DEVELOPMENT BANK

OF SOUTHERN AFRICA

CORPORATE PLAN

2015/16

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DBSA CORPORATE PLAN

1. INTRODUCTION

South Africa's economic performance has deteriorated over the past several years. Gross domestic product (GDP) growth of 1.4% [1] is estimated in 2014, down from 3.6% in 2011. GDP growth is forecast to improve over the medium term as infrastructure constraints ease, private investment recovers and exports grow. However, recent trends have led to understandable concerns about the country's growth prospects.

The government has reaffirmed its commitments that it has made over the years in realising its vision of a better life for all South Africans. The National Development Plan (NDP) sets out an integrated strategy for accelerating growth, eliminating poverty and reducing inequality. Faster economic growth is both a key objective of the National Development Plan and a necessary condition to raise the resources needed to fund the country's social and economic transformation. The plan targets 5% annual GDP growth as the minimum requirement to create employment, overcome poverty and reduce inequality. It seeks to achieve this through significant investment in South Africa's people whilst sustaining high levels of public investment and increasing private investment. The plan further promotes enhanced competitiveness, greater spatial efficiency in growing cities and accelerated rural development. It also prioritises measures to build a capable and effective state that delivers services to citizens while encouraging business investment and growth.

Large-scale investment in infrastructure is a critical enabler and government has budgeted R813 billion for public-sector infrastructure investment over the next three years i.e. from 2015/16 to 2017/18. In addition, the National Infrastructure Programme, coordinated by the Presidential Infrastructure Coordinating Commission (PICC) plays an important role in ensuring the systemic selection, planning and monitoring of large projects across the country and seeks to:

- Identify five-year priorities.
- Develop a 20-year project pipeline.
- Achieve development objectives: skills, industrialisation, empowerment, research & development.
- Expand maintenance: new and existing infrastructure.
- Improve infrastructure links: rural areas and poorest provinces.
- Address capacity constraints and improve coordination and integration.
- Scale-up investment in infrastructure.
- Address impact of prices.
- Support African development and integration.

The DBSA, as a state -owned enterprise and a development finance institution, is recognised as a single yet critical component of the national infrastructure system with a mandate to contribute meaningfully towards national infrastructure objectives. A convergence of shareholder expectations and the DBSA strategy must, at all times, be harmonised. In this regard, the Shareholder guided [2] as follows:

- The promotion of regional integration through infrastructure development is a key pillar in Africa's growth and development agenda

  In Africa, overcoming poverty and inequality and achieving economic prosperity will be achieved through a strategy of regional integration aimed at fostering industrialisation and intra-regional trade. Infrastructure development including transportation, energy, telecommunications and the supply of water sector are examples of what is needed. The DBSA must position itself to make a contribution in these important areas.

[1] Source: Medium Term Budget Policy Statement (MTBPS) October 2014
[2] Source: Draft 2015/16 Shareholder Mandate Statement.

- The DBSA must service both domestic and regional requirements

  Although it has significant domestic challenges to respond to, the DBSA must deepen its response to the development needs of Southern African and the wider continent, in line with the SADC integrated Infrastructure Development Plan, and the Programme for Infrastructure Development in Africa (PIDA) which is led by the African Union Commission, the NEPAD Secretariat and the African Development Bank Group (AfDB). In particular the DBSA must ensure that South Africa fulfils its obligations in relation to support for infrastructure development in the region's development corridors.

  Recognising the infrastructure deficit on the wider African continent and that participation in such projects would support broader regional integration, the DBSA received mandate approval to expand operations beyond SADC to all countries on the African continent. The DBSA acknowledges that investment support to the SADC region remains critical and will remain the primary focus area of the organisation, whilst investments beyond SADC will play an important role in supporting the Bank's overall financial sustainability.

- Supporting cities to promote economic growth and spatial transformation to create a conducive environment for inclusive growth, job creation and poverty eradication by providing well-maintained and well-functioning infrastructure.

  - Rapid urbanisation and the need for spatial transformation as outlined in the National Development Plan are also putting pressure on cities and other large urban municipalities to increase the level of spending for strategic infrastructure. This is because the role of cities and other large urban municipalities is to create a conducive environment for inclusive growth, job creation and poverty eradication by providing well-maintained and well-functioning infrastructure. In view of this, it is necessary for government to provide a framework that allows municipalities to mobilise the broadest possible range of resources to fund municipal infrastructure needs to support inclusive economic growth and the provision of sustainable and quality services. Municipalities should not only rely on fiscal transfers and their immediate own revenue sources to finance infrastructure investment. Hence, the National Treasury in collaboration with relevant stakeholders has embarked on the reforming of municipal borrowing strategies. The National Treasury commissioned some studies to understand some of the challenges faced by municipalities in the debt market. In summary, the following were identified as major factors that hamper the development of municipal debt market in South Africa:

    - Short maturity of loans offered by commercial banks.
    - An underdeveloped secondary bond market.
    - Weak municipal credit worthiness.
    - High borrowing rates.

    In this regard, the DBSA must position itself to play a critical role in the development and deepening of the municipal debt market, through supporting and expansion in debt maturities, enhancing secondary market liquidity through expanding available issuances, and encouraging innovation in lending instruments. Furthermore, the DBSA will explore municipal infrastructure bonds, municipal bond underwriting, project finance, and various contracting models as some of the ways to encourage greater private investment in the municipal infrastructure investment.

- Capacity constraints are hindering delivery in secondary cities and under-resourced municipalities

  - In South Africa, overcoming the funding and implementation challenges of infrastructure projects in the municipal segment, particularly secondary and under-resourced municipalities, is a key priority. Firstly, these municipalities generally continue to underspend on their allocated infrastructure budget funds. Secondly, financial governance and institutional limitations continue to plague many. These are as a result of municipalities being generally slow in planning and execution of projects, resulting in slowed down capital expenditure, and inadequate service delivery. Financial lending flows to municipalities could be limited if interventions are not put in place. In this regard, the DBSA must provide planning and implementation capacity support interventions to selected municipalities, intended to alleviate some of the mentioned constraints and fully enable expanded lending take-up. This take-up is important if government is to make good on its infrastructure development targets and for the DBSA to derive economic value.

- Lifting the standard of living through social infrastructure development is an equally important priority

  Whilst supporting the provision of hard infrastructure is important for long term, sustainable growth, the provision of social infrastructure in the education, health, sanitation and other spheres, can bring short-term relief, and strengthen the social fabric, promoting resilient, productive communities. The DBSA should provide direct implementation support, on cost recovery basis, for social infrastructure projects on the direction of the Shareholder.

Underpinning these principles, the following was also agreed with the National Treasury:

- Financial sustainability is key if the DBSA is to remain viable

  The DBSA's role in supporting infrastructure development through non-revenue generating development activities and services has had a corrosive effect on the institution's capital base over the past couple of years. The Bank's strategy must continue to correct this anomaly as it moves forward, especially given the fragile state of the global and domestic economy. In this context, the DBSA must remain financially sustainable and seek to generate annual return on average equity of at least inflation by 2017.

- Capacity constraints are hindering delivery

  The DBSA is well aware of the challenges and constraints on the implementation of infrastructure projects, especially in the municipal segment. Firstly, municipalities generally continue to underspend on their allocated infrastructure budget funds. Secondly, financial governance and institutional limitations continue to plague many. The consequences are that municipalities are generally slow in planning and execution of projects, resulting in slowed down capital expenditure. Financial lending flows to municipalities could be limited if interventions are not put in place.

  In this regard, the DBSA must provide planning and implementation capacity support interventions to selected municipalities, intended to alleviate some of the mentioned constraints and fully enable expanded lending take-up. This take-up is important if government is to make good on its infrastructure development targets.

- The DBSA must continue to identify niche markets and improve its performance

  There are an increasing number of development finance institutions (DFIs) active on the continent and in the region. The development finance landscape is changing rapidly. Apart from the traditional role-players, a growing number of emerging countries are engaging with Africa as development finance partners. Even commercial banks are extending their presence to development financing. The DBSA is challenged to become a development financier of choice and must identify its niche, its comparative advantage and its value proposition. The DBSA must continuously seek to improve its processes and capacity to remain relevant in the market it serves.

In response to the above challenges as well as the need to be more client-centric, the DBSA continues to review its strategy and operating model to ensure that its infrastructure development activities are geared towards maximising impact and also play an appropriate role in a development state. Key to the Bank's strategy is the organisation's vision to make a meaningful contribution to the development of infrastructure to support the improvement of the quality of life of people, economic growth and regional integration.

2. CORPORATE STRATEGY

2.1. Overview of the operating environment

The International Monetary Fund (IMF) projects that global economic growth will increase from 3.7% this year to 3.9% in 2015. Economic activity in advanced economies has strengthened. The outlook for emerging markets remains positive, with projected economic growth of 5.1% in 2014, up from 4.7% in 2013.

The global outlook presents both opportunities and risks for South Africa. The recovery in advanced economies will translate into moderately higher demand for South African exports. Prices for South Africa's main commodities have declined and the terms of trade – the country's export prices compared with its import prices – have deteriorated, widening the current account deficit.

Emerging markets are expected to continue growing, but at a reduced pace that reflects significant adjustments to currency levels, capital inflows, current account and fiscal deficits, debt levels, and varying levels of business and consumer confidence.

Many South African institutions are adjusting to changing cost structures and patterns of demand, integrating into global and regional value chains, and expanding their African footprint. Furthermore implementation of well-targeted sector initiatives will promote greater competitiveness and a balanced economic growth.

The NDP points out that rebalancing and transforming the economy will take time. Complementary policies are needed to boost employment and economic participation, basic education, and skills acquisition. Government's infrastructure programme promotes higher levels of economic growth and job creation in the medium term, and will boost long-term growth potential. Greater competitiveness will enable local firms to access new markets and hire more people.

Greater regional integration has also provided a new growth opportunity for South African businesses. Africa is however faced with the challenge of overcoming a huge infrastructure deficit which limits the benefits of initiatives to achieve regional integration. Greater integration will positively influence the rate of development on the continent and is therefore considered an essential building block towards a prosperous Africa. Without sound and well-maintained infrastructure, national economic development will remain severely constrained. Improvements to the continent's infrastructure in recent years have been responsible for more than half of Africa's recently better economic performance and have the potential to contribute even more in the future. By the same token, inadequate infrastructure holds back faster growth on the continent.

According to the IMF[3], "increased public infrastructure investment raises output in both the short and long term, particularly during periods of economic slack and when investment efficiency is high. This suggests that in countries with infrastructure needs, the time is right for an infrastructure push: borrowing costs are low and demand is weak in advanced economies, and there are infrastructure bottlenecks in many emerging market and developing economies. Debt-financed projects could have large output effects without increasing the debt-to-GDP ratio, if clearly identified infrastructure needs are met through efficient investment".

Current estimates of the infrastructure investment required annually across Africa are in the order of US$93 billion, with investment at around US$45 billion, leaving a considerable shortfall (*source: Africa's Infrastructure: A Time for Transformation – World Bank, 2009*). Clearly then, the potential opportunities are enormous.

After spending of in excess of a R1 trillion on infrastructure in South Africa over the past five years, spending by the public sector is planned to reach R813 billion over the period of the government's medium-term expenditure framework to 2018. Despite the heavy investments already made, more

[3] *Source: Is it time for an infrastructure push? The macroeconomic effects of public investment – International Monetary Fund, October 2014).*

funding is required. Investment in infrastructure is considered critical to increase the ability of the economy to grow in an inclusive way and to improve the delivery of basic services to all citizens.

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

South Africa's cities and towns are shaped by the Apartheid legacy, of racial segregation, poverty, and exclusion from social and economic opportunities. High levels of inefficiency and wasteful use of scarce resources (especially land and infrastructure networks) characterise the country's cities and towns. Despite significant service delivery and development gains since 1994, these spatial patterns have largely not been reversed. Like most of Africa and other developing countries, South Africa is experiencing continuing urbanisation. Linked to the NDP is the Integrated Urban Development Framework (IUDF) which is designed to unlock the development synergy that comes from coordinated investments in people and places. An integrated urban infrastructure policy framework that is resource-efficient and provides for both universal access and more inclusive economic growth needs to be extensive and strong enough to meet industrial, commercial and household needs, and should also be planned in a way that support the development of an efficient and equitable urban form and facilitate access to social and economic opportunities. During the forthcoming year the DBSA will continue to assess opportunities to support the initiatives as well as consider ways to further align its operations to these imperatives.

The country's municipal infrastructure asset base remains under strain, owing to low levels of investment and poor maintenance. The electricity and water sectors in particular face acute challenges. The neglect in these sectors has a direct bearing on the development of sustainable communities and the rate of economic growth. Backlogs in bulk infrastructure remain critical. In addition, the higher education and health sectors are also experiencing pressure in meeting the ever-growing demand for infrastructure and the maintenance of the asset base.

South Africa is well placed to support infrastructure development and strengthen regional economic collaboration within the African continent. The DBSA, as a vehicle of the state and a development finance institution, is recognised as a single yet critical component of the infrastructure development system with a mandate to contribute meaningfully towards national infrastructure objectives.

Within this context, the DBSA will seek to significantly increase its infrastructure financing support across the various operating areas with targeted total annual disbursements[4] of R17.8 billion, R22.0 billion and R26.4 billion[5] for the 2015/16, 2016/17 and 2017/18 financial years respectively. It is acknowledged that the roll-out of many infrastructure programmes is hampered by the lack of project planning capacity. Over the next three years, the DBSA will seek to fast track project preparation and the benefits of these activities have been incorporated into the Bank's disbursement over the reporting period.

[4] **Disbursements:** Targeted loan disbursements subject to demand for infrastructure debt funding, debt absorption capacity and creditworthiness of the respective clients as well as the ability of the DBSA to provide competitive funding rates.

[5] **Disbursements for the 2017/18 financial year:** The growth in disbursements in 2017/18 to R26.4 billion is dependent on the continued financial/capital support from the fiscus and the successful implementation of the project preparation activities. Targets for the 2017/18 will be reviewed in later years.

2.2. DBSA strategy

At the core of its mandate, the DBSA seeks to play a pivotal role in delivering developmental infrastructure in South Africa and the continent.

Vision
A prosperous and integrated region, progressively free of poverty and dependency
Mission
To advance the development impact in the region by expanding access to development finance and effectively integrating and implementing sustainable development solution to:
- Improve the quality of life of people through the development of social infrastructure.
- Support economic growth through the investment in economic infrastructure.
- Support regional integration

The DBSA has refined its strategic objectives to support its transformation journey and have defined the following three key strategic objectives:

- **Sustained growth in developmental impact:** Grow each of our businesses aggressively to maximise developmental impact.
- **Integrated infrastructure solutions provider:** Provide integrated infrastructure solutions, across the value chain and be the partner of choice for infrastructure solutions.
- **Financial sustainability:** Maintain profitability and operational efficiency to enable growth in equity and fund developmental activities.

These strategic objectives are in turn supported by six strategic enablers in order to differentiate ourselves from our peers:

Strategic enabler	Rationale
High performance culture	• People are our most valuable resource and we are committed to attracting, developing, retaining and rewarding the best people through the continued establishment of a challenging and exciting environment, which stimulates commitment, and encourages development and growth.
Balance sheet capacity	• Balance sheet strengthening and implement treasury strategy in order to meet the growth ambitions.
Partnerships	• Developing and leveraging our strategic partnerships and relationships to profitably expand and deepen our penetration of our selected market segments and geographic markets. • Strategic partnerships enable business to gain competitive advantage through access to knowledge and project funding. • Distinguishing ourselves by proactively partnering with our clients and development partners to originate, plan and deliver infrastructure projects.
Business intelligence	• Acquiring relevant actionable knowledge and understanding of our selected industry market and geographic sectors, economic business trends, clients and competitors, in order to inform quality decisions that will drive performance.
Operational excellence	• Creating within our Group operating model and organisational structure, distinctive skills processes and operating models for the effective provision of innovative finance for development and enhanced project execution capabilities.
Innovative infrastructure Solutions	• Innovation can support the DBSA to: ○ Solve for client and market needs more effectively. ○ Gain a competitive edge to be able to demand a premium (rather than provide "commoditised" products). ○ Accelerate delivery of infrastructure. ○ Expand reach.

DBSA's role in supporting the National Development Plan objectives

As an organ of the state it is important that the activities of the organisation is closely aligned to support key national imperatives. The strategy of the DBSA is linked to the objectives of the National Development Plan. The diagram below illustrates the role of the DBSA as well as various examples of activities linked to each National Development Plan objective.

Outcome	DBSA's role	Example
Create an economy that will create more jobs	◐	• IDD: ASIDI and Eastern Cape Rural Housing
Investing in economic infrastructure	●	• Funding of various energy, transport and ICT projects
Environmentally sustainable and resilient: Transition to a low carbon-economy	●	• Preparation and funding of IPPs
An inclusive and integrated rural economy	◐	• Funding of bulk water supply • Eastern Cape Rural Housing Programme
South Africa in the region and the world	●	• Funding of projects in SADC • North-South corridor
Transforming Human Settlements	●	• Eastern Cape Rural Housing Programme • Housing Impact Fund
Improving the quality of education, training and innovation	●	• IDD: ASIDI programme • Funding of student accommodation
Quality health care for all	●	• IDD: refurbishment of health clinics and construction of doctors' rooms
Social protection	○	
Building safer communities	○	
Building a capable and developmental state	●	Provision of technical support in the planning and implementation of projects
Fighting corruption	◐	IDD: management of procurement processes in appointing service providers
Transforming society and uniting the country	●	Supporting development impact through investment in social and economic infrastructure

● **Direct** ◐ **Indirect** ○ **Not applicable**

2.3. Delivering infrastructure solutions

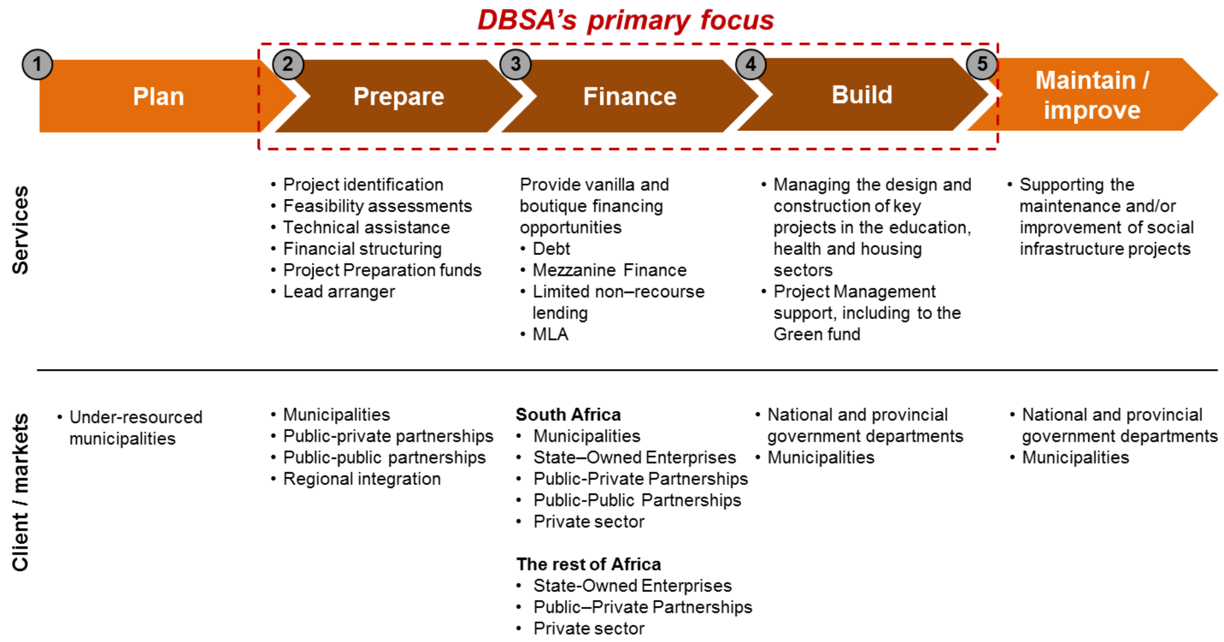
The DBSA's strategy maintains the Bank's focus on social and economic infrastructure development but with an emphasis on driving financial and non-financial investments in the primary sectors of energy, transport, water and communications, whilst providing support to various social sectors such as health,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

Social and economic infrastructure is defined as follows:

- Social 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.

Priority markets and activities

DBSA primarily plays a key role in the preparation, funding and building phases of the infrastructure development value chain. The diagram below illustrates the various services as well as the key targets markets per value chain segments.



Key deliverables for the period 2016 to 2018

The table overleaf summarises the respective infrastructure segments which the DBSA will support over the next three years to 2017/18. Further detail is provided under section 2.3.1 and 2.3.2

DBSA support areas over the next three years

<table>
<tr><th>Focus areas</th><th>Key sector coverage</th><th>DBSA's role</th><th>Counter party entities</th><th>Responsible division</th><th>Key deliverables over the next three years to 2017/18</th></tr>
<tr><td rowspan="10">• Sustained growth in developmental impact
• Integrated infrastructure solutions provider</td><td rowspan="4">Municipal (including water & sanitation, electricity, roads, and refuse)</td><td>Lending</td><td>Municipalities (all)</td><td>South Africa Financing</td><td>Total disbursements: R19.9 billion</td></tr>
<tr><td>Project planning support (pre-financing support)</td><td>Secondary and under-resourced municipalities</td><td>South Africa Financing</td><td>Completion of the following outcomes for selected municipalities:
• Investment plans
• Feasibility plans
• Funds sourcing</td></tr>
<tr><td>Project implementation support (post-financing support)</td><td>Secondary and under-resourced municipalities</td><td>South Africa Financing</td><td>Completion of the following outcomes for selected municipalities:
• Technical planning
• Procurement
• Contract management</td></tr>
<tr><td>Implementation support to SIP 6, National Integrated Municipal Infrastructure Programme</td><td>• PICC
• Municipalities</td><td>Infrastructure Delivery</td><td>Provide Implementing support to selected projects</td></tr>
<tr><td rowspan="2">Other social
Education, health and housing (non-municipal)</td><td>Lending</td><td>• PPPs
• Higher education
• SOCs (such as Water Boards)
• Private companies
• Investment funds</td><td>South Africa Financing</td><td>Total disbursements: R5.4 billion</td></tr>
<tr><td>Implementation support to:
• SIP 13: National Schools Programme
• Accelerated Schools Infrastructure Delivery Initiative
• Eastern Cape Rural Housing programme
• Various health programmes</td><td>• National and provincial government</td><td>Infrastructure Delivery</td><td>Support the development of integrated schools infrastructure plan, construction of 72 schools, 4 000 housing units, 102 doctors consulting rooms, support repairs and maintenance at 251 health clinics.</td></tr>
<tr><td rowspan="3">Economic infrastructure
• Bulk water
• Transportation / logistics
• Power/energy
• Telecommunications
• Liquid fuels (oil/gas)</td><td>Project preparation</td><td>• National & provincial government
• PPPs
• SOCs
• Private companies
• The Rest of African continent</td><td>Financing Operations</td><td>Value of projects prepared: R19 billion</td></tr>
<tr><td>Lending and/or direct investment</td><td>• PPPs and IPPs
• SOCs
• Joint ventures
• Private companies
• Concessions
• Joint ventures</td><td>South Africa Financing
International Financing</td><td>Total disbursements South Africa: R20.1 billion
Total disbursements rest of Africa: R20.8 billion</td></tr>
<tr><td>Fund management services</td><td>• National government</td><td>Financing operations</td><td>Support various funds with management services</td></tr>
</table>

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. Consequently:

- Developmental lending will be undertaken on terms ranging from subsidised to fully commercial.
- Additional non-infrastructure financing related development activities to assist government in socio-economic developments will be provided on a full cost recovery basis.

Within this context the Bank will prioritise the following areas and activities for the 2015/16 to 2017/18 financial years:

2.3.1. Infrastructure finance

- **Project preparation fund(s)**

  Due to slow progress in the roll-out of infrastructure programmes in South Africa and the continent as a result of the lack of project planning capacity, project preparation support function was established at the DBSA. 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. Project Preparation consists of all activities necessary to ensure that a proposed project is feasible and appropriate and that it can be successfully implemented. The process ensures the identification and elimination of key risks at the earliest possible time and maximises development opportunities by ensuring that projects are well conceptualised.

  The strategic objectives of the project preparation fund is to do the following:

  - Build a large portfolio of pipeline projects to be presented for funding consideration annually.
  - Mobilise project preparation funds from own balance sheet and funding partners.
  - Build capacity and systems to mobilise and appraise projects in pipeline.
  - Build a self-sustaining business.

  The key project preparation principles are as follows:

  - The potential project shall align with the Bank's development mandate and be within the identified priority sectors of the Bank.
  - The sponsors must be able to demonstrate a high probability of being able to bring the project to bankability within a reasonable time frame.
  - The principle of co-financing shall apply with the sponsors showing commitment to the project by contributing a significant portion of the development costs from their own sources.
  - Each facility shall be priced (pricing must reflect equity type returns) to reflect its high risk nature.
  - The facility shall be refinanced from the capital funding of the project once financial close is reached.
  - The Bank shall seek to obtain an irrevocable right to finance a portion of the total debt package of the project. The minimum portion of the debt to be financed by the Bank shall be agreed upfront with the sponsors and included in the facility agreement.
  - The facilities shall not be used for any expenses incurred for the sponsor's own staff

  The Bank will seek to play a significant part in early stage project development and target to prepare projects to the value of between R4 billion and R10 billion over the next three years. Where appropriate, the Bank will also seek to 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.

Infrastructure and Investment Programme for South Africa (IIPSA)

As part of the Bank's project preparation activities, the DBSA will continue to manage the IIPSA programme on behalf of the National Treasury and the European Commission (EU). The IIPSA facility EU was concluded during the 2013/14 financial year, unlocking €100 million for project preparation over the next three years, and to be implemented over the next seven years.

The IIPSA financing agreement covers among other things the following:

- IIPSA will operate by providing innovative financing involving the co-funding of EU grants together with loans from participating South African and European development finance institutions.
- It is estimated that a leverage effect of at least five to 10 times the amount of financial non-refundable contributions could be achieved.
- In order to be eligible, projects should preferably be supported by more than one of the participating finance institutions in consortium.

- **Financing operations in South Africa and the broader region**

  South Africa

  - Municipal market
    - Municipalities play an important role in the provision of basic services to the country's citizens and business as a whole. The need to improve and increase infrastructure in municipalities is therefore of critical importance as the demand on existing and new infrastructure is expected to rise with more people migrating to larger cities and towns in search of employment opportunities, and expansion of businesses that utilise the current existing infrastructure in their daily operations. Municipalities in South Africa are a key market for the Bank and the organisation has built extensive expertise and product offering in servicing this important market as a catalyst for socio-economic development within municipalities.
    - In terms of the municipal market, competition is higher in the metro market and secondary cities market, and lower in ordinary secondary municipalities. Virtually no competition exists in under-resourced municipalities (who have limited borrowing and institutional capacity). With the implementation of Basel III, competition may ease over the medium term in the metro market and secondary cities as the requirements of Basel III compel commercial banks to set aside more capital for long term investments thus reducing their profitability. Furthermore 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 predominantly 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 socio-economic growth, the DBSA will continue to actively participate and seek commercially-viable returns in this market, targeting to disburse R4.0 billion during 2015/16 and 2016/17, and R4.8 billion during 2017/18.
    - DBSA's investments in secondary municipalities have historically provided good returns with a relatively low number of non-performing loans. Growing the infrastructure financing support to this segment remains a critical component of the Bank's objectives and the Bank will continue to find innovative ways to support this market. Over the next three years, the Bank targets to increase the annual disbursements from R1.5 billion in 2015/16 to R1.9 billion by 2017/18, on terms ranging from subsidised to fully commercial.
    - Due to limited debt funding absorptions capacity in under-resourced municipalities, the Bank is constrained in its ability to support this market with debt financing and the focus will therefore be in the pre- and post-financing support described below. For the period 2015/16

to 2016/17 the Bank will target to provide annual loan funding between R500 million and R840 million per annum to under-resourced municipalities.

The DBSA notes the important challenges and constraining factors that prevail around the various municipal categories. Firstly, municipalities generally continue to underspend on their allocated infrastructure budget funds and secondly, financial governance and institutional limitations continue to plague many. Consequently these municipalities are generally slow in planning and execution of projects, resulting in slowed down capital expenditure. Financial lending flows to these municipalities can thus be limited.

Within this context, the DBSA will continue to provide development planning (pre-financing) and implementation (post-financing) support interventions in the origination of infrastructure projects to identified municipalities, intended to alleviate some of the mentioned constraints and enable expanded lending take-up. This support will be financed through funds set aside, currently approximately 5% of operating income generated, for non-lending support for all municipal market segments, with more focus on lower tier municipalities. The development spend envelope will specifically cover operational expenditure incurred within the development planning and implementation support areas, and limited concessional funding.

The DBSA will also support under-resourced municipalities through:

- The unlocking of Municipal Infrastructure Grants as a pledge for the implementation of selected infrastructure projects.
- INEP Programme

  Integrated National Electricity (INEP) Programme is an intervention programme by the Department of Energy to electrify houses within previously disadvantage communities. The Bank has agreed to provide bridging finance to municipalities in support of the programme.

- Increasing support to large urban centres

  Recognising that the demand for infrastructure is the greatest in large urban centres, the DBSA and the National Treasury are currently discussing various approaches to support the development of economic infrastructure to expand the income generation base of municipalities. Crowding-in the private sector investment is essential to increasing the funds available to large urban centres

  During January 2015 a working group, comprising representatives from the National Treasury and the DBSA were established to begin to design solutions on how to create and maintain a strong project pipeline, increase the market for municipal infrastructure development as well as consider how to further leverage the private sector. During the new financial year the working committee will seek to also collaborate with selected municipalities and private sector institutions to pilot a number of solutions prior to full implementation. Key solutions under consideration include:

  - Structuring of new loan products to support the funding of long-term assets with long-term funding

    Many municipalities fund long-term infrastructure assets with short to medium term funding, exposing them to a refinancing risk as well as increase the borrowing rates or costs of the underlying assets. With the implementation of Basel III, an opportunity has been identified for institutions such as the DBSA to fund the longer-end of the loan which is the typical role of development finance institution, in other, for periods from ten to 20 years, whilst the period shorter than ten years would be funded by the private / commercial bank market. The success of such a product would be dependent on municipalities changing their current behaviour of funding long-term assets with short to medium term funding.

- Securitisation options of its existing loan book

  Loans to urban cities could be amalgamated, packaged and sold-off to attract and crowd-in private sector capital. There is proven appetite from both the commercial bank market and the debt capital markets for exposures to cities and large urban centres. Crowding in the private sector will also enable the DBSA to free up capital for reinvestment into infrastructure projects.

- Extending the grants bridging programme to large cities

  Since 2010, following the promulgation of enabling legislation by National Treasury, the DBSA has participated in the provision of bridging finance to various secondary and under-resourced municipalities by pledging conditional grant transfers. Two programmes are currently running under the conditional grant pledging framework by DBSA, namely Municipal Infrastructure Grant (MIG), and Integrated National Electrification Programme (INEP). The benefits arising from these programmes include the acceleration of service provision for electricity, and water and sanitation, and saving on cost escalations on infrastructure due to the rapid implementation of infrastructure.

  On the back of the successful implementation of the MIG- and INEP bridging programmes, an opportunity has been identified to leverage the DBSA's existing balance sheet and replicate the existing bridging programmes to large cities. Such a facility will provide the opportunity to raise funds/liquidity equal to the amounts previous allocated with the obligation to repay the funds, with interest, over a predetermined period.

- Supporting the development of a secondary bond market

  Interest in infrastructure development from large institutions such as pension funds and other financial institutions are well documented, however, investment continuous to be impeded by a lack of an active secondary bond market. DBSA will evaluate options to support the development of a secondary market, including the potential to act as a mark-maker in this regard. Due consideration would have to be given to the risks and impact of such an initiative on the overall financial sustainability of the Bank.

- In addition to the proposed products mentioned above, various off-balance sheet initiatives is also under consideration, including:

  - Private sector contract models.
  - Build-Lease-Transfer (BLT) options.
  - Project finance.
  - Pooled funds.

The success of funding solutions are however largely dependent on the availability of a strong project pipeline of bankable projects. Project preparation plays an important role in the unlocking viable. During 2014/15 the DBSA was appointed by National Treasury to manage/host the Cities Project Preparation Facility (PPF). The main objective of the programme is to support metropolitan and large cities to support infrastructure planning to develop a pipeline of catalytic, spatially integrated infrastructure projects, leverage partnerships and establish new partnerships, and support them with procurement of service providers, as well as necessary preconstruction preparation and planning.

- Other social infrastructure (non-municipal)

  Other public entities, excluding municipalities and SOCs, provide various opportunities for infrastructure financing especially within the water boards, student accommodation and university infrastructure markets. Recognising that this market is generally smaller than the municipal and SOC markets, total disbursements of R5.4 billion are targeted over the next three years.

- Economic infrastructure

  Investment in economic infrastructure is important to stimulate economic growth and job creation. Over the next three years the DBSA will seek to disburse R5.6 billion in 2015/16, R6.6 billion in 2016/17 and R7.9 billion in 2017/18. Investment into economic infrastructure is generally conducted through state-owned companies, public-private partnership and through private sector intermediaries. The DBSA approach to each of these segments are discussed below.

  - State-owned companies (SOCs)

    SOCs play a central part in government's infrastructure development programme, managed under the auspices of the PICC. It is recognised that economic infrastructure development, which is undertaken by SOCs (in areas such as transportation, logistics, bulk water and energy) is also part of the DBSA's infrastructure finance mandate. Following a request from the previous Minister of Finance, the DBSA and the National Treasury have agreed on a working arrangement for practically managing transactions arising from DBSA financing activities relating to projects that are "intra-state" in nature. Key principles include:

    - With the growing imperative for infrastructure development, DBSA's financing activities encompass intermediary SOE's that are charged with infrastructure mandates.
    - DBSA's primary emphasis is on mid-tier SOE's such as Water Boards.
    - There is a clear understanding and acknowledgement that some of the major / Tier 1 SOE's are supported through sovereign instruments by the National Treasury and that the DBSA's contributions in this respect should be guided by objectives to:
      - Facilitate project preparation.
      - Enhancing capacity for raising "off-balance sheet" capital through project financing structures
      - Demonstrating added value in funding terms and market complementarity.
    - Furthermore, ensuring that DBSA's capital is optimally deployed in support of all areas of imperative such as municipalities, water, sanitation and avoid over-concentration to one or few major borrowing entities.

  - Public-Private-Partnerships (PPP)

    PPP deals have historically been driven by government and the DBSA's proactive role in this market has been limited. Building on the successful participation of the DBSA in the Independent Power Producers (IPP) programme. In addition, the Bank will seek to work with government to replicate the IPP model and implement key lessons learnt to unblock the PPP pipeline. The provision of this support would be predicated on the ability of DBSA to participate as mandate lead arranger and recover the full costs of any project development expenditure incurred at financial close.

- Private sector intermediaries

  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, using both debt and equity instruments.

  Where the DBSA can deliver on its infrastructure mandate to achieve a development outcome and such an outcome cannot be achieved through a loan instrument alone, the DBSA may consider an appropriate equity vehicle 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 other sectors (e.g. mining) will be excluded unless they specifically relate to supportive infrastructure i.e. the water, roads and energy required to support a mining enterprise.

Financing beyond South Africa

Regional integration is critical in growing both the South African and broader continent's economies. The DBSA's International Financing Division supports the Bank's regional development and integration strategy aimed at facilitating trade in Africa by investing in infrastructure projects outside of South Africa, through:

- Providing funding, related products and services for commercially viable and sustainable projects, primarily in the energy, transport, water and telecommunications sectors, which contribute to economic development and regional integration.
- Supporting project planning and development, advocacy and partnership building for resource mobilisation.
- Promotion of inter-regional integration and cooperation between SADC and the adjoining regional economic communities in Africa.

Infrastructure demands on the continent are extensive. It is clear that as a financier alone, the DBSA is unable to address the significant infrastructure gaps on the continent. While the DBSA has achieved much over the last couple of years, it has and can only contribute to a small portion of the infrastructure development needs. Part of the challenge is not so much the availability of funding, but the readiness of bankable projects in the region.

The scale of preparation support required necessitates a multi-faceted, partnership based approach. Over the years, the Bank has developed a comparative advantage in the deep understanding of the needs of African infrastructure market and will seek to harness these relationships and expertise, whilst partnering with other DFIs and role players to support project preparation on the continent.

Recognising the infrastructure deficit on the wider African continent and that participation in such projects would support broader regional integration the DBSA received mandate approval[6] to expand operations beyond SADC to all countries on the African continent. The DBSA acknowledges that investment support to the SADC region remains critical and will remain the primary focus area of the organisation, whilst investments beyond SADC will play an important role in supporting the Bank's overall financial sustainability as high yielding financial returns can be generated from these deals. Therefore, over the following years, the DBSA will cautiously assess investment opportunities beyond SADC by initially pursuing opportunities in the following countries in Africa: Kenya, Uganda, Rwanda, Republic of Congo, Ghana and Nigeria. These countries were selected on the following basis:

- Kenya, Rwanda and Uganda: The East African Community (EAC) is inextricably linked to SADC and COMESA, connecting the east coast to central and southern Africa.

[6] Government Gazette No 37178 of 18 December 2013

- Ghana and Nigeria: West Africa's ECOWAS is the fastest growing region in Africa, with Nigeria and Ghana as pivotal drivers for this region.
- Republic of Congo: The development of ECCAS links infrastructure development across sub-Saharan Africa countries and RECS south of the 10th parallel.

For continental and national strategic consideration, the DBSA may consider investments outside the pivot countries identified only with the authorisation of the Board. The envisaged role and broad assessment criteria of the DBSA beyond South Africa is summarised in the table below.

Summary of approach

	SADC countries	Rest of Africa
Country	All SADC countries	All other countries
Mode of operations	• Developing projects. • Preparing for finance. • Financing.	• Preparing for financing (limited). • Financing.
Key sectors	Transport, water, energy & ICT	Transport, water, energy & ICT
Client type	• Sovereigns ○ Infrastructure guarantees. ○ Project see-through. ○ Utilities. ○ Public-public partnerships ○ Public-private-partnerships. • Private sector ○ Public-private-partnerships.	• Sovereigns ○ Infrastructure guarantees. ○ Project see-through. ○ Utilities. ○ Public-public partnerships ○ Public-private-partnerships. • Private sector ○ Public-private-partnerships.
Return requirements	Ranging from developmental return on risk adjusted equity (ROE > 12%) to commercial return on equity (ROE > 16%).	Commercial return on risk adjusted equity (ROE >16%).

Total disbursements to the market beyond South Africa are targeted at R20.8 billion over the next three years, with R5.0 billion targeted for 2015/16, R7.2 billion for 2016/17 whilst increasing to R8.6 billion in 2017/18.

2.3.2. Infrastructure delivery support

The DBSA currently supports government in leveraging skills and capabilities to accelerate the implementation of a number of programmes through the provision of project management and implementation support in key priority sectors of education, health and housing as well as various urban infrastructure programmes. All non-financing activities are provided on a full cost recovery basis whilst activities beyond the Bank's core business are kept to a focused minimum, undertaken only at the behest of the shareholder.

In providing the infrastructure delivery support, the Bank seeks to:

- Manage the design and construction of government infrastructure projects using innovative, turnkey solutions to drive greater value for money, asset sustainability and full functionality.
- Provide programme management and specialist expertise to support state entities in managing the planning, design, budgeting, execution and maintenance of infrastructure projects and programmes.
- Gather and analyse project and spatial information to improve government infrastructure planning, project prioritisation and design, delivery co-ordination, tracking and performance.

During 2015/16 the Bank will continue to support a number of implementation and capacity building initiatives, including:

- Supporting government in implementing Strategic Integrated Projects.

During 2011/12 Government adopted a National Infrastructure Plan intended to transform the economic landscape of South Africa, create a significant number of new jobs, strengthen the delivery of basic services to the people of South Africa and support the integration of African economies. Based on the work by the PICC, eighteen strategic integrated projects (SIPs) were developed and approved. The DBSA was requested to co-ordinate two SIP programmes, namely: SIP 6, *National Integrated Municipal Infrastructure Programme*, as well as co-lead SIP 13, *National Schools Programme*.

SIP 6 was established as part of a broader plan by government to develop national capacity to assist the 23 district municipalities with the fewest resources. It focuses on:

- Addressing all maintenance backlogs and upgrades required.
- Coordinating, integrating and accelerating the implementation of new infrastructure.
- Promoting integrated service delivery across all spheres of government and sectors.

SIP 6 handles the above aspects in the areas of water and sanitation, electricity distribution, roads maintenance, new road construction, revitalisation of clinics and hospitals, revitalisation of schools, solar water heaters and digital migration. The DBSA was identified as the lead agency to coordinate and facilitate the implementation and monitoring of the programme.

SIP 13 was launched during October 2012 and seeks to consolidate and integrate plans to remove inappropriate and unsafe school structures, upgrade and refurbish existing schools and construct new schools across the country. The Department of Education (DBE) approached the DBSA and the Independent Development Trust (IDT) during 2013 to jointly coordinate the implementation of the programme, including:

- The Schools Infrastructure programme at national and provincial levels.
- The Schools Infrastructure Maintenance programme at provincial level.
- Other key DBE programmes, e.g. the "Race to the Top" programme which seeks improve learning outcomes at a district level.
- Other strategic education related interventions identified at national and provincial levels.

- Accelerated Schools Infrastructure Delivery Initiative (ASIDI)

  During 2011/12, the DBE appointed the DBSA as the implementing agent for the construction of 49 schools in the Eastern Cape under ASIDI. The objective of ASIDI is to provide decent school infrastructure through the eradication of mud schools and inappropriate structures in mainly rural areas. Following the successful completion of the programme during 2013/14, DBE has requested the DBSA to support phase II of the programme and implement the lessons learnt in the planning and construction of a further 72 schools during 2014/15 (22 schools) and 2015/16 (50 schools).

- Eastern Cape Rural Housing Programme

  The Eastern Cape Department of Human Settlements mandated the DBSA to act as an implementing agent for the Elliotdale Rural Sustainable Human Settlements Pilot Project. The project is part of the Enhanced People's Housing Process. This project presented an ideal case study for the DBSA and the Eastern Cape and national Departments of Human Settlements to design and pilot a programme that would provide an innovative development solution to a sector of the economy where there is persistent market failure. The project is unique, as it addresses housing backlogs through an integrated approach.

  As part of Phase 1, the DBSA completed 200 houses during the 2011/12 and 2012/13 financial years, whilst the final 240 of 800 (as part of phase 2) will be completed during 2014/15. As part of phase 3, a further 1 000 units will be in construction by the end of the 2014/15 financial year.

  The DBSA and the Department are currently finalising the expansion of the programme to support the construction of a further 3 000 units over the next three years.

- Health programmes

  The DBSA supports various health initiatives with the objective of optimising the acquisition, operation and management of South Africa's public healthcare infrastructure. Key interventions include:

  - Programme management support to the National Department of Health

    Over the 2014/15 and 2015/16 financial years, the Bank will continue to support the department in implementing the Health Infrastructure Rapid Delivery Framework which seeks to support the maintenance of 251 clinics and the construction of 102 doctor consulting rooms (in the National Health Insurance (NHI) pilot districts.

  - KFW Voluntary Counselling and Testing.

    The objective of the VCT Clinic building programme is to successfully rehabilitate public health facilities in identified areas and to improve access to voluntary counselling and testing services. Key deliverables include:

    - Construction of 60 public health facilities in Limpopo and the Northern Cape over the three year period to 2016/17.
    - Improve knowledge, attitudes and behaviours of target groups with respect to HIV/AIDS and other related ailments.
    - Development of new private sector concepts for the provision of efficient and effective VCT and supplemental services.

2.3.3. Fund management services

- Green Fund

  The Green Fund memorandum of agreement (MOA) was signed with the Department of Environmental Affairs (DEA) during April 2012, committing R800 million to help shape government's environmental agenda and facilitate the co-ordination of sustainable development solutions. The DBSA manages the Green Fund on behalf of the DEA on a full cost-recovery basis.

2.4. Key dependencies

Given the Bank's role as financial intermediary, it is recognised that the successful delivery on the growth in disbursements targets, as reflected under section 2.3.1, is predicated on the following key factors:

- Capital support to 2016/17, of which R7.9 billion has been accommodated within the MTEF period as follows:

	2013/14	2014/15	2015/16	Total
Budgetary transfers	R2.4 billion	R2.5 billion	R3.0 billion	R7.9 billion

- The target market's ability to execute their respective programmes diligently within the timeframes envisaged and the uptake of financing facilities made available from the DBSA, within an acceptable risk framework, notwithstanding the demonstrable efforts by the DBSA as outlined below.
- The Bank's continued access to sufficient and cost effective liquidity to ensure its continued ability to provide affordable infrastructure financing.
- Ability of the Bank to maintain inflation linked equity (capital and reserves) from 2016/17.

In seeking to mitigate the potential impediments to the successful delivery on the commitments outlined above, the Bank commits to continue to:

- Developing a more detailed understanding of the competitive landscape in priority market segments as well as a higher level of client intelligence.

- Develop expertise in the following areas:
    - New business development skills in all market segments.

      Skills to drive deal sourcing/origination to proactively seek deals and gain access to a high quality infrastructure pipeline.
    - Deal structuring expertise
        - Skills for structuring and packaging deals for clients and optimising returns for DBSA.
        - Key for playing the role of lead arranger in infrastructure market space.
    - Deal syndication
        - Skills for syndicating deals to other banks/lenders with deep knowledge of key commercial players.
        - Key for playing role of lead arranger.
    - Competitive landscape understanding

      Relevant skills to maximise success rate in tenders and therefore minimizing the cost of origination including: anticipating competitors' behaviour; price loans at highest acceptable rate for clients; understand when to charge additional margin for service delivery activities
    - Municipal development planning support
        - Skilled resources available for deployment for integrated infrastructure planning.
        - Capacity building capability for: financial appraisal process and compliance activities and project design and resource planning.

Some of the required skills mentioned above are specialised in nature and the Bank is currently recruiting them from the market. This process is expected to continue into the 2015/16 financial year. These positions are included in the overall headcount as approved by the DBSA Board. The Bank is also currently redesigning the talent and skills management process to support the in-house development of existing staff, where required.

An important focus area for the Bank is the improvement of various systems and processes. 24 key activities have been identified to support the implementation of the strategy and operating model of the DBSA, including amongst others:

- Capital management strategy.
- Continuous Improvement in the Bank's cost to income. The Bank seeks to maintain a cost-to-income ratio below 35% (excluding IDD).
- Review and simplify governance structures.
- Improve loan process to reduce overall turnaround times as well as improve the quality of through-put of projects.
- Reduction in cost of capital.
- Build culture and capabilities.
- Develop new products and services in key segments.

The 24 initiatives are at different stages of completion and the projects will be concluded over the next year.

3. MAINTAINING FINANCIAL SUSTAINABILITY

3.1. Financial plan

In preparing the three-year financial plan of the DBSA, the main economic conditions impacting the budget include the low interest rate environment, which is expected to remain low over the medium term, market anomalies in the medium to long term swap and government bond curves, the volatility of exchange rates as well as the increased impairment risk in certain client segments. In addition, many commercial institutions, which have excess cash resources available, are seeking higher income yields and have identified infrastructure financing as an alternative source of income. This had the effect of driving the lending rates of public sector projects significantly down which benefits the infrastructure development market but impacts the ability of the DBSA to competitively participate in certain markets.

With the objective of achieving financial sustainability and meeting the Bank's goal of generating and sustaining inflation-linked growth in equity by 2017, the financial plan incorporates the financial results of the business strategy outlined previously. The plan is also premised on the receipt of the remaining R3.0 billion capital injection in 2016/17. The capital injection will support the DBSA to deliver successfully, both in terms of volume and cost effectiveness of infrastructure finance to the respective target markets, especially the municipal market, and ensure that the Bank remains below the prudential debt/equity limit of 250% (including callable capital).

It is envisaged that the over the next three years total assets could grow to R116 billion, whilst the debt/equity (including callable capital of R20 billion) ratio is managed between 115% and 173%. The financial projections are premised on the following assumptions:

- A reduction in the cost-to-income ratio over the three year period. The Bank applied the inflation rates as stated in the table below in the preparation of the corporate plan figures. This constitutes the general factor used to grow expenses, except where specific adjustments or a budget for specific non-recurring expenditure was done.

	2015/16	2016/17	2017/18
DBSA internal inflation	8%	8%	8%
Economic inflation [7]	5.6%	5.4%	5.3%

- No income from equity investments.
- Budgeted foreign exchange rates for:
  - Assets of R9.92/$ in 2015/16, R10.19/$ in 2016/17 and R10.46/$ in 2017/18.
  - Liabilities of R12.00/$ in 2015/16 to 2017/18.
- Full cost recovery in the non-lending business.
- Revaluations were not budgeted for due to the volatility in the number.

The salient features of the plan for the financial years 2015/16 to 2017/18 includes:

- Targeted annual infrastructure disbursements of R17.8 billion, R22.0 billion and R26.4 billion for the respective financial years.
- Net interest income of R2.4 billion (2015/16) is expected to increase to R3.0 billion by 2017/18, based on the projected loan book, capital repayments and disbursements and taking additional liquidity requirements into account. The net interest margin is projected to remain between 33% and 41% mark.
- The cost-to-income ratio, excluding IDD, is projected to improve from 37.3% in 2015/16 to 31.1% in 2017/18, mainly as a consequence of the growth in the net interest income.

[7] Source - economic inflation figures obtained from Investec 2014 Q1 economic report

- Developmental loans are projected to grow to R103 billion by 2017/18. The table below reflects the outlines the budgeted gross loan book and impairment provision over the medium term

R'000 000	2015/16	2016/17	2017/18
South Africa Financing			
Gross loan book	55 056	65 769	78 199
Provision	(2 271)	(2 944)	(3 692)
Net loan book	52 785	62 825	74 507
International Financing			
Gross loan book	19 770	24 552	30 276
Provision	(1 337)	(1 601)	(1 974)
Net loan book	18 432	22 951	28 302
Total DBSA	71 217	85 776	102 809

The Bank targets to maintain a gross non-performing loan ratio of less than 6%.

- Return on average equity is projected to improve from 3.6% in 2015/16 to 4.3% by 2017/18. This is largely affected by the improvement in the gearing, higher net interest margins and inflationary increases assumed in operating expenses.

3.2. Borrowing programme

The detailed borrowing programme for the 2015/16 financial year, together with the projected borrowing requirements for the subsequent two financial years are provided in Annexure 5.7 of the 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 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 three years. The following table provides a summary of the planned fixed capital expenditure per main fixed asset category:

Asset type	Budget 2015/16	Projection 2016/17	Projection 2017/18
Building	R24 mil	-	-
Computer equipment	R12 mil	R10 mil	R10 mil
Intangible assets	R49 mil	R30 mil	R30 mil
Total	**R85 mil**	**R40 mil**	**R40 mil**

3.6. Financial forecast

BALANCE SHEET

	2013/14 Actual R mil	2014/15 Forecast R mil	2015/16 Budget R mil	2016/17 Projection R mil	2017/18 Projection R mil
Cash & cash equivalents	4 136	4 641	3 109	4 277	5 448
Investment securities	2 161	2 086	417	521	725
Derivatives	1 308	925	925	925	925
Equity investments	4 610	4 282	3 436	2 743	2 412
Project preparation	-	-	400	800	1 200
Development loans	50 076	58 453	71 217	85 776	102 809
Development bonds	773	1 288	1 288	1 288	1 288
PPE	545	588	485	482	479
Intangibles	83	101	131	130	129
Other assets	216	208	215	220	224
Total assets	**63 826**	**72 492**	**81 623**	**97 162**	**115 638**
Medium- to long-term debt	42 823	47 706	51 876	66 227	83 335
Derivatives	64	431	847	845	828
Other liabilities	1 038	909	1 543	1 673	1 814
Liabilities	43 925	49 046	54 266	68 745	85 977
Shareholders' equity and permanent government funding	6 392	8 892	11 892	11 892	11 892
Retained earnings	11 296	12 212	13 123	14 182	15 427
Other reserves	2 213	2 342	2 342	2 343	2 342
Equity	19 901	23 446	27 357	28 417	29 661
Total equity & liabilities	**63 826**	**72 492**	**81 623**	**97 162**	**115 638**
Balance sheet ratios:					
Debt / equity (excl. callable capital)	216.3%	209.2%	198.4%	241.9%	289.9%
Debt / equity (incl. R10 billion callable capital)	146.9%	147%	145%	179%	217%
Debt / equity (incl. R20 billion callable capital)	110.1%	113%	115%	142%	173%
Return on average equity	4.3%	3.0%	3.6%	3.8%	4.3%

INCOME STATEMENT

	2013/14 Actual R mil	2014/15 Forecast R mil	2015/16 Budget R mil	2016/17 Projection R mil	2017/18 Projection R mil
Interest income	4 576	5 290	5 864	7 220	8 985
Interest expense	(2 488)	(3 027)	(3 467)	(4 566)	(5 977)
Net interest income	**2 088**	**2 263**	**2 397**	**2 654**	**3 008**
Net fee income	335	232	404	503	623
Other income	244	77	250	370	494
Operating income	2 667	2 572	3 051	3 527	4 125
Impairment	(735)	(621)	(539)	(762)	(1 098)
Operating expenses	(758)	(865)	(1 065)	(1 162)	(1 281)
Personnel cost	(562)	(601)	(773)	(843)	(933)
Other expenses	(177)	(242)	(263)	(290)	(319)
Depreciation	(19)	(22)	(29)	(29)	(29)
Project preparation costs	(21)	(10)	(100)	(100)	(100)
Development expenditure: interest subsidy	(2)	(38)	(150)	(150)	(150)
Development expenditure planning and capacity support	-	-	(30)	(38)	(47)
Revaluation on equity investments	(778)	(490)	(250)	(250)	(198)
Stakeholder relations cost	(15)	(5)	(6)	(6)	(6)
Sustainable earnings	**360**	**543**	**911**	**1 060**	**1 245**
Revaluation (loss) / gain on other financial instruments	149	(95)	-	-	-
Foreign exchange gain / (loss)	280	310	-	-	-
Net profit	**787**	**758**	**911**	**1 060**	**1 245**
Income statement ratios					
Net interest margin	45.6%	42.9%	40.9%	36.8%	33.5%
Cost to income ratio: Total	28.4%	36.7%	44.1%	41.1%	38.2%
Cost to income ratio: IDD	102.7%	81.5%	94.4%	83.4%	71.0%
Cost to income ratio: (including lending and project preparation)	26.8%	32.2%	37.3%	34.1%	31.1%

Note 1: Cost-to-income ratio includes operating expenditure plus development expenditure and project preparation costs (and excludes income and costs related to IDD) divided by operating income

CASH FLOW STATEMENT

	2013/14 Actual R' million	2014/15 Forecast R' million	2015/16 Budget R' million	2016/17 Projection R' million	2017/18 Projection R' million
Profit/(loss) for the year	787	758	911	1 060	1 245
Adjusted for:	(788)	(1 848)	(1 729)	(1 862)	(2 032)
Depreciation	19	22	29	29	29
Grants	38	74	-	-	-
Dividends	(31)	(28)	(150)	(250)	(350)
Fees accrued (development loans)	16	4	-	-	-
Realised capital gain on equity inv	(168)	(22)	250	250	198
Revaluation (gains) / losses	615	(193)	-	-	-
Foreign exchange (gains) / losses	78	(63)	-	-	-
Impairments	735	621	538	792	1 098
Net interest income	(2 088)	(2 263)	(2 397)	(2 654)	(3 008)
	(1)	(1 090)	(818)	(803)	(788)
Change in other assets	(6)	(65)	(407)	(405)	(404)
Change in other payables	(133)	301	635	130	140
	(140)	(854)	(590)	(1 078)	(1 052)
Interest & dividends received	4 346	5 109	6 014	7 470	9 335
Interest paid	(2 251)	(3 055)	(3 467)	(4 566)	(5 977)
Net cash from operating activities	**1 955**	**1 200**	**1 957**	**1 825**	**2 306**
Cash flows from development activities	**(7 820)**	**(8 256)**	**(12 707)**	**(14 790)**	**(17 690)**
Development loan disbursements	(11 281)	(15 211)	(17 600)	(21 800)	(26 350)
Development loan principal repayments	4 695	7 910	4 365	6 500	8 473
Development bonds	(750)	(515)	-	-	-
Net increase in equity investments	(445)	(346)	528	510	187
Grant paid	(38)	(74)	-	-	-
Net advances to National Mandates	(2)	(20)	-	-	-
Cash flows from investing activities	**320**	**2 293**	**1 634**	**(128)**	**(227)**
Purchase of PPE & intangibles	(6)	(86)	(35)	(25)	(25)
Movement in financial market assets	326	2 379	1 669	(103)	(202)
Cash flows from financing activities	**8 475**	**5 274**	**7 585**	**14 261**	**16 783**
Capital raised	2 400	2 500	3 000	-	-
Financial market liabilities repaid	(8 050)	(2 560)	(2 712)	(5 078)	(4 435)
Financial market liabilities raised	14 125	5 334	7 297	19 339	21 217
Movement in cash & cash equivalents	**2 929**	**511**	**(1 532)**	**1 168**	**1 171**
Effect of exchange rate movements	(46)	(6)	-	-	-
Opening cash & cash equivalents	1 252	4 136	4 641	3 109	4 277
Closing cash & cash equivalents	**4 136**	**4 641**	**3 109**	**4 277**	**5 448**

4. DBSA 2014/15 Group Balanced Scorecard

4.1. Balanced Scorecard Key Performance Indicators

The Bank utilised the balanced scorecard (BSC) methodology as a strategic measurement and management tool. On an annual basis the BSC is reviewed and updated to take into account any changes in the Bank's strategy or reflect key focus areas over the medium term. As such a number of new measures have been incorporated or existing measures refined. Key updates for the 2015/16 financial year includes:

- New measures
  - Disbursement measure for funding in SADC included (previously "the Rest of Africa", with a weighting of 6%). The measure for disbursements beyond South Africa has been split into the following:
    - SADC (excluding RSA) with a weighting of 3%.
    - African continent (including SADC excluding RSA), with a weighting of 3%.

    In designing the measures the Bank recognised that regional integration in SADC remains very important and the first measure has been included to ensure that the Bank continues to support SADC projects and to prevent all disbursements being advanced to projects beyond SADC. Although the second measures includes a component beyond SADC, if the Bank only disbursed to projects in SADC, the Bank would achieve the full allocation of 6% which is in line with the prior year weighting.
  - Implementation and delivery support programmes:
    - Value of funds under management.
  - Net interest margin
  - Cost-to-income ratio
    - Ratio now split between the financing and IDD businesses.
- KPIs refined
  - Project preparation: Gross value of bankable projects approved for financing (measured based on approval by relevant DBSA committee structure(s).
  - Planning support to municipalities - Completion of critical milestones in preparation of funding and infrastructure plans. Milestones approach implemented including:
    1. Engagement letters / mandate agreements signed with municipalities.
    2. Needs analysis / due diligence completed.
    3. Programme / project plans developed and approved.
    4. Master / sector /feasibility / funding / business plans completed.
  - New product development – fees generated through syndication and/or other new projects
  - Retention of key skills (retention of 85% of key skills versus 90% previously).
  - Leadership development as part of succession planning programme:
    - Implementation of development plan for top talent
    - 80% compliance to succession plan
  - Implementation of culture change initiative (measure improvement through climate survey).
  - Various KPI weightings were reviewed to support the Bank's strategy. Most notably to develop the Bank's "clients–centricity" and strengthen the Bank's investment pipeline, the

weightings for the client and partner satisfaction survey was increased from 2% to 5% whilst the weighting for project preparation was increased from 3% to 5%.

- KPIs removed
  - Net profit has been removed and weighting for sustainable earnings increased. It should be noted that the net profit requirements is still measured through the return on average equity measure.

Key assumptions in drafting the BSC

- The need for the DBSA to remain financially sustainable within its overall development mandate and the Shareholder's expectation that the DBSA will at all material times endeavour to pursue its business initiatives in furtherance of this objective
- Timely injection of the remaining R3.0 billion during 2015/16 financial year.
- Total annual disbursements of R17.8 billion, R22.0 billion and R26.4 billion for the 2015/16, 2016/17 and 2017/18 financial years respectively.
- Ability of the DBSA to raise adequate and cost-effective funding.
- Managing the deb/to-equity ratio within acceptable levels.
- Adequate funding demand in the respective business segments.
- No delays in the implementation of the various national infrastructure programmes.
- Financial and other support from government regarding non-financial activities (recovery of costs, support in implementing mandates and support to secondary and under-resourced municipalities).

The Corporate BSC for the financial years from 2015/16 to 2017/18 is presented in the tables overleaf:

DBSA 2015/16 Group BSC

CUSTOMER PERSPECTIVE (50%)								
Objective	**Key performance indicator**	**Projected March 2015**	**Weight**	**Target 2015/16**	**Weight**	**Target 2016/17**	**Weight**	**Target 2017/18**
1. Sustained growth in development impact 2. Integrated infrastructure solutions provider	**Infrastructure financing**							
	Value of infrastructure disbursements	**R15.3 billion**		**R17.8 billion**		**R22.0 billion**		**R26.40 billion**
	South Africa							
	• Municipalities	R5.3 billion		R6.0 billion		R6.3 billion		R7.56 billion
	○ Metropolitan cities	R3.8 billion	3%	R4.0 billion	3%	R4.0 billion	3%	R4.80 billion
	○ Secondary municipalities (note 1)	R1.2 billion	4%	R1.5 billion	4%	R1.6 billon	4%	R1.92 billon
	○ Under resourced municipalities (note 1)	R0.3 billion	6%	R0.5 billion	6%	R0.7 billion	6%	R0.84 billion
	• Value of social infrastructure disbursements in South Africa (education, health, housing and water)	R0.8 billion	3%	R1.2 billion	3%	R1.9 billion	3%	R2.30 billion
	• Value of economic infrastructure disbursements in South Africa (transport, energy, ICT)	R4.7 billion	5%	R5.6 billion	5%	R6.6 billion	5%	R7.90 billion
	SADC (excluding RSA) (Note 3)	R1.6 billion	3%	R3.5 billion	3%	R5.0 billion	3%	R6.0 billion
	African continent (including SADC excluding RSA)	-	3%	R5.0 billion	3%	R7.2 billion	3%	R8.6 billion
	Project preparation							
	Gross value of bankable projects prepared (note 2)	Value of projects prepared: R3 billion	5%	Value of projects prepared approved: R4 billion	5%	Value of projects prepared approved: R5 billion	5%	Value of projects prepared approved: R10 billion

Note 1: 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.

Note 2: Project preparation: Measured based on projects prepared and approved by relevant DBSA committees for infrastructure investment.

Note 3: Disbursements to SADC (excluding RSA) and the rest of the African continent: A ration of 70%:30% targeted between SADC (excluding RSA) and the rest of the African continent.

CUSTOMER PERSPECTIVE (50%) (continued)								
Objective	**Key performance indicator**	**Projected March 2015**	**Weight**	**Target 2015/16**	**Weight**	**Target 2016/17**	**Weight**	**Target 2017/18**
1. Sustained growth in development impact 2. Integrated infrastructure solutions provider	**Planning and implementation support to municipalities**							
	Project planning support • Completion of critical milestones in preparation of funding and infrastructure plans (note 1)	3	3%	80% of milestones completed	3%	80% of milestones completed	3%	80% of milestones completed
	Project implementation • Completion of critical milestones for mandated programmes (note 2)	80%	3%	80% of milestones completed	3%	80% of milestones completed	3%	80% of milestones completed

Note 1: Project planning - Completion of critical milestones in preparation of funding and infrastructure plans. Infrastructure investment plans for example includes: urban network -, precinct -, business-, feasibility and funding plans. 12 municipalities are planned to be supported during the 2015/16 financial year. Key milestones include:

1. Engagement letters / mandate agreements signed with municipalities.
2. Needs analysis / due diligence completed.
3. Programme / project plans developed and approved.
4. Master / sector /feasibility / funding / business plans completed.

Note 2: Project implementation support: Although implementation remains the responsibility of the respective municipality, DBSA seeks to play an important role in supporting a municipality to progress to implementation. Key milestones include:

1. Prepare a business plan or case.
2. Support project design e.g. architecture plans.
3. Process to procure implementing agent e.g. construction firms.
4. Construction commences.

CUSTOMER PERSPECTIVE (50%) (continued)								
Objective	**Key performance indicator**	**Projected March 2015**	**Weight**	**Target 2015/16**	**Weight**	**Target 2016/17**	**Weight**	**Target 2017/18**
1. Sustained growth in development impact 2. Integrated infrastructure solutions provider	**Implementation and delivery support programmes**							
	Total funds under management (Note 1)	R1.8 billion	5%	R3.2 billion	5%	R4.4 billion	5%	To be finalised
	Implementation support to SIP 6, National Integrated Municipal Infrastructure Programme (Note 2)	Integrated Infrastructure Plan completed	2%	3 catalytic projects packaged	2%	Not confirmed	2%	Not confirmed
	Client and partner satisfaction							
	Client and partner satisfaction	Rating of 4.2	5%	Conduct survey (use actual rating)	5%	Conduct survey (use actual rating)	5%	Conduct survey (use actual rating)

Note 1: Total funds under management: Activities must be within the DBSA target sectors including education, health, housing, water/sanitation, urban infrastructure, etc.

Note 2: SIP 6: The DBSA currently acts as coordinating agent on behalf of the PICC and has agreed to complete the infrastructure plan during the course of 2014/15. Going forward the DBSA has indicated its desire to play a broader role in the implementation of some of the projects. As such the DBSA has committed to support three projects during 2015/16. Other projects to support will be agreed in future periods.

FINANCIAL PERSPECTIVE (30%)								
Objective	**Key performance indicator**	**Projected March 2015**	**Weight**	**Target 2015/16**	**Weight**	**Target 2016/17**	**Weight**	**Target 2017/18**
Maintain financial sustainability	Sustainable earnings (Note 1 and 2)	R548 million	12%	R911 million	12%	R1.1 billion	12%	R1.2 billion
	Net interest margin	43.5%	3%	40.9%	3%	36.8%	3%	33.5%
	Return on average equity	3.0%	5%	3.6%	5%	3.8%	5%	4.3%
	Non-performing loan book after specific impairments (note 3)	2.9% (Sep 2014)	5%	3.3%	5%	3.3%	5%	3.3%
	Cost-to-income ratio of IDD	99.7%	5%	95%	5%	95%	5%	95%

Note 1: Sustainable earnings: Net profit before adjustments for non-reoccurring items (for example restructuring expenses and write-back of guarantee fees, grants, foreign exchange and revaluation of financial instruments adjustments, but includes revaluations on equity investments and impairments.

Note 2: Margin management: To support the Bank's financial sustainability objective, the Bank implemented a new pricing tool during the 2013/14 financial year. Projects are priced at rates varying from subsidised to fully commercial, whilst on a portfolio basis, the Bank targets a minimum return-on-equity of 12% (on a weighted average basis), which represents the minimum required economic return on risk capital.

Note 3: Non-performing loan book (NPL) after specific impairments: The ratio is reflective of the Bank's net exposure to potential future impairment risks. In determining the target of 3.3% for the period 2014/15 to 2016/17, the Bank considered the preceding five year median ratio of 2.53% with a two (2) times standard deviation of 0.39% to allow for sufficient headroom to consider higher risk investments in executing the DBSA mandate.

INTERNAL PERSPECTIVE (10%)								
Objective	**Key performance indicator**	**Projected March 2015**	**Weight**	**Target 2015/16**	**Weight**	**Target 2016/17**	**Weight**	**Target 2017/18**
Provide innovate infrastructure solutions	New product development (product diversification) (Note 1)	Pilot syndication product	4%	R100 million fees generated based on new products launched	4%	R120 million fees generated based on new products launched	4%	R144 million fees generated based on new products launched
	Effectiveness of business intelligence and knowledge management processes	Research and knowledge management plan develop and approved	3%	Effectiveness of implementation measured through internal survey	3%	Effectiveness of implementation measured through internal survey	3%	Effectiveness of implementation measured through internal survey
Continuous improvement of internal systems and processes	Cost-to-income ratio (excl. IDD) (note 2)	32.2%	3%	Max 35%	3%	Max 35%	3%	Max 35%

Note 1: Product diversification includes fees generated from new products launch such as syndication, mandate lead arranging, etc.

Note 2: Cost-to-income ratio. The cost-to-income ratio is the ratio between operating expenses (excl. IDD) and operating income and measures how costs are changing compared to income. It is one of the main key performance indicators of a financial institution's efficiency. The lower the ratio the more efficient the Bank. From a financial sustainability point of view, the DBSA will target to maintain the ratio around 35% over the medium term

LEARNING AND GROWTH (10%)								
Objective	**Key performance indicator**	**Projected March 2015**	**Weight**	**Target 2015/16**	**Weight**	**Target 2016/17**	**Weight**	**Target 2017/18**
Create and maintain high performance environment	• Development and retention of key skills (note 3)	90% of key skills retained	3%	85% of key skills retained	3%	85% of key skills retained	3%	85% of key skills retained
	• Leadership development as part of succession planning programme	Selected managers completed leadership development programme	4%	• Implement development programme for top talent • 80% compliance to succession plan	4%	Continued implementation of development plan as part of broader succession plan	4%	Continued implementation of development plan as part of broader succession plan
	• Implementation of culture change initiative	80% of milestones completed in line with project plan (milestones)	3%	Conduct staff culture survey	3%	80% of milestones completed in line with project plan (milestones)	3%	Conduct staff culture survey

Note 3: Retention of key skills declines over the reporting period as the various retention contracts expires during the 2014/15 and 2015/16 financial years. For the 2015/16 and 2016/17 financial years the Bank envisages to manage the ratio at a "normalised" rate of 85%.

ANNEXURES FOR PFMA COMPLIANCE PURPOSES

5. Annexures index

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 the wider African continent ("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.

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

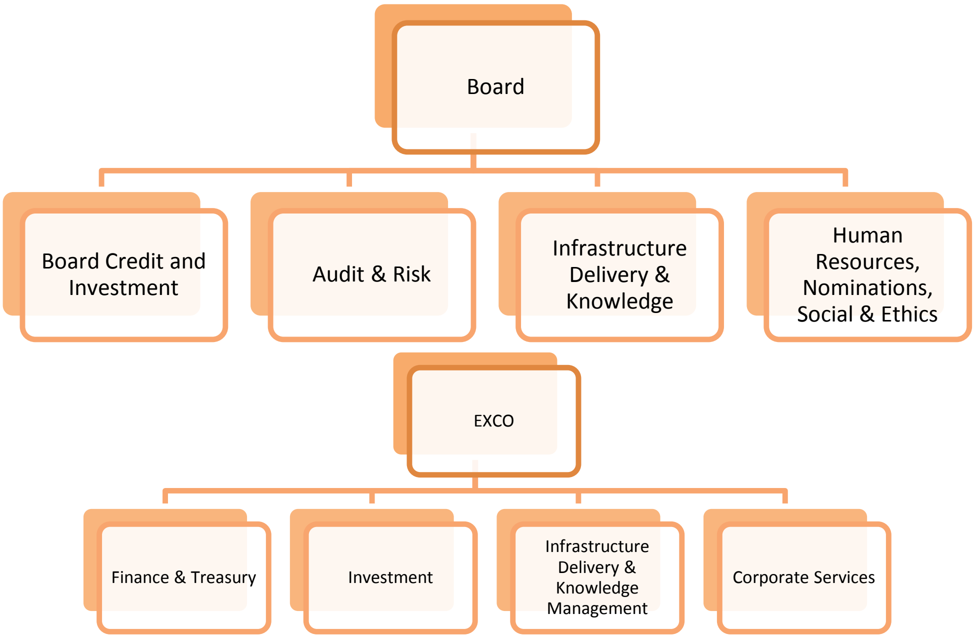
b) to assist other institutions in the national or international, public and private sectors with the management of specific funds;

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.

The Board currently consists of 15 directors, 13 of whom are non-executive. 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 for the Board of Directors and the Board 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 & Finance 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 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 oversees and also 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 as shown on the table overleaf.

	MS1 – MS10	Above MS10
South Africa		
Municipal clients	R1 000 million	R500 million
Other public sector clients	R500 million	R250 million
State Supported Programmes	R500 million	R250 million
Private sector clients	BCIC	BCIC
SADC Countries (Excluding South Africa)		
Low risk countries	$50 million	BCIC
Medium risk countries	$20 million	BCIC
High risk and post conflict countries	$10 million	BCIC
Rest of Africa		
Low risk countries	BCIC	BCIC
Medium risk countries	BCIC	BCIC
High risk and post conflict countries	BCIC	BCIC

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 corporate governance 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)	Mr Omar Latiff (Chair)	Ms Thembisa Dingaan (Chair)	Mr Frans Baleni (Chair)	Ms Dawn Marole (Chair)
Mr Frans Baleni (D/Chair)	Ms Thembisa Dingaan	Mr Patrick Dlamini (CE & MD)	Dr Lungile Bhengu-Baloyi	Mr Frans Baleni
Mr Patrick Dlamini (CE & MD)	Mr Anthony Julies	Mr Omar Latiff	Mr Patrick Dlamini (CE & MD)	Dr Lungile Bhengu-Baloyi
Dr Lungile Bhengu-Baloyi	Ms Dawn Marole	Ms Busisiwe Mabuza	Mr Omar Latiff	Prof Brian Figaji (co-opted)
Mr Anthony Julies	Ms Mary Vilakazi	Mr Jabu Moleketi (Chair)	Mr Jabu Moleketi	Ms Busisiwe Mabuza
Ms Thembisa Dingaan	Ms Gugu Mtetwa	Ms Kameshni Naidoo (CFO)	Prof Mark Swilling	Mr Jabu Moleketi
Mr Omar Latiff	Mr Arthur Moloto	Ms Mary Vilakazi	Ms Anu Sing	Ms Gugu Mtetwa
Ms Busisiwe Mabuza		Prof Brian Figaji (co-opted)		Prof Mark Swilling
Ms Dawn Marole		Mr Arthur Moloto		
Ms Mary Vilakazi		Ms Anu Sing		
Ms Kameshni Naidoo (CFO)				
Ms Gugu Mtetwa				
Prof Mark Swilling				
Mr Arthur Moloto				
Ms Anu Sing				

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

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

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

Quality Assurance assessments for the Internal Audit function (internal and external)

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

With regards to the external quality assurance assessment, the last assessment was conducted during January 2012, which revealed that the DBSA Internal Audit Department "Generally Conforms" to the International Standards for the Professional Practice of Internal Auditing (Institute of Internal Auditors).

Combined assurance

Per the requirements of King III, the DBSA has implemented a combined risk assurance model which is co-ordinated and managed by the Internal Audit function. King III describes the combined assurance model as "Integrating and aligning assurance processes in a company to maximise risk and governance oversight and control efficiencies, and optimize overall assurance to the audit and risk committee, considering the company's risk appetite".

The DBSA combined assurance model reflects the key risks facing the DBSA coupled with the key processes and controls in place to ensure the mitigation and/or minimization of these key risks. Along with the five levels of defence strategy the DBSA has adopted (refer page 26 of the risk management report in the 2013/14 Integrated Annual Report), the combined assurance model seeks to identify the assurance providers of the identified key risks. The assurance providers are delineated in the Combined Assurance Plan and report accordingly to the required governing bodies regarding the outcome of the assessment of the risks and control environment in place to mitigate those risks.

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

Ethics management and fraud prevention

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 is updated annually 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 Bank's fraud prevention plan.

Annexure 5.2: DBSA Fraud Prevention Plan

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 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[8], 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[9].

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.

[8] Section 27.2.1 of the Treasury Regulations
[9] 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**

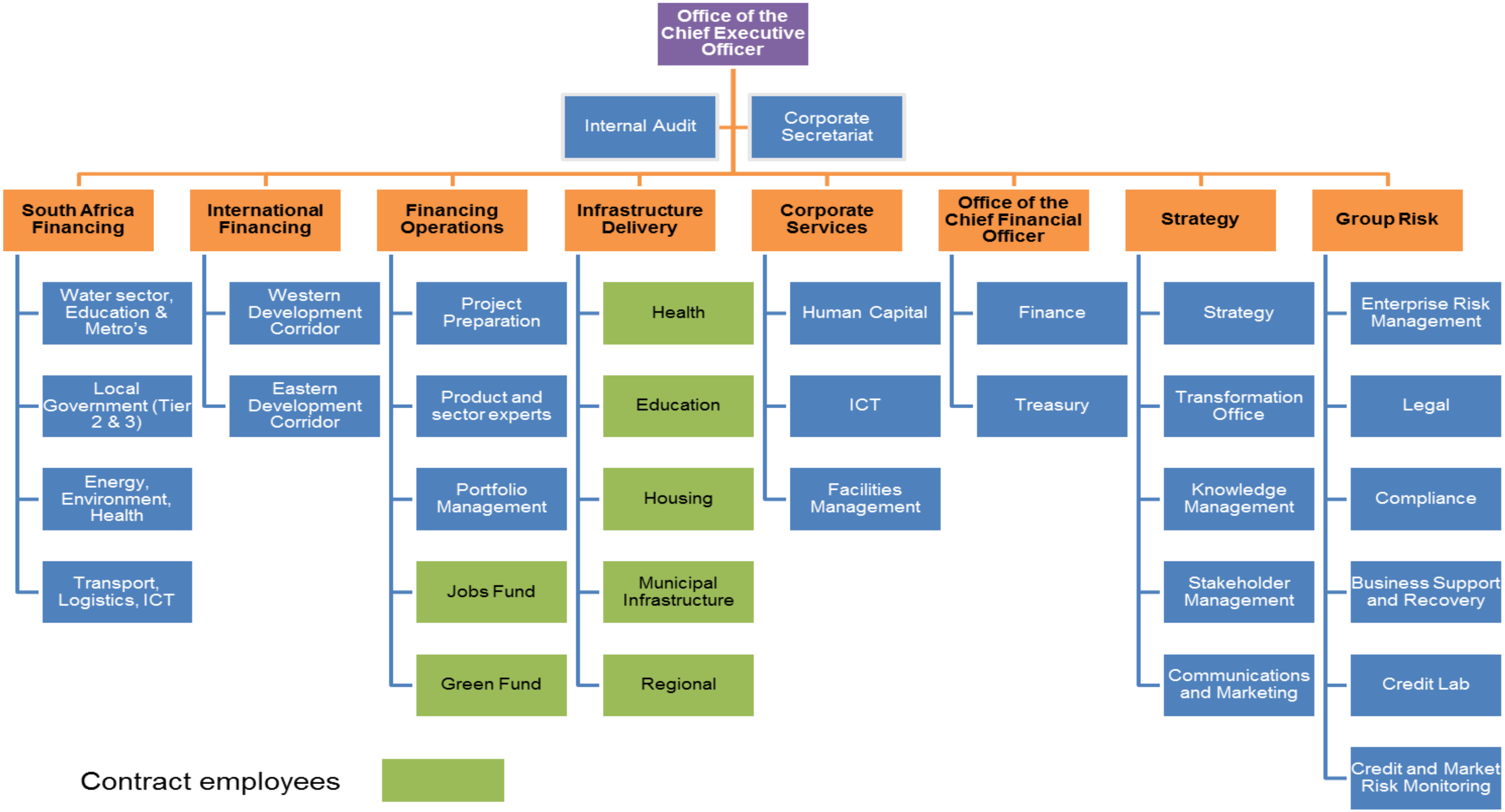
  The Bank will conduct a review of the Fraud Prevention Plan annually to determine the effectiveness thereof.

- **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



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

Board of Directors [10]

Mr Phillip Jabulani Moleketi (57)

Director of Companies

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

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

Expertise

Financial economist, strategic leadership

Academic qualifications:

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

Masters of Science in Financial Economics, University of London.

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

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.

TCX Investment Management Company BV: Non-executive Director.

Newshelf 1078 (Pty) Ltd: Non-executive Director.

Centre for Education in Economics and Finance Africa (NPO): Non-executive Director.

Mr Frans Msokoli Baleni (55)

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.

Expertise

Political science, trade unionism and social development

Academic qualifications:

BA (Social Science Development Studies), University of Johannesburg.

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

Other directorships:

Elijah Barayi Memorial Training Centre: Non-executive Director.

JB Marks Bursary Trust Fund: Chairman (Non-executive).

Mineworkers Investment Trust: Chairman (Non-executive).

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

Jolinkomo Family Trust: Trustee (Non-executive).

Ms Thembisa Dingaan (41)

Consultant and Director of Companies

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

Expertise

Project finance, tax and legal

Academic qualifications:

H Dip Tax, University of the Witwatersrand.

LLM, Harvard University, Boston.

LLB, University of KwaZulu-Natal.

BProc, University of KwaZulu-Natal.

Other directorships:

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

Termico (Pty) Ltd: Non-executive Director.

Skweyiya Investment Holdings (Pty) Ltd: Executive Director.

Skweyiya Investment (Pty) Ltd: Executive Director.

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

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

Theshka (Pty) Ltd: Non-executive Director.

Imperial Holdings Ltd: Non-executive Director.

Sumitomo Rubber South Africa (Pty) Limited: Non-executive Director.

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

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

Afripack (Pty) Ltd: Non-executive director.

ABSA Bank Ltd: Non-executive Director.

ABSA Bank Ltd: Pension Fund Trustee.

Telkom SA SOC Limited: Non-executive director.

Mr Omar Aboobaker Latiff (61)

Director of Companies

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

Expertise

Auditing, accounting, governance and risk management

Academic qualifications:

Executive Programme: Financing Infrastructure in a Market Economy, Harvard Kennedy School, Harvard University.

H Dip Tax, University of KwaZulu-Natal.

CA (SA).

BCompt (Hons), University of South Africa.

BCom (Accounting), University of KwaZulu-Natal.

Other directorships:

Styleprops 104 (Pty) Ltd: Non-executive Director.

Jodya Close Corporation: Member.

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

373 Loop Street PMB Close Corporation: Member

SANSA – DST: Non-executive Director.

OAL – Africa Administration Trust: Trustee.

Dr Lungile Bhengu-Baloyi (58)

Founder & Director : Development and Leadership Consulting

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

Expertise

Research, policy analysis, project management, public health law practitioner, poverty reduction & development strategist and management, leadership coaching and author

Academic qualifications:

Doctorate (Public Administration), University of KwaZulu-Natal.

MA (Social Policy), University of KwaZulu-Natal.

LLM (Public Health Law), University of KwaZulu-Natal.

Advanced University Diploma (Adult Education), University of KwaZulu-Natal.

BSc. (Dietetics), MEDUNSA.

Other directorships:

Chairperson: AIDS Foundation of Southern Africa.

Commissioner: KZN Planning Commission.

[10] Ages as at 26 February 2015

Board of Directors (continued)

Ms Busisiwe Mabuza (51)

Director of companies

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

Expertise

Finance, business and investment analysis

Academic qualifications:

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

MBA, Stern School of Business, New York University.

Other directorships:

Forbes Africa: Non-executive Director.

Afgri Limited: Non-executive Director.

CEF (Pty) Ltd: Non-executive Director.

Industrial Development Cooperation: Non-executive Director

Airports Company South Africa: Non-executive Director.

Ms Dawn Marole (54)

Chairman: Executive Magic Consulting

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

Expertise

Strategic management, finance, human capital and business development

Academic qualifications:

Executive Leadership Development Programme GIBS.

MBA NEU Boston Massachusetts.

Diploma Tertiary Education, University of South Africa.

BCom (Acc), University of Zululand.

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 (37)

Chief Executive Officer: MMI Balance Sheet Management

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

Expertise

Business Management, auditing and financial management

Academic qualifications:

CA (SA).

HDip Auditing, University of Johannesburg.

BCom Hons (Accounting), University of Witwatersrand.

Other directorships:

Zenzele Development Trust; Trustee.

Mr Patrick Dlamini (45)

Chief Executive and Managing Director: DBSA

DBSA Staff member and CEO as from 1 September 2012.

Expertise

Strategic leadership, human capital development and finance

Academic qualifications:

Advanced Executive Programme, Kellogg School of Management.

EDP, University of the Witwatersrand's Business School.

Business Studies Unit, Natal Technikon.

B Com, University of KwaZulu-Natal.

Other directorships:

BOPHYLD: Director.

Bridges Worldwide SA: Director.

Xcargo: Director

Ms Kameshni Naidoo (40)

Chief Financial Officer

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

Expertise

Finance

Academic qualifications:

CA (SA).

Advanced Certificate in Auditing University of Johannesburg.

Certificate in the Theory of Accounting Science (CTA) University of KwaZulu-Natal.

Bachelor of Accountancy University of KwaZulu-Natal.

Other directorships:

None

Board of Directors (continued)

Mr Anthony Frank Julies (50)

Chief Director: Strategy and Risk Management (National Treasury)

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

Expertise

Risk, compliance, development finance and financial markets

Academic qualifications:

MBA Banking, University of London.

Master of Arts (Economics), Wesleyan University.

Bachelor of Education (B.Ed), University of Western Cape.

Higher Diploma in Education (HDE), University of Western Cape.

Other directorships:

SANRAL: Non-executive Director.

Ms Gugu Mtetwa (35)

Partner: PricewaterhouseCoopers Inc.

DBSA Non-executive Director as from: 1 August 2014.

Expertise

Business Management, auditing and financial management

Academic qualifications:

Partner development programme, GIBS.

Executive Leadership Development Programme, USB.

CA (SA).

Post Graduate Diploma in Accounting, University of Cape Town.

Bachelor of Commerce (Accounting), University of Cape Town.

Other directorships:

Brand South Africa: Non-executive Director.

Siyakhula Women Investments: Non-executive Director.

Prof Mark Swilling (55)

Divisional Head: Sustainable Development, University of Stellenbosch.

DBSA Non-executive Director as from: 1 August 2014.

Expertise

Research, policy analysis, sustainable development

Academic qualifications:

Phd, Department of Sociology, University of Warwick.

Bachelor of Arts Honours, Department of Political Studies, Wits University.

Bachelor of Arts, Wits University.

Other directorships:

Lomold Group (Pty) Ltd: Non-executive Director.

Sustainability Institute (NPO): Non-executive Director.

Lynedoch Development (NPO): Non-executive Director.

Mr Arthur Moloto (46)

Political and Economic Advisor to the Speaker of National Assembly at Parliament of South Africa

DBSA Non-executive Director as from: 1 August 2014.

Expertise

Law, economics and political strategy

Academic qualifications:

Msc in Finance and Financial Law, University of London.

Postgraduate Diploma in Economic Principles, University of London.

Bachelor of Arts Honours Development Studies, University of Limpopo.

Bachelor of Arts in Education, University of Limpopo.

Other directorships:

Kansai Plascon Africa Ltd: Non-executive Director.

SA Corporate Real Estate Fund Managers Limited: Independent Non-executive Director.

Centre for Education in Economic and Finance. Africa: Non-executive Director.

AFHCO Holdings (Pty) Ltd: Non-executive Director.

Omricon Capital: Director.

Harith General Partners: Non-executive Director.

Land Bank: Non-executive Chairman.

Ms Anuradha Sing (43)

Chief Investment Officer at Kagiso Capital

DBSA Non-executive Director as from: 1 August 2014.

Expertise

Finance and business investment

Academic qualifications:

MBA, Wits Business School.

BSc Eng (Mechanical), University of Natal (Durban).

Other directorships:

Trentyre (Pty) Ltd: Non-executive Director.

Goodyear Tire and Rubber company (Pty) Ltd: Non-executive Director.

Goodyear SA (Pty) Ltd: Non-executive Director.

Digby Wells and Associates (Pty) Ltd: Non-executive Director.

Onelogix Group Limited: Non-executive Director.

Executive Management

Mr Ernest Dietrich (51)

Acting Group Executive: South Africa Financing

DBSA staff member as from: 2 January 2001.

Acting Group Executive as from: 1 February 2015.

Academic qualifications:

CFA Charter (2002).

MBA, University of Cape Town (1996).

MSc (Mathematics,), University of Western Cape (1992).

HDE, University of Western Cape (1985).

Directorships:

None

Mr Paul Currie (52)

Group Chief Risk Officer

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

Academic qualifications:

Advanced Management Programme, INSEAD.

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

CA (SA).

Postgraduate Diploma in Accountancy, University of Port Elizabeth.

BCom (Accounting), University of Port Elizabeth.

BSc (Physiology), University of Cape Town.

Directorships:

Pan Infrastructure Development Fund Trust: Trustee

Ms Dolores Mashishi (45)

Group Executive: Corporate Services

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

Academic qualifications:

General Management Programme, Harvard Business School.

Strategic Management: Human Resources, Wits Business School.

Management Advancement Programme, Wits Business School.

MSc Ed: Development Psychology, University of Illinois, Chicago.

BEd: Psychology, Wits University.

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

Directorships:

None

Ms Sinazo Sibisi (46)

Group Executive: Infrastructure Delivery

DBSA staff member as from: 1 November 2007

Group Executive as from: 1 April 2012.

Academic qualifications:

Executive MBA, University of Cape Town Graduate School of Business.

Partner Development Programme, GIBS.

Executive Development Programme, IMD, Lausagne.

Post-Graduate Diploma in HRM, University of Cape Town.

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

Directorships:

None

Executive Management (continued)

Mr Rieaz (Moe) Shaik (54)

Group Executive: International Financing

DBSA staff member and Group Executive as from 13 August 2012

Academic qualifications:

AMP, Harvard Business School, Boston.

Masters degree in Optometry (Cum Laude) University of Kwazulu-Natal.

B Optometry, University of Kwazulu-Natal.

BS c (Computer Science), University of Kwazulu-Natal.

Directorships:

Foresight Advisory Services (Pty) Ltd: Non-executive Director.

Mr Michael Hillary (43)

Group Executive: Financing Operations

DBSA Staff member and Group Executive as from 1 October 2012

Academic qualifications:

MBA, University of Witwatersrand.

BCom Hons, University of Witwatersrand.

CAIB (SA), Institute of Bankers.

Directorships:

None

Mr Mohan Vivekanandan (41)

Group Executive: Strategy

DBSA Staff member and Group Executive as from 24 March 2014

Academic qualifications:

MBA, Kellog School of Management.

Bachelor of Arts (Honours) in Economics and Mathematical Methods in the Social Sciences (MMSS), Northwestern University, USA.

Directorships:

None

Annexure 5.5: Enterprise Risk Management Framework

Purpose

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

As a development finance institution, the DBSA is required to manage risks as it pursues its developmental mandate. Risk management plays a crucial role to ensure that the Bank delivers on its mandate while remaining financially sustainable in its infrastructure investments and interventions.

The DBSA Board is ultimately responsible for the effective management of risks within the Bank and has adopted an enterprise-wide management (ERM) approach to managing risk exposures. This involves the embedding of frameworks, policies, methodologies, processes and systems for managing all risk exposures inherent in the Bank's strategies, operations and business processes.

Risk is managed on three levels in the Bank, namely strategic, operational and business.

- 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.

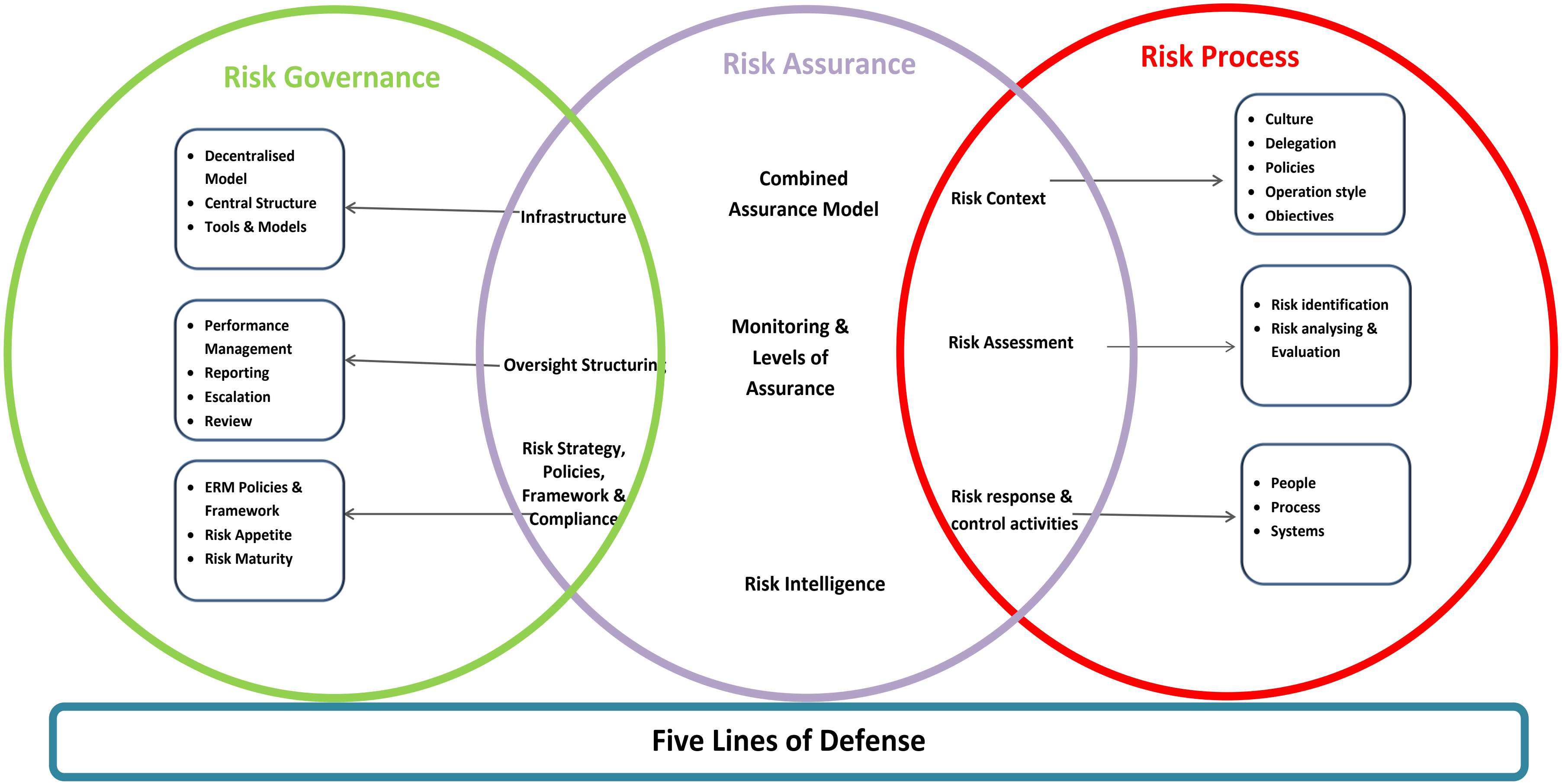
There are three primary focus areas, namely

- Enterprise-wide risk management, which includes the management of risks related to people, processes and systems,
- Regulatory compliance, legal risk and business continuity, credit and investment risk management, which includes development impact and investment risk; and
- Financial risk management, which includes the management of market and capital management risks.

DBSA has adopted an Enterprise Risk Management Framework which comprises the following interrelated components as shown graphically below:

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

Diagram 1: DBSA Enterprise Risk Management System



The Bank has adopted the five lines of defence model in line with ERM best practice. The benefits of the model are that it clearly defines the roles and responsibilities for the management for risk and emphasizes the fundamental concept that risk ownership and management is everyone's responsibility from the Board right through to the client-facing units.

Line of defence	Role	Responsibility
First Line	Business units, support functions, line management and all staff	Implementation and management of risk.
Second Line	Group Risk Assurance	Perform a policy-setting and monitoring role to ensure implementation of risk management principles and adherence to regulation and legislation.
Third Line	Internal and External Audit	Independent assurance on effectiveness of risk management.
Fourth	Executive Committee	Responsibility and oversight of DBSA activities to ensure that they are consistent with business strategy and policies as approved by the Board.
Fifth	Board	Overseeing the activities of the DBSA and is accountable to the shareholder for the Bank's strategy and performance.

The DBSA's Group Risk Assurance Division provides risk policies, strategies and best practice standards for the Bank as a whole, in order to mitigate the main risk exposures inherent in its mandate. Each division is responsible for controlling and monitoring the risks in its operating environment whilst the Group Risk Assurance Division undertakes risk monitoring and consolidated reporting at a Bank-wide level, drawing on and aggregating the risk reporting from the divisions. The Board's Audit & Risk Committee is mandated to oversee the implementation of the Bank's ERM framework, and assesses key risk reports and indicators on a quarterly basis.

Regulatory and best practice requirements, as well as on-going changes to the regulatory environment within which the DBSA operates require an increased focus on compliance. This includes the need to ensure compliance with not only the applicable legislation, but also supervisory requirements and industry guidelines. The DBSA's compliance risk management is aligned with the Generally Accepted Compliance Practice Framework of the Compliance Institute of South Africa. The compliance framework supports the active management of compliance risk, which entails a four-phase cyclical approach to identify, assess, manage and monitor compliance risk. Compliance risk is the risk that processes procedures and controls implemented by the DBSA to comply with applicable laws and regulations are not followed and/or inadequate and ineffective. The failure to manage compliance risks can result in financial penalties, criminal prosecution, reputational damage and greater regulatory scrutiny and intervention. Compliance Risk Management Plans address and manage compliance risk by outlining compliance risks applicable to the DBSA and its business units and relevant controls implemented to manage and mitigate those risks.

The DBSA Board and Executive Management formally endorse the establishment of the compliance function and are committed to ensuring that business within the DBSA is run with integrity, complies with all regulatory and best practice requirements and is conducted in accordance with the highest ethical standards.

Credit and investment risk management

The Board has delegated the responsibility for the management of credit and investment risk to its Board Credit and Investment Committee, supported by the management level Investment Committee Impact Committee. The Board Credit and Investment Committee is responsible for the approval of all transactions that would result in the Bank's aggregate exposure that is above the approval limits of the Investment Committee. The Investment Committee, which is chaired by the Chief Risk Officer, is responsible for approving all transactions that would result in the Bank's aggregate exposure as stated on the table low. The Committee is also responsible for recommending aggregate exposures above its approval limit to the Board Credit and Investment Committee for approval.

South Africa

	MS1 – MS10	ABOVE MS10
Municipal Clients	R1 000 million	R500 million
Other Public Sector Clients	R500 million	R250 million
State Supported Programmes	R500 million	R250 million
Private Sector Clients	BCIC	BCIC

SADC Countries (Excluding South Africa)

	MS1 – MS10	MS11 – MS13	ABOVE MS13
Low risk countries	$50 million	$20 million	BCIC
Medium risk countries	$20 million	$10 million	BCIC
High risk and post conflict countries	$10 million	BCIC	BCIC

Given that countries outside SADC have only been included in the Bank's mandate recently, all deals in these countries are to be approved by BCIC irrespective of size and credit risk ratings.

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

Annexure 5.6: Key Enterprise-wide Risks [11]

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. These risks are currently under review in line with the annual strategy review and would be finalised and adopted at the February 2015 Audit and Risk Committee.

Risk	Impact	Likelihood	Inherent Risk	Mitigation	Residual risk	Action plans	Responsible official	Implementation date
Incorrect investment strategy to deliver on infrastructure funding targets	• Failure to deliver on disbursement targets and the required development impact.	Moderate	Critical	• Board approved strategies and investment targets. • Detailed analysis and research undertaken prior to approval. • Establishment of project preparation function to support the development of the project pipeline. • Provision of planning and implementation support to under capacitated municipalities.	Moderate	• Implementation of a go-to market strategy	GE: Strategy, South Africa Financing, International Financing	March 2014
						• Identification of new product Identified new products in the pipeline for approval and implementation.	GE: Financing Operations	March 2015
Inability to secure deals competitively on a portfolio basis	• Failure to deliver on infrastructure disbursement targets. • Lower returns and reduction in surpluses available to support development activities.	Likely	Critical	• Dedicated market analysis. • Continuous assessment of alternative sources of funding. • Review and improvements of pricing model • Pro-active monitoring of the credit portfolio.	High	• Implementation of a go-to market strategy	GE: Strategy, South Africa Financing, International Financing	March 2014
						• Review and improvements of pricing model	Chief Risk Officer	March 2015
						• Improved stakeholder engagements and alliances in expanding into Rest of Africa.	GE: International Finance	Ongoing
Failure to deliver on non-financing mandate	• Negative impact on relationship and reputation with mandating authorities.	Likely	Critical	• Dedicated implementation division established with the necessary skills and resources. • Review of operations by the Board.	High	• Ongoing monitoring of implementation against strategy.	GE: Infrastructure Delivery	Ongoing

[11] Source: Key risks, impact mitigations, inherent and residual risks discussed at the DBSA Audit and Risk Committee of 5 February 2015. In line with request from National Treasury, remaining columns completed in conjunction with the DBSA ERM team.

Risk	Impact	Likelihood	Inherent Risk	Mitigation	Residual risk	Action plans	Responsible official	Implementation date
	• Non recovery of costs incurred • Lower surpluses available to the Bank.			• Cost recovery principles incorporated in memorandum of agreements. • Improved pricing and cost model implemented.				
Failure to remain financially sustainable	• Inability to continue to deliver on mandate. • Require review and restructuring of operations • Need for capital support from government	Likely	Critical	• Financial sustainability criteria of inflation linked return-on-equity agreed with the shareholder. • Strategy, financial plan and three year financial forecast annually reviewed and approved by Board. • Continuous assessment of alternative sources of funding. • Cost management programme implemented.	High	• Proactive monitoring of performance against financial plan and forecast • Continuous assessment of alternative sources of funding.	Chief Financial Officer	Ongoing
Failure to adapt the business model due to changes in the business environment	• Failure to deliver on infrastructure disbursement targets as well as non-financing programmes	Moderate	High	• Annual review of strategy and operating model by the Board, taking into changes in the operating environment.	Moderate		GE: Strategy	Ongoing
Inadequate capital levels to support developmental growth and targets	• Need for capital support from government • Failure to deliver on infrastructure disbursement targets. • Breach of the prescribed gearing limits	Likely	Critical	• Capital management strategy has been approved and is being rolled out	High		Chief Financial Officer	Ongoing

Annexure 5.7: DBSA funding plan and borrowing programme for 2015/16

Introduction

The purpose of this annexure is to outline the DBSA borrowing programme for the 2015/16 financial year.

Key points

- The total gross borrowings from 1 April 2014 to 31 December 2014 amounted to **R12.1 billion.**
- The focus continued on:
  - The diversification of the Bank's funding sources to achieve a funding mix at optimal cost to promote financial sustainability of the Bank.
  - Better matching of the asset and liability profile of the Bank.
- The Bank has received approval for the foreign currency borrowing limit in terms of section 66 (7) b of the PFMA for the period 2013/14 to 2016/17 from the Minister of Finance.
- The final projected borrowing is subject to the Corporate Plan targets being met.
- The callable capital to be increased to R20.2 billion in line with letter of undertaking in 2012.

Funding to December 2014

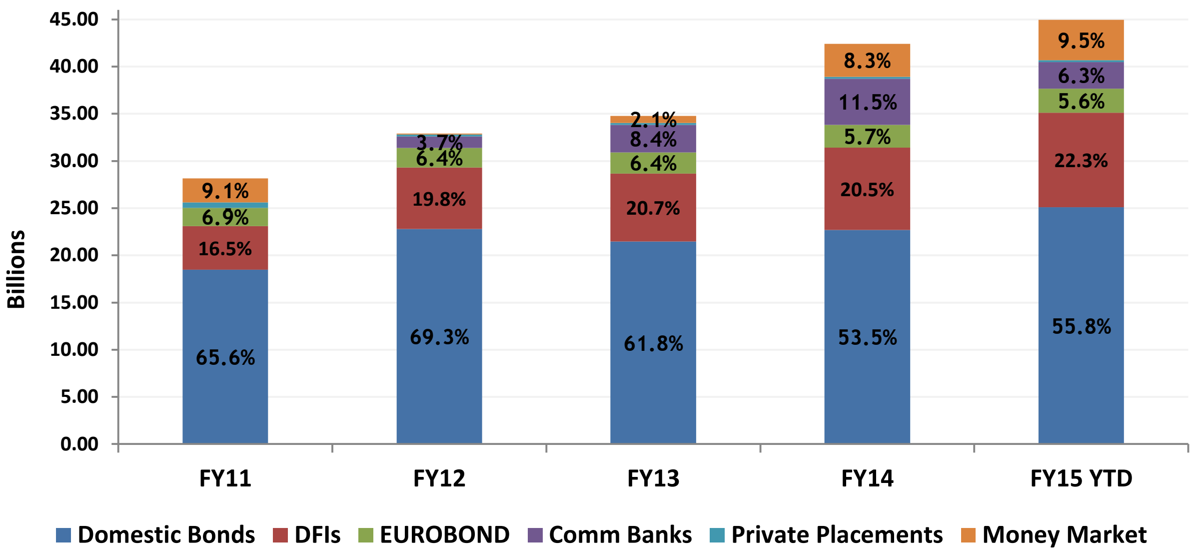
Gross borrowings, the aggregate of all debt that was rolled and raised, amounted to **R12 billion** in the period ended 31 December 2014. Net borrowings, after repayments amounts to **R1.64 billion**.

Table 1: Funding: Borrowings as at 31 December 2014

Description	Amount (million)
New DFI lines	R1 901
New Domestic Bonds	R2 446
New Money Market + Commercial Paper net of repayments	R6 863
New Commercial Bank Lines	R867
New borrowings in FY 2014*	**R12 077**

As at 31 December 2014, the new borrowings of R12.1 billion was within the Board approved limit of R18 billion for the 2014/15 financial year. The bulk of the funding was sourced from the capital and money markets to facilitate the asset lead liability lag strategy. The composition of funding for the financial year to date, relative to recent years is illustrated in Chart 1.

Chart 1: Funding sources YTD – April 2014 to 31 December 2014 (Rand – billion)



Proposed borrowing programme for the 2015/16 financial year

Factors considered in the calculations of the borrowing requirements

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

- Projected loan disbursements.
- Current and projected loan interest and capital receipts (cash inflows).
- Debt service and repayments (cash outflows).
- Operational expenses.
- Capital injection.
- Liquidity levels required in terms of the policy.

Estimates of the following variables are made:

- Interest income and expense, with floating-rate interest receipts and payments are 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.
- Capital injection being received in accordance with the timeframes communicated by National Treasury.

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 preliminary projected borrowing requirement for the next three financial years is shown in Table 2.

Table 2: Borrowing Plan for 2016 to 2018

R million	FY2016	FY2017	FY2018
Beginning liquidity	**4 641**	**5 751**	**7 779**
Loan capital asset receipts	4 335	4 296	3 745
Capital injection	3 000	-	-
Loan interest receipts	6 281	7 773	9 685
Fee & other income	404	503	623
Cash inflows	**14 020**	**12 572**	**14 053**
Debt capital repayments	(6 742)	(4 605)	(1 532)
Debt interest repayments	(3 529)	(4 606)	(5 911)
Operational expenses	(1 243)	(1 369)	(1 564)
Capital expenditure	(35)	(25)	(25)
Disbursements	(17 600)	(21 800)	(26 350)
Cash outflows	**(29 149)**	**(32 405)**	**(35 382)**
Net cash flows	(15 129)	(19 833)	(21 329)
Additional liquidity per policy	(1 513)	(1 983)	(2 133)
Liquidity per current policy	6 154	8 137	10 270
Borrowing requirement current year	**(16 642)**	**(21 816)**	**(23 462)**

Debt: Equity (FY2016) 202% (without callable capital)

Debt: Equity (FY2016) 117% (including R20 billion callable capital)

Provisional funding plan

The provisional funding plan includes drawing on lines of credit bank facilities, capital market issuances (commercial paper and bonds) and taps money market issuances 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 Unit 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 projected funding sources comprise funding from the domestic capital market DFI, money market (as part of the asset lead liability lag strategy) and National Treasury capital injection for 2015/16 financial year. Specific tenors and interest rate bases (fixed vs. floating) of new long-term debt issuance will be driven by investor and client demand market conditions building the Bank's funding curve demand/supply imbalances and their associated cost impact at the time of issuance. Any new funding will be sourced and structured to achieve better matching for an appropriate funding solution in the development loan book for the short medium and long term taking into account tenors and interest rate bases.

Foreign currency borrowing

Committed borrowing facilities with foreign DFIs and with commercial banks remain pivotal in the bank's efforts to diversify the Bank's medium- to long-term funding strategy and achieve matching. These facilities 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 SADC region and to the extent to which commitments are made to SA projects eligible for specific foreign currency denominated lines of credit.

New facilities with DFI and commercial banks are currently under negotiation and are subject to agreement on key terms and pricing. A total of **R5.37 billion** equivalent (at exchange rate of $/R11.64 and €/R13.70) is currently available from committed facilities as at 31 December 2014 as shown in Table 3.

Table 3: Available lines of credit

Facility Provider	Project/Purpose of facility	Currency	Original Amount	Utilised Amount	Available amount
KFW*	SAPP II - Itezhi-tezhi	EUR	30 000 000	-	30 000 000
KFW*	German Govt Guaranteed - Cenpower	USD	29 000 000	-	29 000 000
JBIC	Green Energy Line	USD	50 000 000	-	50 000 000
JBIC	Export Line	USD	100 000 000	-	100 000 000
KEXIM	Export Line	USD	50 000 000	-	50 000 000
EIB*	Green Energy - Kaxu Solar Project	EUR	100 000 000	80 230 860	19 769 140
Standard Bank (Isle of Man)	General Corporate	USD	225 000 000	75 000 000	150 000 000
* Projects have been approved by Facility Provider					

Foreign borrowings are utilised to match fund loan book assets to minimise the foreign currency risk and to obtain cost efficient funding. The source of the foreign borrowings will be from foreign DFI's and foreign currency facilities from commercial banks. Opportunities for offshore public debt issuances are continuously evaluated to identify opportunities to reduce the cost of funding and to diversify the investor base in support of the revised DBSA strategy.

The Bank has obtained a foreign currency borrowing limit with the Minister of Finance in terms of Section 66.7(b) of the PFMA as follows:

- R17 billion for the 2014/15 financial year;
- R22 billion for the 2015/16 financial year;
- R26 billion for the 2016/17 financial year.

The outstanding debt in foreign currency as at 31 December 2014 is summarised in Table 4.

Table 4: Outstanding Debt in Foreign Currency

	EUR	USD	Total
Commercial Banks		2 818 891 223	2 818 891 223
DFIs	2 521 131 326	6 752 593 279	6 752 593 279
Total	**2 521 131 326**	**9 571 484 502**	**12 092 615 828**

The USD rate used was R11.57 to USD1 and R13.99 to EUR1.

Domestic funding developments

The Bank was more active in the capital markets and conducted 14 auctions since 1 April 2014 which are reflected in Table 5.

Table 5: Domestic Funding

Date of Issuance	Instrument Name	Amount Issued
18-Jun-14	DV2021	252 000 000
1-Jul-14	DV2021	121 112 628
1-Jul-14	DV24	131 070 362
18-Nov-14	DV24	688 596 155
24-Jun-14	DVC004	800 000 000
24-Jun-14	DVC005	400 000 000
30-Jun-14	DVC006	680 000 000
16-Sep-14	DVC007	255 000 000
21-Nov-14	DVC008	808 000 000
12-Dec-14	DVC009	415 000 000
12-Dec-14	DVC010	55 000 000
18-Jun-14	DVF17	402 000 000
30-Sep-14	DVF18	440 000 000
2-Dec-14	DVF18	410 763 180
	Total	**5 858 542 325**

Commercial Paper issuances and money market funding has been primarily used as part of the asset-lead-liability lag strategy that was adopted which resulted in diversification of funding and optimising the cost of debt. The Bank's DMTN programme registered with the JSE stands at **R35 billion** of which **R7.29 billion** remains available. The Bank's DMTN programme is in the process of being increased to R80 billion to support the asset growth over the medium to long term.

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).

Some of the conditions include:

- The ownership of the Bank with the requirement that the SA government retains control of the Bank.
- The leverage of the Bank measured in terms of the Bank's regulatory debt-equity ratio.
- Credit ratings with the typical requirement that the Bank retains an investment grade rating.

Asset liability management

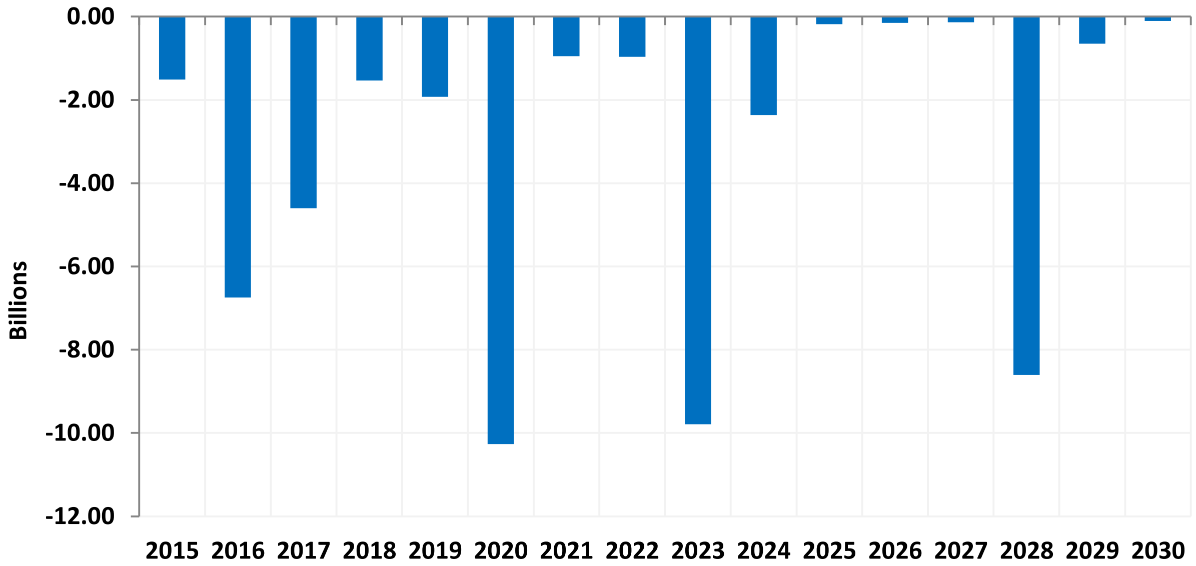
All borrowings are made with due consideration of the Bank's asset-liability profile and inherent interest rate and currency risk exposure from time to time. In recognition of the importance to strike a balance between maintaining interest rate risk exposure within acceptable risk parameters and achieving 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. 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.
- The weighted average duration gap of the Bank's net assets and liabilities (i.e. duration gap limit) to be contained to a maximum of 5 years.
- 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 currency exchange and interest rates afford the Bank a plethora of options through which to ensure that the overall risk exposure remains within the Board-defined risk parameters which govern 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 Chart 2:

Chart 2: Debt Maturity Profile



Credit ratings

The credit rating reviews were conducted by Standard and Poor's (S&P's) Fitch and Moody's. All three rating agencies maintained the DBSA's rating and the table below summarises the ratings as at 31 December 2014. Key considerations taken into account include adequate capitalisation government support in the event of financial distress capital injection to support the Bank's new strategy high single name lending concentration and weak earnings stability. The ratings are summarised in Table 6 below.

Table 6: Credit ratings

Current DBSA Ratings			
Ratings	**Fitch**	**S & P**	**Moody's**
Long-Term Rating- Local rating	AA+(zaf)	BBB+	ba-2
Short-Term Rating- Local rating	F1+(zaf)	A-2	n/a
Long-Term Foreign-Currency	BBB	BBB-	Baa 2
Short-Term Foreign- Currency	n/a	A-3	n/a
Outlooks	Stable	Stable	Negative

Recommendation

The projected borrowing requirement for the 2015/16 financial year amounts to **R16.6 billion**. 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 2015/16 financial year amounting to **R19 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 2015/16[12]	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.	**Quantitative:** 0.3% of Revenue Revenue is represented by 'Interest Income" per the DBSA annual financial statements. ***Note: Fruitless and wasteful expenditure disclosure*** Irrespective of the value of any fruitless and wasteful expenditure, all losses incurred, will be disclosed in the annual financial statements.	R13.7 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.

[12] Based on the 2013/14 audited financial statements (latest available).

	Proposed Framework	Resulting figures for 2015/16[12]	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 2013/14 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 2013/14 financial year) of the Bank.	 R4.8 billion R638 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 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.

Annexure 5.10: DBSA Environmental Framework

The DBSA recognises the importance of placing poverty eradication and achievement of sustainable development at the centre of its development agenda. The Bank is legally obliged to promote sustainable development through its operations and this is integrated into the Banks strategy which highlights the need for effective integration of environment and sustainability issues as the key to ensuring sustainable economic and social development.

Environmental Policy statement

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.

Environmental and sustainability considerations at the DBSA are founded on the following key DBSA documents, the DBSA Environmental Sustainability Strategy, the DBSA Environmental Policy, the environmental management system[13] and the DBSA Environmental Appraisal Procedures. These documents combine to form the ***DBSA environmental management framework***. The DBSA environmental management framework serves as the structure that ensures the DBSA's operations, programmes and projects are socially responsible, environmentally sound and in line with government requirements.

The DBSA environmental management framework serves to ensure on-going improvement of its environmental performance. To this end 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. In order to do this the DBSA strengthens its environmental management framework and initiatives with integrated reporting and membership to the United Nations Global Compact.

Integrated Reporting, Global Reporting Initiative and United Nations Global Compact (UNGC)

A key component of the organisations environmental framework is the need to not only manage but also monitor, evaluate and strengthen the effectiveness and sustainability of the Banks operations, programmes and projects. To this end the DBSA has adopted integrated and sustainable reporting principles which underlie the Banks reporting initiatives. In addition, during 2013 the DBSA also became a member of the United Nations Global Compact (UNGC). The UNGC is the world's largest corporate citizenship initiative that address and integrates Corporate Social Reporting (CSR) requirements with the integrated reporting requirements. As a result the DBSA Annual Report will (as of 2014-2015) be compiled to align with both the integrated and sustainability reporting requirements of the Global Reporting Initiatives Sustainable Reporting Guidelines, as well as the UNGC universally accepted ten principles that address the areas of human rights, labour, environment and anti-corruption.

Thus the DBSA seeks to ensure that it reports on and effectively considers its economics, ethical, governance, social and environmental performance.

DBSA's contribution towards the development of sustainable South Africa and a green economy

The Bank is actively involved in broadening its support for the development of a greener economy and sustainable 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

[13] The DBSA environmental management system is aligned with the international standard, SANS ISO 14001,for international best practice for environmental management systems

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 and renewable energy projects
- Several Clean Development Mechanism (CDM) projects aimed at carbon emissions reductions.

Environmentally sustainable operations

The DBSA's Environmental Policy and Environmental Framework 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 line with the Constitution of the Republic of South Africa, particularly Section 24 –the environmental rights, the Bank is committed to providing an environmentally safe work place for its employees and to minimising environmental impact. Consequently, the Bank actively seeks to reduce its direct environmental impact on the biophysical environment, namely: air, land and water from all its operations and activities.

In addition 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 EAPs ensure 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.

With regard to its operations the major environmental aspects that the Bank is working towards reducing its impact include, in order of magnitude of impact by;

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

The above initiatives combine to reduce the banks carbon emissions, water use, waste generation and maintain a sustainable campus with the ultimate aim of reducing the Banks ecological impact.

Annexure 5.11: Business Continuity Management

Background

Business Continuity Management (BCM) is a function in the Facilities Business Unit which falls under the Corporate Services Division. The function reports into the Risk Governance structures of the Bank in order to provide assurance to the Board. All Group Executives have joint accountability for the implementation of BCM in their divisions.

Objectives of the BCM function

BCM is deemed to be a key process within the DBSA and is being fully integrated into the business. In order to ensure a certified business continuity capability, the DBSA has aligned to the ISO standard 22301 and the Business Continuity Institute's (BCI) Good Practice Guidelines (GPG).

The objective of the Business Continuity Management Programme is to provide ongoing management, coordination and governance to ensure that all BCM activities are conducted and implemented in an agreed manner that achieves the Bank's BCM and Crisis Management objectives.

Continuity assurance framework

The BCM function aims to ensure that the Bank can adequately respond, recover and restore business operations resulting from business interruption.

The Continuity Assurance Framework (CAF) provides management with an evaluation of the enterprise's preparedness in the event of a major business disruption and assists with the identification of any issues that may limit interim business processing and restoration.

There are five elements that form the basis for the Continuity Assurance Framework. These elements ensure that we have the ability to adequately respond to any incident by preparation and anticipation, we are able to prevent and mitigate a disruptive incident, and if the incident does occur we are able to adequately respond, recover and restore business as soon as possible, ultimately building a resilient organisation. This framework enables us to effectively measure and report on the BCM capability for the Bank.

Diagram 1: Continuity Assurance Framework