DEVELOPMENT BANK OF SOUTHERN AFRICA

GROUP CORPORATE PLAN

2013/14

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DBSA CORPORATE PLAN

1. Introduction

Since 1994 the Development Bank of Southern Africa (DBSA) has sought to transform itself into a development finance institution that leads and champions regional economic infrastructure integration and development. As such, the Bank has consistently striven to promote economic development and growth, human resources development and institutional capacity building by mobilising financial and other resources from the national and international private and public sectors for sustainable development projects in South Africa and the wider Southern Africa region. During this period the Bank grew from a total asset base of R6.3 billion in March 1995 to R52.3 billion in March 2012. This was achieved without any additional capital injection from the state, but rather by increasing the amount of borrowing on private capital markets against the bank's core equity.

As an organisation which strives for excellence in infrastructure development, the DBSA must continuously assess and adapt its strategy to changes in the operating environment as well as shareholder expectations. Hence, the DBSA Board of Directors initiated an organisational review during the 2012/13 financial year to better position the Bank to support the South African Government and its development objectives.

Over the past few years, discussions have been on-going between the DBSA and the National Treasury regarding the requirements for a capital injection to support the DBSA. The current Corporate Plan is premised on a capital injection from the National Treasury of R7.9 billion, as discussed under section 3. Taking into account the capital injection, development assets are projected to increase from R47 billion in 2012/13 to R68.6 billion by 2015/16. With the objective of meeting the Bank's goal of generating and sustaining inflation-linked growth in equity by 2017, the financial plan of the DBSA incorporates the financial results of the business strategy outlined below but excludes the impact of any operating cost savings currently under consideration as part of the organisational review process. An updated financial plan will be tabled on completion of this process.

2. Corporate Strategy

2.1. The Strategic Context

The turbulent international economic and financial environment continues to bring challenges and risks to economies of both South Africa and the Southern Africa Development Community (SADC). Whilst Sub-Saharan Africa remains one of the fastest growing regions in the world, the development challenges within the region and the continent as a whole remain extensive. In addition, South Africa's near-term economic outlook has deteriorated due to the fallout from the global financial crisis as well as domestic imbalances and constraints. The negative impacts of this crisis are likely to continue for some time and may even deepen, dampening export markets and capital flows not only in advanced economies but also in emerging markets.

Hence, the ability of South Africa and Africa to capitalise on infrastructure development and intra-continental trade to spur higher levels of industrialisation and economic growth becomes key. This means leveraging infrastructure investments to not only improve connectivity and trade within the continent but also to boost the development of local industries and markets. Increasing regional infrastructure integration and deepening continental markets is particularly important for South Africa's own growth path. However, progress in this regard continues to be impeded by institutional weaknesses and inadequate planning capabilities; regulatory barriers; limited sovereign fiscal space combined with thin capital markets in many African countries. The result is a widening gap between infrastructure needs, access to infrastructure finance and the rate of infrastructure delivery as well as a relatively slow rate of industrialisation.

Within this context, the DBSA has sought to grow its infrastructure financing support domestically and in the region whilst also expanding the nature and extent of its non-recoverable developmental expenditure from R103 million in 2006/07 to R506 million in 2011/12, a compound annual growth rate of 37%.

However, although the DBSA has striven to play a counter-cyclical role, the Bank has not been immune from the impacts of the economic environment, particularly given its dependence on financial markets as a source of financing. Furthermore, in recent years, the Bank has experienced increased competition from the commercial sector in the key areas of municipal, SOE and regional infrastructure funding. Whilst this has had a positive impact on the overall cost of infrastructure funding, it has negatively impacted the overall financial position of the DBSA. Consequently, these factors, together with the expansion in non-recoverable development expenditure, have eroded the capital base of the DBSA, leading to an estimated R2.4 billion growth gap in shareholders' equity since 2007. Hence, going forward, the Bank will need to refocus its activities to enhance its development impact and rebuild its capital base through higher levels of business growth, increased operational efficiencies and changes to its funding model.

2.2. DBSA's New Strategy

On 22nd November 2012, the DBSA Board adopted a new strategy and operating model[1]. This strategy was based on a comparative analysis of key international DFIs, a review of current market trends to identify opportunities for growth and impact as well as consultations with key external stakeholders and internal staff. To chart a new path, the DBSA's strategy maintains the Bank's focus on basic and economic infrastructure but with an emphasis on driving financial and non-financial investments in sectors such as energy, transport & logistics, water, ICT, health, education and to a lesser extent housing. Basic and economic infrastructure is defined as follows:

- Basic infrastructure: Infrastructure aimed at addressing backlogs and expediting the delivery of essential social services in support of sustainable living conditions and improved quality of life within communities.
- Economic infrastructure: Infrastructure aimed at addressing capacity and bottleneck constraints in order to optimise economic growth potential.

Underpinning these activities, the Bank must remain financially sustainable by generating sufficient net surplus to grow the Bank's shareholders' equity by at least inflation annually by 2017. Hence, developmental lending shall be undertaken on a largely commercial basis, with subsidised lending being largely financed through fiscal support.

Non-financing development activities shall be agreed with the shareholder and only undertaken on a full cost recovery basis. It is recognised that the Bank will be required to implement a targeted approach over the medium term to adequately address the shareholders' equity gap previously identified and then grow the balance sheet at a sustainable inflation-linked rate. Within this context, the Bank shall prioritise the following areas and activities:

2.2.1. Development Finance

- **Project Preparation Fund(s)**

  As noted above, progress with regard to the roll-out of infrastructure programmes in South Africa and the Continent has been slow due, inter alia, the lack of project planning capacity. Hence, project preparation support - including scoping, pre-feasibility and feasibility work – is critical to developing a strong pipeline of projects to help fast-track the infrastructure build programme as well as the development of bankable projects for the DBSA's funding pipeline. The Bank will seek to play a significant part in early stage project development and, where appropriate, crowd-in private sector funders through syndication arrangements in financing the underlying programmes. This will also enable the Bank to expand its non-interest income revenue through syndication fees generated.

- **Financing Operations**
  - Municipal Market
    - In terms of the municipal market, competition is higher in the metro market whilst lower in secondary municipalities, (where it is focused mainly on the top 20 secondary cities), with virtually no competition in under-resourced municipalities (who have limited borrowing and institutional capacity). With the implementation of Basel III, competition may ease in the metro market and secondary cities as the requirements of Basel III require commercial banks to set aside more capital for long term investments, reducing their profitability. Furthermore

[1] It should be noted that the new operating model was adopted by the Board in principle pending further consultations with staff. Following these consultations, the final operating model was approved by the Board on 10 December 2012.

banks may be discouraged from providing finance to secondary municipalities as the lower credit ratings of these institutions often require more allocated capital.

- DBSA's current municipal portfolio is mainly focused on the metropolitan market but the Bank's pipeline in this area has been on the decline due to increasing competition from commercial banks and more recently international DFIs. However, due to the importance of cities in driving South Africa's economic growth, the DBSA will continue to actively participate and seek commercially-related returns in this market, and targeting to grow annual disbursements from R1.4 billion in 2013/14 to R4.0 billion by 2015/16, with the loan book increasing from a projected R11.9 billion in 2012/13 to R16.9 billion by 2015/16.
- DBSA's investments in secondary municipalities have also historically provided good returns with a relatively low number of non-performing loans. However, the unfunded needs of this market, estimated at R4 billion per annum, cannot be addressed by lending alone and will require DBSA to provide pre- and post-financing support to increase their absorptive capacity. Taking all this into account, DBSA anticipates increasing its annual lending to the secondary municipalities segment (as defined by DBSA) from R0.9 billion in 2013/14 to R1.5 billion in 2015/16. Consequently, the loan book debt will increase from a projected R5.6 billion at 2012/13 to R7.4 billion by 2015/16.
- Due to limited debt funding absorptions capacity in under-resourced municipalities (i.e. market 3), the Bank will be constrained in its ability to support this market with debt financing and the focus will be in the pre- and post-financing support described below. DBSA will also support, where appropriate, municipalities through the unlocking of Municipal Infrastructure Grants as pledge for the implementation of selected infrastructure projects.
- As part of the Bank's development spend, the Bank will target to set aside 5% of operating income to provide pre- and post-financing support in the development or origination of infrastructure projects in municipalities. The intention is to identify, implement and, where appropriate, fund key infrastructure support projects. The development spend envelope will specifically cover operational expenditure incurred within the pre- and post-financing areas, and limited concessional funding.

o State-owned enterprises (SOEs)

- SOEs play a central part in government's infrastructure development programme, managed under the auspices of the Presidential Infrastructure Co-ordinating Committee (PICC). DBSA's SOE lending has historically taken the form of direct financing (corporate financing) focused on the major Tier 1 SOEs (e.g. Transnet, Eskom, PetroSA and Telkom). However, as these Tier 1 SOEs generally have a similar rating to DBSA and have easy access to commercial funding, the ability of the DBSA to assist them through corporate finance lending support is limited. On the other hand, project finance opportunities may be advantageous to both parties. Hence, within the context of the South African government's infrastructure spending plans, the Tier 1 SOE market will continue to provide significant lending opportunities for DBSA to:
  - Provide project financing.
  - Help plug funding gaps on priority infrastructure projects not funded by commercial lenders.
    - This will be achieved both through direct DBSA lending but also through using DBSA participation to crowd-in increased private sector investment.
  - Provide longer-term financing options to enable the SOEs to more appropriately structure their long-term assets and liabilities.
    - Any concessionary related funding support will be done in agreement with the National Treasury.
- Tier 2 SOEs (e.g. SANRAL and INFRACO), which spend an estimated R2 billion per year in infrastructure related capital expenditure, may have a more natural requirement for DBSA

funding as they are relatively less attractive to commercial lenders. Hence, DBSA aims to significantly increase its share of this market over the medium term, through the provision of both corporate and project finance.

- Hence, total disbursements in this market are estimated at R8.0 billion over the next three years with development loan assets growing to R13.8 billion by 2015/16 from the projected R7.9 billion for the 2012/13 financial year.

- Public-Private-Partnerships and Public-Public-Partnerships (PPPs)
  - PPP deals have historically been driven by government and DBSA's proactive role in this market has been limited. However, DBSA has the opportunity to participate more aggressively in new PPPs and explore opportunities for stronger origination by:
    - Improving advance knowledge of upcoming PPPs based on the good networks already built in the public and private sector space.
    - Working with departments to unblock the PPP pipeline e.g. providing project management support for the appointment of transaction advisors and helping to structure deals whilst also potentially participating as a lead arranger. The provision of this support would be predicated on the ability of DBSA to recover the full costs of any project development expenditure incurred at financial close.
    - Key areas of focus in the short-term shall be the Health PPP programme as well as the on-going roll-out of the Independent Power Producers (IPP) programme.
    - Total disbursements in this market are projected to average around R2.9 billion per annum over the next three years
- Private sector intermediaries
  - It is recognised that the private sector plays an important role in infrastructure development through its various capital expansion programmes and the DBSA will, where appropriate, continue to partner with the private sector in this regard, using both debt and equity.
  - With respect to debt investments in the private sector, the DBSA notes that a disproportionate share of recent impairments have come from this segment of the lending book. As such, the DBSA will tighten its criteria for investment in this area, focusing on direct investments in priority sectors e.g. energy, transport, telecommunications and bulk water. Investments in mining projects will be excluded except as they relate to mining-related infrastructure for example: water, roads and energy. Hence, it is projected that the new annual disbursements will be maintained to around R600 million and R500 million per annum.
  - With respect to the private sector equity portfolio, we note that the DBSA currently holds equity investments across a broad range of sectors and, on average, returns from equity investments have been positive over the past five years excluding holding costs. However, once the true cost of holding equity is included, the average return has been negative.
  - Given this, future equity investments will be based on a clear investment rationale taking into account the following principles:
    - The ability of the investment to generate positive returns, net of the cost of equity.
    - Direct investments must be focused in the priority sectors of energy, transport, telecommunications and water. Investments in mining projects will be excluded unless they specifically relate to supportive infrastructure i.e. the water, roads and energy required to support a mining enterprise.
    - Clearer criteria being developed for undertaking investments through intermediaries where DBSA lacks capacity for direct investment.
  - Future investments in this market segment will also be predicated on the DBSA significantly enhancing its capabilities and risk management processes related to both debt and equity holdings in the private sector. Hence, the size of DBSA's investment in this market is not

projected to grow until further capability is built and annual equity disbursements will be maintained between R100 million and R300 million per annum.

- Financing beyond South Africa
  - The World Bank estimates that the annual infrastructure funding gap on the continent is $50bn. Within the current balance sheet constraints, the DBSA will focus on seeking commercially viable projects in the core areas of energy, transport and bulk water. Moreover, regional integration is critical to the growth of the South African economy as well as that of the broader continent. Therefore, in order to promote regional integration, the Bank proposes to also support key infrastructure corridors such as the North-South Corridor.
  - Total disbursements in this market are estimated at R10.5 billion over the next three years (on average R3.5 billion per annum) mainly focused on the SADC countries. The projected loan book will increase from R11.4 billion (projected 2012/13) to R14.6 billion by 2015/16.

- **Summary of Growth Projections**

  Based on the above, DBSA's development assets are projected to grow from R47 billion in 2012/13 to R68.6 billion by 2015/16 with annual disbursements increasing from the current levels of around R9 billion to around R16 billion by 2015/16.

2.2.2. Non-Financing Development Activities

During the last couple of years, the DBSA has supported government in accelerating the implementation of a number of programmes through the provision of project management support in key priority sectors critical to the achievement of various national objectives of economic growth, job creation and infrastructure delivery. However, overlapping mandates and broad focus meant that these activities have not always achieved the requisite outcomes.

Various non-financing activities currently undertaken by the Bank was comprehensively reviewed with a view to increasing the Bank's ability to focus on its most critical core activities. This will result in transferring out or ceasing all activities which do not serve either financing or project implementation and service delivery elements of the core strategy as outlined below. Based on analysis to date, this is likely to include activities related to back office / administrative support for external Agencies, non-municipal technical assistance grants outside of the development spend envelope mentioned above, Vulindlela Academy as well as any research or policy work unrelated to the core focus areas of the Bank. Consequently, it is the intention of the DBSA to wind-down the operations of the Development Fund and include all future non-financing activities within the DBSA. Development planning activities will also be streamlined and absorbed into the new operating model of the Bank.

In addition, any additional activities beyond the Bank's core business shall be kept to a focused minimum, undertaken at the behest of the shareholder and only on a full cost-recovery basis. Hence, the DBSA's main non-financing development activities going forward shall be as follows:

- **Programme Implementation Support**
  - Green Fund
    - The Green Fund memorandum of agreement (MOA) was signed with the Department of Environmental Affairs (DEA) during April 2012, committing R800 million over the next three years to help shape government's environmental agenda and facilitate the co-ordination of sustainable development solutions. The DBSA is overseeing the management of the Fund on a full cost-recovery basis. The DBSA will continue to evaluate skills requirements and gaps to ensure that appropriate specialist skills are acquired to ensure optimum delivery against objectives.
  - Jobs Fund
    - The R9 billion Jobs Fund was announced by the President during the State of the Nation Address on 10 February 2011 and targets to create 150 000 sustainable jobs. The Minister of Finance has entrusted the DBSA with the responsibility to establish and manage the Jobs Fund and the programme was officially launched on 7 June 2011. The Jobs Fund was originally set to run over a five year period, including three years for implementation and the

disbursement of funds and further two years for programme close-out and evaluation. This programme has now been extended to seven years. The Bank is overseeing the management of this Fund on a full cost-recovery basis. The DBSA is also currently reviewing the strategy and operating model of the Jobs Fund in order to build on lessons learnt to date to improve overall efficiency and effectiveness.

- **Accelerating Infrastructure Delivery**

  To date, DBSA has been playing a relatively small, *ad hoc* role in managing the design and construction of infrastructure projects. However, the Bank has an opportunity to use its wide ranging experience within the infrastructure space as well as its intellectual and human capital to help improve the quality and pace of infrastructure delivery. Going forward, therefore, DBSA intends to partner with key national departments to build a centre of excellence in infrastructure delivery based on embedding best practice as well as norms and standards to drive more efficient and cost-effective delivery. To this end, DBSA will enhance its internal capabilities and process to efficiently execute on these mandates as well as reviewing the Bank's cost models and cost recovery process to ensure that its infrastructure delivery programme is fully financially self-sustainable.

  DBSA's initial focus will be on its existing mandates (e.g. in the health and education sectors) and the expansion of this support to other sectors will occur as internal capacity within the DBSA is built.

2.3. Enhancing DBSA's Internal Capabilities

In order to take forward this strategy, the DBSA is in the process of finalizing a revised operating model, strengthening internal systems and processes as well as enhancing its culture, skills and competencies in line with the new requirements of the Bank. Some of the key new capabilities that the Bank will need to build in this regard include:

- Developing a more detailed understanding of the competitive landscape in priority market segments as well as a higher level of client intelligence.
- New business development skills in all market segments.
- Deal structuring expertise in the areas of PPPs, private sector and SADC.
- Deal syndication expertise in the areas of SOEs, private sector and SADC.
- Municipal pre-financing support.
- Construction management expertise.
- A speedier but robust approval process.
- More effective internal decision-making processes.

3. Maintaining Financial Sustainability

3.1. Financial Plan

With the objective of meeting the Bank's goal of generating and sustaining inflation-linked growth in equity by 2017, the financial plan of the DBSA incorporates the financial results of the business strategy outlined previously but excludes the impact of any operating cost savings currently under consideration.

This financial plan is also premised on the successful conclusion of the R7.9 billion capital injection, receivable over the next three years (2013/14: R2.4 billion, 2014/15: R2.5 billion and 2015/16: R3.0 billion), prior to the commencement of the financial-year. The appropriate extent and timing of the proposed capital injections would position the DBSA to deliver successfully, both in terms of the volume and cost effectiveness of development financing expected to emanate from the Bank's financing role of key national infrastructure. The proposed cash injection will increase the DBSA's own equity capital to expand its developmental lending as outlined above whilst still remaining below the prudential debt/equity ratio of 250% (excluding callable capital). This will also be supported by prudent financial and risk management policies and practices and be monitored on an on-going basis.

It is envisaged that over the next three years total assets could potentially grow to R75.4 billion, whilst managing the debt-to-equity ratio down to 204% by 2015/16 (excluding callable capital), and grow interest income to R5.6 billion. To further support the Bank's financial performance the Bank will:

- Take reasonable steps to increase core revenues while managing risks related to debt and equity portfolios.
- Improve operational efficiency and manage its operational costs to increase the Bank's surplus.

The financial plan of the DBSA is premised on the following assumptions:

- An interest expense margin reduction over the three year period of 24 basis points.
- Commitment fees of 10 basis points on disbursements.
- The operating expense budget of R909 million (2013/14) is based on activities and initiatives necessary to increase development impact. Staff costs include remuneration, recruitment and training expenses are projected to grow by 4.5% per annum between 2013/14 and 2015/16 based on inflationary adjustments.
- Development expenditure of 5% of operating income.
- An annual revaluation provision on the equity investment balance of 3.5%.

The salient features of the financial plan for the financial years 2013/14 to 2015/16 includes:

- The financial plan detailed was prepared on the basis of targeted annual infrastructure disbursements of R11.0 billion, R14.3 billion and R16.1 billion for the 2013/14 to 2015/16 financial years respectively.
- Net interest income of R1.6 billion (2013/14) is expected to increase to R2.3 billion by 2015/16, based on the projected loan book, capital repayments and disbursements and taking additional liquidity requirements into account. The net interest margin is projected to improve from 37.8% to 41.5% over the period.
- The cost-to-income ratio is projected to decrease from 55.8% in 2013/14 to 42.3% in 2015/16, mainly as a consequence of the growth in the net interest income.
- Developmental loans are projected to grow to R64.8 billion by 2015/16, whilst total assets are expected to grow to R75.4 billion over the period to 2015/16.
- Return on average equity is projected to improve from 0.1% in 2013/14 to 2.1% by 2015/16. This is largely affected by the improvement in the gearing, higher net interest margins, conservative estimates of equity income, and inflationary increases assumed in operating expenses.

3.2. Borrowing Programme

The detailed borrowing programme for the 2013/14 financial year, together with the projected borrowing requirements for the subsequent two financial years are provided in Annexure 5.7 to this Corporate Plan.

3.3. Dividend Policy

As agreed with the Shareholder no dividends are declared by the DBSA.

3.4. Procurement Policy

In line with the requirements of the Public Finance Management Act (1999), the Bank has developed and implemented a procurement policy that also addresses the BEE requirements set out in the government policy and relevant legislation.

3.5. Capital Expenditure Plan

The capital expenditure plan as set out below is mainly to support the collective operations of the Bank and the envisaged growth over the next four years. The following table provides a summary of the planned fixed capital expenditure per main fixed asset category:

Asset type	**Budget 2013/14**	**Projection 2014/15**	**Projection 2015/16**
Property plant and equipment	R10 mil	R12 mil	R12 mil
Intangible assets	R6 mil	R8 mil	R8 mil
Total	**R16 mil**	**R20 mil**	**R20 mil**

3.6. Financial Forecast

BALANCE SHEET

	2012 Actual R mil	2013 Forecast R mil	2014 Budget R mil	2015 Projection R mil	2016 Projection R mil
Cash & cash equivalents	2 113	680	528	252	1 054
Investment securities	2 868	4 842	4 842	4 842	4 842
Resale agreements	709	-	-	-	-
Derivatives	1 265	-	-	-	-
Equity investments	4 013	3 655	3 666	3 737	3 793
Development loans	40 418	43 544	48 879	56 828	64 802
PPE	478	568	568	568	568
Intangible assets	90	-	-	-	-
Other assets	383	316	315	314	313
Total assets	**52 337**	**53 605**	**58 798**	**66 541**	**75 372**
Medium- to long-term debt	33 514	36 590	39 361	44 406	49 771
Repurchase agreements	-	-	-	-	-
Derivatives	98	98	98	98	98
Other liabilities	1 198	995	995	995	995
Liabilities	34 810	37 683	40 454	45 499	50 864
Shareholders' equity	3 992	3 992	6 392	8 892	11 892
Revaluation - land & buildings	255	255	255	255	255
Reserve for general loan risk	1 262	1 262	1 262	1 262	1 262
Fair value & hedging reserves	51	51	51	51	51
Retained earnings	11 967	10 362	10 384	10 582	11 047
Equity	17 527	15 922	18 344	21 042	24 508
Total equity & liabilities	**52 337**	**53 605**	**58 798**	**66 542**	**75 372**
Balance sheet ratios:					
Debt / equity (excl. callable capital)	193.8%	229.8%	215.1%	211.5%	203.5%
Return on average equity	(0.6%)	(9.6%)	0.1%	1.0%	2.1%

INCOME STATEMENT

	2012 Actual R mil	2013 Forecast R mil	2014 Budget R mil	2015 Projection R mil	2016 Projection R mil
Interest income	3 982	4 055	4 224	4 816	5 560
Interest expense	(2 286)	(2 480)	(2 629)	(2 913)	(3 254)
Net interest income	**1 696**	**1 574**	**1 595**	**1 903**	**2 306**
Net fee income	41	7	34	39	41
Other income	212	118	-	-	-
Operating income	1 949	1 699	1 629	1 942	2 347
Impairment	(495)	(1 714)	(483)	(561)	(632)
Operating expenses	(778)	(870)	(909)	(950)	(993)
Personnel cost	(581)	(594)	(621)	(649)	(678)
Other expenses	(177)	(256)	(269)	(282)	(296)
Depreciation	(20)	(20)	(20)	(20)	(20)
Sustainable earnings	**676**	**(885)**	**237**	**431**	**722**
Development expenditure	(324)	(262)	(81)	(97)	(117)
Net surplus before revaluation	352	(1 147)	156	334	605
Revaluation (loss) / gain	(899)	(679)	(134)	(136)	(138)
Foreign exchange gain / (loss)	176	220	-	-	-
Net (loss)/profit	**(371)**	**(1 606)**	**22**	**198**	**467**

Income statement ratios

	2012	2013	2014	2015	2016
Net interest margin	42.6%	38.8%	37.8%	39.5%	41.5%
Cost to income ratio	39.9%	51.2%	55.8%	48.9%	42.3%

CASH FLOW STATEMENT

	2012 Actual R' million	2013 Forecast R' million	2014 Budget R' million	2015 Projection R' million	2016 Projection R' million
(Loss) / profit for the year	(371)	(1 606)	22	198	467
Adjusted for:	(410)	693	(959)	(1 187)	(1 517)
Depreciation	20	20	20	20	20
Grants	61	75	-	-	-
Dividends	(40)	-	-	-	-
Fees raised (development loans)	1	-	-	-	-
Realised capital gain on equity inv	(134)	-	-	-	-
Revaluation (gains) / losses	883	679	133	135	137
Foreign exchange (gains) / losses	-	(220)	-	-	-
Impairments	495	1 714	483	561	632
Net interest income	(1 696)	(1 574)	(1 595)	(1 903)	(2 306)
	(781)	(913)	(937)	(989)	(1 050)
Change in other assets	20	1	1	1	1
Change in other payables	39	(203)	-	-	-
	(722)	(1 115)	(936)	(988)	(1 049)
Interest & dividends received	3 595	4 055	4 224	4 816	5 560
Interest paid	(2 067)	(2 306)	(2 433)	(2 685)	(3 005)
Net cash from operating activities	**806**	**634**	**855**	**1 143**	**1 506**
Cash flows from development activities	**(3 246)**	**(5 015)**	**(5 963)**	**(8 718)**	**(8 798)**
Development loan disbursements	(6 451)	(9 077)	(10 950)	(14 100)	(15 900)
Development loan principal repayments	4 766	4 237	5 132	5 589	7 295
Net increase in equity investments	(1 412)	(100)	(145)	(207)	(193)
Grant paid	(68)	(75)	-	-	-
Net advances to National Mandates	(81)	-	-	-	-
Cash flows from investing activities	**(1 008)**	**46**	**(20)**	**(20)**	**(20)**
Purchase of PPE & intangibles	(32)	(20)	(20)	(20)	(20)
Proceeds from sale of PPE	-	-	-	-	-
Movement in financial market assets	(976)	66	-	-	-
Cash flows from financing activities	**4 384**	**2 902**	**4 976**	**7 319**	**8 114**
Capital raised	-	-	2 400	2 500	3 000
Financial market liabilities repaid	(3 656)	(3 219)	(3 223)	(1 890)	(2 558)
Financial market liabilities raised	8 040	6 121	5 799	6 709	7 672
Movement in cash & cash equivalents	**936**	**(1 433)**	**(152)**	**(276)**	**802**
Effect of exchange rate movements	(3)	-	-	-	-
Opening cash & cash equivalents	1 180	2 113	680	528	252
Closing cash & cash equivalents	**2 113**	**680**	**528**	**252**	**1 054**

4. DBSA 2013/14 Group Balanced Scorecard

4.1. Balanced Scorecard Key Performance Indicators

The 2013/14 Group Balanced Corporate Plan for the 2013/14 through 2015/16 financial years will be finalised once the organisational review has been concluded and approved by the Board.

The BSC is only one of a number of strategic management tools that the Bank uses to direct its efforts and manage performance. The discipline of the BSC system will be complemented by a revised activity-based framework and culture framework, which will outline the imperative for the DBSA to be a pioneering, responsive, effective, capable, committed and ethical institution.

These new frameworks will identify a set of desirable cultural traits for the organisation, a set of desirable employee attributes, and the type of working environment required for DBSA staff to live and manifest the mission and new culture of the organisation.

Key assumptions in drafting the BSC

- Timely capital injection of R7.9 billion (2013/14: R2.4 billion, 2014/15: R2.5 billion and 2015/16: R3 billion).
- Finalisation of the organisation review (impact on operating costs has not yet been included in the forecast).
- Managing the debt/equity ratio between 200% to 220% for the planning period.
- Ability of DBSA to raise adequate cost-effective funding.
- Target financial break even for the 2013/14 financial year.
- Adequate funding demand in respective segments over the planning period.
- No delays in implementation of various national infrastructure programmes.
- Financial and other support from government regarding non-financial activities (recovery of costs, finalisation of mandates, and support to secondary & under resourced municipalities).

DBSA 2013/14 Group Balanced Scorecard

In setting the BSC targets, the DBSA considered the themes of the DBSA Development Agenda and priorities based on the environment, internal resources and government's priority areas.

DBSA 2013/14 Group BSC

Objective	Key performance indicator	March 2013 performance	Weight	Target 2013/14	Weight	Target 2014/15	Weight	Target 2015/16
Achieve financial sustainability (note 1)	Net profit/(loss)	(R1 606 million) *	35%	R22 million	30%	R198 million	30%	R467 million
	Return/(loss) on average equity	(9.6%) *		0.1%		1.0%		2.1%
	Cost-to-income (note 2)	51.2% *		55.8%		48.9%		42.3%
	Non-performing loan book	6.7% *		<6%		<6%		<6%
Providing infrastructure development finance (note 1)	**Disbursements to priority segments**	**R9.2 billion**	25%	**R11 billion**	30%	**R14.3 billion**	30%	**R16.1 billion**
	South Africa							
	Municipalities	**R1.1 billion**		**R2.4 billion**		**R4.3 billion**		**R5.7 billion**
	• Metropolitan cities	R0.8 billion		R1.4 billion		R3.0 billion		R4.0 billion
	• Secondary municipalities (note 3)	R0.2 billion		R0.9 billion		R1.2 billion		R1.5 billion
	• Under resourced municipalities (note 3)	R0.1 billion		R0.1 billion		R0.1 billion		R0.2 billion
	Social infrastructure	**R0.1 billion**		**R0.5 billion**		**R0.8 billion**		**R0.9 billion**
	• Other public	R0.1 billion		R0.5 billion		R0.8 billion		R0.9 billion
	Economic infrastructure	**R6.4 billion**		**R4.8 billion**		**R5.6 billion**		**R5.9 billion**
	• SOEs	R4.2 billion		R2.0 billion		R3.0 billion		R3.0 billion
	• Independent Power Producers	R1.4 billion		R2.2 billion		R2.0 billion		R2.3 billion
	• Private	R0.8 billion		R0.6 billion		R0.6 billion		R0.6 billion
	Africa (outside RSA)	**R1.6 billion**		**R3.3 billion**		**R3.6 billion**		**R3.6 billion**

***** Forecast to March 2013.

- **Note 1: Financial projection and disbursement mix:** Financial projections and disbursement mix are based on the current financial model taking into account the R7.9 billion receivable over three years from the National Treasury and intention to manage the debt/equity ratio down to 200% by 2015/16. The projection excludes any operational costs savings related to the finalisation of the organisational review. The current intention is for the DBSA to break-even during 2013/14 and then increase profitability over the ensuing financial years. The disbursement mix is also currently under discussion with the National Treasury. An updated financial plan and BSC will be submitted to the Board and National Treasury on completion of the process. Disbursement plans are subject to adequate market demand in the respective segments.
- **Note 2: Cost-to-income:** 2013/14 to 2015/16 ratios exclude the impact of future cost savings realisable as part of the organisational review and impairment adjustments.
- **Note 3: Financial support to secondary and under resourced municipalities:** Ability to support this client segment is dependent on the financial (including MIG front-loading and recovery of costs) and non-financial (including human capacity such as technical expertise) support from the National Treasury and other government departments to effectively package and implement infrastructure projects.

Objective	Key performance indicator	March 2013 performance	Weight	Target 2013/14	Weight	Target 2014/15	Weight	Target 2015/16
Infrastructure delivery support and programme implementation (note 1)	Number of units: completed • Schools (phase II) • Houses	 22 * Phase II:7 *	10%	 20 770	10%	 50 Not confirmed	10%	 Not confirmed Not confirmed
	% completed on time • Schools (phase II) • Housing	 Not applicable Not applicable		 80% 80%		 80% 80%		 80% 80%
	Hospital construction/ renovation (note 2)	Not applicable		2 hospitals designed		Construction commenced on hospitals		Not confirmed
	Cost recovery/ fees generated on delivery projects	Not applicable		Full cost recovery		Revenue generation (target to be set based on 2013/14 deliverables)		Revenue generation (target to be set based on 2014/15 deliverables
	Jobs Fund • Value of fund disbursed • Actual number of jobs created based on contracted projects	 R206 million (Dec 2012) Not applicable	5%	 R1.6 billion 11 000	5%	 R2.1 billion 29 000	5%	 R2.1 billion 34 000
	Green Fund disbursement	R35 million		R197 million		R150 million		R86 million

***** Forecast to March 2013.

- **Note 1:** Implementation of **direct delivery programmes** is dependent on adequate support from the respective government department, for example, recovery of costs and finalisation of mandates and/or key decisions.
- **Note 2:** DBSA currently contracted to support the design of only two hospitals. It is anticipated that the DBSA will also support other design projects in future, and these targets will be included in future BSC periods accordingly.
- **Note 3:** Jobs Fund jobs created
  - Projected permanent job numbers exclude placement of beneficiaries in permanent positions post training.
  - Jobs created target based on individual project implementation plans.
  - The future targeted numbers will increase each time a project is contracted and the project implementation plan finalised.

Objective	Key performance indicator	March 2013 performance	Weight	Target 2013/14	Weight	Target 2014/15	Weight	Target 2015/16
Right people, governance and processes	Development of talent matrix	Not applicable	25%	Matrix developed	25%	Key components implemented measured	25%	Key components implemented measured
	Retention of key skills	Not applicable		70% of key skills retained		80% of key skills retained		85% of key skills retained
	Remuneration and Compensation: Building and refining the current reward framework in line with the talent strategy	Not applicable		An approved remuneration & compensation framework and implemented		Not a measure		Review remuneration and compensation framework
	Implementation of transformation initiative	Not applicable		Complete 11 of 13 wave 1 transformation initiatives (note 2)		To be determined based on 2013/14 progress		To be determined based on 2014/15 progress
	Client and stakeholder satisfaction survey	Rating of 3.8 out of 5 for 2011/12 fin year		Not conducted		Conduct survey and use actual results (based on 1 to 5 rating scale)		Not conducted
	Improvement in credit approval process	Not applicable		Implement transformation initiative: Improve Loan Approval Process		Reduction in turnaround times and improvement in conversion ratios (target to be set based on 2013/14 deliverables)		Reduction in turnaround times and improvement in conversion ratios (target to be set based on 2014/15 deliverables
	ICT governance maturity (composite measure of ICT governance, ICT strategy, ROI of IT and reporting to Board) (note 1)	Rating of 3.2 out of 5		Rating of 3.75 out of 5		Rating of 3.9 out of 5		Rating of 4 out of 5
	Transversal knowledge management system	Not a measure		Framework developed and implemented		Effectiveness of implementation measured through internal survey		Effectiveness of implementation measured through internal survey

- **Note 1: ICT Governance**: Source: PwC: DBSA King III IT Governance Report 2010. South Africa average: 3.33, public sector: 2.8.
- **Note 2**: Wave 1 Transformation initiatives, includes: new organisation structure, governance, Jobs Fund, exit non-core activities, winding down the DF, turn five year strategy into divisional operational plans, improve loan processes, reduce cost of capital, front-line resources, cost allocation process, build capabilities, build culture, talent management. All initiatives must be completed before year-end except build culture and build capabilities.

ANNEXURES FOR PFMA COMPLIANCE PURPOSES

5. Annexures Index

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5.2 DBSA Fraud Prevention Plan

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5.5 Enterprise Risk Management Framework

5.6 Key Operational Risks

5.7 2013/14 Funding Plan and Borrowing Program

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5.10 DBSA Environmental Plan

Annexure 5.1: Corporate governance

Constitution of the DBSA

The Development Bank of Southern Africa (DBSA) was established in 1983 to perform a broad economic development function within the homeland constitutional dispensation that prevailed at the time. In 1994, the new constitutional and economic dispensation of South Africa resulted in the transformation of the role and function of the DBSA.

Thus in 1997, the DBSA was reconstituted in terms of the Development Bank of Southern Africa Act (No. 13 of 1997), as a development finance institution (DFI). Its primary purpose is to promote economic development and growth, human resource development and institutional capacity building by mobilising financial and other resources from the national and international private and public sectors for sustainable development projects and programmes in South Africa and wider Southern Africa region ("the region"). Its regulations provide for a sharp focus on infrastructure development, especially in South Africa, where it is located in a development finance system in which various DFI's have been given specific areas of focus to limit duplication and unnecessary overlaps.

The constitution and conduct of the DBSA Board of Directors are primarily governed by the DBSA Act (No 13 of 1997) and further regulated by the Public Finance Management Act (PFMA), the principles of the King III Report and the Protocol on Corporate Governance in the Public Sector.

The DBSA Group includes the Development Fund, incorporated under Section 21 of the Companies Act, 61 of 1973, and houses most of the institutional capacity building activities of the DBSA. The operations of the Development Fund are currently being reviewed as part of the organisation review process.

DBSA mandate

The Bank's mandate is defined by Section 3 of the DBSA Act as follows:

DBSA Act: Section 3

"*The main objects of the Bank shall be the promotion of economic development and growth, human resources development, institutional capacity building, and the support of development projects and programmes in the region by:*

a) Mobilising financial and other resources from the private and public sectors, national or international, on a wholesale basis, as determined in the regulations.

b) Appraising, planning and monitoring the implementation of development projects and programmes.

c) Facilitating the participation of the private sector and community organisations in development projects and programmes.

d) 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.

e) Funding or mobilising wholesale funding, as determined in the regulations, for initiatives to minimise or mitigate the environmental impact of development projects or programmes.

(2) Ancillary objects of the Bank shall be:

a) to assist other international, national, regional and provincial initiatives in order to achieve an integrated finance system for development; and

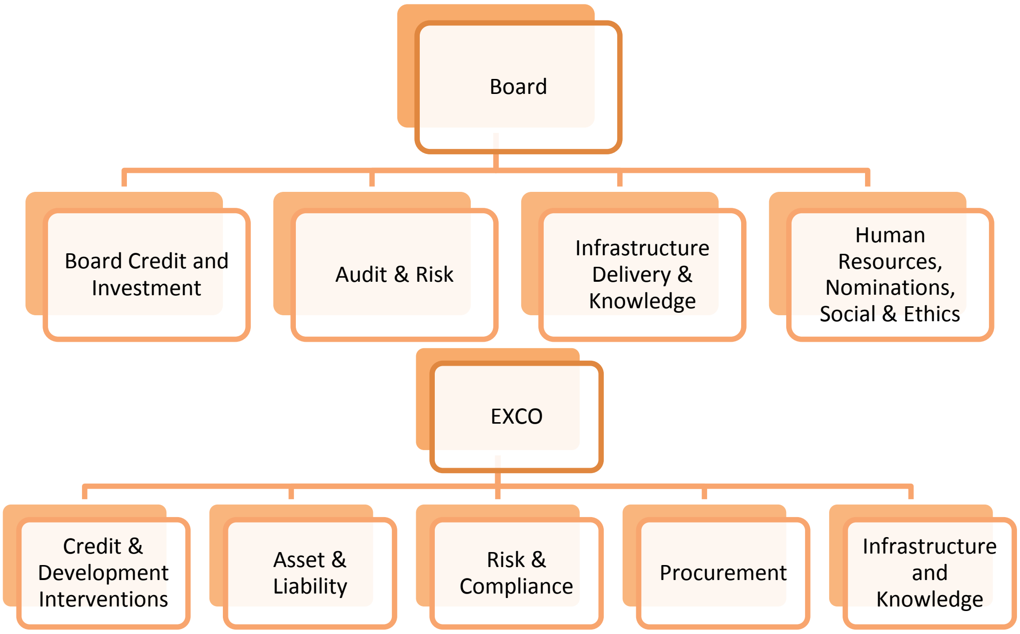
b) to assist other institutions in the national or international, public and private sectors with the management of specific funds;

in order that the developmental requirements of the region may be met."

Source: DBSA Act (No. 13 of 1997)

Governance framework

The Directors of the DBSA are committed to full compliance with the principles embodied in appropriate international corporate governance codes and strive to align the Bank's corporate governance with national and international best practices. The figure below illustrates the governance framework of the DBSA:



Board of Directors

The constitution and business of the Board of Directors is governed by the DBSA Act and its Regulations as well as the relevant provisions in the PFMA and the Companies Act. During the year under review the following changes took place: Mr. Kenneth Brown retired as a member of the Board representing the shareholder and Mr. Anthony Julies was appointed by the shareholder to replace him. The CFO, Ms. Kameshni Naidoo was appointed as an executive member of the Board. The former CEO Mr PC Baloyi resigned on 31 March 2012 and subsequently Mr PK Dlamini was appointed as CEO with effect from 1 September 2012.

The Board currently consists of 15 directors, 13 of whom are non-executive and 12 independent. The Chief Executive and Chief Financial Officers are the only executive directors. A member from the National Treasury serves on the Board as a shareholder representative. In terms of the Board Charter, no distinction is made with respect to the fiduciary responsibility of Shareholder representatives and non-executive directors.

Directors' appointment and induction

Appointment and nomination of directors to the DBSA Board is regulated by the DBSA Act in terms of which the Shareholder is charged with appointing the directors based on their abilities in relation to socio-economic development, finance, business, banking or administration. The Human Resources, Remuneration, Nominations, Social and Ethics Committee of the Board invites nominations for appointments, produces shortlists and makes recommendations to the Minister for approval. Directors are appointed on a performance contract of three years and are eligible for reappointment depending on satisfactory performance. The Act further allows the Board to co-opt persons with special knowledge to its committees.

Board Charter

The DBSA Board is governed by a Board Charter which outlines the principal provisions of the DBSA Act, the fiduciary responsibilities of directors, the relationship with executive management, and matters of policy that the shareholder and the Board ought to follow in order to ensure good corporate governance. The role of the Board, as defined by the Board Charter, can be summarised as follows:

- Shall ensure that the Bank achieves the mandate of the organisation as defined by the Shareholder through the Bank's founding statute (the DBSA Act).
- Has a responsibility to the broader stakeholders, which includes the present and potential beneficiaries of DBSA products and services, clients, lenders and employees, to achieve continuing prosperity for the Bank.
- Exercise leadership, enterprise, integrity and judgement in directing the Board to achieve continuing prosperity and to act in the best interests of the Bank while respecting the principles of transparency and accountability.
- Provide strategic guidance to management in the formulation and review of corporate strategy and shall approve, major plans of action, governance policies, appropriate procurement and provisioning systems, annual budgets and business plans.
- Ensure that the technology and systems used in the Bank are adequate to run the business properly for it to compete through the efficient use of its assets, processes and human resources.
- Ensure that the Shareholder's performance objectives are achieved and that the same can be measured in terms of performance of the DBSA Board. In this regard, the Board shall annually conclude a Shareholder Compact as required in terms of the Public Finance Management Act (PFMA) to document key performance areas.
- The Board members shall develop and put in place a Code of Ethics outlining the values, ethics, and beliefs that guide the behaviour of DBSA Board and define the ethical standards applicable to it and to all who deal with it.
- Board members shall monitor the social responsibilities of the DBSA Board and promulgate policies consistent with the Bank's legitimate interests and good business practices.

Board Committees

The DBSA Act gives the Board a mandate to appoint sub-committees necessary for carrying out its fiduciary responsibilities. In line with principles of the King III Report, all committees of the Board have formal terms of reference to ensure effective decision-making, monitoring and reporting. The terms of reference are reviewed periodically, along with the overall effectiveness and performance of the committees.

The DBSA Board has four committees: The Audit & Risk Committee; Board Credit & Investment Committee; Human Resources, Nominations, Social & Ethics Committee and Infrastructure Delivery & Knowledge Committee

Audit & Risk Committee

The functions of the Audit & Risk Committee are regulated by the PFMA and King III Report. Currently the Audit & Risk Committee oversees the Bank's 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 also oversees and advises the Board on income, expenditure and capital budget requirements; tax management; treasury arrangements and funds mobilisation strategies; transfer pricing policies; development loan impairments; management of assets and liabilities; and the Bank's overall financial health and sustainability.

Board Credit & Investment Committee

The Committee reviews the Bank's 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.

Human Resources, Nominations, Social & Ethics Committee

The Board of Directors has established the Human Resources, Nominations, Social and Ethics Committee (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 for the DBSA, Board/Directors affairs and governance as well as social and ethics issues. The Board of Directors is the focal point of the corporate governance system in the DBSA. It is ultimately accountable and responsible for the performance, affairs and behaviour of the Bank. The HRNSEC has the responsibility to ensure that there are adequate processes, policies systems and procedures to ensure sound corporate governance.

Infrastructure Delivery & Knowledge Committee

This Committee oversees the implementation of the strategic mandates and infrastructure delivery programmes as well as the Bank's policy advisory and knowledge management strategy as approved by the Board of Directors.

Composition of DBSA Board and Board Committees

The table below presents the composition of the DBSA Board and Board Committees. The current position, academic qualifications, other directorships, etc. are detailed under Annexure 5.4.

DBSA Board	Audit & Risk Committee	Board Credit & Investment Committee	Infrastructure Delivery & Knowledge Committee	Human Resources, Nominations, Social & Ethics Committee
Mr Jabu Moleketi (Chair)	Ms Mary Vilakazi (Chair)	Ms Thembisa Dingaan (Chair)	Mr Andrew Boraine (Chair)	Ms Dawn Marole (Chair)
Mr Frans Baleni (D/Chair)	Mr Andrew Boraine	Mr Patrick Dlamini (CE & MD)	Mr Frans Baleni	Mr Frans Baleni
Mr Patrick Dlamini (CE & MD)	Ms Thembisa Dingaan	Prof Brian Figaji (co-opted)	Dr Lungile Bhengu-Baloyi	Dr Lungile Bhengu-Baloyi
Dr Lungile Bhengu-Baloyi	Mr Anthony Frank Julies	Mr Omar Latiff	Mr Patrick Dlamini (CE & MD)	Prof Brian Figaji (co-opted)
Mr Andrew Boraine	Ms Albertina Kekana	Ms Busisiwe Mabuza	Mr Omar Latiff	Ms Busisiwe Mabuza
Mr Anthony Frank Julies	Ms Dawn Marole	Dr Claudia Manning	Dr Claudia Manning	Dr Claudia Manning
Ms Thembisa Dingaan		Mr Jabu Moleketi	Mr Jabu Moleketi	Mr Jabu Moleketi
Ms Albertina Kekana		Ms Kameshni Naidoo (CFO)		
Mr Omar Latiff		Ms Mary Vilakazi		
Ms Wendy Lucas-Bull				
Ms Busisiwe Mabuza				
Dr Claudia Manning				
Ms Dawn Marole				
Ms Mary Vilakazi				
Ms Kameshni Naidoo (CFO)				

Development Fund governance

The DBSA Development Fund is incorporated under section 21 of the Companies Act, 61 of 1973. The operations of the Development Fund are reviewed in accordance with the provisions of the new Companies Act of 2008.

In accordance with the provisions of the Public Finance Management Act (PFMA), a subsidiary or entity under the ownership or control of a public entity listed under Schedule 2 of the Act is also subject to the provisions of the Act. The PFMA allows for the establishment of a shared audit committee between a public entity and its subsidiary and accordingly the Fund shares Audit and Finance Committee with the DBSA.

It is the intention of the DBSA to wind-down the operations of the Development Fund and include all future non-financing activities within the DBSA.

Corporate Secretariat

The Bank through its Corporate Secretariat function will continue facilitating the development and execution of the annual Board programme through the coordination of meetings of the Board of Directors and its sub-committees.

Internal control and the Internal Audit function

The Board has delegated its oversight responsibility for systems of internal financial and operational control to the Audit & Risk Committee. The Bank is cognisant of the enhanced role of the Audit & Risk Committee as restated by the King III Report on Corporate Governance in entrenching governance principles, which incorporate and emphasise ethical behaviour, legislative compliance, sound accounting practice and strict adherence to delegations of authority.

The Bank has reviewed the terms of reference of the Audit & Risk Committee and aligned them with the precepts of the legislative and regulatory instruments.

The Risk Assurance unit has been decentralised and risk managers will continue playing a quality assurance role through the dual signing powers between the unit and line management. The fully operational compliance unit has been capacitated to advise the Board through the Audit & Risk Committee of all legislative and regulatory compliance risks.

The Internal Audit function conducts reviews, as identified in the annual internal audit plan approved by the Audit and Risk Committee, across the relevant functional areas to provide independent assurance to the Board of Directors on the effectiveness of the Bank's internal control system. The Audit & Risk Committee will continue to monitor Internal Audit's performance against plans in 2013/2014. The Internal Audit unit of the DBSA was established in line with the requirements of the Public Finance Management Act to assist the Board in discharging its duties of effective risk management, governance and control.

The Unit uses a systematic and structured approach in line with best practice standards and frameworks to provide reasonable assurance to the Board and Management that adequate controls exist to mitigate risks affecting the achievement of key objectives of the Bank.

To enable the Unit to function in accordance with its mandate, Internal Audit develops risk-based plans, consistent with the DBSA's goals, to determine its priorities in accordance with the International Standards for the Professional Practice of Internal Audit.

For the upcoming year, Internal Audit will direct its attention to the following areas:

- Playing a strategic role in embedding the principles of good governance in the Bank and ensuring that the standards of ethical behaviour are upheld.
- Implementation of continuous auditing within the IT environment over core processes to enable timely identification and mitigation of risk events.
- Partnering with key internal and external assurance providers to ensure optimal combined assurance to the Board and Management.
- Ensuring that key risks of the Bank are appropriately addressed.

In summary, the DBSA's management of risk has become increasingly robust over the last year. A detailed Enterprise Risk Management framework is included in Annexure 5.5.

Ethics management and fraud prevention

The Development Bank of Southern Africa has adopted a Code of Ethics articulating the values and acceptable ethical standards to which all persons associated with the Bank are required to adhere. This notwithstanding, the Bank acknowledges that in today's business environment, fraud is prevalent and all business organisations are susceptible to the risk of fraud. In this regard a Fraud Prevention Plan was updated in 2011 which sets out and reinforces the Bank's policy of zero tolerance towards fraud and Management's commitment to combating all forms of fraud inherent in the Bank's operations. (Refer to Annexure 5.2 for the DBSA Fraud Prevention Strategy).

Annexure 5.2: DBSA Fraud Prevention Plan [2]

Purpose

The Development Bank of Southern Africa has adopted a Code of Ethics articulating the values and acceptable ethical standards to which all persons associated with the Bank are required to adhere. This notwithstanding, the Bank acknowledges that in today's business environment, fraud is prevalent and all business organisations are susceptible to the risk of fraud. In this regard, the purpose of the Fraud Prevention Plan ("the plan") is to set out and reinforce the Bank's policy of zero tolerance towards fraud and corruption as well as management's commitment to combating all forms of fraud inherent in the Bank's operations.

The Plan outlines the DBSA framework and strategy for the prevention, deterrence, detection, reporting, investigation and handling of fraud and corporate crime. The Plan establishes a process for oversight of fraud risk by the Board Audit & Risk Committee and spells out responsibilities and ownership with respect to assisting the Bank to minimise its fraud risk exposure.

Background

This Fraud Prevention Plan has been developed as a result of the expressed commitment of Government to fight fraud and corruption. It is also an important contribution to the National Anti-Corruption Strategy of the country and supplements both the Public Service Anti-Corruption Strategy and the Local Government Anti-Corruption Strategy.

An effective fraud prevention process can help increase the confidence of investors, regulators and the general public in the financial integrity of an organization in addition to attracting and retaining human and financial resources.

The King III Report on Corporate Governance recommends that an organisation assesses risks on an on-going basis and design effective internal controls to manage risks throughout the organisation. Fraud is part of organisational operational risk.

The Public Finance Management Act, No 1 of 1999 and Treasury Regulations, March 2005[3], enjoin the Board to adopt a risk management strategy that must include a formal Fraud Prevention Plan. The Bank is also required to submit annually to the National Treasury, a Corporate Plan together with the Fraud Prevention Plan[4].

The Prevention and Combating of Corrupt Activities Act, No 12 of 2004 ("PCCA") has strengthened measures against corruption and has created specific offences relating to corruption.

The Protected Disclosure Act, No 26 of 2000 makes provisions for procedures in terms of which employees may disclose information regarding unlawful or irregular conduct by their employers or other employees. The Act also accords protection to employees for disclosures made in good faith, under defined circumstances and encourages organisations to adopt internal whistle blowing mechanisms.

Definition of fraud

Fraud is defined as "the unlawful and intentional making of a misrepresentation which causes actual and or potential prejudice to another". The term "fraud" is also used in a wider sense by the general public.

In this regard, the term is used in this document in its widest possible meaning and is intended to include all aspects of economic crime and acts of dishonesty. In other words, fraud can be described as any conduct or behaviour of which a dishonest representation and/or appropriation forms an element.

[2] Approved at the 17 March 2011 DBSA Board meeting
[3] Section 27.2.1 of the Treasury Regulations
[4] Section 29.1.1 (e) of the Treasury Regulations

POLICY PRINCIPLES

Scope of the policy

This policy applies to all employees, stakeholders, contractors, vendors / suppliers doing business with the Bank.

Policy

It is the policy of the DBSA that fraud, corruption, maladministration or any other dishonest activities of a similar nature will not be tolerated. Such activities will be investigated and actions instituted against those found responsible. Such actions may include the laying of criminal charges, civil and administrative actions and the institution of recoveries where applicable.

Prevention, detection, response and investigative strategies will be designed and implemented. These will include any existing controls (system controls and manual internal controls) and those currently prescribed in existing policies, procedures and other relevant prescripts to the activities of the Bank.

It is the responsibility of all employees to report all incidents of fraud and corruption that may come to his/her attention to his / her manager. Alternatively, such reports can be made by way of submitting a report through the prescribed whistle blowing mechanism as adopted and promoted by the DBSA from time to time.

All reports received will be treated with the requisite confidentiality and will not be disclosed or discussed with parties other than those charged with investigation into such reports.

All Managers are responsible for the detection, prevention and investigation of fraud and corruption, within their areas of responsibility.

FRAUD CONTROL STRATEGIES

The approach in controlling fraud and corruption is focused into three areas, namely:

- Structural strategies.
- Operational strategies.
- Maintenance strategies.

Structural strategies

Structural strategies represent the actions to be undertaken in order to address fraud and corruption at the level of organisational governance.

- **Good corporate governance**

  It is critical to promote an organisational culture of ethical behaviour and integrity to prevent fraud and corporate crime by influencing employees' conduct and behavioural standards. Recognising the nexus between the organisational culture and employee behaviour, management strives to ensure that organisational culture and corporate governance promote high ethical standards.

  The following corporate governance initiatives are in place at the DBSA:

  - The Audit & Risk Committee reporting to the Board has oversight responsibility over the Bank's systems of internal control.
  - An independent Internal Audit function conducts reviews and tests the effectiveness of internal controls providing assurance through periodic reports to the Audit & Risk Committee.
  - The Bank's operational risk function facilitates risk identification workshops to identify risks and advises line management on the relevant controls to be implemented. This exercise also covers fraud risks.
  - Ad hoc forensic audits/investigations are an integral part of the work of Internal Audit function.
  - Written delegations of authority and documented financial control system.

- **Responsibility for fraud risk management**

  The Chief Executive (CE) bears the ultimate responsibility for fraud and corruption risk management within the Bank. This includes the coordination of risk assessments, overseeing the investigation of suspected fraud and corruption, and facilitation for the reporting of such instances. The CE has delegated the oversight of this function to the Chief Risk Officer (CRO). The managing of fraud remains a managerial responsibility.

- **An ethical culture**

  As part of inculcating an ethical culture the Bank has formulated and adopted a Code of Ethics to regulate ethical behaviour. The Code has been communicated to all employees and forms an integral part of employee induction programme. The Code is reviewed annually and has been subjected to an independent quality assurance review by the Ethics Institute of South Africa.

  The Code *inter alia* regulates the following:

  - Corporate values.
  - Compliance with laws and regulations.
  - Conflict of interest.
  - Acceptance and offering of business gifts, courtesies and donations.
  - Use of Bank resources.
  - Protection of whistle blowers.

- **Assessment of fraud risk**

  The Bank, under the guidance of the CRO will conduct annual fraud risk assessments to identify potential fraud risk exposures to the Bank. This process will ensure that actions to address the identified fraud risk exposures will be implemented to mitigate these exposures.

  The above will be formulated into a “Fraud Risk Assessment” which will provide an indication of how fraud risks are manifested and, a “Fraud Risk Register” which will prioritise the fraud risks and indicate actions to mitigate these risks.

- **Employee awareness**

  The main purpose of fraud and corruption awareness workshops / training is to assist in the prevention, detection and reporting of fraud and corruption by raising the level of awareness as to how fraud and corruption is manifested in the workplace. In this regard, all employees will receive training on the following:

  - Fraud Prevention Plan.
  - Code of Ethics.
  - Whistle blowing policy.
  - How to respond to fraud and corruption.
  - Manifestations of fraud and corruption in the workplace.

  Corporate Secretariat and the Forensic services will be responsible for employee awareness.

Operational strategies

- **Internal controls**

  Internal controls are the first line of defence against fraud and corruption. While internal controls may not fully protect the Bank against fraud and corruption, they are essential elements in the overall Fraud Prevention Plan.

  All areas of operations require internal controls, for example:

  - Physical controls (securing of assets).
  - Authorisation controls (approval of expenditure).

- Supervisory controls (supervising day-to-day issues).
- Analysis of data.
- Monthly and annual financial statements.
- Monthly reconciliation of bank statements.

Internal Audit will be responsible for implementing an internal audit program which will incorporate steps to evaluate adherence to internal controls.

- **Prevention strategies**

  A number of combined initiatives result in an overall preventative environment in respect of fraud and corruption. These include the following:

  - Pre-employment screening

    Pre-employment screening is being carried out for all appointments, and evidence of such screening is maintained by the Human Capital Division. Consideration is given to the following pre-employment screening:

    - Verification of identity.
    - Police criminal history.
    - Reference checks with the two most recent employers – this normally requires telephone contact.
    - Verification of formal qualifications claimed.

  - Recruitment procedures

    Recruitment is conducted in accordance with the requirements of the Bank's Recruitment and Selection policy.

  - Fraud and corruption prevention plan

    The actions set out in this plan are all focused at mitigating the risk of fraud and corruption in the Bank.

  - Disclosure of interests

    All the Directors and staff members of the Bank are required to disclose their specific personal assets and business interests at least on an annual basis. This register is kept with the Company Secretary.

- **Detection strategies**

  Detection of fraud and corruption may occur through:

  - Vigilance on the part of staff members, including management.
  - The Internal Audit function.
  - Ad hoc management reviews.
  - Anonymous reports.
  - The application of detection techniques.
  - Segregation of duties is a powerful control to prevent fraud from going undetected.

  The Forensic services at the Bank are responsible for developing detection strategies, and are working closely with management for this purpose.

  The Bank will continue embarking on a number of initiatives to detect fraud and corruption in the workplace.

- Internal Audit

  A robust Internal Audit plan which focuses on the prevalent high Fraud and Corruption risks also serves as an effective detection measure. As part of the detection strategy, the Internal Audit plan will cover the following:

  - Surprise audits: Unplanned audits conducted on specific business processes throughout the year.
  - Post-transaction reviews: A review of transactions after they have been processed and completed can be effective in identifying fraudulent or corrupt activity. In addition to the possibility of detecting fraudulent transactions, such a strategy can also have a significant fraud prevention effect as the threat of detection may be enough to deter a staff member who would otherwise be motivated to engage in fraud and corruption.
  - Forensic data analysis: The Bank's computer system is an important source of information on fraudulent and sometimes corrupt conduct. Software applications will be used during internal audits, surprise audits and post-transaction reviews to assist in detecting any possible fraud and corruption.
  - Management accounting reporting review: Using relatively straightforward techniques in analysing the Bank's management accounting reports, trends can be examined and investigated which may be indicative of fraudulent conduct.

  The Bank will continue to implement a strategy to ensure appropriate management accounting report reviews are conducted.

- External audit

  The Bank recognises that the external audit function is an important control in the detection of fraud. The Chief Financial Officer will continue to hold discussions with all engaged external auditors to ensure that due consideration is given, by the auditors, to ISA 240 *"The Auditors' Responsibility to Consider Fraud in the Audit of a Financial Statement"*.

- **Response strategies**
  - Reporting fraud and corruption – a whistle blowing policy

    One of the key obstacles to fighting fraud and corruption is the fear by employees of being intimidated to identify or "blow the whistle" on fraudulent, corrupt or unethical practices witnessed in the work place. Those who often do "blow the whistle" end up being victimised and intimidated. For this reason, the Bank has adopted a Whistle Blowing Policy setting out the detailed procedure which must be followed in order to report any incidents of fraud and / or corruption. This policy is designed to comply with the provisions of the Protected Disclosures Act.

    Any suspicion of fraud and corruption will be treated seriously and will be reviewed, analysed, and if warranted, investigated. If an employee becomes aware of a suspected fraud, corruption or any irregularity or unethical behaviour, such employee has the duty to report in terms of a Whistle Blowing Policy.

  - Investigating fraud and corruption

    All allegations of fraud and corruption should be investigated in terms of the relevant human resources disciplinary procedures.

    In investigating all suspected acts of fraud and corruption, the Bank must have regard for due process and must respect the legal rights of all involved.

    The outcomes of the disciplinary proceedings (especially dismissals) should be communicated to the rest of the Bank so as to act as deterrence for potential would-be-transgressors and communicate a zero tolerance approach to fraud and corruption.

Maintenance strategies

- **Review of the effectiveness of the Fraud Prevention Plan**

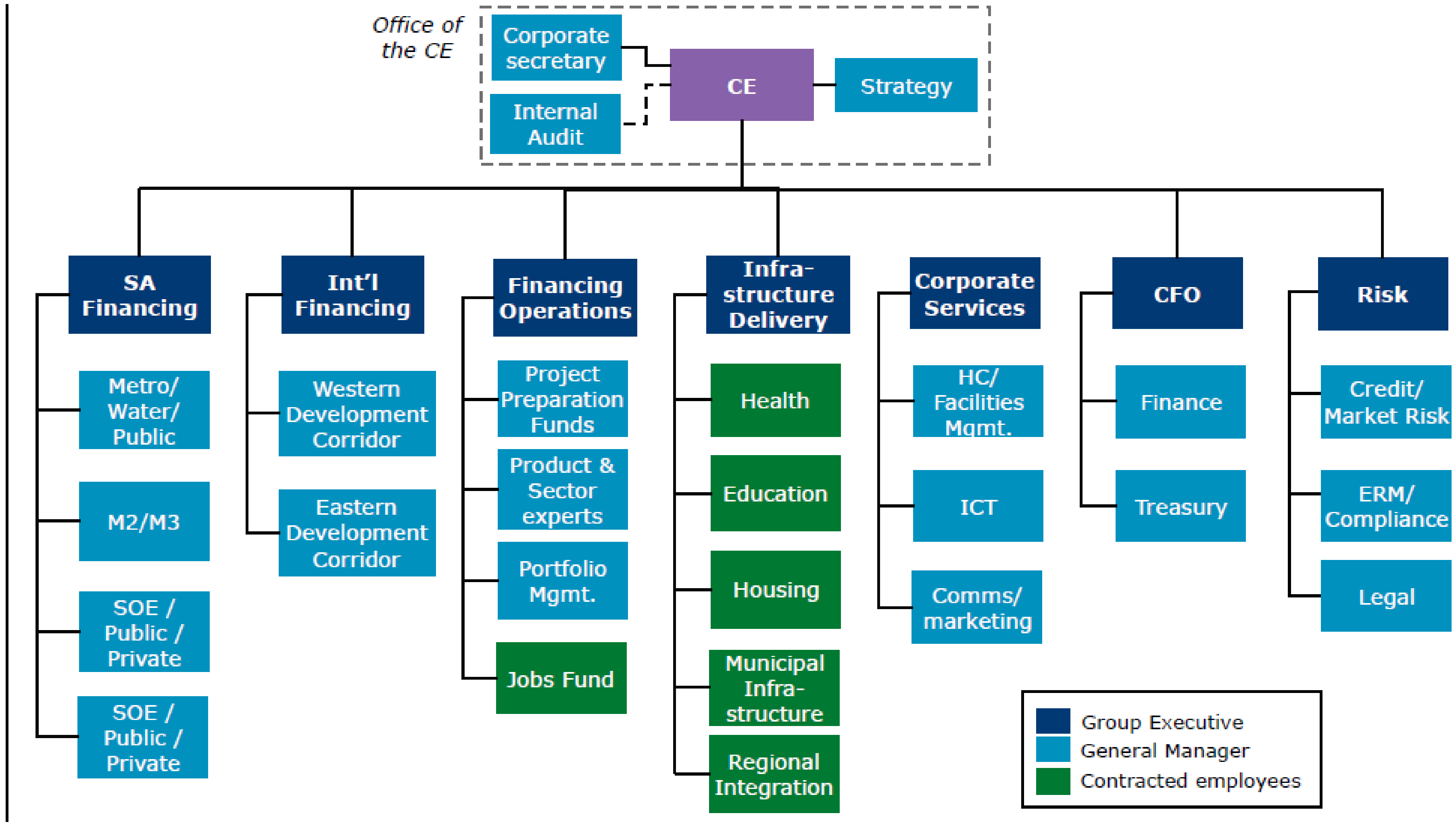
  The Bank will conduct a review of the Fraud Prevention Plan annually to determine the effectiveness thereof.

- **Review and updating the Fraud Prevention Plan**

  This Plan should be maintained and reviewed annually to ensure that the Bank's focus of detection and prevention remains relevant as the internal and external operating environment continually changes the DBSA fraud risk profile.

  The Chairperson of the Audit & Risk Committee shall have oversight and provide guidance on the review of the Plan.

Annexure 5.3: DBSA Corporate structure[5]



5 DBSA structure as at 5 February 2013.

Annexure 5.4: Composition of the Board of Directors and Executive Management Team

Board of Directors

Mr Phillip Jabulani Moleketi (55)

Director of Companies

DBSA Non-executive & Independent Director as from: 1 January 2010.

Chairman of the DBSA Board as from: 1 September 2010.

Academic qualifications:

Advanced Management Programme (AMP), Harvard Business School in Boston (2003).

Masters of Science in Financial Economics, University of London (2001).

Post-graduate diploma in Economic Principles, University of London (1996).

Other directorships:

Harith Fund Managers: Non-executive Director.

Brait Societe Anonyme: Non-executive Chairman.

Vodacom: Non-executive Director.

Remgro (Pty) Ltd: Non-executive Director.

MMI Holdings: Non-executive Director.

Mr Frans Msokoli Baleni (52)

General Secretary: National Union of Mineworkers

DBSA Non-executive & Independent Director as from: 1 January 2010.

Deputy Chairman of the DBSA Board as from: 1 September 2010.

Academic qualifications:

BA Degree in Social Science Development Studies (2006).

Diploma in Political Science and Trade Unionism, Whitehall College, Dublin (1990).

Other directorships:

DBSA Development Fund: Non-executive Director.

International Federation Chemical, Energy, Mine and General Worker's Unions: Executive Member.

JB Marks Bursary Trust Fund: Trustee.

Elijah Barayi Memorial Training Centre: Non-executive Director.

Mineworkers Investment Trust: Chairman (Non-executive).

University of Johannesburg: Deputy Chairman of Council (Non-executive).

Mr Andrew Boraine (54)

Chief Executive: Cape Town Partnership,

Adjunct Professor: African Centre for Cities: University of Cape Town

Acting CE: WC Economic Development Partnership.

DBSA Non-executive & Independent Director as from: 1 August 2005.

Academic qualifications:

BA Hons (Economic History), University of Cape Town (1987).

BA (History), University of Cape Town (1983).

Other directorships:

Cape Town International Convention Centre Company (Pty) Ltd (Convenco): Director.

DBSA Development Fund: Non-executive Director.

Ms Wendy Lucas-Bull (59)

Executive Director: Peotona Group Holdings (Pty) Ltd

DBSA Non-executive & Independent Director as from: 1 August 2005.

Resigned as a DBSA director with effect from 31 March 2013

Academic qualifications:

BSc, University of the Witwatersrand (1976).

Other directorships:

Anglo American Platinum (Pty) Ltd: Non-Executive Director.

Peotona Development NPC.

Afrika Tikkun NPC.

Dr Claudia Manning (46)

Managing Director: DAI Johannesburg,

DBSA Non-Executive & Independent Director as from: 1 August 2005.

Academic qualifications:

DPhil, University of Sussex (1996).

MPhil, University of Sussex (1992).

BA Hons (Economic History), University of Natal (1988).

BA University of Natal (1987).

Other directorships:

DBSA Development Fund: Non-executive Director.

Basil Read Holdings: Non-executive Director.

Sangena Investments: Non-Executive Director:

Board of Directors (continued)

Ms Thembisa Dingaan (39)

Consultant and Director of Companies

DBSA Non-executive & Independent Director as from: 1 August 2007.

Academic qualifications:

H Dip Tax, University of the Witwatersrand (2000).

LLM, Harvard University (1997).

LLB, University of KwaZulu-Natal (1995).

BProc, University of KwaZulu-Natal (1994).

Other directorships:

Adapt IT Holdings Limited: Non-executive Director.

Apollo Tyres South Africa (Pty) Limited: Non-executive Director.

Cardiac Mobile (Pty) Ltd: Non-executive Director.

Imperial Holdings Limited: Non-executive Director.

Mustek Ltd: Non-executive Director.

Skweyiya Investment Holdings (Pty) Ltd: Executive Director.

Ukhamba Holdings: Non-executive Director.

Afripack (Pty) Ltd: non-executive director.

University of KwaZulu Natal: Member of Council (Covering Body).

Zeigler Investments (Pty) Ltd: non-executive Director.

Mr. Omar Aboobaker Latiff (58)

Director/Partner: PricewaterhouseCoopers

DBSA Non-Executive & Independent Director as from: 1 August 2007.

Academic qualifications:

Financing Infrastructure in a Market Economy, Harvard Kennedy School, Harvard University (2000).

H Dip Tax, University of Natal (1992).

CA (SA) (1981).

BCompt (Hons), University of South Africa (1979).

BCom (Accounting), University of Durban-Westville (1976).

Other directorships:

PricewaterhouseCoopers Incorporated: Director.

PricewaterhouseCoopers Advisory Services (Pty) Ltd: Director.

PricewaterhouseCoopers Partnership: Partner.

HASMA Investments (Pty) Ltd: Non-executive Director.

Jodya cc: Member.

DBSA Development Fund: Non-executive Director.

Dr. Lungile Bhengu-Baloyi (55)

Founder & Director : Development and Leadership Consulting

DBSA Non-Executive & Independent Director as from: 1 August 2011.

Academic qualifications:

Doctorate (Public Administration), University of Durban Westville (2003).

MA (Social Policy), University of Durban Westville (2002).

LLM (Public Health Law), University of Durban Westville (2000).

Advanced University Diploma (Adult Education), Natal University (1989).

BSc. (Dietetics), MEDUNSA (1984).

Diploma in (Nutrition), MEDUNSA, (1981).

Diploma in (Nutrition), MEDUNSA, (1981).

Other directorships:

KZN Provincial Planning Commissioner.

Chairperson: AIDS Foundation of Southern Africa.

DBSA Development Fund: Non-executive.

Ms Albertinah Kekana(39)

CEO: Royal Bafokeng Holdings

DBSA Non-Executive & Independent Director as from: 1 August 2011.

Academic qualifications:

AMP (Harvard Business School) (2008).

CA (SA)(2005).

Postgraduate Diploma in Accounting (UCT) (1993).

B.Com (UCT) (1992).

Other directorships:

Vodacom Group: Non-executive Director.

Quoin Fund Manager:Non-executive Director.

Destiny Springs Investments: Director and Shareholder

Royal Bafokeng Holdings: Director

Tristar Group: Shareholder.

Ms. Busisiwe Mabuza (49)

Director of companies

DBSA Non-Executive & Independent Director as from: 1 August 2011.

Academic qualifications:

BA (Mathematics), City University of New York (Hunter College) (1994).

MBA, Stern School of Business, NYU (1994).

Other directorships

Forbes Africa: Non-executive Director.

Afgri Limited: Non-executive Director.

CEF (Pty) Ltd: Non-executive Director.

DBSA Development Fund: Non-executive Director.

The Industrial Development Cooperation: Non-executive director

Airports Company South Africa SOC Limited (ACSA): Non-executive director.

Board of Directors (continued)

Ms Dawn Marole (52)

Chairman: Executive Magic Consulting

DBSA Non-Executive & Independent Director as from: 1 August 2011.

Academic qualifications:

Executive Leadership Development Programme GIBS (2001).

MBA NEU Boston Massachusetts (1989).

Dip Tertiary Education, University of South Africa 1983).

BCom (Acc), University of Zululand (1983).

Other directorships:

Eyomhlaba Investment Holdings (Pty) Limited, Non-executive Director.

Richards Bay Minerals (Pty) Limited, Non-executive Director.

JP Morgan Sub Saharan Africa, Non-executive Director.

MTN Group Limited, Non-executive Director.

Santam (Ltd), Non-executive Director.

Govhani Resources (Pty) Ltd, Non-executive Director.

Ms Mary Vilakazi (35)

Independent consultant

DBSA Non-Executive & Independent Director as from: 1 August 2011.

Academic qualifications:

CA (SA) (2002).

HDip Auditing, UJ (2001),

BCom Hons (Accounting), Wits (1999).

BCom (Accounting), Wits (1998)

Other directorships:

MMI Holdings Non – executive director.

Kagiso Media Non – executive director.

Holdsport Non – executive director.

Zenzele Development Trust.

Mr Patrick Dlamini (43)

Chief Executive officer: DBSA

DBSA Staff member and CEO as from 1 September 2012.

Academic qualifications:

Advanced Executive Programme, Kellogg School of Management (2011)

EDP, University of the Witwatersrand's Business School (WBS) (2001)

Business Studies Unit, Natal Tech (1997)

B Comm Degree, University of Durban (1993)

Other directorships:

None

Ms Kameshni Naidoo (38)

Group Chief Financial Officer

DBSA Staff member and Group Executive as of 1 September 2012.

Academic qualifications:

Chartered Accountant CA, SAICA.

Advanced Certificate in Auditing UJ.

Certificate in the Theory of Accounting Science (CTA) University of KZN

Bachelor of Accountancy University of KZN

Membership:

Institute of Directors SA

Public Sector Audit Committee Forum Working Group

Other directorships:

None

Mr Anthony Frank Julies (48)

Chief Director: Strategy and Risk Management (National Treasury)

DBSA Non-Executive Director as from: 1 January 2013.

Academic qualifications:

MBA Banking, University of London (2011)

Master of Arts (Economics), Wesleyan University (1992)

Bachelor of Education (B.Ed), UWC (1990)

Higher Diploma in Education (H.D.E.), UWC (1988)

Bachelor of Commerce-honors (B.Comm. (Hon)), UUWC (1987)

Other directorships:

SANRAL Non-executive Director

Executive Management

Mr TP Nchocho (45)

Group Executive: SA Financing

DBSA staff member as from: 1 February 2002.

Group Executive as from:

1 April 2010.

Academic qualifications:

M.Sc (Development Finance), London School of Economics (2007).

Programme for Venture Capital and Private Equity, Wits Business School (2003).

MBL, Graduate School of Business Leadership, University of South Africa (2001).

BCom, University of the North (1989).

Directorships:

Old Mutual Housing Impact Fund.

New Africa Mining Fund.

Shanduka Value Partners Fund.

Africa Agricultural Fund.

Mr Paul Currie (51)

Group Chief Risk Officer

DBSA staff member and Group Executive as from: 17 May 2010.

Academic qualifications:

Advanced Management Programme, INSEAD (2007).

MBA (with distinction), Institute of Financial Management, Manchester Business School and University of Wales (2000).

CA (SA) (1994).

Postgraduate Diploma in Accountancy, University of Port Elizabeth (1991).

BCom (Accounting), University of Port Elizabeth (1990).

BSc (Physiology), University of Cape Town (1983).

Directorships:

None

Ms Dolores Mashishi (44)

Group Executive: Corporate Services

DBSA staff member and Group Executive as from: 1 September 2011

Academic qualifications:

General Management Programme, Harvard Business School (2011).

Strategic Management: Human Resources, Wits Business School (2001),

Management Advancement Programme, Wits Business School (1999),

MSc Ed: Development Psychology, University of Illinois, Chicago (1994).

BEd: Psychology, Wits University (1991).

BA Ed: Education and Psychology, University of North West (1989).

Directorships:

None

Ms Sinazo Sibisi (45)

Group Executive: Infrastructure Delivery

DBSA staff member as from: 1 November 2007

Group Executive as from: 1 April 2012.

Academic qualifications:

Partner Development Programme, Gordon Institute of Business Science, SA (2006).

Executive Development Programme, IMD, Lausagne (2005).

Post-Graduate Diploma in HRM, University of Cape Town, SA (1998).

BA Honours in History with Economic and Social History, Birmingham University, UK (1989).

Directorships:

None

Mr Rieaz (Moe) Shaik (53)

Group Executive: International financing

DBSA staff member and GE as of 13 August 2012

Academic qualifications:

AMP, Harvard Business School, USA. (2012).

Masters degree in Optometry (Cum Laude) University of Durban-Westville (1993).

B Optometry, University of Durban-Westville (1983).

BS c (Computer Science), University of Durban-Westville (1981).

Directorships:

None

Mr Michael Hillary (42)

Group Executive: Financing Operations

DBSA Staff member and Group Executive as of 1 October 2012

Academic qualifications:

Master's in Business Administration, University of Witwatersrand (2001).

Bachelor of Commerce (Honours), University of Witwatersrand (1995).

Bachelor of Commerce, University of Witwatersrand (1994).

CAIB (SA), Institute of Bankers, (1994).

Directorships:

None

Annexure 5.5: Enterprise Risk Management Framework[6]

Purpose

The document outlines the Enterprise-wide Risk Management (ERM) Framework adopted as a coherent guide for the implementation of an integrated risk management system for the DBSA Group.

Background

For the DBSA to deliver successfully on its mandate and vision, risks need to be understood and responded to in a proactive and coherent manner. In response to this challenge, the Board endorsed the implementation of an enterprise-wide risk management approach during October 2007. This approach was introduced to ensure that the DBSA takes a holistic view of the risks inherent in its strategy, operations and business and that the management of the risks are embedded into the mainstream planning, business and decision-making processes.

The initial ERM Framework was revised and extended with the aim of further enhancing the risk management capability of the DBSA. This was necessitated by the impact of the increased level of operations and complexity of the market on the risk profile of the DBSA.

Objective of the ERM Framework

The ERM Framework represents a high level view of the risk management system applied in the organisation. The Framework serves as a key mechanism to:

- Give comfort to the DBSA's Shareholder on its intentions to comply with national regulations and expectations for the management of risk in public sector institutions.
- Obtain an agreement between the Board and senior management on the approaches, principles and standards to be adhered to in the effective management of risk.
- Provide the Group Risk Assurance Division with a sound foundation for policy-making aimed at the integration of risk management into the main stream planning and decision-making processes and application of consistent risk management practices and methodologies throughout the enterprise.

The following sources were considered in the design of the ERM Framework to ensure compliance with regulatory requirements and adherence to international standards:

- Public Sector Risk Management Framework – Department National Treasury, Republic of South Africa (1 April 2010).
- Risk Management: Principles and guidelines on implementation ISO/DIS 31000 - International Organisation for Standardisation (2008).
- King Code of Governance Principles for South Africa – Chapter 4 (2009).
- Basel II (2004).

DBSA's approach to risk management

Definition of risk

Risk is defined as the chance of a deviation from an expected return or planned outcome occurring under conditions of uncertainty, caused by events which, if not anticipated and prepared for, have the potential to impact on the achievement of the institution's objectives. Risk is recognised in the DBSA as:

- Being inherent in the institution's strategy, operations and business and essential in delivering on the institution's development mandate, which has to be managed to acceptable levels, rather than perceived as undesirable consequences to be avoided.
- Imposing both opportunities and threats, which can respectively engender the attainment of objectives to be exploited through offensive treatment, or hinder the attainment of objectives to be minimised through defensive treatment.

[6] As submitted and reviewed at the DBSA Audit & Risk Committee on 12 November 2010

- Arising from events which can, by way of systematic management at all levels, be identified, assessed and responded to proactively.

The DBSA differentiates between three major groups of risk, which are:

- Strategic risk, as the chance 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 successfully.
- Operational risk, as the chance 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 and harm to intangible assets.
- Business risk, as the chance 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.

Risk Section A provides an overview of the DBSA's risk classification system.

Overview of the DBSA's risk management system

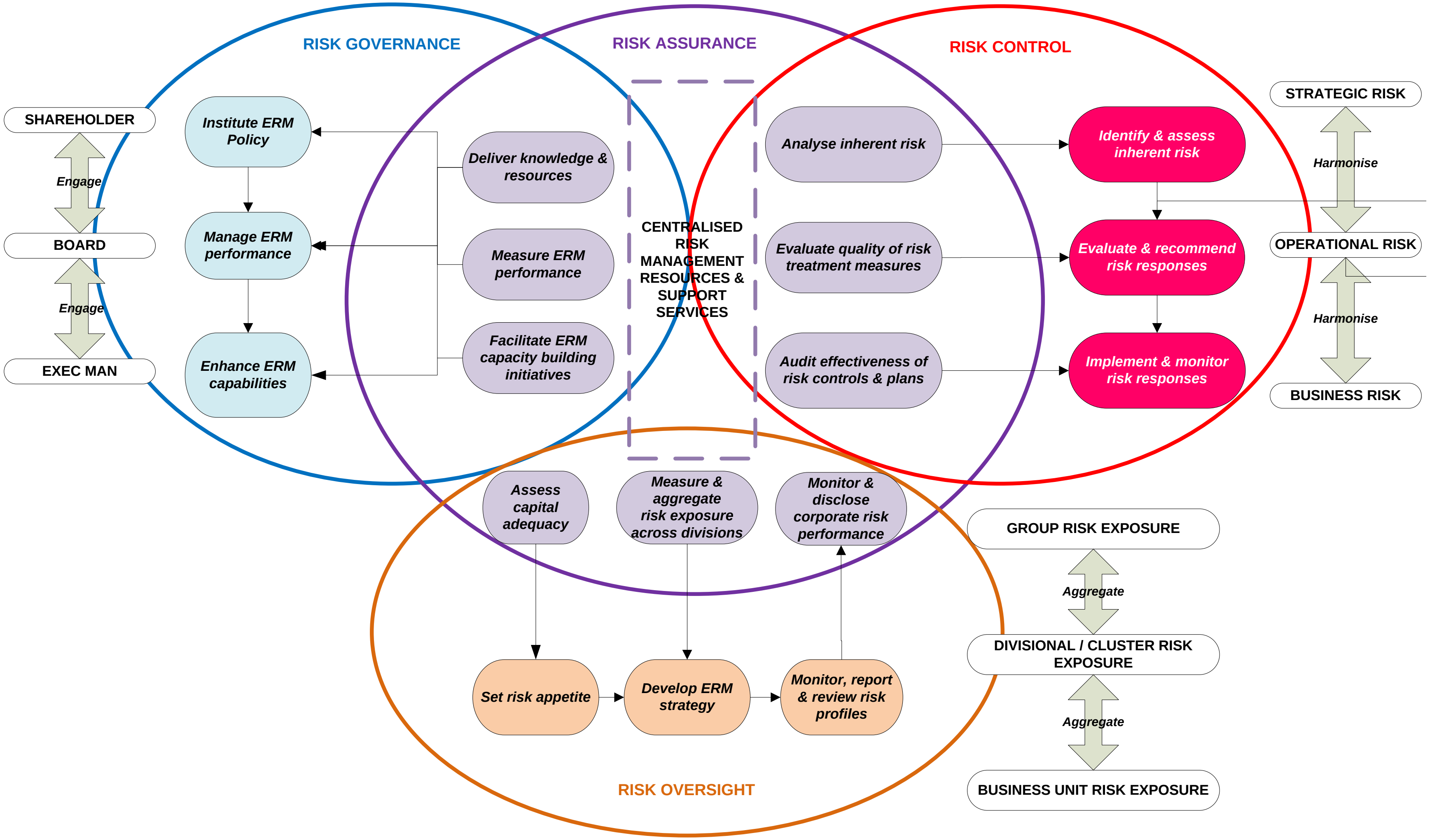
Risk management comprises the tasks performed in governing, executing and overseeing the DBSA's effort directed towards understanding and responding to events which may cause deviations from returns or outcomes. Risk management is applied in the DBSA as a:

- Means of increasing certainty of success in the attainment of the objectives related to maximising development returns, ensuring financial sustainability and adhering to sound governance.
- Discipline to be practiced by everyone in the day-to-day activities of protecting assets and creating value.
- Competency which can best add value when embedded into the normal management processes and applied spontaneously as a means of informing all forward-looking planning and decision-making activities.

As shown in Diagram 1: DBSA Enterprise Risk Management System, the DBSA's risk management system comprises the following interrelated functions.

- Risk governance, which entails the functions performed in the creation of an enabling environment for the management of risk and assurance on the effective functioning of the risk management system at DBSA Group level.
- Risk control, which entails the functions performed in understanding and responding to each of the risks inherent in the DBSA's strategy, operations and business and the monitoring of the effectiveness of risk responses.
- Risk oversight, which entails the planning, measuring, reporting, reviewing and disclosing risk management exposures at various levels of aggregation.
- Risk assurance, which entails a broad spectrum of centralised services and resources provided in support of the governance, control and oversight of risk.

Diagram 1: DBSA Enterprise Risk Management System



Risk Governance Framework

Overview of risk governance

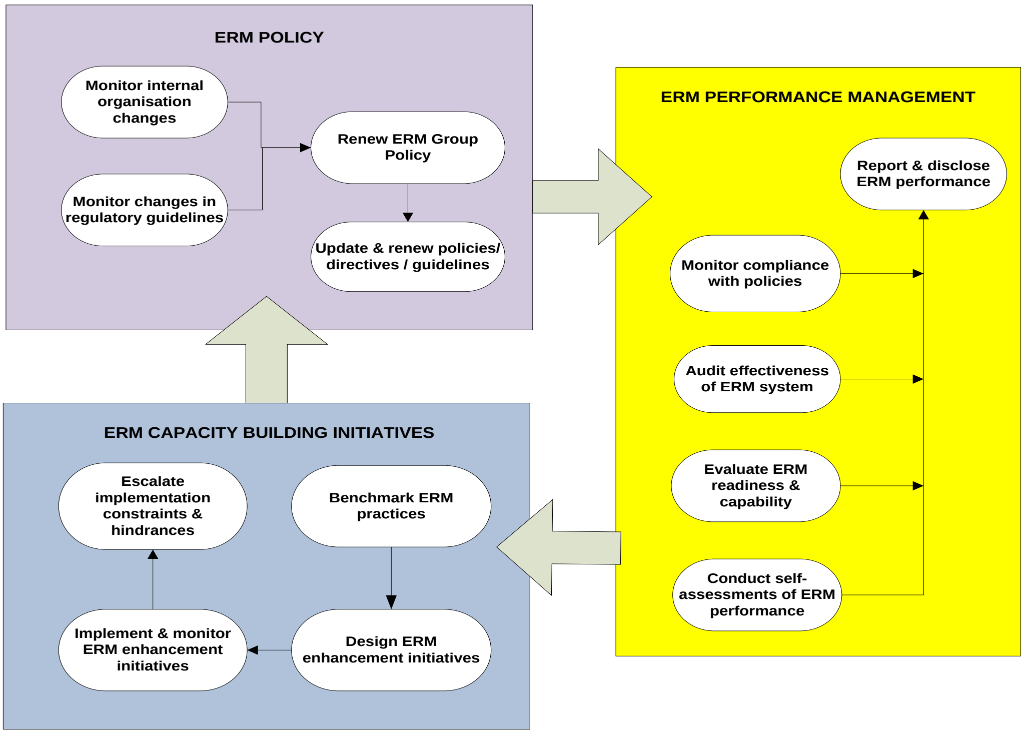
From a conceptual perspective, risk governance constitutes the application of the discipline, principles and practices of corporate governance with the objective of creating an enabling environment for the integrated management of risk and assuring the reliability of the risk management system. In a practical context, risk governance is concerned with the design, implementation and enhancement of the DBSA's risk management system.

The ultimate accountability for the governance of risk resides with the Board. Key Board-level governance duties include setting the expectations and tone for the management of risk, encouraging the application of sound risk management practices and validating and disclosing the performance and reliability of the risk management system. The Board is expected to challenge senior management with regard to perceived resource and capacity weaknesses and provide comfort to the shareholder on the DBSA's ability to manage risk inherent in its strategy, operations and business.

Senior management is responsible for the design, implementation, evaluation and enhancement of the risk management system. As shown in Diagram 2: Risk Governance Framework, the following three mechanisms are applied by senior management in the governance of risk:

- ERM policy, which serves as a mechanism to formalise, communicate and enforce standing decisions aimed at directing and guiding the consistent and transparent management of risk at various levels and in different applications.
- ERM performance management, which serves as a mechanism to monitor, evaluate and disclose the effectiveness of the risk management system.
- ERM capacity building programme, which serves as a mechanism to design and implement initiatives aimed at the strengthening and enhancement of the DBSA's risk management system.

Diagram 2: Risk governance framework



These three risk governance mechanisms are explained in more detail in the following sections:

- ERM Policy.
- ERM Performance Management.
- ERM Capacity Building Programme.

ERM policy

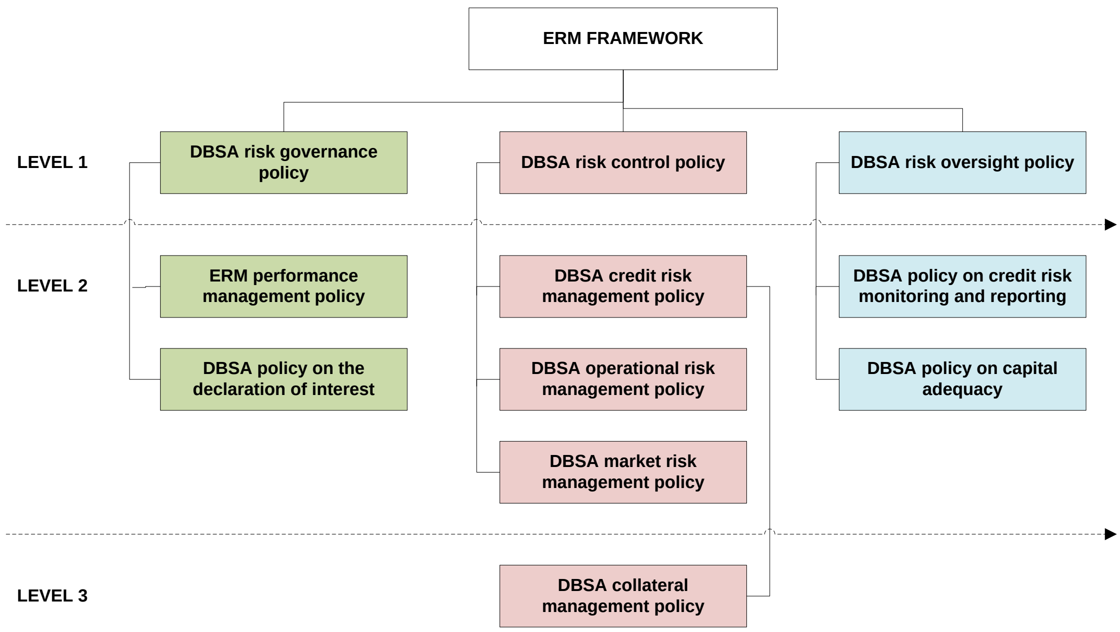
Policy is defined broadly as a set of standing arrangements, directives and instructions aimed at defining and empowering the execution of accountabilities, entrenching values and ethical behaviour and engendering efficiency and assuring quality and consistency in the performance of duties. ERM policy is applied by management as a means to:

- Create an enabling environment for the governance of risk, which is based on the principles of encouraging close Board-level oversight and active executive management leadership, adhering to international standards and best practices and creating a sound understanding and ownership of all sources of risk (risk governance).
- Implement good practices and procedures for the identification, assessment, treatment and monitoring of different types of risk (risk control).
- Establish rigorous standards and consistent methods for the measurement, review and disclosure of risk exposures against risk appetite and tolerances (risk oversight).
- Institute optimal levels of centralised resources for the delivery of specialist and support services in the management of risk at all levels (risk assurance).

In practice, the ERM policy constitutes a suite of policies to govern and guide the implementation of risk management at different levels and in different applications. As shown in Diagram 3: Examples of risk policies at different levels, risk policies are instituted for the risk management functions at three levels:

- Level 1 policy, which defines the high level risk management objectives, principles, approaches and accountabilities across the entire DBSA Group.
- Level 2 policy, which governs the management of different types of risk performed across similar areas of business or within cross functional operational processes.
- Level 3 policy, which sets standards for specific risk management activities performed by teams and/or functional units.

Diagram 3: Examples of risk policies at different levels



ERM performance management

ERM performance management entails the evaluation of the effectiveness of the risk management system and serves as a mechanism to ensure that resources are deployed effectively in the governance, control and oversight of risk and that the risk management system performs efficiently.

The following mechanisms are applied in the management of ERM performance:

- Assessment of the risk management readiness and capability of the DBSA.
- Audit of the effectiveness of components of the ERM system.
- Evaluation of the outcomes of the ERM capacity building programme.
- Self-assessments of the effectiveness of risk management structures.

Readiness and capability assessment

Readiness and capability assessments entail the validation of compliance with the conditions required for the effective management of risk at enterprise level in accordance with the ERM Framework. Assessments are conducted by independent sources as a means to give assurance to the Board on the reliability of the DBSA's risk management system and identify areas for improvement against leading risk management practices in financial service institutions.

Risk audit

Risk audit entails the in-depth evaluation of specific components of the risk management system. Risk audit is conducted to obtain reasonable assurance as to the effectiveness of ERM policy.

Risk evaluation

Risk evaluation entails the evaluation of the effectiveness of ERM capacity building initiatives. Risk evaluation is conducted internally to ensure that interventions aimed at the enhancement of risk management capabilities achieve the planned outcomes and desired results.

Risk performance self-assessments

Risk performance self-assessments entail the evaluation of the effectiveness of committees and risk management teams by members of the committees and teams. Risk performance self-assessments are applied as a mechanism for the Board, risk management committees and risk management teams to conduct a critical review of their performance in the management of risk.

ERM capacity building programme

The ERM capacity building programme has as its key objective the enhancement of the risk management capabilities of the DBSA. The programme focuses on instituting and strengthening risk management activities as an integral part of the business processes and practices. The programme is aimed at embedding, rather than adding on, the management of risk in the on-going planning, decision-making, monitoring and other management processes.

The Programme focuses on the following as key elements of the risk management system:

- Risk leadership.
- Risk resources.
- Risk infrastructure.
- Risk culture.

Risk leadership

Risk leadership refers to the accountability of the Board, in collaboration with senior management, to "set the tone at the top" for risk management. Enhancement of risk leadership is aimed at:

- Opening channels of communication between the Board and senior management on the risk management challenges faced by the DBSA.
- Placing risk issues on the agendas of management committees.

- Consulting employees in decisions on appropriate responses to critical risks faced by the DBSA.

Risk resources

Risk resources refer to the human resources, skill sets, budgets and information required for the effective management of risk. Enhancement of risk resources is aimed at:

- Building risk management knowledge and skills throughout the enterprise.
- Deploying optimal number of specialists with appropriate talent in support of the management of risk.
- Budgeting for sufficient funds to cover the cost of implementation and enhancement of the risk management system.
- Upgrading the quality of risk information, including historical risk loss and incidence data and industry benchmarks.

Risk infrastructure

Risk infrastructure refers broadly to the enabling mechanisms applied in support of the management of risk. Enhancement of risk infrastructure is aimed at:

- Establishing a streamlined, consistent and transparent process for the management of risk, which is integrated into the DBSA's planning, decision-making and management processes.
- Instituting appropriate oversight and review structures to monitor and act on risk management performance.
- Deploying best in class methods, tools and technology in support of the assessment, measurement and reporting of risk.

Risk culture

Risk culture refers to the general understanding of risk and awareness of the potential implications thereof on the institution if not anticipated and prepared for, the willingness and commitment in applying the discipline of risk assessment in decision-making and the alignment of conduct with ethics and behaviour with corporate values.

The enhancement of the DBSA's risk culture is aimed at:

- Increasing understanding of the concept of risk and recognition of the importance of risk management in day-to-day activities.
- Encouraging business units in taking ownership of risks within their respective areas of operations and accepting responsibility for the management of these risks.
- Entrenching behaviour that is in line with the Bank's code of ethics and values, including declaring conflicts of interest, speaking up when detecting any behaviour that can harm the Bank's reputation and complying with the Bank's whistle blowing policy.
- Creating freedom of expression at all levels to raise concerns in respect of strategies and decisions which expose the Bank to high risks and contribute towards learning from experience.

Risk Control Framework

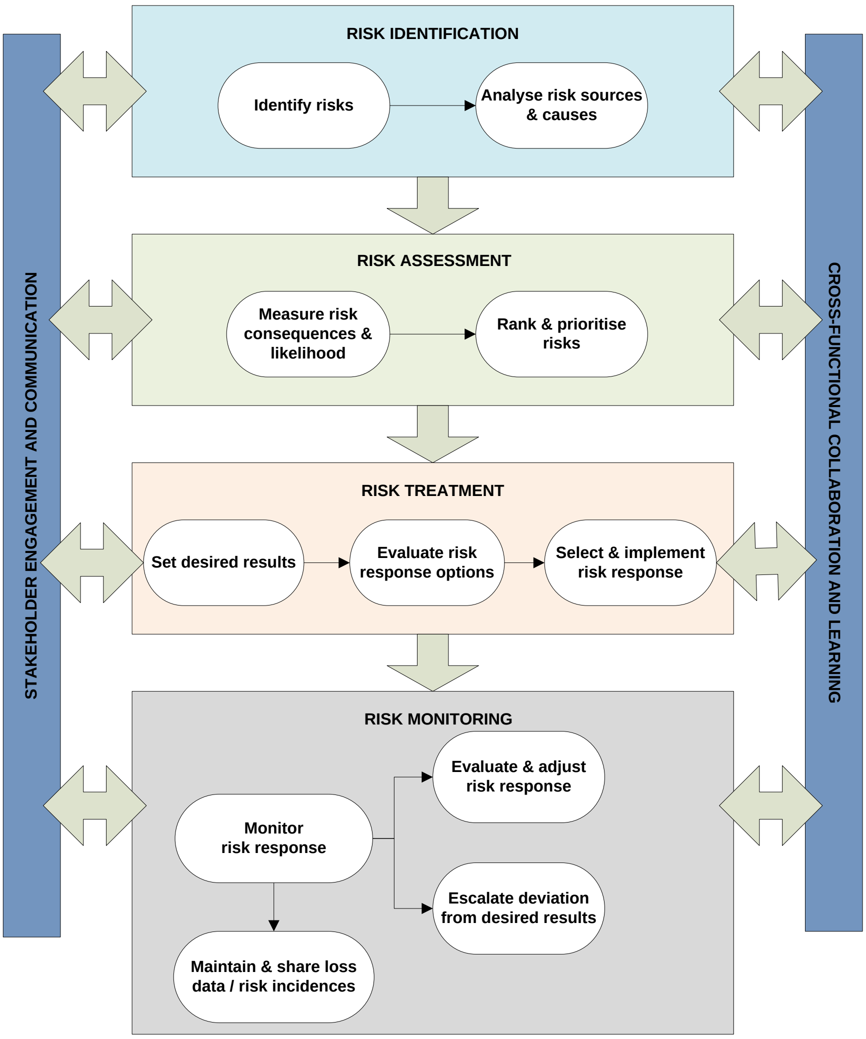
Overview of risk control

Risk control entails the effort directed towards understanding and responding to each risk inherent in the DBSA's strategy, operations and business. As shown in Diagram 4: Risk Control Process, risk control is executed through the following generic process:

- Risk identification, which entails obtaining information on where, when, why and how events, both internal and external to the DBSA, could prevent, minimise, delay or improve the achievement of objectives into the future.

- Risk assessment, which entails the quantification or qualification of the organisation's exposure to the identified risks based on an analysis of the likelihood of the event occurring and the severity of consequences of the event should it happen.
- Risk treatment, which entails making an informed choice between retaining, avoiding or modifying the inherent risk based on the risk assessment and in the event of the latter option, recommending and implementing an appropriate response to reduce vulnerability to unacceptable risk exposures.
- Risk monitoring and review, which entails the continuous evaluation of the effectiveness of risk responses and where required the adjustment of risk responses.

Diagram 4: Risk control process



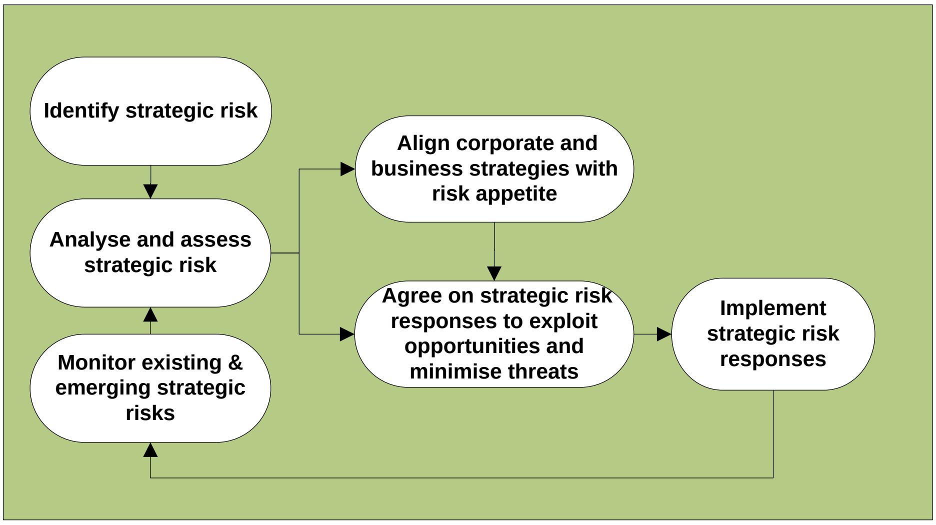
Given the inherent nature of risk in implementing strategy, conducting operations and doing business on a day-to-day basis, control of risk is best performed as close as possible to the source of the risk origination. Ownership of risk at source ensures accountability for risk assumed in protecting assets and creating value and enables agile and proactive responses to risk events. Risk ownership is assumed by management within their respective area of responsibility, but can also be assigned for risk impacting across units and divisions.

Strategic risk management practices

Strategic risk is managed as an iterative process of aligning the risk inherent in corporate and business strategies with the Bank's risk appetite. As shown in Diagram 5: Overview of the Strategic Risk Control Process, the following practices is applied to embed strategic risk management into the strategic planning process:

- Corporate and business strategies are informed by an assessment of the identified risks inherent in the strategy.
- Responses to opportunities and threats associated with strategic risk are evaluated and recommended to the Board as part of the annual strategic planning process.
- Strategic risks assumed, together with actions to be taken to reduce the organisation's vulnerability to these risks, are incorporated into the corporate and business strategies.
- Emerging strategic risks are monitored through environment scanning, assessed and responded to on a continuous basis.

Diagram 5: Overview of the strategic risk control process

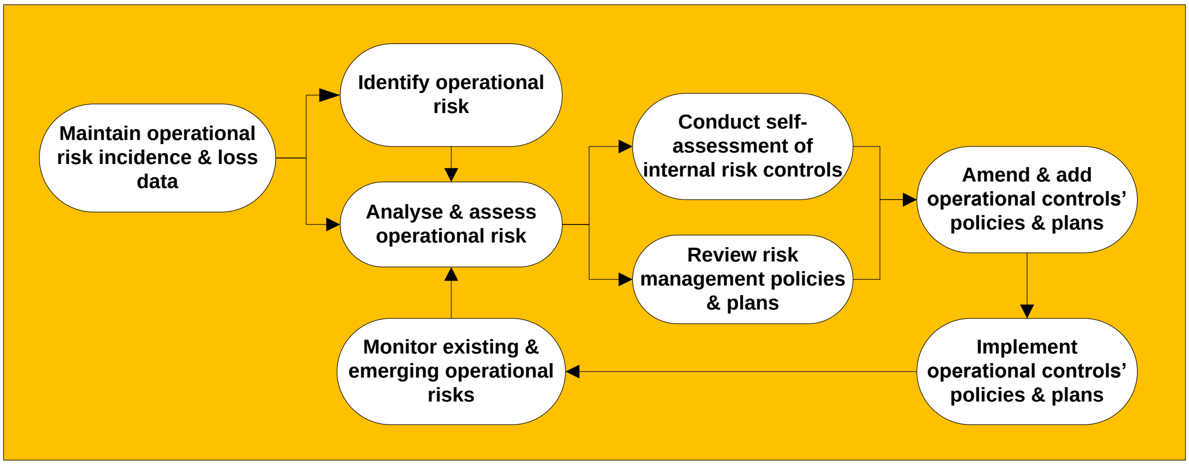


Operational risk management practices

Operational risk is managed through the business planning process. As shown in Diagram 6: Overview of Operational Risk Control, the following practices is applied to embed operational risk management into the business planning process:

- Risk thresholds on individual risks and tolerances on aggregated risk exposure are discussed and refined at divisional and unit levels prior to the annual update of business plans.
- Risk registers of the respective business units are updated as an integral part of the annual business planning by reviewing the risks identified and adjusting the risk profile and measures applied in the mitigation and other forms of risk treatment.
- Actions decided upon to enhance internal controls are incorporated into the business plans and budgets of all units.
- Plans for operational risks that can best be managed across the organisation, such as events external to the organisation that can disrupt the business, are updated and approved on an annual basis.
- Risk registers are updated and approved by the relevant management committee.
- The effectiveness of risk controls are reviewed periodically at division and business unit level as part of the normal business performance reviews.

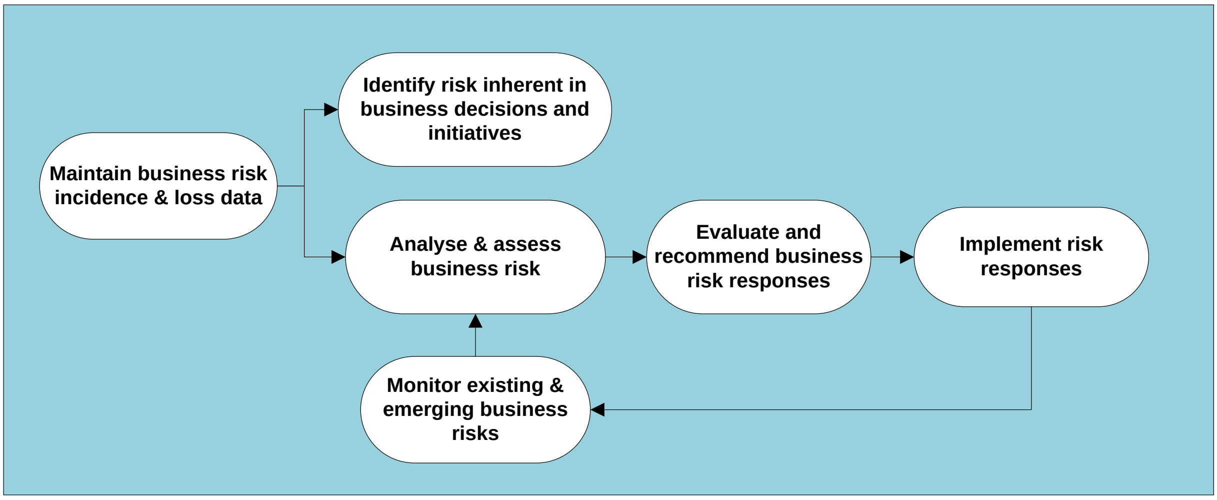
Diagram 6: Overview of operational risk control



Business risk management practices

As shown in Diagram 7: Overview of Business Risk Control Process, business risks, irrespective of the nature of the risk taken, need to be managed by way of the standardised process.

Diagram 7: Overview of business risk control process



In practice, the activities of identifying, assessing, treating and monitoring business risk are embedded in various business processes such as the DBSA's lending process, asset and liability management process and procurement process, as well as management processes such a business planning and budgeting process and monitoring and reporting process.

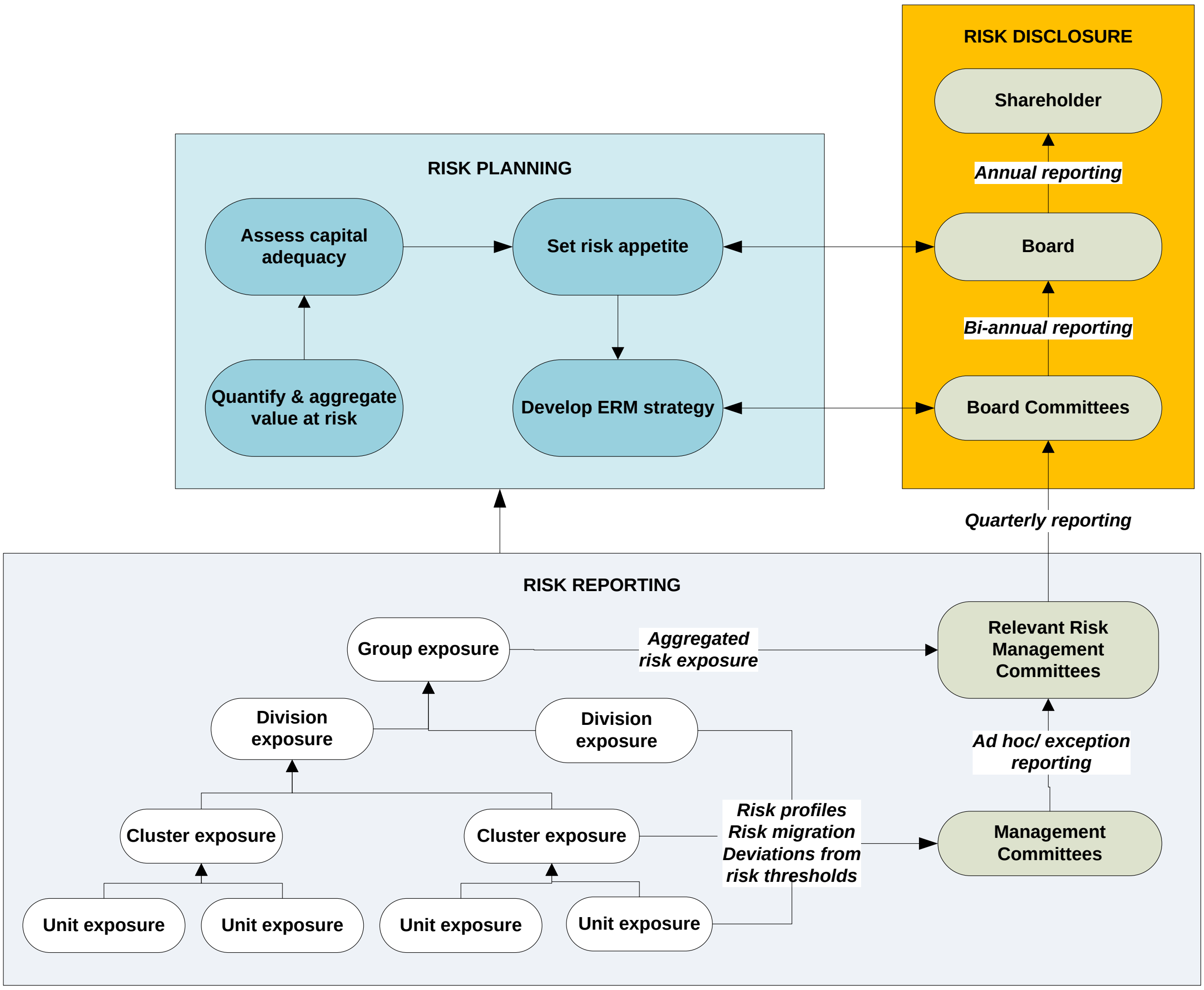
Risk Oversight Framework

Overview of risk oversight

Risk oversight entails the setting of the DBSA's risk appetite and strategy, as well as the measurement, review and disclosure of risk exposures and results against thresholds, limits and targets. As shown in Diagram 8: Risk Oversight Framework, risk oversight is performed through the following mechanisms:

- Risk planning, which entails the setting the DBSA's risk appetite, establishing tolerances and limits for acceptable risk exposure and providing guidance on responses to unacceptable levels of risk.
- Risk reporting, which entails informing risk planning, review and disclosure through the quantification of residual risk exposures.
- Risk disclosure, which entails the review of risk profiles, escalation of risk variances and presentation of risk results.

Diagram 8: Risk oversight framework



Risk planning

Risk planning sets the boundaries for the management of risk. Risk planning is facilitated by the following mechanisms:

- Risk appetite, which is the amount of risk that the DBSA is willing to accept.
- Capital adequacy, which the DBSA beliefs is adequate cushion against unexpected losses.
- Risk strategy, which sets risk thresholds for tolerable levels of risk exposures and provides guidance on the responses to unacceptable levels of risk exposures.

Risk appetite

Risk appetite defines the level of enterprise-wide risk that the Board is willing to take in the pursuance of the DBSA's objectives. Risk appetite serves as a mechanism to inform strategic planning, as well as to guide the setting of thresholds for specific types of risk. The risk appetite is influenced by a combination of factors such as the expectations of shareholders, the nature, scope and competitive position of the business, the market share and conditions within which it operates, the culture and management style of the DBSA, the financial capability to absorb losses and the ability to manage risks.

Senior management recommends and the Board approves the appetite for risk at a corporate level as an integral part of the strategic planning process.

Capital adequacy

Capital adequacy comprises the amount of risk capital, assessed on a realistic basis, which the DBSA beliefs is adequate as a cushion against unexpected losses to keep its balance sheet solvent following a series of risk events. Risk capital is referred to as economic capital, which is determined by the desired credit risk rating which the DBSA wants to attain.

Risk strategy

The risk strategy serves as mechanism to optimise the DBSA's risk profile and aligning risk exposure with its risk appetite. The risk strategy:

- Establishes thresholds for all significant risks in accordance with the Bank's risk appetite as a mechanism to quantify or qualify the amount or level of residual risk that the Bank is willing to tolerate.
- Provides guidance on the responses to unacceptable levels of risk exposures, either as a result of risk portfolios being over- or under exposed in accordance with the risk thresholds.

The risk strategy is prepared by senior management on an annual basis and presented to the Board for validation.

Risk reporting

Risk reporting comprises the following:

- Risk measurement.
- Risk performance review.
- Risk escalation.

Risk measurement

The measurement of risk entails the quantification of expected and unexpected losses and the qualification of risk profiles and exposures. Risk measurement constitutes a challenge and methodologies for quantifying measurable risk exposures and qualifying non-measurable risk profiles need to be enhanced over time. As an interim measure, a differentiation is made between risk exposures which are quantifiable, such as credit and market risk, and other risks which have to be qualified, such as strategic and operational risk.

Risk performance reviews

Risk management performance and results are reported by business unit managers as part of the normal business reviews as follows:

- Performance against the Bank's risk management objectives.
- Residual risk exposures against risk thresholds and other key risk indicators.
- Progress with the implementation of actions taken to enhance inadequate risk management capability or ineffective risk control.

Levels and frequency of risk reporting:

- Business unit managers report on a monthly basis to executive managers for discussion at the divisional management committee.
- Owners and custodians of the various risk types/classes report on a quarterly basis to the relevant risk management committees; and
- Executive managers report on a bi-annual basis to the CEO for discussion at relevant risk management committees.

Risk escalation

Risk owners need to escalate the following risk issues to the Chief Risk Officer (CRO) for consideration at the relevant risk committee:

- Deviation from risk thresholds.
- Emerging strategic risks.
- Material risk events and loss incidents.

Risk disclosure

Risk disclosure entails the presentation of risk management results to the Board Committees in order to enable the execution of their oversight duties. The following standards are applied in the disclosure of risk:

- CEO reports on a quarterly basis to the Audit Committee.
- Audit Committee reports on a bi-annual basis to the Board.
- Board reports on an annual basis to the shareholder.

The following information is required for the disclosure of risk:

- Performance against risk management objectives incorporated into the corporate BSC.
- Risk profile against risk thresholds.
- Progress in the enhancement of the risk profile and actions taken for addressing emerging risks.
- Progress with the implementation of risk plans.

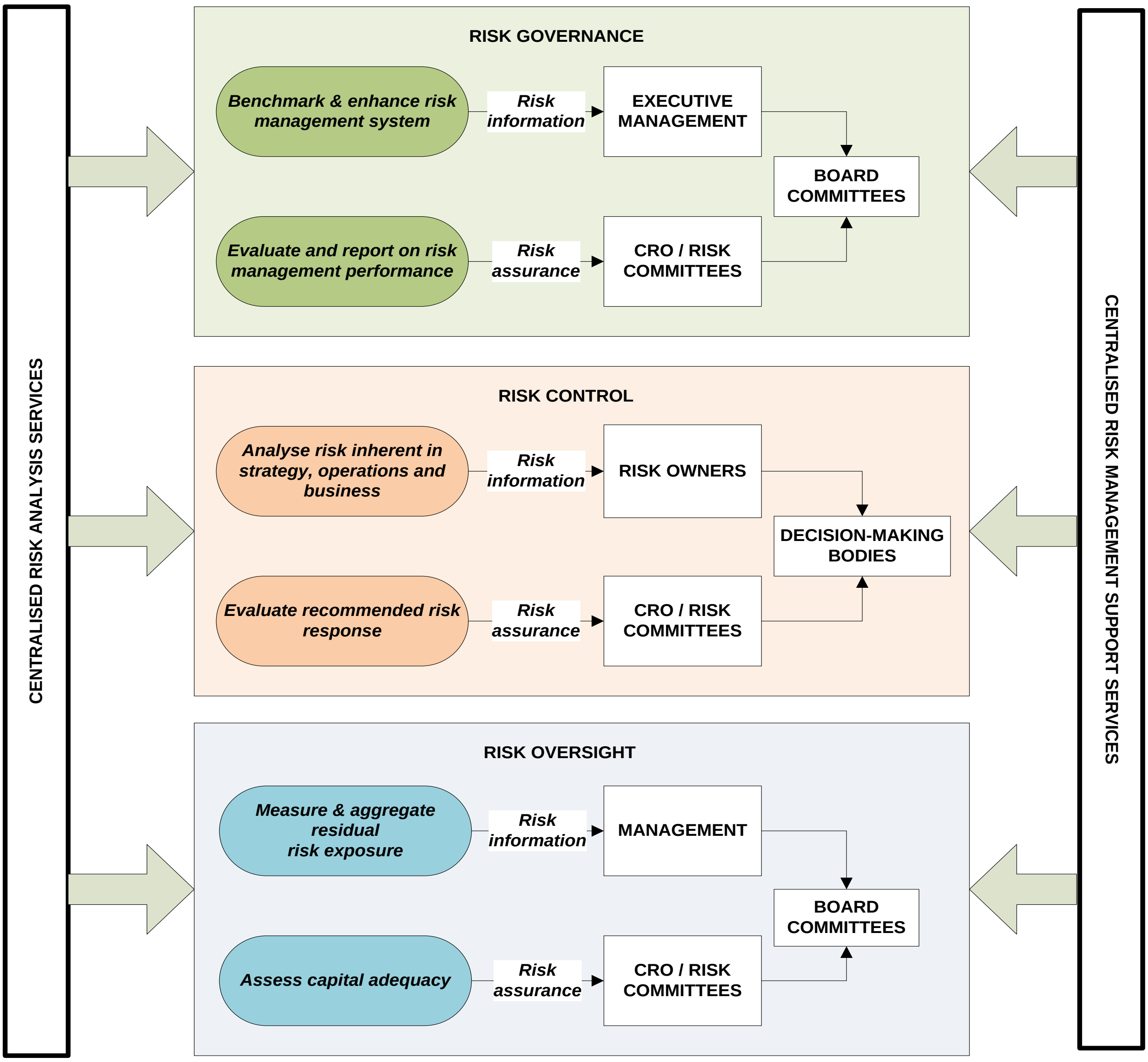
Risk Assurance Framework

Overview of risk assurance

Risk assurance constitutes specialist and support services rendered in the management of risk. The risk assurance function, by definition, does not own any of the DBSA's risk and cannot assume any form of responsibility for the management of such risks. As shown in Diagram 9: Risk Assurance Framework, risk assurance interfaces with functions performed in the governance, control and oversight of risk. The services can be grouped into the following broad categories:

- Delivery of support services for the execution of governance functions in the implementation, monitoring and enhancement of the risk management system, which are centralised by nature.
- Provision of information to risk owners as an input into the control of risk based on an objective analysis of risk inherent in strategy, operations and business.
- Independent evaluation of the appropriateness of risk responses recommended by risk owners as part of the planning and decision-making processes.
- Mobilisation of resources which are uneconomical to deploy at decentralised levels due to scalability of operations or scarcity of skills.

Diagram 9: Risk assurance framework



Risk governance

The following constitutes key focus areas of support services delivered in the governance of risk:

- Draft and maintain ERM policy.
- Coordinate and facilitate the design and implementation of the ERM capacity building initiatives.
- Give assurance on the effectiveness of the risk management system.

The ERM policy is renewed periodically to remain relevant as a mechanism for enabling and guiding the execution of risk management functions. Group risk assurance provides resources and knowledge in the drafting of policy at different levels, as well as analysis and expertise in the design of standards, to guide the management of risk.

Group risk assurance provides resources for the management of the ERM capacity building programme and expert inputs into the design and implementation of specific risk management enhancements.

Assurance on the effectiveness of the risk management system is given through the:

- Independent audit of compliance with the ERM Policy.
- Objective evaluation of the outcomes of the ERM capacity building initiatives.

Risk control

Group risk assurance performs the following functions in support of the control of risk, i.e.:

- Conduct analysis of risk inherent in the DBSA's strategy, operations and business in order to inform planning and decision-making processes.
- Evaluate the recommended risk responses in order to give assurance on the appropriateness of risk mitigation measures given the risk profile and the balance between the level of risk and reward.
- Deliver administrative, legal and workout and recovery services.

The following services are delivered in the analysis of risk and evaluation of the risk responses:

- Facilitate the enterprise-wide identification and assessment of strategic risk and evaluate the recommended risk responses to exploit potential opportunities and minimise potential threats.
- Coordinate the update of the operational risk inventory, self-assessment of internal risk controls and review of the effectiveness of operational risk management plans.
- Conduct analysis of value at risk inherent in key business decisions and value creating initiatives and evaluate the recommended risk responses in the mitigation of unacceptable levels of risk exposure.

Risk oversight

The following services are delivered in support of the oversight of risk performance and results:

- Qualify corporate risk profile and quantify portfolio exposures at different levels of aggregation.
- Assess capital requirements as a buffer against expected and unexpected losses.
- Facilitate the review and update of the DBSA's risk strategy.
- Monitor, escalate and report on the DBSA's overall risk profile against targets, thresholds and limits.

RISK SECTION A: RISK CLASSIFICATION SYSTEM

Overview of the risk classification system

The purpose of the risk classification system is to group risks with similar characteristics into categories for purposes of the control and oversight of risk. As shown in Table 1 below, the system differentiates between strategic risk, operational risk and business risk and their impact on the objectives of development impact, financial sustainability and institutional capability.

Table 1: Risk classification system

Corporate objectives	Strategic risk	Operational risk	Business risk
Development impact	• Systemic risk		• Development risk • New product risk
Financial sustainability	• Business model risk Asset portfolio risk	• Fraud risk • Legal risk	• Credit risk • Market risk • Liquidity risk • Country risk • Sovereign risk
Institutional capability	• Reputation risk • Human resource risk • Management risk	• Process failure risk Compliance risk • Business continuity risk IT system risk • Financial reporting risk	• Project failure risk

Strategic risk

Strategic risk is the effect of uncertainty on the successful execution of the DBSA's corporate and business strategies. Strategic risk is associated with events which could engender or hinder the implementation of strategy in the medium to long term.

The following types of strategic risks exist:

- Systemic risk, which arises from external events which could have an impact on the sustainability of the DBSA's future growth plans and the ability to realise the planned development impact, such as economic recessions, wide-spread political instability and conflicts.
- Business model risk, which arises from changes in the market impacting on the products and service offerings, such as new competitors entering the market, current business partners exiting the market and changes in the development finance market.
- Asset portfolio risk, which arises from events which impact on the quality of the lending and investment portfolio.
- Reputation risk, which arises from events which could have a permanent adverse impact on the standing and public esteem of the DBSA.
- Human resource risk, which arises from events impacting on the ability to attract and retain appropriate or sufficient resources.
- Management risk, which arises from events which have a positive or negative effect on the ability to design and implement the DBSA's strategy, such as the lack of leadership and the mismanagement of resources.

Operational risk

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes and systems, or from people related or external events. Operational risk is by nature short term associated with the chance that internal or external events can have an adverse impact on the continuity and reliability of the DBSA's operations, result in losses of property or capital or cause damage to tangible and intangible assets.

Operational risk is referred to as "pure" or "unrewarded" risks, which are not consciously taken, but has the potential to cause direct or indirect financial losses. Operational risk impacts to a large degree on the enterprise as a whole or on functions which are performed across divisions.

- Process failure risk, which arises from break downs in the processing of product and service delivery.
- Compliance risk, which arises from non-compliance with regulation or legislation.
- Business continuity risk, which arises from external or internal events impacting adversely on the ability of the institution to operate efficiently.
- IT system risk, which arises from system failures and stoppages.
- Financial reporting risk, which arises from inaccurate data or misrepresentation of financial results.

Business risk

Business risk comprises the risk inherent in forward-looking decisions or value creating initiatives whereby resources are committed to a future return or outcome under conditions of uncertainty. Business risk is also referred to as "speculative" or "rewarded" risk, given that business risks are taken deliberately in exchange for a reward or as a means of creating value. The risk is associated with the chance that unknown events or circumstances could occur which can result in a deviation from the expected returns or planned outcomes embodied in the business and other plans of units and divisions.

Business risk is inherent in the activities performed by all units in the DBSA. Business risk can be specific to a particular operation or decision, such as business and financial transactions, partnerships and contracts with external counterparties, entering into a new market, launching a new product or service or implementing changes to the supply chain, as well as to support services rendered internal to the DBSA or change management initiatives launched to improve internal efficiencies and effectiveness. Business risk can be financial or non-financial in nature.

Financial risk includes the following types of risk:

- Credit risk, which is the chance of failure of a counter party to perform on its obligations in terms of the terms and conditions for the extension of credit.
- Country risk, which is the likelihood that changes in the political, economic or business environment, will occur that reduce the profitability of doing business in a country.
- Sovereign risk, which is the risk that a government will either default on its obligations or will impose regulations restricting the ability of counterparties in that country to meet their obligations, such as foreign currency restrictions.
- Market risk, which is the potential for loss inherent in asset and liability transactions arising from movements in the level or volatility of market rates or prices.
- Liquidity risk, which is the chance that the DBSA will be unable to meet its obligations as they become due as a result of an inability to obtain adequate funding or liquidate assets.

Non-financial risk includes the following:

- New product risk, which arises from the chance of deviations from the expected returns and profitability of new products.
- Legal risk, which is the risk arising from uncertainty in the applicability or interpretation of contracts, laws or regulations.
- Development risk, which is the risk of a deviation from the planned outcomes of programmes and projects financed or supported through DBSA's resources.
- Project risk, which is the risk of a deviation from the planned outcomes of organisation development initiatives or change management interventions internal to the DBSA.

Annexure 5.6: Key Enterprise-wide Risks

The DBSA Board and EXCO continuously review the top corporate risks to ensure an appropriate understanding of the DBSA's operating environment. Various key risk indicators have been developed to provide an early warning signal for areas of concern. Most recently, these risks were submitted and discussed at the Audit & Risk Committee meeting held during November 2012 and are listed in the table overleaf:

Strategic risk issues						
Key risk / threat to the DBSA	**Control/ mitigation measures**	**Likelihood**	**Potential impact**	**Residual risk**	**Responsible Board and Management Oversight Committees**	**Progress**
Ability to finance expanded mandate	• Scenario / sensitivity analysis and stress testing. • Proactive Shareholder engagement. • National mandates unit is in the process of developing a pricing model.	Likely	Major	High	**Board Committee:** Finance Committee Strategic Mandates Committee **Management Committee:** EXCO Asset Liability Committee	Controls in place which are monitored and reviewed on an ongoing basis
Ability to execute on expanded mandate	• Detailed Mandate Register (portfolio) has been compiled that gives an idea of how many initiatives are embarked upon. • Vector operating model is in progress. • Mandate operational guidelines are in place.	Likely	Major	High	**Board Committee:** Strategic Mandates Committee **Management Committee:** Development Fund EXCO Strategic Development Mandates Steering Committee	Controls in place which are monitored and reviewed on an ongoing basis
Financial sustainability	• Efficient management of operating costs. • Scenario / sensitivity analysis and stress testing - anticipating impact and appropriate responses as well as identifying opportunities. • Rigorous review of resource allocation and investment / project selection. • Proactive Shareholder engagement. • Budgetary controls.	Moderate	Major	High	**Board Committee:** Finance Committee **Management Committee:** EXCO Asset Liability Committee	Controls in place which are monitored and reviewed on an ongoing basis

Strategic risk issues						
Key risk / threat to the DBSA	**Control/ mitigation measures**	**Likelihood**	**Potential impact**	**Residual risk**	**Responsible Board and Management Oversight Committees**	**Progress**
Ability to adapt timeously to change in the business environment	• The DBSA is positioning itself to proactively offer a package of product offerings rather than reactively tender for business. • A Pricing committee has been established which deals with pricing transaction on an individual basis. • Consultative approach to development of corporate strategy and BSC. • Continuous monitoring of the execution against strategy and BSC. • On-going review of strategy against changes (external/internal). • Alignment of divisional objectives through collaborative objective setting, aligning reward structures to incentivise shared outcomes. • Entire credit policy being reviewed. • Quarterly business review meetings. • Environmental scanning.	Moderate	Moderate	Medium	**Board Committee:** DBSA Board **Management Committee:** EXCO	Controls in place which are monitored and reviewed on an ongoing basis

Operational risk issues						
Key risk / threat to the DBSA	**Control/ mitigation measures**	**Likelihood**	**Potential impact**	**Residual risk**	**Responsible Board and Management Oversight Committees**	**Progress**
Organisational capability and talent management.	• Capacity building, talent management and succession planning. • Effective knowledge management processes. • Effective performance management and utilisation of resources and skills. • Incentivisation of staff through effective reward and recognition structures. • Management development programme.	Likely	Moderate	Medium	**Board Committee:** Human Resources, Remuneration and Nominations Committee **Management Committee:** EXCO Human Capital Committee	Controls in place which are monitored and reviewed on an ongoing basis
High turnover at senior management level	• Timely recruitment of vacant positions (e.g. CFO, CEO) through headhunting. • Preservation of institutional memory and assurance of effective transition through use of internal staff to act in these positions.	Moderate	Moderate	Medium	**Board Committee:** Human Resources, Remuneration and Nominations Committee **Management Committee:** EXCO Human Capital Committee	Controls in place which are monitored and reviewed on an ongoing basis
Inadequate management information for decision making	• Data input validation controls. • Automation of data extraction and analysis. • Reconciliation and exception reports.	Moderate	Major	High	**Board Committee:** Audit and Risk Committee **Management Committee:** EXCO Risk and Compliance Committee	Controls in place which are monitored and reviewed on an ongoing basis

Operational risk issues						
Key risk / threat to the DBSA	**Control/ mitigation measures**	**Likelihood**	**Potential impact**	**Residual risk**	**Responsible Board and Management Oversight Committees**	**Progress**
Business disruptions and system failures	• Business continuity management plans and processes. • Systems back-up processes and disaster recovery site. • Regular update and testing of the DR Plan. • Real time antivirus system, DBSA firewall and Telkom firewall in place, where monthly reports are received indicating any incidents that occurred. • Three generators installed on the DBSA campus, maintained and tested monthly. • Emergency response team trained as per the quarterly training program. • All health & safety equipment maintained and tested as per maintenance schedules.	Likely	Major	High	**Board Committee:** Audit and Risk Committee **Management Committee:** Risk and Compliance Committee ICT Steering Committee	Controls in place which are monitored and reviewed on an ongoing basis
Fraud and corruption	• Established policies and procedures which include internal control systems in place, up to date and enforced consistently. • Fraud awareness and forensic review capacity. • Internal audit reviews.	Likely	Minor	Medium	**Board Committee:** Audit and Risk Committee **Management Committee:** Risk and Compliance Committee	Controls in place which are monitored and reviewed on an ongoing basis
Non compliance with applicable legislation, regulation and statutory requirements	• Implementing and embedding the established compliance risk management capacity (i.e. policies, processes and systems). • Development of compliance risk management plans to regularly measure, monitor and report on non-compliance. • Training	Likely	Moderate	High	**Board Committee:** Audit and Risk Committee **Management Committee:** Risk and Compliance Committee	Controls in place which are monitored and reviewed on an ongoing basis

Business risk issues						
Key risk / threat to the DBSA	**Control/ mitigation measures**	**Likelihood**	**Potential impact**	**Residual risk**	**Responsible Board and Management Oversight Committees**	**Progress**
Decrease in asset quality – credit risk	• Portfolio management processes. • Credit monitoring of individual and portfolio exposures. • Proactive workout and recovery function.	Moderate	Major	Medium	**Board Committee:** Board Credit and Investment Committee Finance Committee Audit & Risk Committee **Management Committee:** Corporate Credit and Development Impact Committee	Controls in place which are monitored and reviewed on an ongoing basis
Brand management and damage to reputation	• Appointed spokespersons to deal with media issues. • Pro-active media monitoring and environmental scanning process in place. • Media training, process and procedures in place. • Confidentiality clauses in employment contracts. • Continuing monitoring of the implemented media policy and IT policy on usage. • Integrated marketing and communications strategy drafted and to be implemented. • Approval of the communication policy and guideline. • Proactive monitoring of registration of trademark in other countries.	Moderate	Moderate	Medium	**Board Committee:** Audit and Risk Committee **Management Committee:** Risk and Compliance Committee	Controls in place which are monitored and reviewed on an ongoing basis

Annexure 5.7: DBSA funding plan and borrowing programme for 2013/14

Introduction

The purpose of this annexure is to provide the National Treasury with the DBSA borrowing programme for the 2013/14 financial year.

Key points

- Total gross borrowings in 2012/13 YTD of R4.3 billion.
- Continued strategy to diversify funding sources and drive down cost of borrowing.
- Quantification of final projected borrowings subject to Corporate Plan targets finalisation and quantum and timing of the capital injection(s).

Funding to February 2013

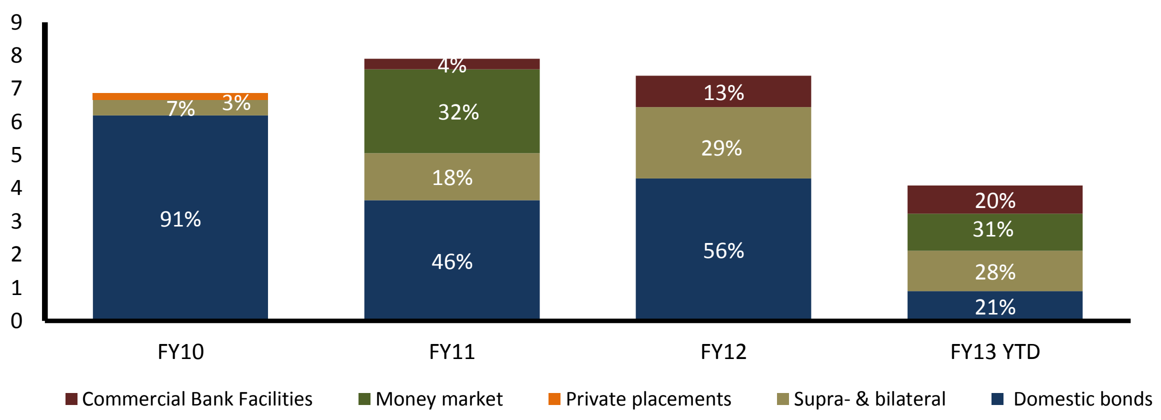
The Bank's funding activities in the current financial year are summarised below:

Table 1: Funding: April 2012 to February 2013

Description	Amount (R million)
Gross borrowings*	4,277
Commercial loans repaid	(700)
Other debt repayments**	(3 059)
Net borrowings/(redemptions)	**(518)**
** Excludes carries* *** Includes bonds, lines of credit, money market*	

Gross borrowings of R4.3 billion were recorded in the financial year to end-December 2012. This compares to borrowings of R7.9 billion for the entire previous financial year. The bulk of funding continued to be sourced from the domestic bond market, with the balance procured from facilities with domestic and foreign-based commercial banks, as well as the traditional bilateral and multi-lateral institutions. Most of the total outstanding debt is on a fixed-rate basis. The Bank's foreign currency exposures are hedged either through currency derivatives with approved counterparties, or naturally through offsetting loan investments. The composition of funding for the financial year to date, relative to recent years is illustrated below.

Chart 1: Funding sources – April 2012 to February 2013 (Rand – billion)



Proposed borrowing programme for the 2013/14 financial year

Derivation of borrowing requirements

The size of the annual borrowing requirements is driven by the following considerations:

- Loan disbursements.
- Loan interest and capital repayments.
- Debt service and repayments, operational expenses.
- Required Policy liquidity levels.

Estimates of the following variables are made:

- Interest income and expense, with floating-rate interest receipts and payments projected based on expected market interest rate changes and yield curve movements.
- Loan capital repayments received.
- Debt capital repayments made.
- Operational expenses.
- Available liquidity at the start of the new financial year.
- The projected prudential liquidity level required by the end of the financial year.

Contractual obligations of the Bank are certain as the Bank does not hold any liabilities of which the maturities are behaviour driven – as would be the case with most deposits in deposit taking institutions. Hence, given the nature of the Bank's business, the difficulties in predicting the timing and size of projected loan disbursements remains the single largest risk factor in as far as liquidity risk management is concerned, and even more so as it relates to periods beyond 12-months. Further to this, the Bank's dependence on wholesale borrowing implies that liquidity risk management should remain cognisant of prevailing and expected market conditions, as temporary market liquidity squeezes could have a significant adverse impact on both margins, and in extreme circumstances, on business continuity.

The derivation of the projected borrowing requirement for the next three financial years is shown below. It should be noted that: 1) the approval, timing, and quantum of capital injections currently under discussion with the National Treasury will commensurately reduce the projected borrowing requirements.

Table 2: Borrowing requirement – preliminary projections

R million	FY2014	FY2015	FY2016
Beginning liquidity	**3 600**	**4 105**	**4 855**
Loan capital repayments	5 132	5 589	7 295
Loan interest income	4 224	4 816	5 560
Fee & other income	34	39	41
Cash inflows	**9 390**	**10 445**	**12 896**
Debt repayments	(5 657)	(4 577)	(5 562)
Operational expenses	(890)	(931)	(973)
Capital expenditure	(20)	(20)	(20)
Disbursements	(11 095)	(14 307)	(16 093)
Cash outflows	**(17 611)**	**(19 834)**	**(22 648)**
Net cash flows	(8 270)	(9 389)	(9 753)
Required liquidity as per liquidity policy	4 105	4 855	5 574
Borrowing requirement	**(8 776)**	**(10 139)**	**(10 472)**

Provisional funding plan

The provisional funding plan includes drawing on lines of credit, bank facilities, bond market taps, money market issuance, and private placements. Actual funding and final split between the different funding sources that the Bank has access to, will be driven by expected disbursement outcomes, market demand for DBSA paper and pricing considerations. As part of the strategy to diversify funding sources the Treasury continually monitors markets, both domestic and offshore, in order to identify opportunities to lower the Bank's borrowing cost, whilst at the same time expanding the universe of investors and lenders in order to secure access to the quantum of funding required on a timely and cost effective basis.

The split of funding sources is nevertheless expected to exhibit patterns not substantially different from those of recent years – ie. with projected sources balanced at 60% from the domestic bond market; 20% from domestic and international commercial bank and DFI facilities; and 20% from the domestic money market. The impact of the Bank's recent national scale credit ratings downgrade from AAA to AA+ on the Bank's ability to access market funding (both bond- and money market) at relatively short notice and in the critical sizes necessary for cost effective liquidity management, is currently being assessed through interaction with key investors. The outcome of this exercise, together with the estimated and realised impact on the DBSA credit margin will inform the detailed borrowing activities in the year ahead.

Specific tenors and interest rate bases (fixed vs. floating) of new long-term debt issuance will be driven by client demand, as well as market conditions and in particular demand/supply imbalances and their associated cost impact at the time of issuance. Also, with the DV22 and DV23 bond issues rapidly approaching their respective authorised sizes, new bond issues, as previously requested from, and approved by the Board are becoming imperative to the success of the Bank's funding programme. In this respect consultation with investors is being done to gauge appetite for size and tenors – specifically at the 15 year and 20 year maturities, in order to match borrower demand.

In addition, the option of expanding the existing DV21 bond (R1.0 billion outstanding; 2016 maturity) is still available given firm investor demand for that maturity segment of the curve. This option remains under consideration and post completion of the investor road show, may be included in the portfolio of outstanding bonds to be offered at the Bank's monthly auctions going forward – subject to finalisation of the processes necessary to incorporate this bond under the Bank's JSE listed domestic medium term note (DMTN) Programme. A further option under consideration, and for which substantial investor interest has already been expressed, is that of issuing a new three to five year floating rate note (FRN), to replace the DVF12 redeemed in October 2012. Whereas the original intention was to refinance the redemption through a similar FRN, this was abandoned in order to reduce the excess liquidity that had built up as a result of the delay in expected IPP disbursements. The expansion of the Bank's funding curve in the manner outlined above is crucial to optimising asset-liability management, and stabilising net interest income through various rate cycles over the long term. Expanding the Bank's debt funding curve in this fashion will create an 'amortising' debt structure, which together with synthetic amortisation strategies currently under consideration will ensure a closer asset-liability match.

Foreign Borrowing

Committed borrowing facilities with foreign DFIs and with commercial banks remain key to diversify the Bank's medium- to long-term funding strategy, given the volatile nature of public capital markets and the growing size of the Bank's funding requirements. These facilities also form the main source of foreign borrowings for the DBSA, the level of which is driven by the anticipated need for foreign currency funding towards on-lending in the rest of the SADC region, as well as the extent to which commitments are made to SA projects eligible for specific foreign currency denominated lines of credit, in which case the drawn currency is swapped to rand in order to hedge the resultant currency risk. A total of R2.5 billion equivalent was available from committed facilities as at February 2013 (see table below).

New facilities with amongst others, KfW, AfD, EIB, JBIC, and the China Development Bank are currently under negotiation, and should, subject to agreement on key terms and pricing, be concluded within the course of the financial year ahead. In addition, early discussions with the World Bank has resulted in an expression of interest in extending the DBSA a USD1 billion line of credit in support of the Bank's growing commitments to the renewable energy sector. As a sovereign guarantee is a policy requirement of the World Bank, the approval of the Minister is required before the due diligence will commence. In order to affect this, a formal application was lodged with the National Treasury during the course of 2012. The outcome of internal National Treasury deliberations is still awaited.

Table 3: Available committed funding facilities as at 28 February 2013

Facilities	Original loan currency	Loan amount (million)	Available amount (million)	Amount utilised (million)
AFD Muni TIP	EUR	100	52	48
AfDB LOC 5	USD	300	150	150
KfW Renewable Energy	EUR	50	50	-

It should be noted that the Minister of Finance has not as yet assigned a limit on the foreign currency borrowings of the Bank under Section 66.7(b) of the PFMA. However, the Bank was recently alerted by National Treasury of the need to have a limit assigned, and following correspondence with the National Treasury in this regard, a formal engagement on this matter is expected to commence this year.

The bulk of the Bank's international debt issuance has thus far been limited to two long-term Eurorand bond issues maturing in 2027 and 2028, respectively and supplemented with ad hoc opportunities from time to time, such as the issuance of a Brazilian Real note of BRL57 million (USD30 million equivalent) through a private placement with a Brazilian financial institution in 2009. Opportunities for offshore public debt issuance are evaluated continuously in order to identify opportunities to reduce the cost of the Bank's borrowings, and to ensure access to the quantum of funding required from time to time through diversification of the Bank's investor base.

Preference shares

In terms of the DBSA Act the Bank can issue redeemable preference shares on approval of the Minister of Finance. Redeemable preference share issuance would allow the Bank to reach a wider investor base whilst at the same time achieving cost savings relative to debt issuances of similar tenor. As a result an application was made to the Minister to authorise the Bank to issue preference shares. On request of the Minister a market assessment of potential appetite was submitted for further consideration. The matter remains under discussion with the National Treasury, but if approved would allow the Bank to raise funding at a cost below that which can be obtained through debt issuance. A review of the market appetite and expected pricing following the determination of the dividend tax rate is currently under way.

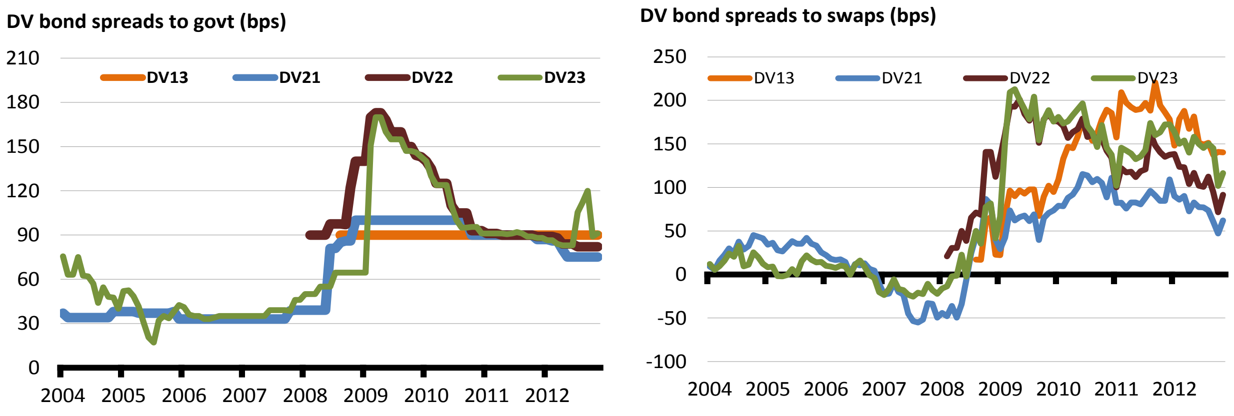
Domestic Funding developments

In the bond market, the Bank issued a total nominal amount of R 900 million worth of bonds in 2012/13 YTD. The Bank tapped the DV22 (maturing 07-Feb-2020) and DV23 (27-Feb-2023) fixed-rate bonds via the monthly auctions. Due to excess liquidity holdings resulting from delays in forecast disbursements, the monthly bond auctions as of August 2012 were cancelled until further notice.

The spread on the DV22 currently stands at 75bps over the R207. The Bank requested the JSE to change the DV23 benchmark from the R186 (2026) to the R2023 (2023), this in order to achieve a closer maturity matching benchmark. Whereas the steepness of the yield curve meant that the DV23 spread above the R2023 initially amounted to 105bps, the spread has since narrowed to 88bps.

The charts below depict the historical spreads of the Bank's outstanding bonds above their respective government benchmarks as well as on a floating-rate/swap basis. The spreads reflect where the Bank would be expected to fund new issues of similar maturities in the domestic market. Spreads to government benchmarks on the DV22 and DV23 bonds are currently at 75bps and 88bps, while asset swap spreads are at 66bps and 81bps, respectively.

Chart 2: DV bond spreads



Source: JSE, I-Net Bridge, DBSA

As reflected in the chart on the right, the DV bond spreads to swaps have narrowed considerably, primarily as a result of the partial correction of the swap spread anomaly that has persisted for the last three years. The same spread reversal has resulted in an adverse unrealised revaluation adjustment in the Bank's hedge portfolio, the risk of which had been communicated to the Board in detail.

Money market funding of R0.7 billion has been raised so far in 2012/13, leaving considerable headroom to complement the Bank's bond market funding towards requirements anticipated for the last quarter of the financial year.

The Bank's DMTN programme registered with the JSE stands at R35 billion, of which R20.5 billion remains available. Depending on near term disbursements projections the Bank is planning to return to the domestic capital market in February 2013, after a road show to key investors, to take advantage of the flexibility of its DMTN facility. In addition to the facility offered by the DMTN, the Bank's funding sources are supplemented by its access to money market paper of up to 12-months maturity, as well as private placements in a diverse range of maturities and structures with minimal delay. International market and issuance conditions will nevertheless continue to be assessed in order for the Bank to capitalise on opportunities that may arise, both to meet its foreign currency demand, and to alleviate domestic market dependence as and when opportune.

Borrowing terms and conditions

The Bank's domestic bonds are issued under the JSE listed DMTN Programme, which captures the terms and conditions of the bond funding. These terms are typical to all bond issuers and no extraordinary covenants are contained in the documentation.

Bilateral facilities, both from DFIs and commercial banks similarly are executed under terms and conditions typical of international loan agreements, with many of the Bank's lenders adopting, or approximating the standards of the Loan Market Association (LMA). Standard covenants primarily relate to:

- The ownership of the Bank, with the requirement that the SA government retains control of the Bank.
- The capital adequacy of the Bank, measured in terms of the Bank's regulatory debt-equity cap.
- The appointment of external auditors of the Bank from time to time.
- Credit ratings, with the typical requirement that the Bank retains an investment grade rating.

Asset liability management

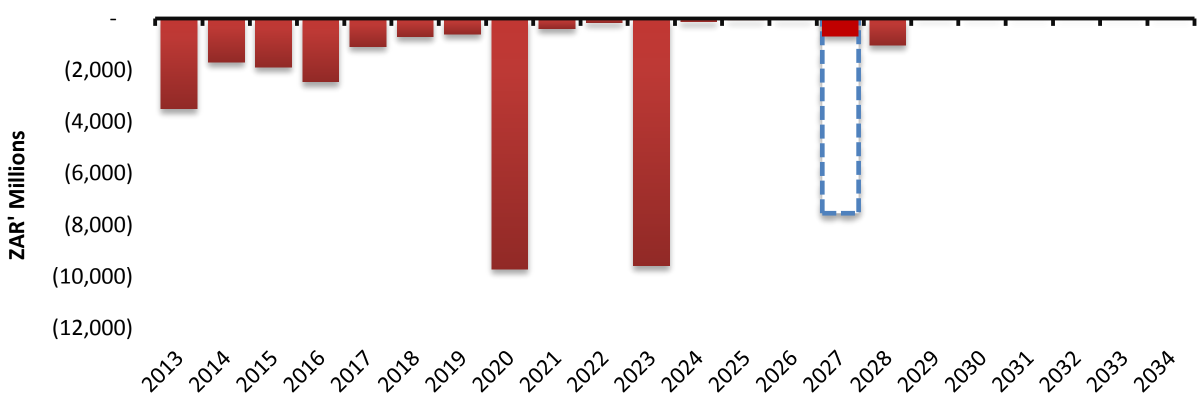
All borrowings are made with due consideration of the Bank's asset-liability profile and inherent interest rate and currency risk exposure from time to time. In recognition of the importance to strike a balance between maintaining interest rate risk exposure within acceptable risk parameters and achieving an acceptable return, the Board-approved interest rate and foreign exchange risk parameters applicable from time to time will continue to be adhered to. As at preparation of the Borrowing Programme these included:

- The Bank's 12-month cumulative re-pricing gap to total earnings to be contained to within 22.5% of total interest earning assets.
- The weighted average duration gap of the Bank's net assets and liabilities (ie. duration gap limit) to be contained to a maximum of 5 years.
- To contain longer-term net interest income volatility, the desired interest rate risk profile (net maturity profile) should over time approach a uniform ladder structure. The latter is a risk reduction strategy in which an asset portfolio is constructed to have approximately equal amounts invested in each maturity within a given range in order to reduce interest rate risk by minimising the amount re-pricing in any given maturity bucket.
- At a 99% confidence level to maintain the 10-day value-at-risk (VaR) of the ZAR value of foreign currency exposures (excluding equity investments) within the maximum limit of 0.5% of shareholders' capital and reserves.

Although funding options and flexibility remain limited relative to the Bank's product offerings to its clients, the depth and liquidity of the ZAR spot and derivatives markets, both with respect to interest rates and currency exchange afford the Bank a plethora of options through which to ensure that the overall risk exposure remains within the Board-defined interest rate and currency risk parameters governing the Bank's market risk management. The risk management strategy is governed by the Board-approved hedging policy which limits the use of derivative instruments solely for risk management purposes and with respect to transactions aimed at achieving the desired risk and net income profile.

The maturity profile of the Bank's debt book is depicted in the chart below:

Chart 3: Debt Maturity Profile



Credit ratings

As a direct result of rating actions on the SA sovereign the Bank's credit ratings were downgraded by all three rating agencies by mid January 2013. In October 2012, Standard and Poor's (S&P's) downgraded its long-term ratings for the Bank as follows: Foreign Currency rating downgraded from BBB+ to BBB and Local Currency rating from A to A-, S&P's also retained the 'negative' outlook. Moody's also downgraded DBSA's long-term foreign currency rating from A3 to Baa1 and kept the 'negative' outlook. These were in line with the downgrading of the Republic of South Africa's sovereign credit ratings.

Fitch Ratings downgraded the Bank's national scale rating from AAA(zaf) to AA+(zaf), this as a direct result of the downgrade of the sovereign local currency rating from A to BBB+, and the simultaneous downgrading of the country ceiling from A, to A-. This implied that the DBSA's sovereign equivalent rating no longer mapped to the highest possible national scale rating i.e. as per Fitch, " The downgrade of South Africa's local currency IDR to 'BBB+' means that DBSA's support-driven rating no longer maps to the best credit in the country."

The ratings are summarised in the table below.

Table 4: Credit ratings

Agency	Type	Short term	Long term	Outlook
Fitch	National	F1+(zaf)	AA+(zaf)	Stable
Moody's	Foreign-currency issuer rating	Not rated	Baa1	Negative
Standard & Poor's	Foreign currency Local currency	A-2 A-1	BBB A-	Negative Negative

Recommendation

The projections presented in Table 2 above suggest a funding requirement of R8.8 billion for the 2013/14 financial year. As an added measure to build in some flexibility to cater for market volatility, possible client defaults, funding for strategic projects and other factors that may impact on the projections made, it is recommended that the Board approve total new borrowings for 2013/14 financial year amounting to R10 billion.

The Borrowing Programme will be reviewed and revised as loan disbursements, debt service, required liquidity, and retained income change. The implementation of the borrowing strategy will further be influenced by the Bank's liquidity policy requirements, development strategy, market conditions, liquidity cost management, and investor demand. The approval of the Board will be sought, should actual funding requirements exceed the proposed borrowing level.

Annexure 5.8: Materiality and significance framework

For the purpose of the interpretation of and compliance with the Public Finance Management Act, No 1 of 1999

	Proposed Framework	Resulting figures for 2013/14[7]	Underlying principles
Material for Section 55 (2)(b)– Disclosure, in the Annual Report, of: • Particulars of material losses through criminal conduct and any irregular expenditure and fruitless and wasteful expenditure. • Particulars of any criminal or disciplinary steps taken as a consequence of such losses, irregular expenditure or fruitless and wasteful expenditure. • Particulars of any losses recovered or written off other than in the ordinary course of business. • Particulars of any financial assistance received from the State and commitments made by the State on behalf of the DBSA.	**<u>Quantitative</u>:** 0.3% of Revenue Revenue is represented by 'Interest Income" per the DBSA annual financial statements	R11.9 million	• Each loss due to criminal conduct, irregular expenditure or fruitless and wasteful expenditure, as identified, will be evaluated in context of the expense category to which it relates to determine whether it qualifies for disclosure in the Annual Report, as required by Section 54. • In line with good business practice, as well as the requirements of the Act, the Bank is committed to the prevention, detection of and taking appropriate action on all irregular expenditure, fruitless and wasteful expenditure, losses resulting from criminal conduct and expenditure not complying with the operational policies of the Bank (Section 51(1)(b)(ii)). To this end the Bank's systems and processes are designed and continually reviewed to ensure the prevention and detection of all such expenditure, irrespective the size thereof.

[7] Based on the 2011/12 audited financial statements (latest available).

	Proposed Framework	Resulting figures for 2013/14[7]	Underlying principles
Significant for Section 54 – Information and approval by the Minister of "qualifying transactions", i.e.: • Participation in a significant partnership, trust, unincorporated joint venture or similar arrangement. • Acquisition or disposal of a significant shareholding in a company. • Acquisition or disposal of a significant asset. • Commencement or cessation of a significant business activity. • A significant change in the nature or extent of its interest in a significant partnership, trust, unincorporated joint venture or similar arrangement.	**<u>Quantitative</u>:** Approval from the Executive Authority is required for the following equity transactions: • Direct equity investments resulting in a shareholding of at least 20% in a company. • Regardless of the percentage holding, a direct equity investment exceeding 7.5% of total assets (as per the 2011/12 financial year) of the Bank. • Acquisition/disposal of assets (excluding financial market assets, equity investments and development loans) exceeding 1% of total assets (as per the 2011/12 financial year) of the Bank.	R3.93 billion R523 million	• The PFMA is not intended to affect the autonomy of the organisation, but its stated objectives are to ensure transparency, accountability and sound management of revenue, expenditure, assets and liabilities of the institutions to which the Act applies. Therefore, the legislature could not have intended for the public entities to report and seek approval on matters of a daily basis. • The business of the DBSA is conducted within the framework of the mandate, objects and powers contained in the DBSA Act, as well as the business and financial direction set out in the corporate plan. • The DBSA also has defined accountability and approval structures from the Board, as the shareholder representative, to the CEO and management. • The responsibility for the day-to-day management of the DBSA vests in line management through a clearly defined organisational structure and through formally delegated authorities.

Annexure 5.9: DBSA Employment Equity Plan

The purpose of this annexure is to provide the National Treasury with an extract of the DBSA Employment Equity (EE) Plan[8] as required per Practise Note 4 of 2009/10.

DBSA's employment equity vision

In support of the overall DBSA Vision, the EE vision is to build a team of the highest quality of employees that represents the demographics of the country.

The EE Plan has been developed and will be implemented to enhance the achievement of the EE vision. This vision is in line with the DBSA's strategic objective of continuing transformation by employing staff in line with employment equity requirements. The vision will be realised by implementing the non-numerical goals contained in the Bank's EE Policy and the EE numeral goals and measures contained in this document.

DBSA five year EE plan for the period 2013-2017

In establishing the numerical goals for the DBSA, the methodology, key challenges, lessons learnt, potential growth rate of the DBSA, benchmarks and the BBBEE scorecard has been taken into consideration in setting the target for 2013 – 2017. The key focus is to improve and or set realistic targets to ensure the DBSA has a representative workforce.

Table 2: Proposed Summary of the 5-year EE Goals (2013 – 2017)

	Black						Black female					
Occupational categories	**Base**	**FY 2013**	**FY 2014**	**FY 2015**	**FY 2016**	**FY 2017**	**Base**	**FY 2013**	**FY 2014**	**FY 2015**	**FY 2016**	**FY 2017**
Top management	85.7%	80.0%	80.0%	80.0%	80.0%	80.0%	42.9%	45.0%	47.0%	48.0%	49.0%	50.0%
Senior management	51.7%	57.0%	58.0%	59.0%	60.0%	60.0%	21.5%	25.0%	28.0%	30.0%	35.0%	40.0%
Mid management professionally qualified	88.1%	70.0%	71.0%	73.0%	74.0%	75.0%	40.30%	40.0%	40.0%	40.0%	40.0%	40.0%
Jnr management, skilled technical	65.8%	70.0%	73.0%	75.0%	78.0%	80.0%	36.7%	37.0%	38.0%	40.0%	43.0%	45.0%
Semi skilled	93.0%	94.0%	94.0%	94.0%	94.0%	94.0%	53.5%	41.0%	44.0%	47.0%	50.0%	55.0%
Unskilled	10.00%	100.0%	100.0%	100.0%	100.0%	100.0%	92.3%	92.0%	92.0%	92.0%	92.0%	92.0%
TOTAL	76.0%	77.0%	78.0%	79.0%	80.0%	80.0%	37.7%	41.0%	42.0%	45.0%	47.0%	50.0%

It must be noted that the target for black top management and mid management professionally qualified employees has been adjusted downwards from 85.7% to 80% and 88.1% to 75% respectively. These targets have been adjusted taking into consideration the lack of available skills in the labour market and the time constraints in developing these skills. These targets will be revised in 2017 when the next five year plan is developed.

The target for black employees living with disabilities has been increased to 3%.

Conclusion

The DBSA as an organisation have the means, the best practice human resources policies and procedures as well as the top management and stakeholder commitment to transform.

[8] Source: Employment Equity Plan, draft plan November 2012

Annexure 5.10: DBSA Environmental Plan

Environmental and sustainability considerations at the DBSA are founded on three key DBSA documents, the DBSA Environmental Sustainability Strategy, the DBSA Environmental Policy and the DBSA Environmental Appraisal Procedures.

The DBSA vision recognises the importance of placing poverty eradication and achievement of sustainable development at the centre of its development agenda. The strategy highlights the need for effective integration of environment and sustainability issues as the key to ensuring sustainable economic and social development. These issues are effectively implemented through the DBSA Environmental Policy and the DBSA Environmental Appraisal Procedures which work together to ensure that all the DBSA's operations, programmes and projects are socially responsible, environmentally sound and in line with government requirements.

The Bank is legally obliged to promote sustainable development through its operations. To this end, the Bank has developed (and continues to refine) its environmental appraisal procedures (EAP), which outline the Bank's approach to environmental appraisal and due diligence. The DBSA EAPs are aligned with national and international best practice for environmental assessment and are implemented by the Banks environmental specialists, to direct them in how to approach and implement environmental appraisals and due diligence at the Bank. The EAP ensures that the Bank's environmental appraisals are applied in a consistent manner that supports and enhances the Bank's decision-making processes and mitigates and manages environmental risk while also ensuring increased development impact.

The DBSA management and staff take cognisance of the fact that their activities and operations have an impact on the environment and thus take full responsibility to not only address environmental risks and impacts related to their products and services, but also environmental impacts related to their in-house activities and operations. As part of the Banks Environmental Policy the Bank has also implemented an effective environmental management system (EMS) to ensure on-going improvement of its environmental performance.

In line with the Constitution of the Republic of South Africa, particularly Section 24 - environmental rights, the Bank is committed to providing an environmentally safe work place for its employees and is therefore actively seeking ways to reduce its direct environmental impact on the biophysical environment, namely: air, land and water from its in-house operations and activities. The major environmental aspects of the Bank, where it has control and influence include, in order of magnitude of impact:

- Energy demand management and generation from renewable energy sources.
- Business travel.
- Office paper use and recycling.
- Solid waste generation and recycling.
- Water consumption.
- Land management.

This policy provides the focus for achieving best practice, through the SANS ISO 14001, an international standard for environmental management. The framework allows the Bank to be amongst the sector leaders in the management of internal environmental issues.

Some of the financial institutions, nationally and internationally, have adopted and certified their EMS's to ISO 14001 international standards. It is however not the intention of this policy to advocate for ISO 14001 certification, but to establish the framework that will allow the Bank to systematically and effectively manage its facility environmental impacts.

Policy statement

Within the scope of this policy and as outlined is Section 2.1 of the DBSA Facility Management – Environmental Management System, the DBSA is committed to the following:

1) Continual improvement of the Bank's environmental management system in line with the international standard, SANS ISO 14001, on environmental management systems.
2) Pollution prevention emanating from our in-house activities and operations.
3) Comply with all applicable environmental legislative and regulatory requirements and other requirements to which the DBSA subscribes, related to our environmental aspects.

Policy objectives

In fulfilling the above environmental policy statements, the DBSA will:

- Minimise the consumption of energy.
- Minimise the consumption of water and where practicable not to use potable water for gardening purposes.
- Reduce the use of office paper and where practicable re-use and recycle waste paper.
- Minimise solid waste generation, mainly in the catering services and promote re-use & recycling where possible.
- Avoid the use of hazardous materials, including cleaning detergents that may cause harm to the environment.
- Use and manage land efficiently in the interest of biodiversity conservation.
- Minimise business travel related carbon footprint.
- Promote environmental awareness and responsibility among all Bank employees.
- Engage with our key stakeholders, mainly neighbouring residential and commercial estates, on environmental management of our premises.
- Comply with all relevant requirements set out in the Occupational Health and Safety Act, 1993, Act No. 85 of 1993, as amended.
- Commission environmental audits, including legal compliance audits.
- Within the scope of this policy, report annually on its key environmental aspects and overall environmental performance.

Environmentally sustainable funding operations

The DBSA's policy requires all programmes and projects considered for funding support to undergo a rigorous environmental appraisal as part of the broader investment appraisal process, underscoring its commitment to sustainable and equitable development. In addition the Bank has been consistently involved in to broadening its support for the development of sustainable development and green infrastructure across its mandate areas. In particular the Bank is working with the Department of Environmental Affairs and the National Treasury with the aim of facilitating and ensuring greener infrastructure and sustainable development across the region. The Bank is also involved in the following environment and sustainable development related initiatives:

- Collaboration in the environmental sector with the DEA: This programme, to 2014 is aimed at knowledge sharing, sustainable development and the development of greener infrastructure. This applies to both the built environment and the natural environment, in South Africa. This involves policy work, such as the use of the budget, in the future, in mainstreaming decisions in infrastructure and other incentives to green behaviour.
- Implementing the Green Fund: this is a management of an R800 million Fund to March 2015, to assist a transition to a sustainable society.

- Research and publications related to the greening of the economy, green jobs, climate change and green infrastructure development.
- Funding of the Independent Power Producers.
- The development of an Environmental and Social Assessment Toolkit for the banking sector with BASA and the Banking SETA.
- The Development of the SADC Environmental Legislation handbook.
- Several Clean Development Mechanism (CDM) projects aimed at carbon emissions reductions.
- Supporting the establishment of a Green Infrastructure Council.

Sustainability reporting in accordance with GRI guidelines

To further demonstrate the Bank's commitment to sustainability, as part of the Annual Report, the DBSA presents a sustainability report in accordance with the Global Reporting Initiatives Sustainable Reporting Guidelines, which provides a globally recognised framework for reporting on an entity's economic, ethical, governance, social and environmental performance. For the March 2012 reporting period, the DBSA reported a Level B.