time to make both interpretive judgements and/or non-material changes to the terms of a specific proposal.

As these amendments occur in most transactions and largely have no, or immaterial impact on the risk profile of the transaction, these amendments may be approved by the CE who can in turn delegate this responsibility to the CRO. This should include any pricing as agreed by the Pricing Committee which falls outside the guidelines set by BCIC and have been agreed to by the CEO. Amendments resulting in adjustments of up to 10% of material conditions may not be delegated and shall be made with the explicit written confirmation of the CEO. For clarity, such conditions would include amount, tenor and security components of the specific loan approval. Such amendments are to be noted back to BCIC.

Should the proposed amendment have a material impact on the risk profile in excess of the 10% framework above, this may at the Chairperson's discretion be dealt with either by way of a Round Robin or by the full committee.

Where there is any doubt on the materiality of an issue, the decision on materiality of the amendments should be made by the CEO

6.3 Chief Executive's Authority to Extend Limits to Existing Facilities

By nature of its investments, the DBSA will from time to time be involved in turnaround strategies and business rescues. In such cases judgment should be exercised to balance the risk of loss in liquidation with the salvaging of the business and its related economic benefits. In such circumstances further funds may be advanced in any form appropriate at the time to best reflect the status of the business / exposure.

Given the nature of such exposures and the risks involved in not acting quickly, the Chief Executive is authorized at his/her discretion to extend the existing facility by up to 10% not exceeding a ZAR equivalent value of R25m. The relevant committees should be informed of this additional exposure together with the rationale thereof at the next sitting.

6.4 Submission of Bids

In circumstances where the DBSA is required to tender for business or participate in bids within the approval authority of the Committee as set out in 2, the Committee shall be responsible for consideration and authorization of DBSA participation in bids. The Committee will review and give guidance to Management on key proposed terms and conditions for such participation.

In instances where the timing of the meetings of the Committee does not allow for the DBSA to respond to and meet closing dates for advertised bids, the Committee shall have authority to give such authorization for the Bank to participate in a bid or tender for business through teleconferencing or other digital form of presence approved by the Board with the CRO and the Group Executive, or their duly appointed representative, of the Business Division requesting such authorisation. Such authorization shall be subject to ratification by the next meeting of the Committee.

Notwithstanding the approval authority of the Committee as outlined in paragraph 2 hereof, the Committee shall have power to recommend any project within its delegations for consideration and guidance by a meeting of the full Board of Directors.

Where a teleconference is not possible and a "subject to" bid is to be submitted, the Chairperson must be informed prior to the bid submission.

6.5 Evaluation of Portfolio Performance

The Committee will be accountable to the Board of Directors for portfolio management and will review, recommend reasonable and prudent investment and credit policies, standards and procedures in respect of investment portfolios, and portfolio concentration in order to avoid undue credit risk exposure and potential losses. To perform this advisory role, the Committee will periodically review:

a) the Bank's Risk Appetite, specifically the credit prudential limits and thresholds;

- b) the Bank's Credit Risk Management Policies;
- c) credit extension to legal entities in which the DBSA, or the DBSA staff or directors have an interest, including policies related thereto;
- d) compliance with Board of Directors approved credit risk management policies;
- e) A review of portfolio quality.

6.6 Technical Assistance and Project Investment Grants

BCIC to review and provide the final approval on all **conditionally** approved grants and project preparation funding of up to R10 Million for projects outside South Africa

Grants/Project Preparation Funds approved at IC will be notified to BCIC, to prevent reputational and other risks associated to IC approving funding to prepare projects which may eventually be considered by it for investment approval. IC will perform the detailed review and approval, the BCIC will be notified and afforded the opportunity to raise issues where appropriate.

Grants exceeding R10 million need to obtain full approval from BCIC.

7. MEETINGS

7.1 Meeting Types

Monthly Investment Meeting

Meetings of the BCIC shall be held every month or as determined by the Chairperson in line with the business requirements of the Bank. A schedule of meetings approved by the Committee will be issued to all members of the Committee at the beginning of each financial year. Special meetings of the Committee shall be arranged by consultation between the Chairperson and the Corporate Secretary

Investment Valuations Meeting

On a 6 monthly basis, prior to the meeting of the Audit & Risk Committee to evaluate annual and half year results, there should be a review of the portfolio of investments - Performing loans; Watch listed loans; Non Performing Loans and Equities.

The Investment Valuations will be performed/reviewed by Audit & Risk Committee. The Chairperson of the BCIC shall be invited, unless already a member, to such meetings.

In Committee Meeting

A meeting of the Directors can be convened at any time when deemed necessary.

7.2 Frequency and Attendance

- 7.2.1 Meetings of the BCIC shall be held at such venues and at such times as the Committee deems appropriate. Extra-ordinary meetings shall be convened with the approval of the Chairperson.
- 7.2.2 Members shall attend meetings – in person or via teleconference or other forms of digital presence approved by the Board. Directors who are unable to attend shall advise the Company Secretary timeously.

7.3 Meeting Procedure

- 7.3.1 Unless varied by these terms of reference, meetings and proceedings of the BCIC shall be governed by the DBSA Act.
- 7.3.2 The BCIC's discussions shall be open and constructive. Discussions and records shall remain confidential unless a specific directive is received from the Committee to the contrary.
- 7.3.3 Except under exceptional circumstances, at least 5 working days' notice shall be given for a meeting of the BCIC. Such notices shall, include the agenda and any supporting papers.
- 7.3.4 Each BCIC member is responsible for being satisfied that, objectively, he/she has been furnished with all the relevant information and facts before making a decision.
- 7.3.5 Minutes of meeting shall be recorded and circulated to all BCIC members within 7 days after the board meeting.
- 7.3.6 Decisions will be made by majority of votes.
- 7.3.7 Minutes of all BCIC meetings shall record the proceedings and decisions taken, the details of which shall remain confidential.
- 7.3.8 A record shall be kept of the attendance of directors at BCIC meetings.

8. ROUND ROBIN DECISIONS

In order to provide members of the Committee with an opportunity to sufficiently interrogate investment proposals in line with good corporate governance tenets, round robin decisions shall be by way of exception and upon sufficient motivation to the Chairperson of the Committee. All round robin decisions shall require approval/support of all the members of the Committee and be subject to ratification at the subsequent meeting of the Committee.

As part of the motivation for round robin, the concurrence of the CEO shall in all cases be sought to confirm that the projects are not unduly complex and can sufficiently be dealt with under this procedure. All submissions for round robin shall be sent to members of the Committee at least 2 working days prior to the return date.

9. REPORTING TO THE BOARD OF DIRECTORS

The Chairperson of the Committee shall keep the Board of Directors informed on all matters regarded as significant by providing a report back to the Board of Directors at the earliest possible opportunity. However, decisions of all projects and investments approved by the Committee shall serve at the subsequent Board of Directors' meeting for notification. Such report shall include a summary of all projects approved by the Committee reflecting: a brief project description and loan amount; the basis and rationale for approval; nature of credit instruments offered and salient terms and conditions; target market; industry sector; province; client details (including BEE particulars); development impact; impact of the project on the Bank's portfolio; key project performance milestones. Without derogating from the foregoing, the Committee may prescribe for management such matters to enhance its reporting requirements to the Board as it may deem appropriate.

10. EVALUATION OF THE EFFECTIVENESS OF THE BCIC

Although the effectiveness evaluation of the Board Committees is the responsibility of the Board of Directors, the Committee shall, if deemed necessary, conduct self-assessment evaluation. The results of the evaluation shall be made available to the Board at its next meeting.

11. GENERAL

The Committee shall on an annual basis review the provisions of the BCIC terms of reference herein to align with the legal and business environment, mandate of the Bank and overall responsibilities of the Board as dictated from time to time by the Shareholders.

These Terms of Reference of the BCIC as set out above were approved by the Board of Directors on:

11.4.2019
DATE


CHAIRMAN OF THE BOARD