Make change happen

WE CHALLENGE LIMITING CONVENTION TODAY,
TO CREATE LIBERATING CHANGE TOMORROW

Development Bank of Southern Africa

2016 INTEGRATED ANNUAL REPORT
The DBSA is a South African state-owned enterprise (SOE) and one of the leading development finance institutions (DFIs) in Southern Africa.

The DBSA seeks to play a pivotal role in delivering developmental infrastructure in South Africa and the rest of Africa, ultimately contributing to social and economic integration on the continent.
PERFORMANCE HIGHLIGHTS
SUSTAINING A STRONG INFRASTRUCTURE DEVELOPMENT AND FINANCIAL PERFORMANCE

Delivered
**R28.0 billion**
in total infrastructure support

New record disbursements of
**R17.1 billion**

Prepared projects
to the value of
**R7.6 billion**

Delivered
**R2.6 billion**
in infrastructure implementation support

DBSA awarded accreditation to the
Green Climate Fund

**638 000** households to benefit from funds committed to municipalities

**17 900** scholars to benefit from 35 schools constructed

**35 000** people gained access to improved health facilities

**1 382** houses constructed

**Effective governance** rated
**A+** based on AADFI SGRS

Refer to pages 8 and 9 for more highlights
OUR REPORTING SUITE FOR 2016 CONSISTS OF THREE REPORTS

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13 Managing our risks and opportunities
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Indicates a website reference where more information can be found.
Indicates a page or note reference of information which can be found elsewhere in this reporting suite.

www.dbsa.org

Other enhancements made to our integrated reporting are detailed on page 54.
VISION

A prosperous and integrated resource-efficient region, progressively free of poverty and dependence.

MISSION

To advance the development impact in the region by expanding access to development finance and effectively integrating and implementing sustainable development solutions

- Improve the quality of life of people through the development of social infrastructure
- Support economic growth through investment in economic infrastructure
- Support regional integration
- Promote sustainable use of scarce resources

VALUES

<table>
<thead>
<tr>
<th>HIGH PERFORMANCE</th>
<th>SHARED VISION</th>
<th>INTEGRITY</th>
<th>INNOVATION</th>
<th>SERVICE ORIENTATION</th>
</tr>
</thead>
<tbody>
<tr>
<td>We are enabled, empowered and inspired to deliver consistent quality, effective and efficient results for which we are accountable and rewarded.</td>
<td>We share and keep the sustainability, the strategic intent and mandate of the DBSA top of mind in all our decisions and actions.</td>
<td>Our deals, interactions and actions are proof of transparent and ethical behaviour that show respect and care for all our people (employees, stakeholders, shareholders, clients and communities).</td>
<td>We challenge ourselves continuously to improve what we do, how we do it and how well we work together.</td>
<td>We deliver responsive and quality service that speaks to the needs of our clients and continuously build relationships that result in win-win outcomes.</td>
</tr>
</tbody>
</table>

DBSA MANDATE

CONSTITUTION OF THE DBSA

The constitution and conduct of the DBSA Board of Directors are primarily governed by the Development Bank of Southern Africa Act, No 13 of 1997 (DBSA Act) and further regulated by the Public Finance Management Act, No 1 of 1999 (PFMA), the principles of the King Code of Governance Principles for South Africa 2009 (King III) and the Protocol on Corporate Governance in the Public Sector. The DBSA’s mandate is defined by section 3 of the DBSA Act.

Its primary purpose is to promote economic development and growth, human resource development and institutional capacity building in South Africa and the wider African continent. It does so by:

- Mobilising financial and other resources from the private and public sectors, national or international, on a wholesale basis.
- Appraising, planning and monitoring the implementation of development projects and programmes.
- Facilitating the participation of the private sector and community organisations in development projects and programmes.
- Providing technical assistance, particularly in respect of human resource development and training with regard to the identification, preparation, evaluation, financing, implementation and management of development projects and programmes.
- Funding or mobilising wholesale funding for initiatives to minimise or mitigate the environmental impact of development projects or programmes.
- Assisting other international, national, regional and provincial initiatives in order to achieve an integrated finance system for development.
- Assisting other institutions in the national or international, public and private sectors with the management of specific funds.

In fulfilling its mandate, the DBSA is guided by a number of international, regional and local policies, accords and agreements; and subscribes to the goals and targets of the United Nations' Transforming our World: the 2030 Agenda for Sustainable Development. Furthermore, in accordance with COP21, the DBSA supports business innovation and delivering scale to the emerging green economy.
FOREWORD BY THE MINISTER OF FINANCE

The government continues to drive its vision of improving the lives of all South Africans. The National Development Plan (NDP) sets out an integrated strategy for accelerating growth, eliminating poverty and reducing inequality. According to the Plan, South Africa can realise these goals by drawing on the energies of its people, growing an inclusive economy, building capabilities, enhancing the capacity of the state, and promoting leadership and partnerships throughout society.

Global growth remains under pressure. The moderate recovery in advanced economies remains uneven and developing economies have been experiencing broad downward revisions to growth. Expectations of higher US interest rates and concerns about the resilience of China and other large developing economies have led to greater volatility in global capital flows whilst commodity prices remain low. In combination, these conditions are adversely affecting financial markets, reducing risk appetite and tolerance for further build-up of public and corporate debt, particularly in developing countries.

Many African countries, including South Africa, are facing a complex array of environmental, political, social, technological and business challenges which need to be appropriately managed in order to continue attracting the necessary trade and in-country investment and ensure the continued delivery of social and economic infrastructure. The South African government recognises the need to boost confidence and strengthen investment, including promoting co-investment in capital projects, and improving policy certainty and the ease of doing business.

The government continues to drive its vision of accelerating growth, eliminating poverty and reducing inequality of all South Africans in line with the National Development Plan (NDP) and United Nations’ Sustainable Development Goals (SDG). Investment in infrastructure is essential to this development.

The DBSA is recognised as a critical component of the national infrastructure system with a mandate to contribute meaningfully towards large-scale infrastructure projects in the energy, transport, water and telecommunication sectors; supporting cities to promote economic growth and spatial development; as well as provide planning and implementation support to municipalities, with specific emphasis on lower tier secondary cities and under-resourced municipalities.
The promotion of regional integration through infrastructure development is also a key pillar in Africa’s growth and development agenda. Organisations such as the DBSA must continue to be a catalyst to facilitate increased trade and continue to support programmes such as the North-South Corridor and the Programme for Infrastructure Development in Africa’s Priority Action Plan.

This Integrated Annual Report details another excellent performance by the DBSA in delivering on its mandate, despite some challenging macro-economic factors. Infrastructure financing for the year totalled R17.1 billion, bringing to R60.0 billion the total disbursed over the past five years. Municipalities received R8.1 billion in infrastructure financing whilst R7.8 billion was committed to this segment. It is anticipated that over 638 000 households will benefit once the committed projects are completed.

The DBSA’s role in implementing projects for various national and provincial government departments continued to expand in the important areas of education, health and housing. 35 schools, 1 382 houses and 111 health facilities were completed during the year. Through these activities 6 462 employment opportunities were created and 665 small medium enterprises supported.

I congratulate and thank the DBSA Board, management and staff on these results and for this collective effort in providing meaningful and sustainable infrastructure development. The DBSA must continue to review its strategy and operating model to ensure that its infrastructure development activities are geared towards maximising impact and also play an appropriate role in a development state.

It is my firm expectation that all entities reporting to the Ministry of Finance will always enhance integrity, financial prudence and make every effort to expose and fight corruption and mismanagement of public funds.

Pravin J Gordhan, MP
Minister of Finance
<table>
<thead>
<tr>
<th>NDP outcome</th>
<th>SDG outcome</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Direct role</strong></td>
<td><strong>Ensure availability and sustainable management of water and sanitation for all</strong></td>
</tr>
<tr>
<td>- Investing in economic infrastructure</td>
<td>- Ensure access to affordable, reliable, sustainable and modern energy for all</td>
</tr>
<tr>
<td>- Environmentally sustainable and resilient: Transition to a low-carbon economy</td>
<td>- Build resilient infrastructure, promote inclusive and sustainable industrialisation, and foster innovation</td>
</tr>
<tr>
<td>- An inclusive and integrated rural economy</td>
<td>- Make cities and human settlements inclusive, safe, resilient and sustainable</td>
</tr>
<tr>
<td>- Position South Africa in the region and the world</td>
<td>- Take urgent action to combat climate change and its impacts</td>
</tr>
<tr>
<td>- Transforming human settlements</td>
<td>- Strengthen the means of implementation and revitalise the global partnership for sustainable development</td>
</tr>
<tr>
<td>- Improving the quality of education, training and innovation</td>
<td>- End poverty in all its forms everywhere</td>
</tr>
<tr>
<td>- Quality health care for all</td>
<td>- End hunger, achieve food security and improved nutrition, and promote sustainable agriculture</td>
</tr>
<tr>
<td>- Building a capable and developmental state</td>
<td>- Ensure healthy lives and promote well-being for all at all ages</td>
</tr>
<tr>
<td><strong>Indirect role</strong></td>
<td><strong>Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all</strong></td>
</tr>
<tr>
<td>- Creating an economy that will create more jobs</td>
<td>- Achieve gender equality and empower all women and girls</td>
</tr>
<tr>
<td>- Fighting corruption</td>
<td>- Promote sustained, inclusive and sustainable economic growth, full and productive employment, and decent work for all</td>
</tr>
<tr>
<td>- Transforming society and uniting the country</td>
<td>- Reduce inequality within and among countries</td>
</tr>
<tr>
<td><strong>Not applicable</strong></td>
<td><strong>Protect, restore and promote sustainable use of terrestrial ecosystems, sustainably manage forests, combat desertification and halt and reverse land degradation, and halt biodiversity loss</strong></td>
</tr>
<tr>
<td>- Social protection</td>
<td>- Conserve and sustainably use the oceans, seas and marine resources for sustainable development</td>
</tr>
<tr>
<td>- Building safer communities</td>
<td>- Promote peaceful and inclusive societies for sustainable development, provide access to justice for all and build effective, accountable and inclusive institutions at all levels</td>
</tr>
</tbody>
</table>
The DBSA strategy is designed around the ability to leverage its competitive advantages as described below:

<table>
<thead>
<tr>
<th>COMPETITIVE ADVANTAGE</th>
<th>SOURCE OF COMPETITIVE ADVANTAGE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Integrated infrastructure solutions provider</td>
<td>• The DBSA operates across the infrastructure finance value chain and can therefore offer clients an integrated solution</td>
</tr>
<tr>
<td>Early-stage risk</td>
<td>• As a DFI, the DBSA is positioned to take on early-stage risk where commercial banks are reluctant to take on this risk for example, use project preparation services to support the growth of the deal pipeline</td>
</tr>
<tr>
<td>The DBSA a trusted partner</td>
<td>• The DBSA is positioned to leverage its role as a trusted partner between the government and the private sector.</td>
</tr>
</tbody>
</table>
| Basel III capital requirements not applicable to the DBSA | • Allows the DBSA to take longer tenure on debt
STRATEGIC OBJECTIVES

The DBSA has refined its strategic objectives to support its transformation journey:

- **SUSTAINED GROWTH IN DEVELOPMENTAL IMPACT:** Grow each of our businesses aggressively to maximise developmental impact.
- **PROVIDING INTEGRATED INFRASTRUCTURE SOLUTIONS:** Provide integrated infrastructure solutions across the value chain and be the partner of choice for infrastructure solutions.
- **MAINTAIN FINANCIAL SUSTAINABILITY:** Maintain profitability and operational efficiency to enable growth in equity and fund developmental activities.

STRATEGIC ENABLERS

To execute the strategy, we identified the following six strategic enablers:

<table>
<thead>
<tr>
<th>Enabler</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Create and maintain a high performance culture</td>
<td>People are our most valuable resource and we are committed to attracting, developing, retaining and rewarding the best people through the continued establishment of a challenging and exciting environment, which stimulates commitment, and encourages development and growth.</td>
</tr>
<tr>
<td>Balance sheet capacity</td>
<td>Balance sheet strengthening and implement treasury strategy in order to meet the growth ambitions.</td>
</tr>
<tr>
<td>Business intelligence</td>
<td>Acquiring relevant actionable knowledge and understanding of our selected industry market and geographic sectors, economic business trends, clients and competitors, in order to inform quality decisions that should drive performance.</td>
</tr>
<tr>
<td>Developing and leveraging our strategic partnerships</td>
<td>Developing and leveraging our strategic partnerships and relationships to profitably expand and deepen our penetration of our selected market segments and geographic markets. Strategic partnerships enable the business to gain a competitive advantage through access to knowledge and project funding. Distinguishing ourselves by proactively partnering with our clients and development partners to originate, plan and deliver infrastructure projects.</td>
</tr>
<tr>
<td>Operational excellence</td>
<td>Creating within our Group operating model and organisational structure, distinctive skills processes and operating models for the effective provision of innovative finance for development and enhanced project execution capabilities.</td>
</tr>
<tr>
<td>Provide innovative infrastructure solutions</td>
<td>Innovation can support the DBSA to solve client and market needs more effectively, gain a competitive edge through product diversification, accelerate delivery of infrastructure, expand reach and provide solutions to ensure the effective utilisation of resources as well as the transition to a low-carbon economy.</td>
</tr>
</tbody>
</table>

THE DBSA’S PRIMARY FOCUS

1. Secure funding from reserves, capital markets, other DFIs and government
2. Prepare, fund and deliver infrastructure projects
3. Earn interest and non-interest income, manage operating costs and invest in our employees
4. Plough back profits into reserves and learn from experiences

KEY PERFORMANCE INDICATORS (KPIs)

- **SUSTAINED GROWTH IN DEVELOPMENTAL IMPACT**
- **PROVIDING INTEGRATED INFRASTRUCTURE SOLUTIONS**
- **MAINTAIN FINANCIAL SUSTAINABILITY**
- **VALUE CREATION**
- **THE DBSA’S PRIMARY FOCUS**

**Development Bank of Southern Africa 2016 Integrated Annual Report**
OUR BUSINESS MODEL

HOW WE SUPPORT INFRASTRUCTURE DEVELOPMENT AND CREATE VALUE

The DBSA supports infrastructure development and creates value through the provision of a range of innovative services to South Africa and the broader region. To ensure our sustainability, our business model takes into account our vision, mission and strategy, supported by robust governance structures and processes. The environments in which we operate, as well as our engagement with our stakeholders, play a critical role in identifying risks and opportunities. Our strategy strives to maximise these opportunities and mitigate the risks effectively and our management structure enables delivery of our strategy.

<table>
<thead>
<tr>
<th>OUR RESOURCES</th>
<th>DESCRIPTION</th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>INTELLECTUAL CAPITAL</td>
<td>Our strong brand, reputation and relationships.</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Experience in infrastructure development:</td>
<td>32 years</td>
<td>31 years</td>
</tr>
<tr>
<td></td>
<td>Owned by the South African government.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>SOCIAL CAPITAL</td>
<td>The communities in which we operate are at the core of what we do. Clients, partners and government relationships are central to our business to support infrastructure development.</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Countries in which we have active exposures:</td>
<td>13 countries</td>
<td>11 countries</td>
</tr>
<tr>
<td></td>
<td>Key regulators: the National Treasury, Parliament, Department of Labour and the Johannesburg Securities Exchange.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>FINANCIAL CAPITAL</td>
<td>Funds available for us to use in our business, including financing resources, such as debt and equity, as well as funds generated through our operation and investments.</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Capital and reserves:</td>
<td>R29.3 billion</td>
<td>R23.7 billion</td>
</tr>
<tr>
<td></td>
<td>Additional capital received from government to support growth:</td>
<td>R3.0 billion</td>
<td>R2.5 billion</td>
</tr>
<tr>
<td></td>
<td>Financial market liabilities:</td>
<td>R51.8 billion</td>
<td>R46.2 billion</td>
</tr>
<tr>
<td></td>
<td>Cash generated from operations:</td>
<td>R3.0 billion</td>
<td>R2.7 billion</td>
</tr>
<tr>
<td>HUMAN CAPITAL</td>
<td>The people we employ as well as others we work with and their health, knowledge and skills.</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Number of employees:</td>
<td>461</td>
<td>459</td>
</tr>
<tr>
<td></td>
<td>Number of contract employees to support infrastructure delivery:</td>
<td>108</td>
<td>88</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>PLAN</th>
<th>PREPARE</th>
<th>FINANCE</th>
<th>BUILD</th>
<th>MAINTAIN/IMPROVE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Under-capacitated municipalities</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Master and sector plans</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Sustainable service delivery plans</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Planning support to reduce water and electricity losses</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Project identification</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Feasibility assessments</td>
<td></td>
<td></td>
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<tr>
<td></td>
<td>• Technical assistance</td>
<td></td>
<td></td>
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<tr>
<td></td>
<td>• Financial structuring</td>
<td></td>
<td></td>
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<tr>
<td></td>
<td>• Project preparation funds</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Lead arranger</td>
<td></td>
<td></td>
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</tr>
<tr>
<td></td>
<td>• Project management support, including to the Green Fund and the IPSA Fund</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Providing vanilla and boutique financing opportunities (ranging from subsidies to fully commercial)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Debt</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Mezzanine finance</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Limited non-recourse lending</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Managing the design and construction of key projects in the education, health and housing sectors</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Supporting the maintenance and/or improvement of key infrastructure projects</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

1. Secure funding from reserves, capital markets, other DFIs and government
2. Prepare, fund and deliver infrastructure projects
3. Earn interest and non-interest income, manage operating costs and quality of loan book and invest in our employees
4. Plough back profits into reserves and learn from experiences

Internal ratios
| Debt/equity |
| Liquidity coverage |
| Net stable funding |

Prepare
| Gross value of bankable projects prepared |
| Value of infrastructure disbursements |
| Planning and implementation support to municipalities |
| Total funds under management |
| Implementation support to SIP 6 |
| Cost-to-income ratio of IDD |

Financial
| Sustainable earnings |
| Net interest margin |
| Cost-to-income ratio (excluding IDD) |
| Non-performing loan book after specific impairments |

Human capital
| Development and retention of key skills |
| Leadership development as part of succession planning programme |
| Implementation of culture change initiative |

Return on average equity
Client and partner satisfaction
New product development (product diversification)
Effectiveness of business intelligence and knowledge management processes
OUR OUTPUTS

**PROJECT PREPARATION**
- Appointed as managing agent for €100 million Infrastructure Investment Programme for South Africa (IIPSA) and SADC Project Preparation Development Facility (PPDF)
- Total projects approved for funding: R7.6 billion [2015: R6.4 billion]

**INFRATESTRUCTURE FINANCING**
- Total approvals: R24.6 billion [2015: R30.2 billion]
- Total disbursements: R17.1 billion [2015: R13 billion]
  - Energy 2016: R9.3 billion [2015: R7.0 billion]
  - Water 2016: R1.5 billion [2015: R2.1 billion]
  - Transport 2016: R2.7 billion [2015: R1.3 billion]
  - Communications 2016: R369 million [2015: R350 million]
- Projects supported: 74 [2015: 113]
- Total commitments: R18.3 billion [2015: R17.4 billion]
- Disbursement to municipalities in South Africa: R8.1 billion [2015: R5.4 billion]
  - to metros: R7.5 billion [2015: R3.7 billion]
  - to secondary municipalities: R430 million [2015: R1.3 billion]
  - to under-resourced municipalities: R173 million [2015: R489 million]
- Book debt to secondary and under-resourced municipalities: R6.5 billion [2015: R6.7 billion]
- Disbursements to the rest of SADC: R3.3 billion [2015: R619 million]

**INFRATESTRUCTURE IMPLEMENTATION**
- Value of funds under management: R3.3 billion [2015: R2.0 billion]
- Value of infrastructure delivered: R2.6 billion [2015: R2.0 billion]
  - Schools completed: 35 [2015: 15]
  - Schools in construction: 22 [2015: 48]
  - Houses built: 1,382 [2015: 1,152]
  - Health facilities completed: 111 [2015: 86]
  - 2,250 water and 203 electricity meters installed
  - 54 municipal projects completed

**FINANCIAL RESULTS**
- Net profit: R2.6 billion [2015: R1.2 billion]
  - Cost-to-income ratio: 28.7% [2015: 34.4%]
- Paid to providers of capital (interest expense): R3.4 billion [2015: R3.0 billion]
  - Debt-to-equity ratio: 178% [2015: 196%]
- Staff costs: R731 million [2015: R607 million]
DEVELOPMENT OUTCOMES

INFRASTRUCTURE FINANCING

Municipal (South Africa)¹
→ Energy (includes upgrading of substations and electrification of households) - total households impacted:
  251 680
  (2015: 90 096)
→ Rehabilitation of roads - total households impacted:
  33 450
  (2015: 1 986)
→ Water (includes reticulation and provision of bulk water) - total households impacted:
  63 216
  (2015: 56 695)
→ Sanitation (includes reticulation, upgrading and construction of waste water treatment works) - total households impacted:
  254 560
  (2015: 138 234)
→ Residential facilities - total households impacted:
  34 889
  (2015: 2 000)

Implementation support to municipalities (non-lending)²
→ Number of households that received access to new and improved service in water, sanitation and electricity:
  63 242
  (2015: 8 482)
→ Temporary job opportunities created:
  5 240
  (2015: 1 773)

Non-municipal (South Africa and SADC)³
→ Energy generation
  > Gas: 225 MW (2015: 24 MW)
  Total project impact: 225 (2015: 340 MW)
  > Coal: 65 MW (2015: 99 MW)
  Total project impact: 9 000 MW (2015: 9 000 MW)
→ Education
  > Student accommodation: 1 000 beds (2015: 2 550 beds)
  Total project impact: 1 000 beds (2015: 5 204 beds)

¹ Based on projects committed during the year
² Service provided by South African Financing division

INFRASTRUCTURE IMPLEMENTATION

Schools
→ Scholars enrolled during 2016: 17 900 (2015: 9 000)
→ Total number of learners benefiting since inception: 36 000

Health
→ More than 35 000 people gained access to health counselling and testing in newly built clinics

Employment creation
→ Jobs created: 6 462 (2015: 7 144)

SMME development
→ Value of funds allocated to SMMEs: R710 million
→ SMMEs benefiting: 665 (2015: 754)

Refer to the DBSA’s Sustainability Review Report for more detail
DBSA SUPPORT AREAS OVER THE NEXT THREE YEARS

The DBSA’s strategy maintains its focus on social and economic infrastructure development but with an emphasis on driving financial and non-financial investments in the primary sectors of energy, transport, water and communications, whilst providing support to various social sectors such as health, education and housing to a lesser extent.

The DBSA primarily plays a key role in the preparation, funding and building phases of the infrastructure development value chain. The table below summarises the performance against the 2016 targets and the targeted deliverables for 2017 as well as the further two years to March 2019. The performance against the detailed 2016 Balanced Scorecard is reflected on page 5 to 7 of the separate Annual Financial Statements.

<table>
<thead>
<tr>
<th>Objective</th>
<th>Key performance indicator</th>
<th>Target 2016</th>
<th>Actual 2016</th>
<th>Target 2017</th>
<th>Target 2018</th>
<th>Target 2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>CUSTOMER PERSPECTIVE (50%)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Project preparation</td>
<td>Gross value of bankable projects prepared</td>
<td>R4 billion</td>
<td>R7.6 billion</td>
<td>R9 billion</td>
<td>R10 billion</td>
<td>R11 billion</td>
</tr>
<tr>
<td>Infrastructure financing</td>
<td>Total value of infrastructure unlocked</td>
<td>-</td>
<td>R17.1 billion</td>
<td>R22.0 billion</td>
<td>R25.0 billion</td>
<td>R28.0 billion</td>
</tr>
<tr>
<td></td>
<td>Value of third party funds catalysed by the DBSA</td>
<td>-</td>
<td>-</td>
<td>R5.6 billion</td>
<td>R7.6 billion</td>
<td>R9.6 billion</td>
</tr>
<tr>
<td></td>
<td>Value of infrastructure disbursements</td>
<td>R17.8 billion</td>
<td>R17.1 billion</td>
<td>R16.4 billion</td>
<td>R17.4 billion</td>
<td>R18.4 billion</td>
</tr>
<tr>
<td>Sustained growth in development impact</td>
<td>• South Africa</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Municipalities</td>
<td>R6.0 billion</td>
<td>R8.1 billion</td>
<td>R6.0 billion</td>
<td>R6.1 billion</td>
<td>R6.2 billion</td>
</tr>
<tr>
<td></td>
<td>• Metropolitan cities</td>
<td>R4.0 billion</td>
<td>R7.5 billion</td>
<td>R4.8 billion</td>
<td>R4.8 billion</td>
<td>R4.8 billion</td>
</tr>
<tr>
<td></td>
<td>• Secondary municipalities</td>
<td>R1.5 billion</td>
<td>R430 million</td>
<td>R1.0 billion</td>
<td>R1.1 billion</td>
<td>R1.2 billion</td>
</tr>
<tr>
<td></td>
<td>• Under-resourced municipalities</td>
<td>R0.5 billion</td>
<td>R173 million</td>
<td>R200 million</td>
<td>R200 million</td>
<td>R200 million</td>
</tr>
<tr>
<td></td>
<td>• Social infrastructure (education, health, housing and water)</td>
<td>R1.2 billion</td>
<td>R0.6 billion</td>
<td>R1.2 billion</td>
<td>R1.3 billion</td>
<td>R1.4 billion</td>
</tr>
<tr>
<td></td>
<td>• Economic infrastructure (transport, energy and ICT)</td>
<td>R5.6 billion</td>
<td>R4.9 billion</td>
<td>R5.6 billion</td>
<td>R6.0 billion</td>
<td>R6.4 billion</td>
</tr>
<tr>
<td></td>
<td>• Rest of Africa (including SADC)</td>
<td>R5.0 billion</td>
<td>R3.5 billion</td>
<td>R3.6 billion</td>
<td>R4.0 billion</td>
<td>R4.4 billion</td>
</tr>
<tr>
<td></td>
<td>• SADC (excluding RSA)</td>
<td>R3.5 billion</td>
<td>R3.3 billion</td>
<td>R2.5 billion</td>
<td>R2.8 billion</td>
<td>R3.1 billion</td>
</tr>
<tr>
<td>Providing integrated infrastructure solutions</td>
<td>Implementation and delivery support programmes</td>
<td>Total funds under management</td>
<td>R3.2 billion</td>
<td>R3.3 billion</td>
<td>R4.2 billion</td>
<td>R4.4 billion</td>
</tr>
<tr>
<td>Client and partner satisfaction</td>
<td>Client and partner satisfaction</td>
<td>Conduct survey (use actual rating)</td>
<td>Rating of 3.9</td>
<td>Rating of 4</td>
<td>Rating of 4</td>
<td>Rating of 4</td>
</tr>
</tbody>
</table>
## Objective

<table>
<thead>
<tr>
<th>Key performance indicator</th>
<th>Target 2016</th>
<th>Actual 2016</th>
<th>Target 2017</th>
<th>Target 2018</th>
<th>Target 2019</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>FINANCIAL PERSPECTIVE (30%)</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sustainable earnings</td>
<td>R911 million</td>
<td>R1.4 billion</td>
<td>R1.1 billion</td>
<td>R1.2 billion</td>
<td>R1.3 billion</td>
</tr>
<tr>
<td>Net interest margin</td>
<td>40.9%</td>
<td>48.7%</td>
<td>41%</td>
<td>37%</td>
<td>35%</td>
</tr>
<tr>
<td>Non-interest revenue (excluding IDD)</td>
<td>R100 million</td>
<td>R50 million</td>
<td>R250 million</td>
<td>R300 million</td>
<td>R350 million</td>
</tr>
<tr>
<td><strong>INTERNAL PERSPECTIVE (10%)</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cost-to-income ratio of IDD</td>
<td>95%</td>
<td>87%</td>
<td>&lt;95%</td>
<td>&lt;95%</td>
<td>&lt;95%</td>
</tr>
<tr>
<td>Cost-to-income ratio (excluding IDD)</td>
<td>Max 35%</td>
<td>25%</td>
<td>&lt;35%</td>
<td>&lt;35%</td>
<td>&lt;35%</td>
</tr>
<tr>
<td>Balance sheet capacity: Capital management</td>
<td>-</td>
<td>-</td>
<td>Capital management strategy/ framework approved</td>
<td>Target to be determined post-finalisation of strategy</td>
<td>Target to be determined post-finalisation of strategy</td>
</tr>
<tr>
<td>Innovation</td>
<td>-</td>
<td>-</td>
<td>Approval of an innovative concept/ product</td>
<td>Target to be determined post-implementation of innovation unit</td>
<td>Target to be determined post-implementation of innovation unit</td>
</tr>
<tr>
<td><strong>LEARNING AND GROWTH (10%)</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Development and retention of key skills</td>
<td>85% of key skills retained</td>
<td>95%</td>
<td>&lt;85%</td>
<td>&lt;85%</td>
<td>&lt;85%</td>
</tr>
<tr>
<td>Implementation of culture change initiative</td>
<td>Conduct staff culture survey - 15% improvement</td>
<td>22% improvement in culture survey</td>
<td>3% improvement in culture survey</td>
<td>3% improvement in culture survey</td>
<td>3% improvement in culture survey</td>
</tr>
</tbody>
</table>
**ENGAGING WITH OUR STAKEHOLDERS**

In all of its activities, the DBSA maintains an open dialogue with its stakeholders. We believe that this dialogue and the development of strategic partnerships are not only fundamental sources of information but are also important for responsible corporate governance. Stakeholder dialogue is vital for the effective execution of the DBSA’s mandate.

### DBSA STAKEHOLDER MAP

<table>
<thead>
<tr>
<th>Stakeholders</th>
<th>How we engage</th>
<th>What we engage on</th>
<th>Stakeholders’ contribution to value creation</th>
<th>Pages</th>
</tr>
</thead>
<tbody>
<tr>
<td>Government (shareholder representative)</td>
<td>Regular meetings with the Governor and the National Treasury</td>
<td>The DBSA's developmental role; long-term sustainability; financial performance and Shareholder Compact</td>
<td>Provides the link to ensure alignment of the DBSA with National Priorities</td>
<td>2 to 4 24</td>
</tr>
<tr>
<td>Employees</td>
<td>Staff engagements at numerous levels; training and development needs analysis; results presentations; performance reviews; internal media; whistle-blower's hotline; and staff surveys</td>
<td>Strategy; financial performance; people development and training, transformation and employment equity and code of conduct</td>
<td>To enhance employees’ engagement and commitment as their efforts contribute to our success</td>
<td>34 to 35 Sustainability Report</td>
</tr>
</tbody>
</table>
| Clients and partners                      | Client and partner surveys; client and partner meetings and marketing campaigns | Client needs (funding and non-funding support); implementation support (non-funding support); perceptions and expectations; job creation and environmental impact | • Their business provides the basis for our continued growth  
• To understand our clients’ and partners’ needs and enhance our development impact                         | 5 to 11 34 to 41 Sustainability Report |
| Regulators                                | Regular communication, meetings and reports with/to:                         | Compliance requirements; needs and expectations; feedback on performance and human capital matters | Provides the enabling regulatory framework in which we operate                                                | 18 to 31 External auditor’s report |
| Providers of finance                      | Meetings with analysts and rating agencies; investor road shows; announcement of results; website | Financial performance; market trends and issues; future prospects and organisational sustainability | Provide financial capital required to sustain and grow the business                                          | 43 to 51 Annual Financial Statements |
| Suppliers                                 | One-on-one meetings and presentations                                         | Contract and service agreements and performance                                     | • The ability to achieve our objectives can only be achieved if we enjoy the loyal support of our suppliers  
• Suppliers provide the valued expertise, products and services required to maintain our business and facilitate growth | Sustainability Report |
| Community                                 | Project implementation; community surveys; marketing campaigns and website     | Investment in socio-economic development; access to basic services and local labour opportunities | Communities are ultimately a key beneficiary of our services and they provide a deeper understanding of our social responsibility expectations, including job creation and environmental impact | 8 to 9 Sustainability Report |
| Media                                     | Media briefings; press conferences and releases and print media              | Key strategic initiatives; project information; operational and financial performances | Raise public awareness of our strategy, products and services as well as our operational results           |                        |
MANAGING OUR RISKS AND OPPORTUNITIES

At the DBSA, anticipating and responding to our risks and opportunities is a fundamental part of delivering on our mandate and ensuring that we deliver on a sustainable basis. The DBSA Board is ultimately accountable for the effective management of risks and has adopted an enterprise-wide risk management (ERM) framework and approach to managing risk exposures. This approach ensures that the DBSA takes a holistic view of the risks inherent in its strategy, operations and business, and that the management of risks is embedded into the mainstream planning, business and decision-making processes.

**RISK IS MANAGED ON FOUR LEVELS**

<table>
<thead>
<tr>
<th>Level</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strategic risk</td>
<td>The possibility that unforeseen opportunities or threats may render the DBSA’s strategy ineffective or uncompetitive or that events or circumstances may occur which could hinder the ability of the DBSA to implement its strategy and successfully deliver on its mandate</td>
</tr>
<tr>
<td>Operational risk</td>
<td>The possibility that internal or external events and circumstances can have a disruptive impact on the reliability, continuity, quality and efficiency of the DBSA’s operations or cause damage to tangible assets or harm to intangible assets</td>
</tr>
<tr>
<td>Business risk</td>
<td>The possibility that unknown events or circumstances can result in deviations from the returns expected on individual business propositions or impact on the planned outcomes of specific value-creating initiatives</td>
</tr>
<tr>
<td>Financial risk</td>
<td>The possibility that financial losses may arise from the DBSA’s treasury operations due to volatilities in the market, counter-party defaults and liquidity positions</td>
</tr>
</tbody>
</table>

The DBSA’s risk management system comprises the following inter-related functions:

- The five lines of defence risk management strategy that allocates roles and accountabilities at various tactical levels
- Risk governance, which entails the creation of an enabling environment for the structured management, oversight and reporting of risks
- Risk process, which covers the planning, understanding and responding to risks inherent in the DBSA’s strategy, operations and business
- Risk assurance, which encompasses the combined efforts of various parties in monitoring and assessing the adequacy, effectiveness and economy of the governance, control and oversight of risks

**THE DBSA ENTERPRISE-WIDE RISK MANAGEMENT SYSTEM**

During the previous year, the DBSA continued embedding the five lines of defence model in line with its risk maturity journey. The benefits of the model are that it clearly defines the roles and responsibilities for the management of risk within the DBSA and emphasises the fundamental concept that risk ownership and management is everyone’s responsibility from the Board right through to the client-facing units. The model is summarised overleaf.
MANAGING OUR RISKS AND OPPORTUNITIES

### Table: Lines of Defence, Role, and Responsibility

<table>
<thead>
<tr>
<th>Line of Defence</th>
<th>Role</th>
<th>Responsibility</th>
</tr>
</thead>
<tbody>
<tr>
<td>First</td>
<td>Business units, support functions, line management and all staff</td>
<td>Implementation and management of risk</td>
</tr>
<tr>
<td>Second</td>
<td>Group Risk Assurance</td>
<td>Perform a policy-setting and monitoring role to ensure implementation of risk management principles and adherence to regulation and legislation</td>
</tr>
<tr>
<td>Third</td>
<td>Internal and external audit</td>
<td>Independent assurance on the effectiveness of risk management</td>
</tr>
<tr>
<td>Fourth</td>
<td>Executive Committee</td>
<td>Responsibility and oversight of DBSA activities to ensure that they are consistent with business strategy and policies as approved by the Board</td>
</tr>
<tr>
<td>Fifth</td>
<td>Board</td>
<td>Overseeing the activities of the DBSA and accountable to the shareholder for strategy and performance</td>
</tr>
</tbody>
</table>

### INTERNAL CONTROL ENVIRONMENT

Responsibility for the systems of internal financial and operational control rests with the Board and has, without subrogation, been delegated to the Audit and Risk Committee. The DBSA’s governance principles on ethical behaviour, legislative compliance and sound accounting practice lay the foundation for its internal control processes, while the enterprise-wide risk management approach and risk strategy adopted by the Board form the framework for internal control. Executive management is accountable for determining the adequacy, extent and operation of control systems.

The internal audit function conducts periodic reviews of key processes linked to the significant risk to provide independent assurance to the Board and management on the effectiveness of the internal control system. Members of the Audit and Risk Committee review the work of internal audit and the Chief Audit Executive has unfettered access to the Chairman of the committee and the Board to ensure the escalation of any significant audit matters requiring immediate Board attention.

### QUALITY ASSURANCE ASSESSMENTS FOR THE INTERNAL AUDIT FUNCTION

Internal audit conforms to the International Standards for the Professional Practice of Internal Auditing as published by the Institute of Internal Auditors. The internal audit function undergoes an external quality assurance assessment every five years as required by King III. The function has further implemented a Quality Assurance and Improvement Programme where internal quality assurance assessments are conducted on an ongoing basis for all audit engagements. Additionally, periodic self-assessments are conducted to assess the function as a whole in terms of quality and areas of improvement.

A formal external quality assurance assessment is conducted every five years with the next one scheduled for 2017. The last assessment was conducted during January 2012, which revealed that the DBSA Internal Audit Department “generally conforms” to the International Standards for the Professional Practice of Internal Auditing (Institute of Internal Auditors).

### COMBINED ASSURANCE

Per the requirements of King III, the DBSA has implemented a combined risk assurance model which is co-ordinated and managed by the internal audit function. King III describes the combined assurance model as “integrating and aligning assurance processes in a company to maximise risk and governance oversight and control efficiencies and optimise overall assurance to the Audit and Risk Committee, considering the company’s risk appetite”.

The DBSA’s combined assurance model addresses the key risks facing the DBSA coupled with the key processes and controls in place to ensure the mitigation and/or minimisation of these key risks. Along with the five lines of defence strategy the DBSA has adopted, the combined assurance model seeks to identify the assurance providers of the identified key risks. The assurance providers are delineated in the combined assurance map, which is based on the corporate strategic objectives and risks. The map drives the internal audit annual plan and the three-year rolling plan. The assurance providers report accordingly to the required governing bodies regarding the outcome of the assessment of the risks and control environment in place to mitigate those risks.

A combined assurance policy has been developed, which includes the formation of a formal Combined Assurance Working Committee comprising representatives from business, risk management, compliance, as well as internal and external audit. This ensures that all levels of assurance can be provided by the various assurance providers, supporting the independent assurance provided by both internal and external audit. Quarterly, assurance reporting is done by both the Combined Assurance Working Committee and the Audit and Risk Committee.

Additionally, the internal audit function annually issues a written assessment to the Audit and Risk Committee, as required by King III. The written assessment provides assurance by internal audit on the overall control environment, taking cognisance of the governance, information technology, risk management and operational/financial risk areas. The assurance provided is informed by the outcome of the audits/reviews conducted based on an approved risk-based audit plan.
### KEY ENTERPRISE-WIDE RISKS

The DBSA Board and management team continuously review the top corporate risks to ensure an appropriate understanding of our operating environment. The table below sets out the main risks identified as well as key mitigation plans implemented.

<table>
<thead>
<tr>
<th>RISK</th>
<th>CONTEXT</th>
<th>STEPS TAKEN IN MITIGATION</th>
<th>LINK TO STRATEGY</th>
</tr>
</thead>
</table>
| 1 Failure to innovate and adapt to a changing infrastructure        | The developmental finance landscape is constantly evolving with the emergence of new players. Competition is also increasing with commercial banks investing in sectors that the DBSA has traditionally focused on, for example, second-tier metros and secondary municipalities | • Innovation has been prioritised as an imperative – new function under consideration  
• Ongoing analyses of economic and global market conditions  
• Board review and challenge of strategy  
• Improving service offering to stakeholders through providing enhanced infrastructure solutions throughout the value chain  
• Project preparation function to support the development of the project pipeline  
• Provision of planning and implementation support to under-capacitated municipalities | ![Strategy and execution](https://www.example.com) |
| development market                                                  | Residual risk: high                                                                                                                       |                                                                                                               |                  |
| 2 Risk of changing macro-economic environment                       | The global macro-economic environment has increasingly become more volatile. To note a few examples: a significant drop in commodity prices notably the oil price; the rise in interest rates and strengthening of the US dollar impacting emerging markets; and slowdown in the China. Locally, the risk of a potential downgrade of South Africa to sub-investment grade has increased in probability. Further, the continued weakening rand and economic growth slowdown are seen as exacerbating this risk in the short to medium term | • Dedicated market analysis  
• Continuous assessment of alternative sources of funding  
• Review and improvements of pricing model  
• Pro-active monitoring of the credit portfolio | ![Strategy and execution](https://www.example.com) |
| Residual risk: critical                                             |                                                                                                                                           |                                                                                                               |                  |
| 3 Risk of geo-political events in the countries in which the DBSA   | There has been an increasing number of geopolitical events globally e.g. Syria and terrorism. Within the region we operate, political events have a bearing on infrastructure opportunities we pursue | • Country risk management framework and model is in place, limits are applied at a country level, based on risk profile  
• Deal-specific mitigants are considered, for example, political risk insurance, effective deal structuring, investing in projects of strategic importance to target country, and minimising impact when there are political changes  
• Inter-governmental relations are developed and maintained in partnership with the Department of International Relations  
• Ongoing stakeholder management  
• Developing and leveraging key strategic partnerships | ![Strategy and execution](https://www.example.com) |
| operates, leading to increase in credit impairments and reducing    |                                                                                                                                           |                                                                                                               |                  |
| financing opportunities                                             | Residual risk: high                                                                                                                       |                                                                                                               |                  |
| 4 Risk of lower-than-expected development impact and supporting     | The DBSA’s mission is to advance development impact in the region and effectively integrate and implement solutions to improve the quality of lives and support economic growth through investment and development of infrastructure. South Africa is a signatory to the sustainable development goals and the DBSA is one of the key vehicles to assist the country in delivering on its aspiration | • Project-level risk management controls such as contractual and risk financing mechanism  
• Rigorous social and environmental appraisal | ![Strategy and execution](https://www.example.com) |
| projects that impact society and environment negatively              | Residual risk: moderate                                                                                                                   |                                                                                                               |                  |

### STRATEGIC OBJECTIVES
- SUSTAINED GROWTH IN DEVELOPMENTAL IMPACT
- PROVIDING INTEGRATED INFRASTRUCTURE SOLUTIONS

### OPERATIONAL OBJECTIVES
- CONTINUOUS IMPROVEMENT IN INTERNAL SYSTEMS AND PROCESSES
- CREATE AND MAINTAIN A HIGH PERFORMANCE CULTURE
### MANAGING OUR RISKS AND OPPORTUNITIES CONTINUED

<table>
<thead>
<tr>
<th>RISK</th>
<th>CONTEXT</th>
<th>STEPS TAKEN IN MITIGATION</th>
<th>LINK TO STRATEGY</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Strategy and execution (continued)</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
| 5 | Failure to deliver on the DBSA’s non-financing mandate, including the risks associated with construction-related activities, such as safety, pipeline and contractor management risks | Residual risk: moderate | • Construction risk framework work-in-progress  
• Dedicated legal skills to review contracts and memoranda of agreement  
• Pricing model has been developed to determine the true costs of implementing these mandates. All projects are implemented on a direct cost-recovery basis  
• Principal agents appointed to co-ordinate and monitor the logistics plan in all contracts |
| 6 | Risk of inadequate capital levels to sustain the business and execute our strategic growth | Residual risk: high | • Continuous review of alternative sources of funding  
• Capital management project is in progress  
• Strategy, financial plan and three-year financial forecast annually reviewed and approved by the Board. Cost-recovery principles incorporated in memorandum of agreement  
• Treasury strategy and risk framework implemented |
| 7 | Failure to prevent and respond to reputational risk events impacting on the DBSA’s goodwill and reputation | Residual risk: low | • Implementation of reputational risk management framework as well as brand, communication and marketing strategies |
| **Processes and staff** | | | |
| 8 | Risk of ineffective and inefficient processes | Residual risk: moderate | • Various initiatives identified and implemented to improve process efficiencies |
| 9 | Failure to maintain a high performance culture; recruit, develop and retain key staff members | Residual risk: moderate | • Implementation of a culture change programme  
• Retention strategy, which includes performance incentives benchmarked with peers, enhancement of the performance management process, talent management and succession plans reviewed regularly |
| 10 | Cyber security risk as well inadequate and unavailable ICT systems | Residual risk: moderate | • Implementing information security management system and cyber security management strategy  
• Enhancing operational excellence by implementing the workflow technology, thus increasing the efficiency by automating the business processes, resulting in optimising productivity  
• Implementation of the ICT management governance maturity self-assessments |
| **Compliance risk** | | | |
| 11 | Risk of non-compliance to laws and regulations as well as fraud and corruption | Residual risk: low | • Internal controls reviewed on a regular basis  
• Fraud prevention plan as well as a fraud hotline in place  
• Dedicated compliance and legal functions  
• Project-specific reviews for each of the deals we finance |
ORGANISATIONAL STRUCTURE

To support the implementation of the strategy and ensure operational efficiencies, the DBSA’s operating structure is designed around eight divisions.

Lending operations are split on a geographical basis with the South Africa Financing division focusing on all lending activities within South Africa whilst the International Financing division focuses on those activities beyond South Africa. The Financing Operations division supports the two lending divisions with project preparation, product and sector expertise, as well as portfolio management services.

The Infrastructure Delivery division is responsible for the delivery of important infrastructure development programmes in the education, housing and health sectors.

Finally, support functions are configured into four divisions: Corporate Services, Finance, Strategy and Group Risk.

1. The Chief Executive Officer’s Report appears on pages 32 to 35.
2. For more information on South Africa Financing refer to page 39.
3. For more information on International Financing refer to page 40.
4. For more information on Project Preparation refer to page 38.
5. For more information on Infrastructure Delivery refer to page 41.
6. For more information on Corporate Services refer to the separately available Sustainability Review Report.
7. The Chief Financial Officer’s Report appears on pages 43 to 51.
8. For more information on the DBSA’s Risk Management refer to pages 13 to 16.
9. For more information on Internal Audit function’s activities refer to page 14.
CHAIRMAN’S STATEMENT

OPERATING ENVIRONMENT

The infrastructure challenge in Africa remains immense and the DBSA has an important role to fulfil in meeting this challenge. Current World Bank estimates of the infrastructure investment required annually across Africa are in the order of US$93 billion, with investment at around US$45 billion, leaving a considerable shortfall. It is estimated that Africa will require between US$180 billion to US$230 billion in infrastructure investment by 2025.

Africa’s population of 1 billion in 2010 is expected to double by 2050. As a result, the workforce on the continent is expected to increase by 910 million people by 2050, of which 830 million will be in Sub-Saharan Africa (SSA) and 80 million in North Africa. Addressing the infrastructure gap therefore remains critical to allow new higher-productivity sectors to develop, generate jobs for the rapidly growing young population and foster integration into global value chains.

The poorest Africans are largely dependent on agricultural resources for both food and jobs and climate change-related hazards pose serious welfare challenges for SSA’s rural poor. Furthermore, pressure on already limited water supply is expected to increase sharply due to changes in water cycles caused by erratic rainfall. It is therefore highly likely that climate change could lead to mass migration and rapid urbanisation, which in turn would impact on human settlements and their supporting infrastructure. It is critical that infrastructure development must occur in a manner which promotes sustainable consumption, production and management of natural resources to support the needs of the present and future generation.

A CLEAR STRATEGY

The DBSA has a clear mandate and strategy, with its primary purpose to promote economic development and growth through our involvement in preparing, facilitating, funding or delivering impactful development projects and programmes.

The executives have engaged with stakeholders, in particular government, to clarify their needs and have developed specific strategic objectives in response thereto and the mandate imposed by the DBSA Act. We will continue to take a long-term view of business and how to position the organisation as a leading DFI for infrastructure development.

See the strategy section, which starts on page 5 and the stakeholder engagement on page 12.

Jabu Moleketi
Chairman of the DBSA Board
GOVERNANCE

The DBSA’s governance standards compare well with best practice, guiding us as we expand our operational areas. This was recognised by an A+ assessment rating based on the Association of African Development Finance Institutions’ (AADFI) “Prudential Standards, Guidelines and Rating System” (PSSGRS) during the year.

During the financial year, the DBSA conducted a web-based self-assessment using the Governance Assessment Instrument (GAI) made available by the Institute of Directors in Southern Africa (IoDSA). The GAI assists organisations to review and consider King III and other relevant governance legislation and provides a detailed assessment, gap analysis and reporting functionality. The GAI also provides for one national benchmark governance platform. The results of the assessment indicated an overall assessment grading of AAA (2015: AAA), representing a “highest application” level across the various assessed categories. The assessment highlighted the need for the Board to ensure that the IT strategy is effectively integrated into strategic and business processes, as well as the monitoring of significant IT investments and expenditure. The Board will address this in the next financial year.

As a Board we also paid special attention to the following governance matters:

• Review of delegation of authority to ensure alignment with the mandate as prescribed by the DBSA Act, including the delegation between the shareholder, Board and Chief Executive Officer (CEO)
• Skills identification assessment following recent changes to the Board. The Board identified the need to expand the skills base in terms of legal, credit, risk management as well as the need to appoint chartered accountants.

The nomination and recommendation to the Minister of Finance will continue into the new financial year:

• Continuous director training
• Involvement of selected Board members in the culture improvement project to ensure that the right tone is set at the top.

The DBSA is wholly owned by the South African government. In his capacity as Governor, the Minister of Finance holds the Board of Directors accountable for managing the DBSA to deliver on this mandate. During the year, we held an annual general meeting with the shareholder, where specific resolutions were taken. This provided an opportunity for the shareholder and the Board to engage on strategic and operational matters.

In line with section 52 of the PFMA, the DBSA submits a Shareholder Compact and Corporate Plan to the National Treasury during February of each year. This serves as an agreement between the DBSA and the shareholder, and documents the key performance measures and targets against which organisational performance is assessed. The Board reports on performance and related matters to the shareholder by way of annual and interim reports and meetings are held between the Board Chairman, the CEO and the Governor.

The DBSA uses the Balanced Scorecard (BSC) methodology to implement its strategy and to monitor and report on performance against predetermined targets. It has reviewed its key performance indicators and the results of this evaluation are shown in the Directors’ Report.

The diverse and experienced Board of Directors has been charged with the governance of the DBSA and is well suited to oversee the delivery of the strategy. Refer to the governance structure on page 21, which depicts the aspects of the strategy delivered by the executive functions and governed by the committees of the Board and, ultimately, the Board as a whole.

We have appointed two new members to the Board, following the untimely death of Omar Latif and resignation of Mary Vilakazi due to workload commitments. Post year-end, Thembisa Dingaan also resigned. We are thankful for their valuable contributions made during their tenure. We welcome the new energy brought by Martie Janse van Rensburg and the shareholder representative Malijeng Ngqaleni to the Board. They are both respected and experienced professionals in their fields.

Brief profiles of all current Directors can be found on pages 22 and 23.

The Human Resources, Remuneration, Nomination, Social and Ethics Committee (HRNSEC) evaluated the organisational performance and oversaw the performance assessment of the CEO and the executive management team.

The Directors’ Report can be found on pages 5 to 9 of the separate Annual Financial Statements Report.

The Human Resources, Remuneration, Nomination, Social and Ethics Committee (HRNSEC) evaluated the organisational performance and oversaw the performance assessment of the CEO and the executive management team.
PERFORMANCE

I wish to congratulate the CEO, Patrick Dlamini, and his executive team on an encouraging set of results and the truly meaningful impact which has been achieved.

The DBSA’s total disbursements are at a new record high of R17.1 billion (2015: R13 billion), mostly in South Africa. As a result, the total development assets increased to R77.1 billion (2015: R63.1 billion) and total assets to R82.3 billion (2015: R71 billion).

The DBSA produced a net profit of R2.6 billion (2015: R1.2 billion), a valuable contribution to ensuring its ability to continue delivering on its mandate of infrastructure development support.

The results are discussed in more detail in the section performance and outlook, which starts on page 32.

OUTLOOK

The outlook for the global economy is dominated largely by the developments in China as the world’s second biggest economy continues to lose its strong growth momentum. This, in turn, is expected to sustain the currently subdued commodity prices that are crucial for macroeconomic stability in most Sub-Saharan African countries.

Without sound and well-maintained infrastructure, national economic development will remain severely constrained. Improvements to the continent’s infrastructure in recent years have been responsible for more than half of Africa’s better economic performance and have the potential to contribute even more in the future. By the same token, inadequate infrastructure holds back faster growth on the continent.

Despite the heavy investments already made, more solutions to support the planning, preparation, financing and implementation are required to address the infrastructure deficits.

The Presidential Infrastructure Coordinating Commission (PICC) has identified a pipeline of projects to address infrastructure backlogs whilst the NDP provides guidelines for capital investment priorities and the sequence of decisions required to ensure that the country’s infrastructure needs are provided for in a sustainable, equitable, affordable and practical manner.

Linked to the NDP is the Integrated Urban Development Framework (IUDF), which is designed to unlock the development synergy that comes from co-ordinated investments in people and places. An integrated urban infrastructure policy framework that is resource-efficient and provides for both universal access and more inclusive economic growth, needs to be extensive and strong enough to meet industrial, commercial and household needs, and should also be planned in a way that supports the development of an efficient and equitable urban form and facilitate access to social and economic opportunities. During the forthcoming year, the DBSA must continue to assess opportunities to support the initiatives as well as consider ways to further align its operations to these imperatives.

To ensure that South Africa fulfils its obligations in relation to support for infrastructure development in the region’s development corridors, the DBSA will continue to support initiatives such as the SADC Integrated Infrastructure Development Plan, the Programme for Infrastructure Development in Africa (PIDA) and Africa 2063, which are led by the African Union Commission, the NEPAD Secretariat and the African Development Bank Group (AfDB).

Jabu Moleketi
Chairman
## Governance Structure

### Ministry of Finance (sole shareholder)

**Minister Pravin Gordhan**

<table>
<thead>
<tr>
<th>DBSA Board</th>
<th>Chairman: Jabu Moleketi</th>
</tr>
</thead>
<tbody>
<tr>
<td>ARC</td>
<td>BCIC</td>
</tr>
</tbody>
</table>

#### Board Committee

**Non-executive members**

- **Audit and Risk Committee**
  - Gugu Mtetwa (Chairperson)
  - Thembisa Dingaan
  - Busisiwe Mabuza
  - Martin Janse van Rensburg
  - Dawn Marole
  - Arthur Moloto
  - Anuradha Sing
  - Martie Janse van Rensburg

- **Board Credit and Investment Committee**
  - Thembisa Dingaan (Chairperson)
  - Jabu Moleketi
  - Arthur Moloto
  - Gugu Mtetwa
  - Anuradha Sing
  - Martin Janse van Rensburg

- **Human Resources, Remuneration, Nomination, Social and Ethics Committee**
  - Dawn Marole (Chairperson)
  - Frans Baleni (Chairperson)
  - Lungile Bhengu-Baloyi
  - Jabu Moleketi
  - Busisiwe Mabuza
  - Arthur Moloto
  - Gugu Mtetwa
  - Mark Swilling

- **Infrastructure Delivery and Knowledge Management Committee**
  - Lungile Bhengu-Baloyi
  - Jabu Moleketi
  - Anuradha Sing
  - Mark Swilling
  - Martin Janse van Rensburg
  - Malijeng Ngqaleni

**Executive members**

- Patrick Dlamini
- Kameshni Naidoo
- Patrick Dlamini

### Responsibilities

- **Audit and Risk Committee**
  - Oversees the DBSA’s internal control framework, reviews and evaluates the integrity of financial and other statutory reporting, financial strategy, budget, capital expenditure, treasury strategies, loan impairments, risk management processes and compliance with laws and regulations.
  - The committee further oversees the internal and external audit functions, reviews the internal audit plan and the annual assessment of significant risk exposures, as well as the Office of the Chief Financial Officer.

- **Board Credit and Investment Committee**
  - Reviews credit strategy, credit risk management policy and programme, trends in portfolio quality and adequacy of provision for credit losses.

- **Human Resources, Remuneration, Nomination, Social and Ethics Committee**
  - The committee supports the implementation of the human capital strategy, the nomination of Directors, executive remuneration for the DBSA, Board of Directors’ affairs and governance, as well as social and ethics matters.

- **Infrastructure Delivery and Knowledge Management Committee**
  - Oversees the implementation of the strategic mandate and infrastructure delivery programmes, as well as the policy, advisory and knowledge management function.

### Notes

- See pages 27 and 28 for the Audit and Risk Committee report for further detail
- See page 29 for the Board Credit and Investment Committee report for further detail
- See page 30 for the Human Resources, Remuneration, Nomination, Social and Ethics Committee report for further detail
- See page 31 for the Infrastructure Delivery and Knowledge Management Committee report for further detail

### DBSA Executive Management Committee

**Chairman: Patrick Dlamini**

<table>
<thead>
<tr>
<th>Steering Committee</th>
<th>Investment Committee</th>
<th>Corporate Services Committee</th>
<th>Infrastructure Delivery and Knowledge Management Committee</th>
</tr>
</thead>
<tbody>
<tr>
<td>Kameshni Naidoo (Chairperson)</td>
<td>Paul Currie (Chairperson)</td>
<td>Dolores Mashishi (Chairperson)</td>
<td>Sinalo Sibisi (Chairperson)</td>
</tr>
</tbody>
</table>
BOARD OF DIRECTORS
AT 31 MARCH 2016

CHAIRMAN
1. JABU MOLEKETI
Chairman
Director of companies
Born: 1957
Independent Non-executive Director from 1 January 2010
Chairman from 1 September 2011
Academic qualifications
• Advanced Management Programme (AMP), Harvard Business School, USA
• Masters of Science in Financial Economics, University of London, UK
• Post-graduate diploma in Economic Principles, University of London, UK
Listed entity or SOC directorships
• Brait South Africa: Non-executive Chairman
• Remgro (Pty) Limited: Non-executive Director
• MMI Holdings: Non-executive Director
• Vodacom Group Limited: Non-executive Director

DEPUTY-CHAIRMAN
2. FRANS BALENI
Deputy-Chairman
Director of Companies
Born: 1960

EXECUTIVE DIRECTORS
3. PATRICK DLAMINI
Chief Executive Officer
Born: 1969
Executive Director from 1 September 2012
Academic qualifications
• Advanced Executive Programme, Kellogg School of Management, USA
• EDP, University of the Witwatersrand Business School
• BCom, University of KwaZulu-Natal

4. KAMESHNI NAIDOO
Chief Financial Officer
Born: 1974
Executive Director from 1 January 2013
Academic qualifications
• Chartered Accountant (SA)

INDEPENDENT NON-EXECUTIVE DIRECTORS
5. DR LUNGILE BHENGU-BALOYI
Founder and Director:
Development and Leadership Consulting
Born: 1956
Independent Non-executive Director from 1 August 2011
Academic qualifications
• Doctorate (Public Administration), University of KwaZulu-Natal
• MA (Social Policy), University of KwaZulu-Natal
• LLB (Public Law), University of KwaZulu-Natal
• Advanced University Diploma (Adult Education), University of KwaZulu-Natal
• BSc (Dietetics), MEDUNSA

6. THEMBISA DINGAAN
Consultant and Director of Companies
Born: 1973
Independent Non-executive Director from 1 August 2007
Academic qualifications
• HDip Tax, University of the Witwatersrand
• LLM, Harvard University, Cambridge USA
• LLB, University of KwaZulu-Natal

7. MARTIE JANSE VAN RENSBERG
Director of Companies
Born: 1957
Independent Non-executive Director from 1 January 2016
Academic qualifications
• MBA, Stern School of Business, New York University
• BA (Mathematics), City University of New York (Hunter College), USA
Listed entity or SOC directorships
• Afgrí Limited: Non-executive Director
• Industrial Development Cooperation: Non-executive Director
• Tsogo Sun Holdings: Non-executive Director

8. BUSISIWE MABUZA
Director of Companies
Born: 1963
Independent Non-executive Director from 1 August 2011
Academic qualifications
• Chartered Accountant (SA)
Listed entity or SOC directorships
• FirstRand Group Limited, Non-executive member of International Credit Committee

A list of all directorships are available from the Company Secretary.
DAWN MAROLE
Chairman: Executive Magic (Pty) Limited Consulting
Born: 1960
Independent Non-executive Director from 1 August 2011
Academic qualifications
• Executive Leadership Development Programme, GIBS
• MBA NEU Boston, Massachusetts, USA
• BCom (Acc), University of Zululand
• Diploma Tertiary Education, University of South Africa
Listed entity or SOC directorships
• MTN Group Limited, Non-executive Director
• Kasetsart University, Non-executive Director

ARTHUR MOLOTO
Political and Economic Advisor to the Speaker of National Assembly at Parliament of South Africa
Born: 1968
Independent Non-executive Director from 1 August 2014
Academic qualifications
• MSc in Finance and Financial Law, University of London, UK
• Post-graduate diploma in Economic Principles, University of London, UK
• Bachelor of Arts Honours Development Studies, University of Limpopo

Listed entity or SOC directorships
• Land Bank: Non-executive Chairman

GUGU MTETWA
Director of Companies
Born: 1979
Independent Non-executive Director from 1 August 2014
Academic qualifications
• Partner development programme, GIBS
• Executive Leadership Development Programme, University of Stellenbosch Business School
• Chartered Accountant (SA)

ANURADHA SING
Chief Investment Officer at Kagiso Capital (Pty) Limited
Born: 1971
Independent Non-executive Director from 1 August 2014
Academic qualifications
• MBA, Wits Business School
• BSc Eng (Mechanical), University of Natal (Durban)

PROF MARK SWILLING
Divisional Head: Sustainable Development, University of Stellenbosch
Born: 1960
Independent Non-executive Director from 1 August 2014
Academic qualifications
• PhD, Department of Sociology, University of Warwick, UK
• Bachelor of Arts Honours, Department of Political Studies, Wits University
• Bachelor of Arts, Wits University

NON-EXECUTIVE DIRECTOR
MALIJENG NGOALENI
Deputy-Director General: Inter-governmental Relations (IGR), National Treasury
Born: 1959
Non-executive Director from 1 January 2016 (shareholder representative)
Academic qualifications
• MSc Agricultural Economics: University of Saskatchewan, Canada
• BA Economics: National University of Lesotho

COMPANY SECRETARY
BATHOBILE SOWAZI
DBSA Company Secretary from 1 May 2010
Born: 1972
Academic qualifications
• LLB, Rhodes University
• BA Law, University of Swaziland
• Advanced Banking Law, University of Johannesburg

BOARD COMMITTEES:
ARC Audit and Risk Committee
BCIC Board Credit and Investment Committee
HRNSEC Human Resource, Remuneration and Nomination, Social and Ethics Committee
IDKC Infrastructure Delivery and Knowledge Management Committee
QUALIFICATION AND EXPERIENCE:
1 Leadership
2 Finance and investments
3 Government
4 Economics
5 Labour and talent development
6 Social and sustainable development
7 Research and policy
8 Law
9 Engineering
The DBSA applies sound corporate governance structures and processes, which the Board considers pivotal to delivering sustainable growth in the interests of all stakeholders. The DBSA’s values-driven culture and Code of Ethics underpin its governance structures and processes, committing the organisation to high standards of business integrity and ethics in all its activities. Governance structures and processes are reviewed regularly, and adapted to accommodate internal developments and reflect national best practice.

The Board considers corporate governance to be a priority and endeavours to go beyond minimum compliance, where appropriate. The Board will therefore consider all new non-statutory corporate governance concepts carefully and will implement them if they are deemed to be in the DBSA’s best interests. The application of governance requirements should facilitate, not detract from, the Directors’ ability to execute their statutory and fiduciary responsibilities, and their duty of care and skill. The Board and the Human Resources, Nomination, Social and Ethics Committee (HRNSEC) continue to review and benchmark all governance structures and processes to ensure they support effective and ethical leadership, good corporate citizenship and sustainability.

### GOVERNANCE FRAMEWORK

#### KEY LEGISLATION
- DBSA Act
- Public Finance Management Act
- Companies Act (where appropriate)

#### GOVERNANCE PRINCIPLES
- King III (where appropriate)
- Corporate Governance Development Framework
- AADFI Prudential Standards Guidelines and Rating System
- United Nations Global Compact

#### POLICIES AND PROCEDURES IN PLACE
- Board Charter
- Code of Ethics
- Board and sub-committee terms of reference
- Conflict of interest
- Delegation of authority
- Company Secretary
- Ethics hotline
- Annual review of finance function
- Gift policy

#### GOVERNANCE PARTNERSHIPS
- SADC Development Finance Resource Centre (DFRC)

For a more comprehensive report on DBSA’s enterprise-wide risk management processes, including internal control environment and the combined assurance, as well as material risks identified, refer to pages 16 and 17.

### ENSURING EFFECTIVE GOVERNANCE AND GOOD CORPORATE CITIZENSHIP

**Effective governance leadership**

\[
\text{Board independence} + \text{Qualification and experience} + \text{Rotation} + \text{Active participation} = \text{Effective governance leadership}
\]

### EFFECTIVE GOVERNANCE LEADERSHIP

- AADFI SGRS rating: A+ (2012: A)
- Accredited as a Green Climate Fund

### BOARD INDEPENDENCE

- The Minister of Finance approves appointment of Directors
- 14 Board members
- The Chairman is an Independent Non-executive Director
- One shareholder representative
- Majority Independent Non-executive Directors
- HRNSEC and ARC: No Executive Directors as members
- Declaration of interest at each meeting

### SUMMARY GOVERNANCE REPORT

AT 31 MARCH 2016

For a more comprehensive report on DBSA’s enterprise-wide risk management processes, including internal control environment and the combined assurance, as well as material risks identified, refer to pages 16 and 17.
The contract terms for each of the Directors are on page 8 of the Directors’ Report of the separate Annual Financial Statements report.
REMUNERATION REPORT

For the DBSA to achieve its mandate, the organisation is committed to a remuneration philosophy that:
• Supports the execution of the DBSA’s mandate and business strategy
• Promotes good governance and risk management
• Aligns its policies, procedures and practices with best practice and legislation (the PFMA and King III, in particular)
• Motivates and reinforces performance at all levels (organisational, divisional, unit and individual)
• Ensures the long-term financial sustainability of the DBSA.

The DBSA’s application of its remuneration philosophy aims to meet the strategic objectives of:
• Aiming to be market-competitive in specific labour markets in order to attract, retain and motivate key and talented people
• Determining the value proposition of the various job levels required by the DBSA
• Ensuring that the hybrid of performance and competency management forms an integral part of remuneration, thereby influencing the remuneration components of base pay and incentives
• Payment of fair, appropriately structured and competitive remuneration
• Applying good governance to remuneration practices within approved structures
• Supporting the DBSA’s culture, as embedded in its values.

BOARD REMUNERATION

The DBSA compensates and remunerates Non-executive Directors in a manner which enables it to attract and retain high-calibre and professional Directors to ensure that the Board has, at all times, the necessary skills required to execute on its mandate.

Non-executive Directors are remunerated according to their scope of responsibility and contribution to the DBSA’s operating and financial performance, taking into account industry norms, including the State-Owned Enterprise Remuneration Guidelines as well as the external market and benchmarks.

Non-executive Directors receive fees according to their attendance at meetings. In addition, all independent Non-executive Directors receive annual retainer fees so that they are also available to provide strategic advice to the CEO and management outside Board and committee meetings. Non-executive Directors are not entitled to receive short- or long-term incentives.

Board members are compensated for expenses incurred in pursuance of the DBSA’s business.

The HRNSE Committee reviews the Non-executive Directors’ fees and makes recommendations to the Board and the Minister of Finance for consideration and approval.

EMPLOYEE REMUNERATION

The Board is committed to attracting, motivating, managing and retaining employees of the highest calibre for the DBSA through the payment of fair, appropriately structured and competitive remuneration. The DBSA recognises a mix of both competencies and performance in its remuneration structure.

The remuneration packages for employees, including the group executive team are divided into fixed and variable components, including short-term performance incentives. We are currently developing a long-term incentive scheme which will seek to ensure that the ultimate long-term delivery outcomes are achieved.

GUARANTEED PACKAGES

All employees, including Executive Directors and Group Executives, receive a guaranteed package based on their roles and responsibilities. Contributions to retirement and insured benefits are included in the guaranteed package.

Employees can choose to participate in a DBSA-nominated medical aid scheme.

The HRNSE Committee reviews the Chief Executive Officer and Group Executives’ remuneration and makes recommendations to the Board and the Minister of Finance for consideration.

All permanent employees and employees with contracts longer than three years are required to join the DBSA Provident Fund, a defined contribution scheme. Besides the retirement fund contributions, lump sum contributions may be made to the fund.

The retirement age for DBSA employees is 60. Some employees who have been with the DBSA for longer than 18 years have a retirement age ranging from 60 to 65 years, depending on their respective employment contracts.

The DBSA operates an unfunded defined post-retirement medical benefit plan for qualifying employees. In terms of the plan, it pays 100% of the medical aid contributions of qualifying pensioners. Pensioners include retired employees and their widower(s).

Funeral benefit cover is provided to all current and retired employees. In respect of these employees, a gross amount of R33 000 is paid to the family upon death of an employee or retired employee.

No related party transactions with Board members occurred during the financial year, except for payments in respect of attendance at Board and Board committee meetings.

Details of fees earned by the Non-executive Directors are reflected in note 47 to the Annual Financial Statements.

Role: Chief Executive Officer
Maximum: 100
Percentage: 100

Role: Chief Financial Officer
Maximum: 80
Percentage: 80

Role: Group executives
Maximum: 80
Percentage: 80

Details of the remuneration of Executive Directors and Group Executives are reflected in note 47 to the Annual Financial Statements.

SHORT-TERM INCENTIVES

All employees, including Executive Directors and Group Executives, participate in a yearly short-term incentive plan. Bonus payments are discretionary and depend on business performance and individual contribution.

The performance of the executive management team is measured against predetermined goals approved by the Board.

All bonuses are capped at the following percentage of the guaranteed package:

Role: Chief Executive Officer
Maximum: 100
Percentage: 100

Role: Chief Financial Officer
Maximum: 80
Percentage: 80

Role: Group executives
Maximum: 80
Percentage: 80

Details of fees earned by the Non-executive Directors are reflected in note 47 to the Annual Financial Statements.
We are pleased to present our report for the financial year ended 31 March 2016. The Audit and Risk Committee has adopted appropriate formal terms of reference as its Audit and Risk Committee Charter, has regulated its affairs in compliance with this Charter, and has discharged its responsibilities as contained therein.

MEMBERSHIP
The Audit and Risk Committee members and attendance are reflected on page 25 in the Summary Governance report. In compliance with Treasury Regulations 27.1.3 and 27.1.4, the Chairperson is an Independent Non-executive Director and has the requisite business, financial and leadership skills for the position. All the committee members are financially literate, with all being non-executive members.

The names and qualifications of Directors serving on the Audit and Risk Committee are detailed in the Board of Directors section of the Integrated Annual Report on pages 22 and 23.

AUDIT AND RISK COMMITTEE RESPONSIBILITY
The functions of the Audit and Risk Committee are regulated by the PFMA and King III. The committee oversees the internal control framework and reviews and evaluates the integrity of financial and other statutory reporting, risk management processes, compliance with laws and regulations and ethics management. It oversees the internal and external audit functions and reviews the internal audit plan and the annual assessments of significant risk exposures. The committee oversees and also advises the Board on income, expenditure and capital budget requirements, tax management and internal control.

The committee oversees and provides advice on the risks attached to the DBSA. Based on its risk assessments of significant risk exposures, the committee makes recommendations, when appropriate, to the Board regarding the adequacy of any non-audit services expected to be provided by the external auditor(s), including their audit fee and determining the nature and extent of any non-audit services.

The Audit and Risk Committee's responsibilities also include:
• Considering the appointment, rotation and/or termination of the external auditor(s) and nominating to the Board for consideration.
• Approving the terms of engagement of the external auditor(s), including their audit fee and determining the nature and extent of any non-audit services.
• Monitoring and reporting to the Board on the independence, objectivity and required skills and competence of the external auditor(s) to execute the audit in terms of International Standards on Auditing.
• Monitoring the effectiveness of the processes to create awareness and develop an understanding of relevant legislation and regulation to ensure compliance by management.
• IT governance on behalf of the Board to ensure proper system security, data integrity and business continuity, disaster recovery and review of the reports of the Chief Information Officer.
• Oversight over the enterprise-wide risk management (ERM) approach to and managing risk exposures.
• Consideration of the expertise, resources and experience of CFO, finance and internal audit functions.

COMBINED ASSURANCE
The Audit and Risk Committee’s corporate governance processes comply with the requirements of the King Report on Corporate Governance 2009 (King III) with respect to ensuring that a combined assurance model is applied to provide a co-ordinated approach to assurance. The model aims to optimise the assurance coverage obtained from risk, internal providers and external assurance providers on risks attached to the DBSA.

ASSURANCE BY MANAGEMENT
• Received and reviewed the reports from management regarding the adequacy of development loan and equity investment impairments.
• Received and reviewed the accounting policies, practices, judgements and estimates adopted in the preparation of the Annual Financial Statements and found those to be appropriate.
• Reviewed reports from management regarding the going concern assessment and financial sustainability of the organisation.
• The continued preparation of the Annual Financial Statements on a going concern basis was adopted.

ASSURANCE BY GROUP RISK ASSURANCE (GRA)
The Board considers risk management to be a key business discipline designed to balance risk and reward and therefore, through the Audit and Risk Committee, oversees the approved ERM approach to the management of risk exposures. The Audit and Risk Committee delegated to management the responsibility to design, implement and monitor the risk management plan. To this end, the following internal management committees exist that monitor and report on various components of risk to the Audit and Risk Committee:
• Treasury-related risks are monitored through an internal Asset and Liability Management Committee.
• Portfolio risks are monitored through the Investment Committee. Based on reports received from management, the monitoring of the loan and equities portfolio is considered adequate.
• Operational risks are addressed by the ERM framework.

Internal assurance from the GRA function was obtained through quarterly ERM reports and dashboards prepared independently of management and in accordance with the ERM framework. Operational risk management is facilitated by the GRA function and reported through the ERM reports to the Audit and Risk Committee. These risks are considered in relation to assurance reports from other sources.

ASSURANCE BY INTERNAL AUDIT
Internal audit is a key internal assurance provider and provides the Board with a report of its activities which, along with other assurance provider sources, is used by the Board in reporting on and assessing the system of internal control and risk management. The committee:
• Considered and recommended for approval to the Board the one- and three-year internal audit plans and monitored internal audit’s adherence to these plans.
• Received and reviewed reports from Internal Audit concerning the effectiveness of internal controls, systems and processes as well as the adequacy and appropriateness of management’s corrective action plans.
• Considered all material forensic reports and established whether appropriate action was taken by management.

ASSURANCE BY THE INDEPENDENT EXTERNAL AUDITOR
During the year, the committee:
• Reviewed and approved the external audit plan, including the proposed scope and audit fee and determined the nature and scope of non-audit services expected to be provided by the external auditor(s).
• Received and reviewed external audit reports for the year pertaining to the Annual Financial Statements for the year ended 31 March 2016 and the interim results for the six months ended 30 September 2015.
• Made recommendations, when appropriate, to the Board regarding the rotation of the external audit function.
FRAUD AND CORRUPTION
The Audit and Risk Committee provides oversight over the fraud and corruption prevention controls and mechanisms within the DBSA’s operating environment. To this end:
• Risk incidents are logged in an operational risk register and monitored
• There is sufficient forensic capability in internal audit, with an appointed forensic specialist
• The DBSA has a toll-free whistle-blowing hotline operated by Deloitte and employees are encouraged to report any suspected corrupt, fraudulent, criminal or unethical practices

IT GOVERNANCE
The Audit and Risk Committee provides oversight over the IT systems and automated controls and mechanisms within the DBSA’s operating environment. To this end:
• Strengthening of ICT governance was a primary objective of the Business Technologies and Facilities division during the financial year and the existing IT governance framework and information security framework are currently being reviewed and updated
• A proper business recovery plan and off-site disaster recovery centre are in place and daily backups as well as periodic disaster recovery testing occur
• An ICT Steering Committee considers significant IT investment and expenditure, technology performance and compliance with service level agreements with business.
• The Audit and Risk Committee considered the maturity level of the ICT operations and is satisfied that sufficient provision is made for business recovery in the event of a disaster and also concludes from the results of the work performed by both internal and external audit that sufficient coverage of system and manual internal controls was obtained

The committee has noted various gaps in the DBSA’s IT strategy and monitoring of IT-related investments and expenditure. This will be addressed in the next financial year.

THE EFFECTIVENESS OF INTERNAL CONTROL
The Audit and Risk Committee is of the opinion, based on the information and explanations given by management and internal audit and discussions with the independent external auditor on the results of their audits and the status in addressing the matters raised, that the internal accounting controls (manual and automated) are operating satisfactorily, to ensure that the financial records may be relied upon for preparing the Annual Financial Statements, and accountability for assets and liabilities is maintained.

Nothing significant has come to the attention of the Audit and Risk Committee to indicate that any material breakdown in the functioning of these controls, procedures and systems has occurred during the year under review.

THE QUALITY OF MANAGEMENT AND QUARTERLY REPORTS SUBMITTED IN TERMS OF THE PFMA
The Audit and Risk Committee is satisfied with the content and quality of quarterly reports prepared and issued by the Board of Directors and the management of the DBSA during the year under review.

ANNUAL REVIEW OF THE CFO, FINANCE AND INTERNAL AUDIT FUNCTIONS
The committee has assessed and is satisfied with the expertise, resources and experience of the CFO, finance and internal audit functions.

EVALUATION OF INTEGRATED ANNUAL REPORT, ANNUAL FINANCIAL STATEMENTS AND SUSTAINABILITY REVIEW
The Audit and Risk Committee has:
• Reviewed the Integrated Annual report and Sustainability Review report
• Reviewed and discussed the audited Annual Financial Statements with the independent external auditor and the Accounting Authority

The Audit and Risk Committee has evaluated the Integrated Annual Report and Annual Financial Statements for the year ended 31 March 2016 and considers that it complies, in all material respects, with the requirements of sections 27 to 31 of the Companies Act, the PFMA, IFRS and that the adoption of the going concern basis in preparing the Annual Financial Statements is appropriate. It is of the opinion that the audited Annual Financial Statements should be accepted and read together with the report of the independent external auditor.

Gugu Mtetwa
Chairperson of the Audit and Risk Committee
We are pleased to present our report for the financial year ended 31 March 2016.

The Board Credit and Investment Committee has adopted appropriate formal terms of reference as its Board Credit and Investment Committee Charter, has regulated its affairs in compliance with this Charter and has discharged its responsibilities as contained therein.

MEMBERSHIP
The Board Credit and Investment Committee members and attendance are reflected on page 25 in the Summary Governance report. The Chairperson is an Independent Non-executive Director and has the requisite business, financial and leadership skills for the position. All the committee members have development and financial literacy, with the majority being non-executive members.

The names and qualifications of Directors serving on the Board Credit and Investment Committee are detailed in the Board of Directors section on pages 22 and 23.

BOARD CREDIT AND INVESTMENT COMMITTEE RESPONSIBILITY
The Board has delegated the responsibility for the management of credit and investment risk to its Board Credit and Investment Committee, supported by the executive management-level Investment Committee. The Board Credit and Investment Committee is responsible for the approval of all transactions that would result in the DBSA’s aggregate exposure that is above the approval limits of the Investment Committee. The Investment Committee, which is chaired by the Chief Risk Officer, is responsible for approving all transactions that would result in the aggregate exposure to a single obligor being below the approval limits. The committee is also responsible for recommending aggregate exposures of more than the approval limits to the Board Credit and Investment Committee.

In managing credit and investment risks further, the DBSA, through its Group Risk Assurance division, also seeks to embed policies and processes on credit and investment risk appetite and prudential limits. It guides the formulation of risk strategy and businesses’ risk positioning by ensuring that sound risk principles and practices are adopted and maintained. Finally the DBSA, in support of its mandate, seeks to align development impact with credit and investment risks decisions and to optimise reward by evaluating risk exposures and ongoing outcomes in tandem.

Refer to pages 8 and 9 for a summary of the outputs and estimated development outcomes. Pages 39 and 40 provide an overview of the DBSA’s two infrastructure financing divisions.

Refer to pages 43 to 51 of the Chief Financial Officer’s Report for an overview of the quality of the credit portfolio.

The committee has reviewed the credit strategy, credit risk management programme, trends in portfolio quality, the adequacy of provision for credit losses and the credit risk management policies approved by the Board. The committee approves all credit and investment proposals where counter-party exposures exceed amounts set out in the table below.

<table>
<thead>
<tr>
<th></th>
<th>MS1 – MS10</th>
<th>Above MS10</th>
</tr>
</thead>
<tbody>
<tr>
<td>South Africa</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Municipal clients</td>
<td>R1 000 million</td>
<td>R500 million</td>
</tr>
<tr>
<td>• Other public sector clients</td>
<td>R500 million</td>
<td>R250 million</td>
</tr>
<tr>
<td>• State-supported programmes</td>
<td>R500 million</td>
<td>R250 million</td>
</tr>
<tr>
<td>• Private sector clients</td>
<td>All</td>
<td>All</td>
</tr>
<tr>
<td>Rest of Africa</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• SADC: Low-risk countries</td>
<td>US$50 million</td>
<td>US$20 million</td>
</tr>
<tr>
<td>• SADC: Medium-risk countries</td>
<td>US$20 million</td>
<td>US$10 million</td>
</tr>
<tr>
<td>• SADC: High-risk and post-conflict countries</td>
<td>US$10 million</td>
<td>All</td>
</tr>
<tr>
<td>• SADC: Private sector clients</td>
<td>All</td>
<td>All</td>
</tr>
<tr>
<td>• Rest of Africa</td>
<td>All</td>
<td>All</td>
</tr>
</tbody>
</table>

Note: The DBSA uses the following rating scale to measure risk: MS1 to 7: low risk, MS 8 to 13: medium risk and MS14 and above: high risk.

Busisiwe Mabuza
Chairperson of the Board Credit and Investment Committee

HUMAN RESOURCES, REMUNERATION, NOMINATION, SOCIAL AND ETHICS COMMITTEE REPORT
FOR THE YEAR ENDED 31 MARCH 2016

We are pleased to present our report for the financial year ended 31 March 2016.

The Human Resources, Remuneration, Nomination, Social and Ethics Committee (HRNSEC) has adopted an appropriate formal terms of reference as its HRNSEC Charter, has regulated its affairs in compliance with this Charter and has discharged its responsibilities as contained therein.

MEMBERSHIP
The HRNSEC members and attendance are reflected on page 25 in the Summary Governance report. The Chairperson is an Independent Non-executive Director. All committee members are Non-executive Directors and all members have the requisite business, financial and leadership skills for the position. The CEO is not a member of the committee but attends meetings by invitation.

The names and qualifications of Directors serving on the committee are detailed in the Board of Directors section on pages 22 and 23.

HUMAN RESOURCES, NOMINATIONS, SOCIAL AND ETHICS COMMITTEE RESPONSIBILITY
The Board of Directors has established the HRNSEC to support it in the execution of its duties with respect to implementation of the human capital strategy, nomination of Directors and executive remuneration, Directors’ affairs, as well as social and ethics issues, compliance with King III, the DBSA Act and Regulations and any additional corporate governance requirements of DBSA. The Board of Directors is the focal point of corporate governance in the DBSA. It is ultimately accountable and responsible for the performance, affairs and behaviour of the DBSA. The HRNSEC has the responsibility to ensure that there are adequate processes, policies, systems and procedures to ensure sound corporate governance.

The committee meets at least four times a year. The committee can utilise the services of independent advisors on matters relating to remuneration. Specific responsibilities of the committee include:

GOVERNANCE, NOMINATIONS AND DIRECTORS’ AFFAIRS
• Assist the Board in its determination and evaluation of the adequacy, efficiency and appropriateness of the governance structure and practices
• Advise, evaluate and assist the Board on any issues of fundamental strategic importance that are beyond the scope of the specific authorities mandated to other Board committees
• Establish and review a Board continuity plan for approval by the Board entailing:
  - A review of the performance of and planning for successors to the Executive and Non-executive Directors
• Measures to ensure continuity of tenure of Non-executive Directors
• A regular review of the composition of skills, experience and other qualities required for the effectiveness of the Board
• A biennial assessment of the Board as a whole, which assessment shall be co-ordinated by the Chairperson of the Board and assisted by the Company Secretary
• Assess regularly the conduct and competence of Directors and Board committees, the overall effectiveness of the Board and report thereon to the Board
• Regularly review the required mix of skills and experience on the DBSA Board with a view to identifying any skills gap on the Board
• Recommend to the Board potential candidates for membership onto the Board
• Develop a plan for identifying, assessing and enhancing Director competencies
• Ensure that Executive Directors and management succession plans are in place
• Review the performance of the CEO.

REMUNERATION
• Consider for approval by the Board the remuneration policy and employment practices in addition to any other strategic human resource issues referred to it by management and the Board of Directors in line with market trends and prevailing legislation
• Review and recommend performance incentive policies applicable to the Executive Directors and Group Executives to the Board of Directors to ensure that they are fairly rewarded for their individual and joint contribution to the DBSA performance
• Determine remuneration, retention incentive and termination policies and procedures for executive management
• Make recommendations to the shareholder for consideration regarding the fees of the Chairman and the Non-executive Directors
• Make recommendations to the Board for approval of the aggregate annual staff salary increase
• Recommend for approval percentage limits to which executive management may authorise remuneration for staff such as the maximum bonus as a percentage of total cost to company and how much may be discretionary
• Consider and recommend to the Board for approval the quantum of incentive pool for executives of the DBSA
• Determine and review superannuation arrangements
• Obtain for the Group whatever remuneration-related information the committee may need from time-to-time.

HUMAN RESOURCES
• Review and recommend the DBSA human capital strategy and risk management strategy to be implemented. Further detail regarding the remuneration philosophy and policies is provided in the Remuneration report on page 26
• Monitor implementation and execution of the human capital strategy and transformation as well as issues policy requirement for implementation by management. A key focus area for the committee was the monitoring of the DBSA’s culture change programme. Significant improvements were achieved
• Review performance scorecards. Refer to the Directors’ report in the Annual Financial Statements report for the performance against the 2016 Balanced Scorecard
• Overseen equity placement and other human capital statutory regulations
• Overseen the implementation of the DBSA’s training and development plan.

SOCIAL AND ETHICS
The committee ensures that management cultivates a culture of ethical conduct and sets the values to which the DBSA adheres. In this respect the committee:
• Monitors the activities, having regard to relevant legislation and codes of best practice, in respect of social and economic development, good corporate citizenship, the environment, health and public safety, consumer relationships and sound labour and employment practices
• Reviews the DBSA’s values and considers for recommendation to the Board the ethics-related policies like the conflict of interest policy, code of ethics, gift and whistle-blowing policies
• Considers and recommends for approval to the Board the ethics management programme.

Refer to the Chairman of the Board and Summary Governance reports, as reflected on pages 18 to 25 for further detail.

Dawn Marole
Chairperson of the Human Resources, Remuneration, Nomination, Social and Ethics Committee

Refer to note 47 of the Annual Financial Statements for fees paid to Non-executive Directors, Executive Directors and Group Executives.
We are pleased to present our report for the financial year ended 31 March 2016.

The Infrastructure Delivery and Knowledge Management Committee (IDKC) has adopted an appropriate formal terms of reference as its Infrastructure Delivery and Knowledge Management Committee Charter, has regulated its affairs in compliance with this Charter and has discharged its responsibilities as contained therein.

**MEMBERSHIP**
The Chairperson is an Independent Non-executive Director. The majority of committee members are non-executive members and all committee members have the requisite business, financial and leadership skills for the position.

The IDKC members and attendance are reflected on page 25 in the Summary Governance report.

The names and qualifications of Directors serving on the IDKC are detailed on pages 22 and 23.

**INFRASTRUCTURE DELIVERY AND KNOWLEDGE MANAGEMENT COMMITTEE RESPONSIBILITY**
The IDKC 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 Board to properly consider and evaluate any matter that it has been mandated to deal with. The Board has ultimate responsibility in controlling the business and directing the operations of the DBSA. This includes accepting strategic mandate programmes that will help with infrastructure delivery and programme implementation support in South Africa and the region, monitoring existing mandates, approval and monitoring of key infrastructure projects, and overseeing the knowledge and research programmes of the DBSA in line with the philosophy that it is a centre of excellence in infrastructure development.

**NON-FINANCING INFRASTRUCTURE DELIVERY SUPPORT AND PROGRAMME IMPLEMENTATION (STRATEGIC MANDATES)**
The DBSA is committed to supporting government in accelerating the implementation of agreed infrastructure and implementation programmes on a fully funded and/or cost-recovery basis. These strategic mandates may include the provision of project management and other support in key priority sectors critical to the achievement of the national objectives of economic growth, job creation and infrastructure delivery. The mandate of the committee does not extend to the financing needs of programmes supported. The IDKC is responsible for:

- Providing strategic guidance on the support to be provided to public entities and spheres of government in priority sectors
- Recommending to the Board a framework to guide the selection of new government infrastructure delivery and strategic mandates and programmes for implementation by the DBSA
- Considering and approving all new strategic mandates and programmes for implementation by the DBSA
- Delegating to the CEO the responsibility for consideration and approval of all new projects within an approved mandate. The CEO will recommend for approval by the IDKC appropriate frameworks, portfolio risk management strategies, risk tolerances, appetite limits, policies and procedures to be adopted by the DBSA to monitor and mitigate exposure
- Monitoring compliance to the framework and progress on the implementation of mandates and programmes that fall under the committee’s purview
- Identifying issues related to implementation of the programmes for tabling at the Board of Directors for consideration or decision.

**KNOWLEDGE MANAGEMENT**
As a knowledge organisation, the DBSA is committed to facilitating processes of internal and external knowledge development and sharing to facilitate appropriate learning to enhance its status as an infrastructure DFI. The committee:

- Recommends for approval by the Board a knowledge management strategy for the DBSA that has both an internal and external focus and incorporates a transversal knowledge management system for the DBSA and a research strategy. A key focus area for the year was to refine the research agenda to the key challenges faced in South Africa and proposing adequate solutions as well as the measurement of development impact
- Monitors the implementation and impact of DBSA’s knowledge management strategy
- Identifies knowledge management outputs or issues considered relevant by the committee for tabling for consideration or decision by the Board of Directors.

**INFRASTRUCTURE DELIVERY**
As a DFI focused on infrastructure, the DBSA is required to constantly monitor developments in infrastructure planning and implementation and the enabling environment that impacts on the delivery of infrastructure and its financing.

The committee:

- Considers and recommends best practice related to DFIs and infrastructure planning, financing and implementation
- Reviews the overall performance of infrastructure delivery. Part of the review included a site inspection during the year by the IDKC members to various schools, houses and clinics in the Eastern Cape
- Provides strategic guidance to the gathering and analysis of project and spatial information to improve infrastructure planning, financing, delivery tracking and performance.

Frans Baleni
Chairman of the Infrastructure Delivery and Knowledge Management Committee
OVERVIEW OF THE OPERATING ENVIRONMENT

The South African economy remains subdued, whilst the growth in the rest of Africa is mixed. Issues that emerged during the year included a rising interest rate cycle, instability of the rand, fluctuation in the oil price, falling commodity prices and the impact of the worst drought in recorded history. These factors weigh heavily on the country’s international investment grade ratings and any negative movements would result in higher borrowing costs that would ultimately impact the DBSAs. Many municipalities also remain institutionally and financially constrained, and require support beyond financing.

The need for infrastructure development in South Africa remains critical and the DBSA has a critical and typically counter-cyclical role to play in ensuring infrastructure gaps are met. Climate change mitigation and adaptation will provide significant investment opportunities and threats in South Africa and the rest of the continent.

I AM PLEASED TO REPORT ON ANOTHER YEAR DURING WHICH THE DBSA HAS DELIVERED ON ITS INFRASTRUCTURE DEVELOPMENT MANDATE.

Patrick Dlamini
Chief Executive Officer

PERFORMANCE REVIEW

PERFORMANCE AND OUTLOOK

CHIEF EXECUTIVE OFFICER’S REPORT

Performance Review

Key Performance Scorecard

<table>
<thead>
<tr>
<th></th>
<th>2016 Actual</th>
<th>2015 Actual</th>
<th>% Variance</th>
<th>2016 Target</th>
<th>% Variance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Project preparation</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Funding approved by the Board</td>
<td>R7.6 billion</td>
<td>R6.4 billion</td>
<td>19</td>
<td>R4.0 billion</td>
<td>90</td>
</tr>
<tr>
<td>Financing</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>New disbursement record</td>
<td>R17.1 billion</td>
<td>R13.0 billion</td>
<td>32</td>
<td>R17.8 billion</td>
<td>(4)</td>
</tr>
<tr>
<td>South Africa</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Metros</td>
<td>R7.5 billion</td>
<td>R3.7 billion</td>
<td>103</td>
<td>R4.0 billion</td>
<td>88</td>
</tr>
<tr>
<td>Secondary and under-resourced municipalities</td>
<td>R0.6 billion</td>
<td>R1.8 billion</td>
<td>(67)</td>
<td>R2.0 billion</td>
<td>(70)</td>
</tr>
<tr>
<td>Other social</td>
<td>R0.6 billion</td>
<td>R0.2 billion</td>
<td>200</td>
<td>R1.2 billion</td>
<td>(50)</td>
</tr>
<tr>
<td>Economic</td>
<td>R4.9 billion</td>
<td>R6.7 billion</td>
<td>(27)</td>
<td>R5.6 billion</td>
<td>(13)</td>
</tr>
<tr>
<td>Rest of Africa (excluding RSA)</td>
<td>R3.5 billion</td>
<td>R0.6 billion</td>
<td>483</td>
<td>R5.0 billion</td>
<td>(30)</td>
</tr>
<tr>
<td>of which SADC (excluding RSA)</td>
<td>R3.3 billion</td>
<td>R0.6 billion</td>
<td>450</td>
<td>R3.5 billion</td>
<td>(6)</td>
</tr>
<tr>
<td>Infrastructure delivery</td>
<td>R3.3 billion</td>
<td>R2.0 billion</td>
<td>65</td>
<td>R3.2 billion</td>
<td>3</td>
</tr>
<tr>
<td>Financial</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sustainable earnings</td>
<td>R1.4 billion</td>
<td>R0.8 billion</td>
<td>75</td>
<td>R0.9 billion</td>
<td>56</td>
</tr>
<tr>
<td>Net profit</td>
<td>R2.6 billion</td>
<td>R1.2 billion</td>
<td>167</td>
<td>R0.9 billion</td>
<td>189</td>
</tr>
</tbody>
</table>

Refer to the Directors’ report in the Annual Financial Statements report for the performance against detailed predetermined objectives.
In line with the strategy of operating across the infrastructure value chain, the DBSA delivered total infrastructure support to the value of R28.0 billion (2015: R21.4 billion).

The breakdown is reflected in the graph below.

Three-year infrastructure support (R billion)

2014 3.9 12.7 18.1
2015 6.4 13.0 21.4
2016 7.6 17.1 28.0

The DBSA delivered total infrastructure support to this value.

PROJECT PREPARATION

The demand for infrastructure development is extensive and one of the key bottlenecks is development and preparation of bankable projects. In addition, the planning and delivery of large infrastructure projects is complex and fraught with risk. Hence, many projects fail or are implemented with budget and timeline overruns. Over time, many DFIs have tried to fill the space where government capacity is low and risk is high. Although this landscape is evolving and expanding, current DFIs in Africa have not proven a large-scale successful model. This need and these challenges translate into an opportunity for the DBSA to create a high-skill, scaled-up, end-to-end project development and preparation business that de-risks projects and delivers project concepts to bankability.

Through our project preparation efforts 13 projects to the value of R7.6 billion (2015: R6.4 billion) were approved for funding. It is estimated that in excess of R25 billion will be unlocked from third parties funders. R431 million (2015: R396 million) to fund preparation costs was leveraged from third party funders. At year-end we were evaluating project to the value of R216 million.

Refer to page 38 for further detail and highlights of the DBSA’s preparation business.

INFRASTRUCTURE FINANCING

Total approvals amounted to R24.6 billion (2015: R30.2 billion) and commitments R18.3 billion (2015: R17.4 billion). Disbursements were at a new record high of R17.1 billion (2015: R13.0 billion). Disbursements were largely driven by R7.5 billion to metros, R4.9 billion to the economic infrastructure sector and R3.5 billion outside South Africa. The performance across the various market segments has, however, mixed. We experienced greater competition from DFIs and commercial banks in certain core sectors, especially in respect of independent power producers (IPPs) and the region outside South Africa, whilst various projects planned for disbursement during the financial year did not materialise.

Refer to pages 39 and 40 for further detail and highlights of the DBSA’s funding businesses.
CHIEF EXECUTIVE OFFICER’S REPORT CONTINUED

INFRASTRUCTURE DELIVERY
The DBSA supports government in leveraging skills and capabilities to accelerate the implementation of a number of programmes through the provision of project management and implementation support in key priority sectors of education, health and housing as well as various urban infrastructure programmes. All non-financing activities are provided on a full cost-recovery basis.

Total funds under management amounted to R3.3 billion (2015: R2.0 billion), whilst the value of infrastructure delivered increased to R2.6 billion (2015: R2.0 billion).

FINANCIAL PERFORMANCE
The DBSA produced a strong financial performance with net profit of R2.6 billion (2015: R1.2 billion), sustainable earnings of R1.4 billion (2015: R0.8 billion) and a cost-to-income ratio of 29% (2015: 34%).

As part of our strategy, the DBSA seeks to expand its product offering (product diversification) and implemented a new product development process. Product diversification includes fees generated from new products launched such as syndication and acting as mandate lead arranger. Non-funding related fees amounted to R50 million for the year.

Overall, our financial position remains sound, with our credit rating maintained in line with the sovereign rating. Total assets grew by 16% to R82.3 billion (2015: R70.9 billion). The total development assets increased by 22% to R71.1 billion (2015: R63.1 billion).

The debt-to-equity ratio of 178% remained well below the 250% statutory threshold.

Our capital management strategy project also recently kicked off and aims to develop an enterprise framework to effectively manage and allocate scarce capital to important strategic objectives. The project is anticipated to be completed by the end of the next financial year.

INVESTING IN OUR MAJOR ASSET – OUR EMPLOYEES
Employees are a critical driver of our business performance and sustainability and the high calibre of the DBSA’s current management at senior operational level is instrumental in creating value and long-term sustainability. However, there is a shortage in the supply of many of the business-critical skills we require to deliver on our strategy. As a result, we have undertaken a number of initiatives to attract the best talent and make the DBSA an attractive place for our staff to work and develop their careers.

Post the restructuring in 2013, the organisation recognised the need to implement a culture improvement project as one of the key strategic initiatives of the DBSA. It aims to build a new culture as a prerequisite to foster high performance in the organisation. Although implementation started off slowly, significant work has been done in recent months, including management coaching sessions, chemistry of wellness and performance workshops. These efforts are starting to yield significant improvements.

At year-end the DBSA employed 461 (2015: 459) permanent and fixed-term contract people as well as 108 (2015: 88) fixed-term contractors for selected programmes and agencies. Staff retention remained a critical focus area. The retention rate of critical skills was 95% (2015: 90%) at the end of March 2016 against a target of 85%.

The DBSA is committed to creating and maintaining an environment which provides equal opportunities for all employees, with special consideration given to previously disadvantaged groups. The formal company employment equity policy codifies this commitment and stipulates the promotion of equal opportunity, the elimination of unfair discrimination and the implementation of positive measures to redress disadvantages previously experienced by designated groups.

During the year R10.3 million (2015: R13.8 million) was invested in staff training.

OUTLOOK
Looking ahead, the economic environment appears uncertain. The need for infrastructure investment remains critical to stimulate economic growth and support social upliftment. The DBSA has to use its skills, resources and convening power to act as catalyst for infrastructure development. I am confident that the DBSA is in a position to accept this challenge.

In order to contribute to the reduction in Africa’s infrastructure gap, we have committed to increase our project preparation activities and will seek to prepare bankable projects to the value of approximately R10 billion per annum over the next three years. Recognising that some projects may require a form of blended finance, we will continue to engage our development partners across the world to assist in providing concessional funding.

Although the DBSA is required to play a counter-cyclical role in uncertain times such as these, we have not been immune to the impact of the environment. As a consequence of the need to remain financially sustainable, we realigned our disbursement targets to R16.4 billion for 2017 and moderated the growth to inflation annually thereafter. To offset this, leveraging the resources of third parties, such as international DFIs and the private sector, will be a key focus area. We will seek to crowd-in third party funders to the value of R9.6 billion per annum by 2019.

Municipalities play an important role in the provision of basic services to South Africans and business as a whole. The need to improve and increase infrastructure in municipalities is therefore of critical importance. The demand on existing and new infrastructure is expected to rise with more people migrating to larger cities and towns in search of employment opportunities and the expansion of businesses that utilise the current existing infrastructure in their daily operations. Recognising that the demand for infrastructure is the greatest in large urban centres, the DBSA and the National Treasury are collaborating to support the development of economic infrastructure to expand the income generation base of municipalities.
The establishment of the BRICS New Development Bank (NDB) offers various challenges and opportunities to the DBSA as the two organisation’s mandates overlap in many instances. The NDB will have an Africa Regional Centre in Johannesburg. Of concern is the ability of the NDB to potentially provide preferential rates to clients due to its funding structures and financial strengths of the key founding countries. The DBSA is currently assessing its approach to the NDB and how it could leverage these resources to catalyse infrastructure development in our target markets.

Our infrastructure implementation and delivery services provide us with significant opportunities to further support national and provincial government departments in making a meaningful contribution to the alleviation of social infrastructure backlogs, especially in the fields of education, health and housing. In addition, we will also seek to expand our offering to municipalities and the maintenance of infrastructure.

In conclusion, I wish to acknowledge and thank the people of the DBSA – our Board, management and staff. You are the backbone of the organisation that supports and drives our performance. Our collective achievements are largely attributable to your ongoing hard work and commitment. To our stakeholders, I thank you for your continued confidence in our leadership and in the resilience of the DBSA.

Patrick Dlamini
Chief Executive Officer
EXECUTIVE DIRECTORS

1. PATRICK DLAMINI
   Chief Executive Officer
   Born: 1969
   Executive Director as from 1 September 2012
   Academic qualifications
   • Advanced Executive Programme, Kellogg School of Management, USA
   • EDP, University of the Witwatersrand Business School
   • Business Studies Unit, Natal Technikon
   • BCom, University of KwaZulu-Natal
   Directorships
   • DBSA
   • BOPHYLD: Director
   • Bridges Worldwide SA: Director
   • Xcargo: Director
   • Lanseria Holding: Non-executive Director
   • Lanseria International Airport: Non-executive Director
   See the Chief Executive Officer’s report on pages 32 to 35

2. KAMESHNI NAIDOO
   Chief Financial Officer
   Born: 1974
   Executive Director as from 1 January 2013
   Academic qualifications
   • Chartered Accountant (SA)
   Directorships
   • DBSA
   • Avatar Group (Pty) Limited: Director
   See the Chief Financial Officer’s report on pages 43 to 51

EXECUTIVE MANAGEMENT AT 31 MARCH 2016

GROUP EXECUTIVES

3. PAUL CURRIE
   Group Executive: South Africa Financing
   Born: 1962
   Appointed: 17 May 2010
   Academic qualifications
   • CFA Charter (2002)
   • MBA, University of Cape Town (1996)
   • MS: Mathematics, University of Western Cape (1992)
   • HDE, University of Western Cape (1985)
   Directorships
   • Trustee: Pan Infrastructure Development Fund: (DBSA nominee)
   • Investment Committee member: Old Mutual Housing Impact Fund: (DBSA nominee)
   For portfolio performance and outlook see South Africa Financing on page 39

4. ERNEST DIETRICH
   Group Executive: South Africa Financing
   Born: 1963
   Appointed: 1 February 2016
   DBSA staff member from 2 January 2001
   Academic qualifications
   • MBA, University of Cape Town (1996)
   • MS: Mathematics, University of Western Cape (1992)
   • HDE, University of Western Cape (1985)
   Directorships
   • Trustee: Pan Infrastructure Development Fund: (DBSA nominee)
   • Investment Committee member: Old Mutual Housing Impact Fund: (DBSA nominee)
   For portfolio performance and outlook see managing our risks and opportunities on pages 13 to 16

See the Chief Executive Officer’s report on pages 32 to 35.
MICHAEL HILLARY
Group Executive: Financing Operations
Born: 1970
Appointed: 1 October 2012
Academic qualifications
• MBA, University of Witwatersrand
• BCom Hons, University of Witwatersrand
• CAIB (SA), Institute of Bankers
For portfolio performance and outlook see Project Preparation on page 3B.

DOLORES MASHISHI
Group Executive: Corporate Services
Born: 1968
Appointed: 1 September 2011
Academic qualifications
• General Management Programme, Harvard Business School, USA
• Strategic Management: Human Resources, University of the Witwatersrand Business School
• Management Advancement Programme, University of the Witwatersrand Business School
• MSc Ed (Development Psychology), University of Illinois, Chicago
• BEd (Psychology), University of the Witwatersrand
• BA Ed (Education and Psychology), University of North West
For portfolio performance see pages 34 and 35

RIEAZ (MOE) SHAIK
Group Executive: International Financing
Born: 1959
Appointed: 13 August 2012
Academic qualifications
• AMP, Harvard Business School, USA
• Masters degree in Optometry (cum laude) University of KwaZulu-Natal
• B Optometry, University of KwaZulu-Natal
• BSc (Computer Science), University of KwaZulu-Natal
Directorships
• Non-executive Director: Foresight Advisory Services (Pty) Limited
For portfolio performance and outlook see International Financing on page 40

SINAZO SIBISI
Group Executive: Infrastructure Delivery
Born: 1967
Appointed: 1 April 2012
DBSA staff member from 1 November 2007
Academic qualifications
• Executive MBA, University of Cape Town Graduate School of Business
• Partner Development Programme, GIBBS
• Executive Development Programme, IMD, Switzerland
• Post-graduate diploma in HRM, University of Cape Town
• BA Honours in History with Economic and Social History, Birmingham University, UK
For portfolio performance and outlook see Infrastructure Delivery on page 41

MOHAN VIVEKANANDAN
Group Executive: Strategy
Born: 1973
Appointed: 24 March 2014
Academic qualifications
• MBA, Kellogg School of Management, USA
• Bachelor of Arts (Honours) in Economics and Mathematical Methods in the Social Sciences (HMS53), Northwest University, USA
Refer to pages 5 to 11 for an overview of our strategy

For the organisational structure of the DBSA, see page 17.
DIVISIONAL OVERVIEW

PROJECT PREPARATION

Objective
To support the de-risking of infrastructure project and deliver project concepts to bankability.

Major services
- Project identification
- Feasibility assessment
- Technical assistance
- Financial structuring
- Managing project preparation funds
- Securing a mandate lead arranger role for the DBSA

Operational performance

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Value of projects approved for funding by the DBSA</td>
<td>R billion</td>
<td>7.6</td>
</tr>
<tr>
<td>Value of projects unlocked for funding by third parties</td>
<td>R billion</td>
<td>24.7</td>
</tr>
<tr>
<td>Employee numbers (including permanent and contractors for programme management support)</td>
<td></td>
<td>11</td>
</tr>
</tbody>
</table>

Financial performance

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating income</td>
<td>R million</td>
<td>50</td>
</tr>
<tr>
<td>Net profit/(loss)</td>
<td>R million</td>
<td>16</td>
</tr>
</tbody>
</table>

Highlights

- Accreditation of the DBSA to the Global Climate Fund, thus enabling access to US$10 billion committed to the fund to support low emission and climate resilient projects. Projects in energy, water and transport sectors are eligible to benefit from this concessional funding in both development and implementation stages.
- R431 million mobilised from third parties to fund preparation costs.

Challenges

- Aligning supply chain policies and procedures of municipalities to ensure that they are eligible to access available third party funding for project preparation.
- Uncertain legislative and regulatory environment in most countries outside South Africa to facilitate preparation of projects.
- Skills and capacity, especially in the local government sector.

Looking ahead

- Focus on a programmatic approach in project preparation, especially in water and energy sectors, and the under-capacitated municipalities.
- Crowd-in R9 billion worth of debt or other funding from third party funders.
**SOUTH AFRICA FINANCING**

**Objective**
To support the South African infrastructure development agenda, including financing and non-financing services support for the municipal sector and project financing of large-scale infrastructure projects and programmes.

**Major services**
- Provide conventional and boutique financing service:
  - Debt
  - Mezzanine finance and guarantees
  - Project finance
- Support selected municipalities with planning and implementation services. In certain instances, subsidised interest lending can be provided

<table>
<thead>
<tr>
<th>Total SA disbursements</th>
<th>SA municipal disbursements per sector</th>
<th>SA non-municipal disbursements per sector</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014 9.2</td>
<td>27% Energy</td>
<td>4% Energy</td>
</tr>
<tr>
<td>2015 12.4</td>
<td>16% Transport</td>
<td>10% Roads</td>
</tr>
<tr>
<td>2016 13.6</td>
<td>16% Water and sanitation</td>
<td>31% Other</td>
</tr>
</tbody>
</table>

Refer to page 9 for estimated development impact

<table>
<thead>
<tr>
<th>Operational performance</th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Approvals</td>
<td>R billion</td>
<td>15.1</td>
</tr>
<tr>
<td>Commitments</td>
<td>R billion</td>
<td>11.9</td>
</tr>
<tr>
<td>Disbursements</td>
<td>R billion</td>
<td>13.6</td>
</tr>
<tr>
<td>Employee number</td>
<td></td>
<td>70</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Financial performance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net interest income</td>
</tr>
<tr>
<td>Net profit before portfolio impairment</td>
</tr>
<tr>
<td>Net profit</td>
</tr>
<tr>
<td>Total assets</td>
</tr>
<tr>
<td>Net interest margin</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Highlights</th>
<th>Challenges</th>
<th>Looking ahead</th>
</tr>
</thead>
</table>
| - 103% growth in disbursements to metros  
- 70 infrastructure projects completed in secondary and under-resourced municipalities. More than 63 000 households stand to benefit  
- Planning support provided to a number of municipalities, including the development of water and sanitation services plans  
- Recognised through various industry awards for support to the energy sector including: PFI Awards 2015; Middle East and Africa Wind Deal of the Year and Africa Utility Week’s “Pioneer in Project Finance - 2015” industry awards | - Limited balance sheet financing opportunities in various sectors, including secondary and under-resourced municipalities, education and bulk water  
- Rolling out the DBSA’s conditional grant-bridging finance programme | - Roll out an integrated solution to under-capacitated municipalities, including planning, financing and implementation support  
- Engaging with metros and secondary municipalities to identify and prioritise infrastructure projects for off-balance sheet funding through innovative funding structures  
- Developing jointly with key stakeholders’ feasible models for addressing the substantial shortages of student accommodation |
INTERNATIONAL FINANCING

Objective
Support South Africa’s and the DBSA’s regional development and integration strategy, aimed at facilitating trade in Africa by investing in infrastructure projects outside South Africa.

Major services
- Provide vanilla and boutique financing service:
  - Debt
  - Mezzanine finance
- Supporting project planning and development, advocacy and partnership building for resource mobilisation
- Promoting inter-regional integration and cooperation between SADC and the adjoining regional economic communities in Africa

Operational performance

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Approvals (R billion)</td>
<td>9.5</td>
<td>22.1</td>
</tr>
<tr>
<td>Commitments (R billion)</td>
<td>6.4</td>
<td>15.2</td>
</tr>
<tr>
<td>Disbursements (R billion)</td>
<td>3.5</td>
<td>0.6</td>
</tr>
<tr>
<td>Employee numbers</td>
<td></td>
<td>32</td>
</tr>
</tbody>
</table>

Financial performance

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net interest income (R million)</td>
<td>867</td>
<td>471</td>
</tr>
<tr>
<td>Net profit before portfolio impairment (R million)</td>
<td>1 073</td>
<td>176</td>
</tr>
<tr>
<td>Net profit/(loss) (R million)</td>
<td>75</td>
<td>(39)</td>
</tr>
<tr>
<td>Total assets (R million)</td>
<td>19 696</td>
<td>15 524</td>
</tr>
<tr>
<td>Net interest margin (%)</td>
<td>73</td>
<td>57</td>
</tr>
</tbody>
</table>

Highlights
- R3.4 billion disbursed within the SADC region, excluding South Africa
- First projects concluded outside SADC
- Memorandum of understanding finalised with Power Africa
- Hosted three World Economic Forum sessions
- The DBSA selected as a council member for the NEPAD Continental Business Forum
- Partnering with the Presidency and Boston Consulting Group in accelerating the North-South Corridor programme

Challenges
- The impact of re-rating of certain African countries due to depressed commodity and oil prices on impairments
- Development of infrastructure projects is complex and takes a long time to finalise
- Increase in credit default spreads have placed significant pressures on pricing competitiveness

Looking ahead
- Challenging year anticipated due to uncertain economic environment. Targeted disbursements have therefore been moderated
- Focus on developing and leveraging key partnerships to unlock infrastructure

Refer to page 9 for estimated development impact
INFRASTRUCTURE DELIVERY

Objective
Support the South African government in leveraging skills and capabilities to accelerate the implementation of infrastructure programmes in the key priority sectors of education, health and housing, as well as various municipal infrastructure programmes.

Major services
• Providing programme management and specialist expertise in managing the planning, design, budgeting, construction and maintenance of infrastructure projects
• Gathering and analysing project and spatial information to improve government infrastructure planning, project prioritisation and design, delivery co-ordination, tracking and performance

## Operational performance

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Schools completed</td>
<td>35</td>
<td>15</td>
</tr>
<tr>
<td>Houses completed</td>
<td>1 382</td>
<td>1 128</td>
</tr>
<tr>
<td>Heath clinics and doctors rooms</td>
<td>111</td>
<td>86</td>
</tr>
<tr>
<td>Jobs created</td>
<td>6 464</td>
<td>7 144</td>
</tr>
<tr>
<td>SMMEs benefiting</td>
<td>665</td>
<td>734</td>
</tr>
<tr>
<td>Value of spend allocated to SMMEs</td>
<td>710</td>
<td>170</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Permanent</td>
<td>6</td>
<td>6</td>
</tr>
<tr>
<td>Contractors</td>
<td>108</td>
<td>88</td>
</tr>
</tbody>
</table>

## Financial performance

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating income</td>
<td>R million</td>
<td>194</td>
</tr>
<tr>
<td>Net profit</td>
<td>R million</td>
<td>27</td>
</tr>
<tr>
<td>Total assets</td>
<td>R million</td>
<td>123</td>
</tr>
</tbody>
</table>

### Highlights
- Advanced our service offering in the areas of maintenance of infrastructure
- Three catalytic projects identified in terms of the DBSA’s co-ordinating role for the government’s Integrated Municipal Infrastructure Project (SIP 6)

### Challenges
- One person fatally injured on site
- Delays in executing certain projects due to non-performance by contractors or unplanned scope changes
- Budget constraints from line department

### Looking ahead
- Continue to improve internal efficiencies
- Seek to replicate turnkey solutions for large infrastructure projects
- Review of the operating model within the broader DBSA group

Refer to page 9 for estimated development impact
## FIVE-YEAR KEY FINANCIAL INDICATORS

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash and cash equivalents</td>
<td>R million</td>
<td>2 085</td>
<td>3 902</td>
<td>4 136</td>
<td>1 252</td>
</tr>
<tr>
<td>Financial market assets</td>
<td>R million</td>
<td>2 429</td>
<td>3 047</td>
<td>3 470</td>
<td>4 859</td>
</tr>
<tr>
<td>Investment in development activities¹</td>
<td>R million</td>
<td>77 064</td>
<td>63 123</td>
<td>55 459</td>
<td>47 075</td>
</tr>
<tr>
<td>Other assets</td>
<td>R million</td>
<td>768</td>
<td>872</td>
<td>761</td>
<td>779</td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td>R million</td>
<td>82 346</td>
<td>70 944</td>
<td>63 826</td>
<td>53 965</td>
</tr>
<tr>
<td>Financial market liabilities²</td>
<td>R million</td>
<td>51 791</td>
<td>46 163</td>
<td>42 887</td>
<td>36 159</td>
</tr>
<tr>
<td>Other liabilities</td>
<td>R million</td>
<td>1 290</td>
<td>1 098</td>
<td>1 038</td>
<td>1 100</td>
</tr>
<tr>
<td><strong>Total liabilities</strong></td>
<td>R million</td>
<td>53 081</td>
<td>47 261</td>
<td>43 925</td>
<td>37 259</td>
</tr>
<tr>
<td><strong>Total equity</strong></td>
<td>R million</td>
<td>29 265</td>
<td>23 683</td>
<td>19 901</td>
<td>16 706</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest on development loans</td>
<td>R million</td>
<td>6 052</td>
<td>4 806</td>
<td>4 205</td>
<td>3 631</td>
</tr>
<tr>
<td>Interest on investments</td>
<td>R million</td>
<td>463</td>
<td>521</td>
<td>372</td>
<td>437</td>
</tr>
<tr>
<td><strong>Total interest received</strong></td>
<td>R million</td>
<td>6 541</td>
<td>5 327</td>
<td>4 576</td>
<td>4 068</td>
</tr>
<tr>
<td>Interest expense</td>
<td>R million</td>
<td>3 355</td>
<td>3 003</td>
<td>2 488</td>
<td>2 442</td>
</tr>
<tr>
<td><strong>Net interest income</strong></td>
<td>R million</td>
<td>3 186</td>
<td>2 324</td>
<td>2 088</td>
<td>1 626</td>
</tr>
<tr>
<td>Operating income³</td>
<td>R million</td>
<td>3 591</td>
<td>2 697</td>
<td>2 667</td>
<td>1 938</td>
</tr>
<tr>
<td>Operating expense⁴</td>
<td>R million</td>
<td>975</td>
<td>886</td>
<td>758</td>
<td>948</td>
</tr>
<tr>
<td>Sustainable earnings/(loss)⁵</td>
<td>R million</td>
<td>1 385</td>
<td>808</td>
<td>374</td>
<td>(600)</td>
</tr>
<tr>
<td><strong>Profit/(loss) for the year</strong></td>
<td>R million</td>
<td>2 577</td>
<td>1 214</td>
<td>787</td>
<td>(826)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Total capital and reserves to development loans</td>
<td>%</td>
<td>42.1</td>
<td>41.8</td>
<td>39.7</td>
<td>39.2</td>
</tr>
<tr>
<td>Long-term debt/equity</td>
<td>%</td>
<td>177.8</td>
<td>196.7</td>
<td>216.3</td>
<td>217.3</td>
</tr>
<tr>
<td>Debt/equity (including callable capital)⁶</td>
<td>%</td>
<td>152.7</td>
<td>162.6</td>
<td>174.3</td>
<td>168.8</td>
</tr>
<tr>
<td>Cash and cash equivalents to total assets</td>
<td>%</td>
<td>2.5</td>
<td>5.5</td>
<td>6.5</td>
<td>2.3</td>
</tr>
<tr>
<td>Total capital and reserves to assets</td>
<td>%</td>
<td>35.5</td>
<td>33.4</td>
<td>31.2</td>
<td>31.0</td>
</tr>
<tr>
<td>Financial market liabilities to investment in development activities</td>
<td>%</td>
<td>67.2</td>
<td>73.1</td>
<td>77.3</td>
<td>76.8</td>
</tr>
<tr>
<td>Non-performing book debt as a % of gross book debt</td>
<td>%</td>
<td>3.7</td>
<td>5.1</td>
<td>5.8</td>
<td>7.3</td>
</tr>
<tr>
<td>Return/(loss) on average total equity</td>
<td>%</td>
<td>9.7</td>
<td>5.7</td>
<td>4.3</td>
<td>(4.8)</td>
</tr>
<tr>
<td>Return/(loss) on average total assets</td>
<td>%</td>
<td>3.4</td>
<td>1.8</td>
<td>1.3</td>
<td>(1.6)</td>
</tr>
<tr>
<td>Interest cover times</td>
<td></td>
<td>1.9</td>
<td>1.8</td>
<td>1.8</td>
<td>1.6</td>
</tr>
<tr>
<td>Net interest income margin⁷</td>
<td>%</td>
<td>48.7</td>
<td>43.6</td>
<td>45.6</td>
<td>40.0</td>
</tr>
<tr>
<td>Cost-to-income ratio</td>
<td>%</td>
<td>28.7</td>
<td>34.4</td>
<td>28.4</td>
<td>48.9</td>
</tr>
</tbody>
</table>

1. Development activities include development loans, development bonds and equity investments
2. Financial market liabilities comprise medium- to long-term funding debt securities, medium- to long-term funding lines of credit, funding under repurchase agreements and derivative assets held for risk management
3. Operating income excludes net foreign exchange gain/(loss), net gain/(loss) from financial assets and liabilities and impairments
4. Operating expense comprises personnel expenses, general and administration expenses and depreciation
5. Sustainable earnings/(loss): net profit/(loss) before grants and adjustments to foreign exchange and financial assets and liabilities, but includes revaluations on equity investments
6. Measure includes R 4.8 billion (2014: R 4.8 billion) callable capital
7. This ratio is calculated as net interest income (interest income less interest expense) over interest income

Prior year numbers were restated
CHIEF FINANCIAL OFFICER’S REPORT

THE 2016 FINANCIAL YEAR HAS BEEN CHALLENGING YET REWARDING, ESPECIALLY AGAINST THE BACKDROP OF THE PRESSURES IN THE SOUTH AFRICAN ENVIRONMENT AND CONTINUED VOLATILE GLOBAL MACROECONOMIC ENVIRONMENT.

The DBSA delivered strong financial results, underpinned by the continued focus on improving margins, executing the treasury strategy and cost management.

FINANCIAL AND OPERATIONAL PERFORMANCE

Profit from operations for the year increased by 112% to R2.6 billion from R1.2 billion in the prior year. Operating income totalled R3.8 billion, an increase of 55% from 2015 whilst sustainable earnings improved to R1.4 billion (2015: R805 million). The improvement in profit from operations was mainly on the back of improved operational performance, a 22% weaker average rand/dollar exchange rate, and a gain from equity investments and financial instrument adjustments of R442 million (2015: loss of R300 million). The return on average equity and average total assets improved respectively to 9.7% (2015: 5.7%) and 3.4% (2015: 1.8%).

NET INTEREST INCOME

The improvement in both net interest income and net interest margin was mainly due the 32% year-on-year increase in disbursements to R17.1 billion (2015: R13.0 billion) as well as the successful execution of our pricing and funding strategies. 96.1% of interest income was received in cash.

The DBSA continued to manage its average cost of borrowing by diversifying funding sources and maximising the benefits of funding at the shorter end of the curve, concluding new bilateral and credit line agreements. These yielded significant benefits despite an increase in credit spreads on new funding and a 125 basis points increase in the repo rate.

Overall the net interest margin improved to 48.7% (2015: 43.6%).

The composition of net interest income and operating income per business unit is set out below:

### Net interest income by segment

<table>
<thead>
<tr>
<th>Segment</th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>South Africa</td>
<td>68%</td>
<td>70%</td>
</tr>
<tr>
<td>Treasury</td>
<td>5%</td>
<td>10%</td>
</tr>
<tr>
<td>International Finance</td>
<td>27%</td>
<td>20%</td>
</tr>
</tbody>
</table>

### Operating income by segment

<table>
<thead>
<tr>
<th>Segment</th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>South Africa</td>
<td>64%</td>
<td>65%</td>
</tr>
<tr>
<td>Treasury</td>
<td>6%</td>
<td>9%</td>
</tr>
<tr>
<td>Infrastructure Delivery</td>
<td>4%</td>
<td>26%</td>
</tr>
<tr>
<td>International Finance</td>
<td>26%</td>
<td>20%</td>
</tr>
</tbody>
</table>
NON-INTEREST REVENUE

Non-interest revenue increased by 10% to R410 million compared to R373 million earned in the prior year. Income for our product diversification strategy yielded R50 million against a target of R100 million, mainly due to the complexities in identifying and developing new products in the market in which we operate. We will continue to actively increase our efforts to maximise non-interest income.

IMPAIREDMENTS

Impairments for the year increased from R743 million to R1.4 billion in the year mainly due to the recognition of portfolio impairment adjustment of R644 million (2015: R221 million) and specific impairment adjustment of R781 million (2015: R522 million) on the back of a subdued global economy, as well as depressed commodities and oil prices, which are impacting resource-exporting countries. This resulted in country risk rating deterioration for Angola, Congo and Zambia, and hence additional portfolio impairment provisions on clients domiciled in these countries. On the local front, the subdued South Africa economic growth and increased interest rates are likely to impact the performance of the loan book and impairment provisions thereon.

EXPENDITURE

The DBSA continues to manage its operational costs. The cost-to-income ratio improved significantly to 28.7% from 34.4% in 2015. Operating expenses, including personnel costs, other expenses as well as depreciation and amortisation, increased by 17% to R975 million, however, these were off-set by the 3% increase in operating income, excluding exchange and financial instruments adjustments. The increase in operating expenses was largely driven by the full impact of the strategy to source additional skills in the prior financial year.

Our Infrastructure Delivery division achieved an 87% cost-to-income ratio (2015: 89%), exceeding the requirement to be managed on a full cost-recovery basis.

The DBSA provided R44 million in development expenditure, up 25% from 2015, to support the infrastructure development needs to selected secondary and under-resourced municipalities in the form of subsidised lending as well as funds for planning and implementation support.

Investment from own sources into project preparation activities amounted to R15 million (2015: R6 million) for the year, whilst R431 million (2015: R396 million) was unlocked from partners. We will continue to increase our project preparation activities to bring more projects to bankability.

FOREIGN EXCHANGE

The rand experienced tremendous volatility and depreciation during the financial period, moving from R12.13/US$ at the beginning of the year to R14.76/US$ at 31 March 2016. This resulted in the DBSA recording foreign exchange revaluation profits of R1.0 billion driven by our dollar asset net open position. The high level of volatility necessitates close monitoring of the foreign exchange rate movements with a view to taking hedging action that will lock-in gains recorded to date in the event of a sustained appreciation of the rand.
STATEMENT OF FINANCIAL PERFORMANCE
FOR THE YEAR ENDED 31 MARCH 2016

in thousands of rand

<table>
<thead>
<tr>
<th>Description</th>
<th>2016 Budget</th>
<th>% change</th>
<th>2016 Actual</th>
<th>% change</th>
<th>2015 Actual</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest income</td>
<td>5 864 270</td>
<td>12</td>
<td>6 541 028</td>
<td>23</td>
<td>5 327 312</td>
</tr>
<tr>
<td>Interest expense</td>
<td>(3 467 385)</td>
<td>(3)</td>
<td>(3 355 429)</td>
<td>12</td>
<td>(3 002 929)</td>
</tr>
<tr>
<td>Net interest income</td>
<td>2 396 885</td>
<td>33</td>
<td>3 185 599</td>
<td>37</td>
<td>2 324 383</td>
</tr>
<tr>
<td>Net fee income</td>
<td>404 000</td>
<td>(32)</td>
<td>275 914</td>
<td>19</td>
<td>232 928</td>
</tr>
<tr>
<td>Other operating income</td>
<td>250 000</td>
<td>(46)</td>
<td>134 355</td>
<td>(4)</td>
<td>139 971</td>
</tr>
<tr>
<td>Non-interest revenue</td>
<td>654 000</td>
<td>(37)</td>
<td>410 269</td>
<td>10</td>
<td>372 899</td>
</tr>
<tr>
<td>Net revaluation of equity investments – unrealised</td>
<td>(250 000)</td>
<td>–</td>
<td>253 172</td>
<td>–</td>
<td>(219 110)</td>
</tr>
<tr>
<td>Operating income</td>
<td>2 800 885</td>
<td>37</td>
<td>3 849 040</td>
<td>55</td>
<td>2 478 172</td>
</tr>
<tr>
<td>Project preparation</td>
<td>(100 000)</td>
<td>(85)</td>
<td>(14 651)</td>
<td>139</td>
<td>(6 138)</td>
</tr>
<tr>
<td>Development expenditure</td>
<td>(180 000)</td>
<td>(76)</td>
<td>(43 869)</td>
<td>25</td>
<td>(35 015)</td>
</tr>
<tr>
<td>Impairment loss on financial assets</td>
<td>(538 529)</td>
<td>165</td>
<td>(1 426 159)</td>
<td>92</td>
<td>(743 361)</td>
</tr>
<tr>
<td>Personnel expenses</td>
<td>(772 667)</td>
<td>(5)</td>
<td>(730 937)</td>
<td>20</td>
<td>(607 271)</td>
</tr>
<tr>
<td>Other expenses</td>
<td>(263 655)</td>
<td>(19)</td>
<td>(213 653)</td>
<td>(16)</td>
<td>(253 175)</td>
</tr>
<tr>
<td>Depreciation and amortisation</td>
<td>(29 000)</td>
<td>6</td>
<td>(30 593)</td>
<td>22</td>
<td>(25 108)</td>
</tr>
<tr>
<td>Grants</td>
<td>(6 000)</td>
<td>(31)</td>
<td>(4 129)</td>
<td>42</td>
<td>(2 914)</td>
</tr>
<tr>
<td>Sustainable profit</td>
<td>911 034</td>
<td>52</td>
<td>1 385 049</td>
<td>72</td>
<td>805 190</td>
</tr>
<tr>
<td>Net foreign exchange gains</td>
<td>–</td>
<td>–</td>
<td>1 002 172</td>
<td>105</td>
<td>489 673</td>
</tr>
<tr>
<td>Net revaluation of financial instruments</td>
<td>–</td>
<td>–</td>
<td>189 458</td>
<td>–</td>
<td>(80 722)</td>
</tr>
<tr>
<td>Profit from operations</td>
<td>911 034</td>
<td>183</td>
<td>2 576 679</td>
<td>112</td>
<td>1 214 141</td>
</tr>
<tr>
<td>Net interest margin (%)</td>
<td>41</td>
<td></td>
<td>49</td>
<td></td>
<td>44</td>
</tr>
<tr>
<td>Cost-to-income ratio (%)</td>
<td>44</td>
<td></td>
<td>29</td>
<td></td>
<td>34</td>
</tr>
<tr>
<td>Return on average equity (%)</td>
<td>3.6</td>
<td></td>
<td>9.7</td>
<td></td>
<td>5.7</td>
</tr>
<tr>
<td>Return on average assets (%)</td>
<td>1.2</td>
<td></td>
<td>3.4</td>
<td></td>
<td>1.8</td>
</tr>
</tbody>
</table>

Refer to the Statement of Comprehensive Income and Statement of Other Comprehensive Income and notes thereto contained in the separate Annual Financial Statements.

BALANCE SHEET STRENGTHENING

Refer to page 47 for the statement of financial position.

A key factor in ensuring financial sustainability is to have a strong balance sheet to fund the long-term growth of the asset portfolio. The capital injection by the government therefore aims at increasing the equity capital base to fund growth while ensuring we remain below the prudential debt/equity ratio limit of 250%. It is imperative, however, that in strengthening the balance sheet the DBSA achieves resilience, particularly considering the uncertainty of the economic environment globally.

During the year, the strengthening of the balance sheet was aided by the capital injection by the shareholder of R3.0 billion and support from our investor base continues. Investors continue to support our borrowing plan, which is a key pillar and building block in sustaining our business objectives. There has been a narrowing of the asset and liability matching gap.

DEVELOPMENT LOANS AND BONDS

The gross development loan book increased by 23% to R73.3 billion on the back of R16.5 billion disbursements, R6.1 billion in interest capitalised, R3.0 billion in foreign exchange adjustments and R11.5 billion in repayments. The top 10 loan disbursements for the year accounted for 60% of the total disbursements. The South African Financing division experienced growth in gross loan book of 21% to R55.1 billion and the International division grew 29% to R18.2 billion.

Development bonds remained unchanged at R1.3 billion. The development bond portfolio is designated as “held-to-maturity” and “held at amortised cost” in support of balance sheet strengthening in maintaining appropriate levels of volatility introduced by fair value designation.

IMPAIRMENTS AND THE QUALITY OF THE LOAN BOOK

The strength and quality of the development book continues to improve and a significant part is rated as medium risk. In line with the credit review process, the recoverability of the loan book is assessed regularly. Based on the detailed assessment conducted, the non-performing development loan book improved to R2.5 billion (2015: R3.0 billion). At 3.4% (2015: 5.1%), the value of non-performing loans (NPLs) as a percentage of the gross development loan book is within an acceptable level of 6%. The impairment provision increased to R3.8 billion from R2.9 billion in line with the deterioration in the general macroeconomic environment as reflected on before.
Provisions against NPLs (specific impairments) remained unchanged at R1.5 billion and the NPL coverage ratio improved marginally from 73.1% to 72.3%. The NPL coverage ratio is a measure of the amount of specific impairment provision held against the NPLs and management expects to recover the unimpaired portion through the realisation of securities and other recovery methods.

Provisions against the performing book (portfolio impairments) increased from R743 million (1.3% of the performing loan book) to R1.8 billion (2.5% of the performing book), mainly attributable to the growth in the loan book.

As detailed in the following graph, the top 10 and top 20 exposures comprised 60% (2015: 58%) and 71% (2015: 69%) of the total loan book respectively. The level of concentration in these obligors has increased over the past year.

Zambia, with R6.5 billion (2015: R4.3 billion), remains the country outside of South Africa to which the DBSA’s exposure is the highest. Angola with R3.0 billion (2015: second with R2.8 billion) and Zimbabwe with R2.8 billion (2014; third with R2.6 billion) are the countries to which the DBSA had the second and third highest rest-of-Africa exposure. Outside of these top three countries, the exposure to other countries has declined or remained fairly consistent.

The DBSA’s exposure to the energy sector at year-end was R29.0 billion (2015: R21.8 billion), representing 39.9% (2014: 36.9%) of the total portfolio. Exposure to the roads and transport sector increased to R9.3 billion (2015: R7.8 billion). Our investment in the energy sector is in line with the economic challenges facing South Africa. It is anticipated that our role will evolve over the next 20 years towards the transport and water security segments.

Direct loan exposure to municipalities, excluding bonds, increased in the year from R18.2 billion to R24.6 billion.
# STATEMENT OF FINANCIAL POSITION

AS AT 31 MARCH

<table>
<thead>
<tr>
<th>in thousands of rand</th>
<th>2016</th>
<th>% change</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>ASSETS</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>2 084 565</td>
<td>(47)</td>
<td>3 901 664</td>
</tr>
<tr>
<td>Other receivables</td>
<td>138 533</td>
<td>(39)</td>
<td>227 881</td>
</tr>
<tr>
<td>Investment securities</td>
<td>1 265 218</td>
<td>(37)</td>
<td>2 009 916</td>
</tr>
<tr>
<td>Derivative assets held for risk management</td>
<td>1 163 533</td>
<td>12</td>
<td>1 036 623</td>
</tr>
<tr>
<td>Post-retirement medical benefits investment</td>
<td>49 978</td>
<td>(16)</td>
<td>59 536</td>
</tr>
<tr>
<td>Home ownership scheme loans</td>
<td>–</td>
<td>(100)</td>
<td>5 462</td>
</tr>
<tr>
<td>Equity investments</td>
<td>6 278 575</td>
<td>23</td>
<td>5 092 061</td>
</tr>
<tr>
<td>Development bonds</td>
<td>1 290 286</td>
<td>–</td>
<td>1 290 390</td>
</tr>
<tr>
<td>Development loans</td>
<td>69 494 954</td>
<td>23</td>
<td>56 740 218</td>
</tr>
<tr>
<td>Property and equipment</td>
<td>501 202</td>
<td>–</td>
<td>502 976</td>
</tr>
<tr>
<td>Intangible assets</td>
<td>79 142</td>
<td>2</td>
<td>77 412</td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td>82 345 996</td>
<td>16</td>
<td>70 944 139</td>
</tr>
<tr>
<td><strong>LIABILITIES</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other payables</td>
<td>894 795</td>
<td>11</td>
<td>811 753</td>
</tr>
<tr>
<td>Provisions</td>
<td>152 533</td>
<td>24</td>
<td>122 711</td>
</tr>
<tr>
<td>Liability for funeral benefits</td>
<td>3 100</td>
<td>–</td>
<td>3 100</td>
</tr>
<tr>
<td>Liability for post-retirement medical benefit</td>
<td>239 289</td>
<td>49</td>
<td>160 412</td>
</tr>
<tr>
<td>Funding: debt securities</td>
<td>35 271 135</td>
<td>6</td>
<td>33 353 036</td>
</tr>
<tr>
<td>Funding: lines of credit</td>
<td>16 371 534</td>
<td>30</td>
<td>12 565 895</td>
</tr>
<tr>
<td>Derivative liabilities held risk management</td>
<td>148 551</td>
<td>(39)</td>
<td>244 545</td>
</tr>
<tr>
<td><strong>Total liabilities</strong></td>
<td>53 080 937</td>
<td>12</td>
<td>47 261 452</td>
</tr>
<tr>
<td><strong>EQUITY</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Share capital</td>
<td>200 000</td>
<td>–</td>
<td>200 000</td>
</tr>
<tr>
<td>Retained earnings</td>
<td>14 544 861</td>
<td>19</td>
<td>12 260 567</td>
</tr>
<tr>
<td>Permanent government funding</td>
<td>11 692 344</td>
<td>35</td>
<td>8 692 344</td>
</tr>
<tr>
<td>Revaluation reserve on land and buildings</td>
<td>269 256</td>
<td>–</td>
<td>269 256</td>
</tr>
<tr>
<td>Hedging reserve</td>
<td>123 050</td>
<td>6</td>
<td>116 288</td>
</tr>
<tr>
<td>Reserve for general loan risk</td>
<td>2 436 358</td>
<td>14</td>
<td>2 143 975</td>
</tr>
<tr>
<td>Fair value reserve</td>
<td>(810)</td>
<td>–</td>
<td>257</td>
</tr>
<tr>
<td><strong>Total equity</strong></td>
<td>29 265 059</td>
<td>24</td>
<td>23 682 687</td>
</tr>
<tr>
<td><strong>Total liabilities and equity</strong></td>
<td>82 345 996</td>
<td>16</td>
<td>70 944 139</td>
</tr>
</tbody>
</table>

Refer to the Statement of Financial Position and notes thereto contained in the separate Annual Financial Statements.
**EQUITY INVESTMENTS**

Equity investments increased by 23% to R6.3 billion (2015: R5.1 billion) mainly due to disbursements on commitments, foreign exchange gain adjustments on the foreign component of the equities portfolio as well as a R253 million gain on fair value adjustment. We continue to monitor the equity investments portfolio closely to ensure that losses emanating from a decline in the value of these investments are recognised as soon as they are detected. We have a commitment of R1.6 billion (2015: R1.9 billion) in existing equity projects.

**DERIVATIVE ASSETS AND LIABILITIES HELD FOR RISK MANAGEMENT**

The DBSA provides clients with the flexibility they require, to the extent that the resulting risk remains manageable within the confines of the risk appetite of the DBSA. This is necessary, not only to ensure the financial feasibility of the development projects financed by the DBSA, but also to ensure its long-term competitiveness in its primary markets. As a result, the optimal mix of fixed versus floating rate debt funding is driven by borrower demand and our risk management strategies. Whilst much of the resulting interest rate and exchange rate risk is eliminated naturally through the matching of assets and liabilities, a substantial portion of residual risk remains, necessitating the use of derivative instruments to lock in the net interest margin in our work to ensure long-term financial sustainability.

As part of the DBSA’s risk management approach, it uses swaps and foreign exchange contracts as hedging instruments. The use of swaps was effective in managing the risk and achieving the strategic intent relating to financial sustainability. Derivative assets increased from R1.0 billion to R1.2 billion during the year, mainly due to the upward shift in the yield curve and exchange rate movements.

**LIQUID PORTFOLIO**

The DBSA has sufficient liquidity to meet all financial obligations on a timely basis. Access to capital markets is aligned to the state-owned entity auction calendar.

Our liquidity portfolio is made up of cash and liquid assets that meet the criteria for high-quality liquid assets. At 31 March 2016, the portfolio stood at R3.3 billion (2015: R5.9 billion).

The DBSA is not governed by the Banks Act and the Basel III regulations, but it seeks to adopt best practice in the management of liquidity risk. At a minimum, we hold liquidity equal to or higher than the highest monthly average disbursements over the previous four quarters. In addition, we keep enough liquidity to survive a 30-day liquidity event along the liquidity coverage ratio (LCR) guidelines (minimum 30-day LCR ratio of 100%).

**EQUITY**

The DBSA received the last tranche of R3.0 billion (2015: R2.5 billion) capital injection from National Treasury during the year. This significantly assisted in enhancing our capital adequacy and supporting growth in our disbursements.

The debt-to-equity ratio has decreased to 178% from the prior year of 196% due to capital injection received from National Treasury as well as the impact of the profit generated for the year. Including the callable capital of R4.8 billion, the ratio declines to 153% (2015: R163%).
## STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 MARCH

<table>
<thead>
<tr>
<th>Description</th>
<th>2016 (in thousands of rand)</th>
<th>% change</th>
<th>2015 (in thousands of rand)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net (loss)/profit for non-cash items</td>
<td>(137 003)</td>
<td></td>
<td>468 853</td>
</tr>
<tr>
<td>Interest received</td>
<td>6 308 445</td>
<td></td>
<td>4 959 549</td>
</tr>
<tr>
<td>Interest paid</td>
<td>(3 115 067)</td>
<td></td>
<td>(2 830 649)</td>
</tr>
<tr>
<td>Net (decrease)/increase in working capital</td>
<td>(31 060)</td>
<td></td>
<td>68 003</td>
</tr>
<tr>
<td><strong>Net cash generated by operating activities</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Development loan disbursements</td>
<td>(16 461 393)</td>
<td>14%</td>
<td>(11 897 533)</td>
</tr>
<tr>
<td>Development loan principal repayments</td>
<td>5 549 156</td>
<td></td>
<td>6 644 818</td>
</tr>
<tr>
<td>Development bonds</td>
<td>–</td>
<td></td>
<td>(502 000)</td>
</tr>
<tr>
<td>Net increase in equity investments</td>
<td>(368 767)</td>
<td></td>
<td>(495 361)</td>
</tr>
<tr>
<td>Grants paid</td>
<td>(18 781)</td>
<td></td>
<td>(7 443)</td>
</tr>
<tr>
<td>Net repayments/(advances) on national mandates</td>
<td>100 357</td>
<td></td>
<td>(140 169)</td>
</tr>
<tr>
<td><strong>Net cash used in development activities</strong></td>
<td>(11 199 428)</td>
<td>75%</td>
<td>(6 397 688)</td>
</tr>
<tr>
<td>Purchase of property and equipment</td>
<td>(15 919)</td>
<td></td>
<td>(38 712)</td>
</tr>
<tr>
<td>Proceeds from sale of property and equipment</td>
<td>207</td>
<td></td>
<td>448</td>
</tr>
<tr>
<td>Purchase of intangible assets</td>
<td>(14 728)</td>
<td></td>
<td>(7 045)</td>
</tr>
<tr>
<td>Movement in financial market assets</td>
<td>(197 871)</td>
<td></td>
<td>(684 878)</td>
</tr>
<tr>
<td><strong>Net cash utilised by investing activities</strong></td>
<td>167 432</td>
<td>–</td>
<td>(730 187)</td>
</tr>
<tr>
<td>Receipts from National Treasury</td>
<td>3 000 000</td>
<td></td>
<td>2 500 000</td>
</tr>
<tr>
<td>Financial market liabilities repaid</td>
<td>(20 163 956)</td>
<td></td>
<td>(11 963 371)</td>
</tr>
<tr>
<td>Financial market liabilities raised</td>
<td>23 249 923</td>
<td></td>
<td>13 662 946</td>
</tr>
<tr>
<td><strong>Net cash generated from financing activities</strong></td>
<td>6 085 967</td>
<td>45%</td>
<td>4 199 575</td>
</tr>
<tr>
<td>Net decrease in cash and cash equivalents</td>
<td>(1 929 714)</td>
<td></td>
<td>(267 545)</td>
</tr>
<tr>
<td>Effect of exchange rate movement on cash balances</td>
<td>103 616</td>
<td></td>
<td>33 541</td>
</tr>
<tr>
<td>Movement in cash and cash equivalents</td>
<td>(1 817 098)</td>
<td></td>
<td>(234 004)</td>
</tr>
<tr>
<td>Cash and cash equivalents at the beginning of the year</td>
<td>3 901 663</td>
<td></td>
<td>4 139 667</td>
</tr>
<tr>
<td><strong>Cash and cash equivalents at the end of the year</strong></td>
<td>2 084 565</td>
<td>(47%)</td>
<td>3 901 664</td>
</tr>
</tbody>
</table>

Refer to the Statement of Cash Flows and notes thereto contained in the separate Annual Financial Statements.
FUNDING LIABILITIES
Funding liabilities increased by R5.7 billion during the financial year to R51.6 billion (2015: R45.9 billion), compared to a R13.9 billion increase in development assets. The difference was covered mainly by the capital injection of R3.0 billion received from National Treasury and operational cash flows. Debt securities amounting to R6.1 billion are measured at fair value, whilst the remainder are measured at amortised cost.

The projected funding sources comprise funding from the domestic capital market, local and international commercial banks, development finance institutions and money market (as part of the asset-lead-liability-lag strategy). Specific tenors and interest rate bases (fixed vs floating) for new long-term debt issuance are driven by investor demand, market conditions, building the DBSA’s funding curve, demand/supply imbalances, asset and liability portfolio management and their associated cost impact at the time of issuance. Any new funding will be sourced and structured to achieve better matching of assets and liabilities and to reduce the cost of funding.

The DBSA was more active in the capital markets and conducted 14 auctions during the year and widened the investor base that includes small and mid-sized asset managers, through more frequent investor engagement. Commercial paper issuances, money market funding and revolving credit facilities have been used primarily as part of the asset-lead-liability-lag strategy, which resulted in diversification of funding and minimising the cost of debt. Our domestic medium-term note (DMTN) programme, registered with the Johannesburg Securities Exchange, was increased from R35 billion to R80 billion during the year. At year-end, R49.4 billion remains available.

Going forward, we expect to continue being active in accessing the local capital markets for funding through issuance of primarily long-term bonds and short-term commercial paper whilst also seeking to continue to diversify funding sources through opening new partnerships and investigating other funding markets.

Committed borrowing facilities from foreign DFIs and with commercial banks remain pivotal in our efforts to diversify the DBSA’s medium- to long-term funding strategy and in achieving the desired asset and liability matching. These facilities form the main source of foreign borrowings for the DBSA. The level is driven by the anticipated need for foreign currency funding towards on-lending in the SADC region and to the extent to which commitments are made to South African projects eligible for specific foreign currency-denominated lines of credit.

New facilities with DFIs and commercial banks are currently being negotiated and are subject to agreement on key terms and pricing. A total of R4.2 billion is currently available from committed facilities as at 31 March 2016.

CREDIT RATINGS
The table below summarises the ratings as at 31 March 2016.

<table>
<thead>
<tr>
<th>Agency</th>
<th>Rating type</th>
<th>Long-term rating</th>
<th>Short-term rating</th>
<th>Outlook</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fitch</td>
<td>National</td>
<td>AA+(zaf)</td>
<td>F1+(zaf)</td>
<td>Stable</td>
</tr>
<tr>
<td>Moody’s</td>
<td>Foreign currency</td>
<td>Baa2</td>
<td>Not rated</td>
<td>Under review</td>
</tr>
<tr>
<td>S&amp;P</td>
<td>Foreign currency</td>
<td>BBB-</td>
<td>A-3</td>
<td>Negative</td>
</tr>
<tr>
<td></td>
<td>Local currency</td>
<td>BBB+</td>
<td>A-2</td>
<td>Negative</td>
</tr>
</tbody>
</table>

Post year-end Moody’s reaffirmed their rating of the DBSA.
POST-RETIREMENT MEDICAL PROVISION
A funding gap of R189 million (2015: R101 million) exists between medical provision assets and liabilities and efforts to close the gap are continuing. We are focusing on increasing the return on the investments and identifying additional cash resources to boost the investment portfolio.

CASH GENERATED FROM OPERATING ACTIVITIES
Cash generated from operations increased by 14% year-on-year to R3.0 billion. The increasing trend is due to implementation of the financial strategy over the years that emphasised the importance of maximising positive cash flows. The graph below depicts an improving trend year-on-year in the cash generated from operations.

<table>
<thead>
<tr>
<th>Year</th>
<th>Million</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>805</td>
</tr>
<tr>
<td>2013</td>
<td>794</td>
</tr>
<tr>
<td>2014</td>
<td>1 955</td>
</tr>
<tr>
<td>2015</td>
<td>2 661</td>
</tr>
<tr>
<td>2016</td>
<td>3 025</td>
</tr>
</tbody>
</table>

POST-BALANCE SHEET EVENTS
No significant matters post year-end were identified.

OUTLOOK
The DBSA’s aim is to achieve maximum development impact by facilitating accelerated infrastructure funding. Our role as a development finance institution is to assume some of the early-stage project risk by helping prepare and finance certain projects and then on-selling the funding of these projects to other funders, once the risk is reduced. We consider the effect of stimulating infrastructure financing critical to maximising development impact due to the counter-cyclical role it plays in the economy.

Financial sustainability remains a key strategic imperative and we will continue to focus on net interest margin, balance sheet strengthening, foreign exchange management, as well as liquidity management. Our financial strategy will continue to support the DBSA’s growth in lending, including the extension of the mandate to the rest of Africa, as well as the work of the Infrastructure Delivery division, the project preparation investment initiatives and the product diversification of our business proposition, which requires us to innovatively fund and crowd in funding for large-scale infrastructure projects.

IFRS 9 will replace IAS 39 for periods commencing on or after 1 January 2018. The first year of implementation for the DBSA will be the year ending 31 March 2019 with comparatives for the year ending 31 March 2018. We initiated an IFRS 9 project during the 2016 year aimed at ensuring an effective and smooth transition to the new standard. The process involved conducting a gap analysis of the current methodology, processes, systems and credit models to ensure improvements are made to align with IFRS 9. The significant impact of IFRS 9 adoption is expected to be on impairments, with the transition from an incurred loss model to an expected loss model as well as the given long-dated nature of the DBSA loans.

We remain concerned regarding the possible ratings action by the credit rating agencies. We will continue to monitor developments and seek to minimise any negative impact through tapping various sources of funding. Local capital markets continue to be very strong with positive take-up of our issuances. The credit spread widening of recent years appears to have stopped, with some reductions in certain points of the curve being observed in recent months. We hope this trend is sustained and we will continue to interact closely with local investment and fund managers.

Commodity prices are an important factor for our business, particularly in the African market where the DBSA currently holds positions. As the recovery in the price of coal, copper and oil and other commodities looks to take foot, we expect this to feed positively into our business.

On the back of the global growth outlook and interest rate developments in the USA, we also expect the South African Reserve Bank’s interest rate hiking cycle to be nearing its end. Inflation should start to stabilise and return below the 6% upper level of the target band, all of which should prove positive for the yield curve to stabilise.

APPRECIATION
We appreciate the significant contributions made by all our stakeholders in the last year, and to name a few key stakeholders underpinning the financial sustainability: from government through the National Treasury, the investor community and ratings agencies, the banks and DFIs that understand the need to provide concessional funding to maximise our development impact, to the Board for its ongoing wisdom and guidance, and our staff for their focused and tireless commitment to delivering on our strategy.

Kameshni Naidoo
Chief Financial Officer
<table>
<thead>
<tr>
<th>Financial Definition</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Callable capital</td>
<td>The authorised but as yet unissued share capital of the DBSA</td>
</tr>
<tr>
<td>Cost-to-income ratio</td>
<td>Operating expenses, including personnel, other, depreciation and amortisation expenses, as a percentage of income from operations</td>
</tr>
<tr>
<td>Income from operations</td>
<td>Net interest income, net fee income and other operating income</td>
</tr>
<tr>
<td>Interest cover</td>
<td>Interest income divided by interest expense</td>
</tr>
<tr>
<td>Long-term debt-to-equity ratio</td>
<td>Total liabilities, excluding other payables, provisions and liabilities for funeral benefits, as a percentage of total equity</td>
</tr>
<tr>
<td>Long-term debt-to-equity ratio</td>
<td>Total liabilities, excluding other payables, provisions and liabilities for funeral benefits, (including callable capital) as a percentage of total equity and callable capital</td>
</tr>
<tr>
<td>Net interest margin</td>
<td>Net interest income as a percentage of interest income</td>
</tr>
<tr>
<td>Return on average assets</td>
<td>Net profit or loss for the year expressed as a percentage of average total assets</td>
</tr>
<tr>
<td>Return on average equity</td>
<td>Net profit or loss for the year expressed as a percentage of average total equity</td>
</tr>
<tr>
<td>Sustainable earnings</td>
<td>Profit or loss from operations before net foreign exchange gain/(loss) and net gain/(loss) from financial assets and financial liabilities, but including revaluation on equity investments</td>
</tr>
</tbody>
</table>
### ABBREVIATIONS AND ACRONYMS

<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Description</th>
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<tbody>
<tr>
<td>AADFI</td>
<td>Association of African Development Finance Institutions</td>
</tr>
<tr>
<td>AFD</td>
<td>Agence Française de Développement</td>
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<tr>
<td>AfDB</td>
<td>African Development Bank</td>
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<tr>
<td>ASIDI</td>
<td>Accelerated Schools Infrastructure Delivery Initiative</td>
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<tr>
<td>B-BBEE</td>
<td>Broad-based Black Economic Empowerment</td>
</tr>
<tr>
<td>BRIC</td>
<td>Brazil, Russia, India and China</td>
</tr>
<tr>
<td>BRICS</td>
<td>Brazil, Russia, India, China and South Africa</td>
</tr>
<tr>
<td>BSC</td>
<td>Balanced Scorecard</td>
</tr>
<tr>
<td>COMESA</td>
<td>Common Market for Eastern and Southern Africa</td>
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<tr>
<td>DBE</td>
<td>Department of Basic Education</td>
</tr>
<tr>
<td>DBSA</td>
<td>Development Bank of Southern Africa Limited</td>
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<tr>
<td>DFID</td>
<td>The United Kingdom’s Department for International Development</td>
</tr>
<tr>
<td>DFRC</td>
<td>Development Finance Resource Centre</td>
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<tr>
<td>DIRCO</td>
<td>Department of International Relations and Cooperation</td>
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<tr>
<td>DTI</td>
<td>Department of Trade and Industry</td>
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<tr>
<td>ECOWAS</td>
<td>Economic Community of West African States</td>
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<tr>
<td>EIF</td>
<td>European Investment Bank</td>
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<tr>
<td>EPC</td>
<td>Engineering, procurement and construction</td>
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<tr>
<td>GDP</td>
<td>Gross domestic product</td>
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<tr>
<td>ICAS</td>
<td>Independent Counselling and Advisory Services</td>
</tr>
<tr>
<td>ICT</td>
<td>Information and communications technology</td>
</tr>
<tr>
<td>IDIP</td>
<td>Infrastructure Delivery Improvement Programme</td>
</tr>
<tr>
<td>IFRS</td>
<td>International Financial Reporting Standards</td>
</tr>
<tr>
<td>IIPSA</td>
<td>Infrastructure Investment Programme for South Africa</td>
</tr>
<tr>
<td>KfW</td>
<td>The German agency Kreditanstalt für Wiederaufbau</td>
</tr>
<tr>
<td>JICA</td>
<td>Japan International Cooperation Agency</td>
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<tr>
<td>MIG</td>
<td>Municipal Infrastructure Grant</td>
</tr>
<tr>
<td>MTEF</td>
<td>Medium-Term Economic Framework</td>
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<tr>
<td>NDP</td>
<td>National Development Plan</td>
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<tr>
<td>NEPAD</td>
<td>New Partnership for Africa’s Development</td>
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<td>NSC</td>
<td>North-South Corridor</td>
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<td>PFMA</td>
<td>Public Finance Management Act</td>
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<tr>
<td>PICC</td>
<td>Presidential Infrastructure Coordinating Commission</td>
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<tr>
<td>PPP</td>
<td>Public/private partnership</td>
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<tr>
<td>PRASA</td>
<td>Passenger Rail Agency of South Africa</td>
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<tr>
<td>REIPPPP</td>
<td>Renewable Energy Independent Power Producers Procurement</td>
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<tr>
<td>SA Inc</td>
<td>South Africa Incorporated</td>
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<tr>
<td>SADC</td>
<td>Southern African Development Community</td>
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<tr>
<td>SANRAL</td>
<td>South African National Roads Agency Limited</td>
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<tr>
<td>SIP</td>
<td>Strategic integrated project</td>
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<tr>
<td>SMME</td>
<td>Small, medium and microenterprise</td>
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<tr>
<td>SOC</td>
<td>State-owned company</td>
</tr>
<tr>
<td>UNOPS</td>
<td>United Nations Office for Project Services</td>
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THE DBSA'S ONGOING INTEGRATED REPORTING JOURNEY

We are pleased to present our fourth Integrated Annual Report. It is our principal communication to stakeholders and published once a year. It is aimed primarily at providers of financial capital, being both our shareholder - the government of the Republic of South Africa - and the debt capital markets. In addition, we aim to inform all stakeholders interested in the DBSA’s ability to create sustainable value over time.

This report contains comprehensive information on the operational and financial performance of the DBSA, its stakeholders, governance, material issues, risks and opportunities and how these influence our strategic objectives. In so doing, we show how we create value and impact as an integral part of the Southern African Development Community and how we will ensure that our value creation is sustainable.

THIS YEAR’S ENHANCEMENTS
As part of our ongoing integrated reporting journey, we continue improving the quality of the information we provide, giving stakeholders a balanced and transparent account of our business. We have deliberately made this year’s report more concise. In so doing, we present our 2016 ANNUAL FINANCIAL STATEMENTS as a separate report, with condensed Annual Financial Statements included in the CHIEF FINANCIAL OFFICER’S report, which starts on page 43.

The section THE DBSA AND ITS STRATEGY, which starts on page 5, is more succinct and shows the underlying motivation for our strategic initiatives and how performance against these objectives is measured.

We have further refined our disclosure on governance. See the GOVERNANCE section, which starts on page 18.

We have prepared a separate SUSTAINABILITY REVIEW REPORT to reflect on the impact of our operations on society and the environment.

In order to emphasise the interdependence of all the divisions in the DBSA, the Chief Executive Officer’s report, which can be found in the PERFORMANCE AND OUTLOOK section which starts on page 32, now includes divisional reviews.

We are committed to improving on this report further and would appreciate your constructive feedback. Comments can be sent to Johan Conradie, our Manager: Strategy at corporatestrategy@dbsa.org, or submitted to the DBSA premises at 1258 Lever Road, Headway Hill, Midrand.

SCOPE AND BOUNDARY
This report covers the financial, environmental and social performance, operational highlights and strategic objectives of the DBSA and its governance. The report covers our core operational areas for the period 1 April 2015 to 31 March 2016. There have been no restatements of financial information in respect of prior periods. The principle of materiality has been applied in determining the content and extent of disclosure in the Integrated Annual Report. For more details on how we determine materiality, see below.

REPORTING PRINCIPLES AND ASSURANCE
This report is compiled and presented considering the requirements of the King Code of Governance Principles for South Africa 2009 (King III) and the International Integrated Reporting Council’s (IIRC) International <IR> Framework. We have implemented these codes as far as possible and endeavour to improve thereon as the journey continues.

Our ANNUAL FINANCIAL STATEMENTS, presented separately, were prepared in accordance with International Financial Reporting Standards (IFRS) and the requirements of the Public Finance Management Act, No 1 of 1999 (PFMA) and the Companies Act of South Africa, No 71 of 2008 (Companies Act), where appropriate.

The DBSA applies a combined assurance model to optimise the assurance obtained within reasonable cost from its Risk Management department and the internal and external assurance providers on risks affecting it. For more information, see the Audit and Risk Committee report on page 27.

The DBSA receives external assurance from its auditor, Nkonki Inc., on the fair presentation of the Annual Financial Statements. Our external auditor has issued a report, issued not for the purposes of expressing an opinion, but to report on the findings relating to performance against predetermined objectives, compliance with laws and regulations and internal control. The findings are included in the Independent Auditor’s Report to Parliament as reflected in the separate Annual Financial Statements publication.

DETERMINING MATERIALITY
This Integrated Annual Report aims to provide an accurate, accessible and balanced overview of the DBSA’s strategy, performance and outlook in relation to material economic, financial, social, environmental and governance issues. It concentrates on items of both a qualitative and quantitative nature that are material to the DBSA’s ability to deliver on its mandate and strategy.

The DBSA defines material issues as those which have the potential to substantially impact our ability to create and sustain value for our stakeholders. In identifying matters which are material, we have consistently applied the same resources as in the prior year. While the DBSA gives consideration to all items raised by stakeholders, it does not report on all of these in the integrated annual report. The integrated reporting team applied its collective mind to the preparation and presentation of the report, concluded that it was presented materially in accordance with the <IR> Framework and approved it for publication on 7 July 2016.

FORWARD-LOOKING INFORMATION
This Integrated Annual Report contains certain forward-looking statements on the financial performance and position of the DBSA. In line with the requirements of the PFMA, forward-looking information is provided for a three-year period as part of the Corporate Plan submitted annually to the National Treasury and is based on the National Treasury’s and the DBSA’s assessment of national economic and market conditions, competitive conditions and regulatory factors. These forward-looking statements have not been reviewed or reported on by the external auditor.

APPROVAL BY THE BOARD
This report was prepared under the supervision of the Group Executive: Strategy, Mohan Vivekanandan and the Chief Financial Officer, Kameshni Naidoo (CA(SA)). The Board is ultimately responsible for ensuring the integrity of the Integrated Annual Report, assisted by the Audit and Risk Committee and further supported by DBSA management, which convened internal teams with the relevant skills and experience to undertake the reporting process and provided management oversight. Internal parties have devoted significant thought to how best to communicate the DBSA story. The Board, after applying its collective mind to the preparation and presentation of the report, concluded that it was presented materially in accordance with the <IR> Framework and approved it for publication on 7 July 2016.

executives and the Board for opinion. The process we adopted to determine the issues material to the DBSA and our stakeholders is aligned with our organisational decision-making processes and our strategies. By applying the principle of materiality, we determined which issues could influence the decisions, actions and performance of the DBSA.

We describe our most material issues as our key priorities and refer you to pages 5 to 16 of this report, where we describe the circumstances in which we operate, the key risks and opportunities we face and how our key priorities can affect our ability to create and sustain value over time.
More than 35,000 people gained access to improved health facilities