DBSA

Development Bank of Southern Africa

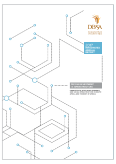
2017 INTEGRATED ANNUAL REPORT

DRIVING INVESTMENT IN INFRASTRUCTURE

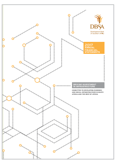
COMMITTED TO DEVELOPING ECONOMIC AND SOCIAL INFRASTRUCTURE IN SOUTH AFRICA AND THE REST OF AFRICA

GUIDE

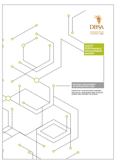
OUR REPORTING SUITE FOR 2017 CONSISTS OF THREE REPORTS



THE 2017 INTEGRATED ANNUAL REPORT, WHICH IS OUR PRIMARY COMMUNICATION WITH OUR STAKEHOLDERS.



THE 2017 ANNUAL FINANCIAL STATEMENTS, WHICH INCLUDE THE DIRECTORS' REPORT AND THE INDEPENDENT AUDITOR'S REPORT.



THE 2017 SUSTAINABILITY REVIEW, WHICH PROVIDES FURTHER INFORMATION ON OUR SUSTAINABILITY PERFORMANCE.

Other enhancements made to our integrated reporting are detailed on page 3.

Indicates a website reference where more information can be found.

Indicates a page or note reference of information which can be found elsewhere in this reporting suite.

OUR STRATEGIC OBJECTIVES

SUSTAINED GROWTH IN DEVELOPMENTAL IMPACT

PROVIDING INTEGRATED INFRASTRUCTURE SOLUTIONS

MAINTAIN FINANCIAL SUSTAINABILITY

OUR OPERATIONAL OBJECTIVES

CONTINUOUS IMPROVEMENT OF INTERNAL SYSTEMS AND PROCESSES

CREATE AND MAINTAIN A HIGH PERFORMANCE ENVIRONMENT

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EDUCATION


ICT


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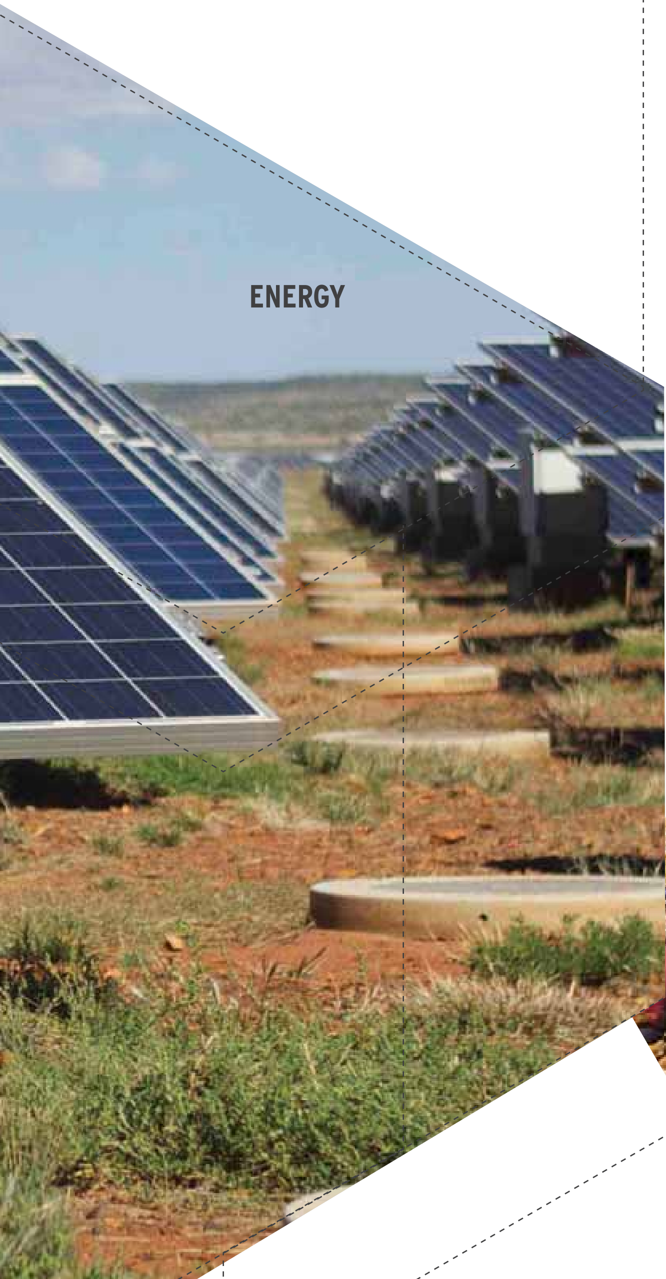

ENERGY


HEALTH

PERFORMANCE HIGHLIGHTS

SUSTAINING A STRONG INFRASTRUCTURE DEVELOPMENT AND FINANCIAL PERFORMANCE

Delivered
R48.2 billion
in **total infrastructure development support**

224 000
households to benefit from funds committed to municipalities

Total **disbursements** of
R12.4 billion

4 254
scholars to benefit from 12 schools constructed

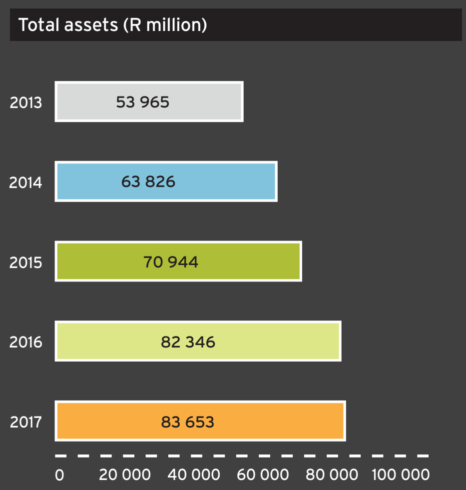
Funds catalysed to the value of
R31.9 billion

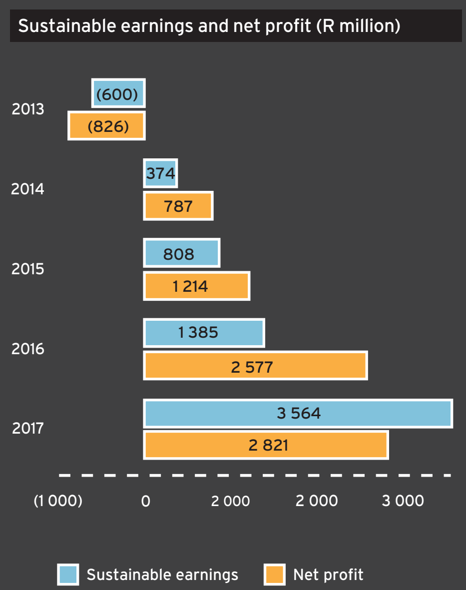
More than
266 000
people gained access to **improved health facilities**

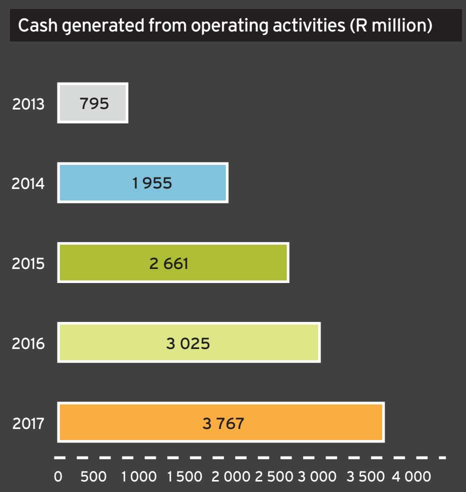
Delivered
R2.8 billion
in **infrastructure implementation support**

342
houses constructed

KEY FEATURES







ABOUT THIS REPORT

WE ARE PLEASED TO PRESENT OUR FIFTH INTEGRATED ANNUAL REPORT.

IT IS OUR PRINCIPAL COMMUNICATION TO ALL STAKEHOLDERS ON OUR ABILITY TO CREATE SUSTAINABLE VALUE OVER TIME.

BOUNDARY AND SCOPE

This Integrated Annual Report covers the performance of the Development Bank of Southern Africa (DBSA) for the year ended 31 March 2017.

This report informs you about our operational and financial performance against the previously stated plans, stakeholders, governance, material issues, risks and opportunities and how these influence our strategic objectives and future plans. We show how we create value and impact as an integral part of the Southern African Development Community and beyond; and how we will ensure that our value creation is sustainable.

REPORTING PRINCIPLES AND ASSURANCE

This report is compiled and presented considering the requirements of the King Code of Governance Principles for South Africa 2016 (King IV), the International Integrated Reporting Framework (<IR> Framework) of the International Integrated Reporting Council (IIRC) and the Global Reporting Initiative (GRI) G4.

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

The DBSA applies a combined assurance model to obtain assurance within reasonable cost from its Risk Management department, and the internal and external assurance providers on risks affecting it.

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

MATERIALITY

We concentrate on items of both a qualitative and quantitative nature that are material to the DBSA's ability to deliver on its mandate and strategy. We define material issues as those which have the potential to substantially impact our ability to create and sustain value for our stakeholders. In identifying matters which are material, we have consistently applied the same resources as in the prior year. By applying the principle of materiality, we determined which issues could influence the decisions, actions and performance of the DBSA.

APPROVAL BY THE BOARD

The Board is ultimately responsible for ensuring the integrity of the Integrated Annual Report, assisted by the Audit and Risk Committee and further supported by DBSA management. The Board, after applying its collective mind to the preparation and presentation of the report, concluded that it was presented materially in accordance with the <IR> Framework and approved it for publication on 22 June 2017.

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

01
OVERVIEW

FOREWORD BY
THE MINISTER OF FINANCE

224 000
households to benefit from funds committed to municipalities

This Integrated Annual Report is set against a backdrop of unprecedented economic uncertainty and volatility. Analysts agree that global growth will continue to be constrained and commodity prices are likely to remain low.

In addition, South Africa's growth prospects remain under pressure. The country's international investment grade ratings were downgraded after year-end, which resulted in the DBSA's credit rating also being downgraded, which will ultimately result in higher borrowing costs for the bank.

The DBSA must discharge its mandate regardless of whether the conditions are favourable or not. Despite the economic uncertainty it must remain financially sustainable. The DBSA has chosen to entrench and extend best practice demonstrated by the most successful Development Financial Institutions (DFIs) globally, that is to catalyse infrastructure development by creating favourable investment conditions and terms for third party investments to be able to invest while attaining commensurate returns. The DBSA seeks to enhance its catalytic capabilities within the infrastructure space by offering financing and advisory solutions along the entire infrastructure delivery value chain.

THE INFRASTRUCTURE CHALLENGE

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

Africa's population of one billion in 2011 is expected to double by 2050. As a result, the workforce on the continent is expected to increase by 910 million people by 2050, of which 830 million will be in Sub-Saharan Africa (SSA) and 80 million in North Africa. Addressing the infrastructure gap therefore remains critical to allow new higher-productivity sectors to develop and generate jobs for the rapidly growing young population and to foster integration into global value chains.

The poorest Africans are largely dependent on agricultural resources for both food and jobs, and climate change-related hazards pose serious welfare challenges for SSA's rural poor. Furthermore, pressure on already limited water supply is expected to increase sharply due to changes in water cycles caused by erratic rainfall.

Poor infrastructure continues to undermine intra-continental trade. African roads and railways were mainly designed and built to facilitate transportation of raw minerals and resources to markets outside the continent. Instead, it needs infrastructure which will support intra-African trade, industrialisation, the beneficiation of minerals and the delivery of basic services. In addition, it needs social infrastructure to support a globally competitive education system, such as schools, universities and housing for students.

Intra-African trade is at approximately 11% which is very low when compared to Europe, at 60%, where capital is mobilised to build economic infrastructure. Unlocking industrial activity, intra-African trade, and growing Africa's share of global trade is crucial for Africa's development.

The continent's capital resources may be limited, but they are significant. In many cases, it is not funding that is missing, but projects which are well structured and bankable. Africa needs to put in place policy and regulatory regimes which attract investment.

In South Africa there is a similar need for infrastructure development, especially by the municipalities, in unison with the government and private enterprise.
The DBSA has a vital role to play, not only in financing vital projects, but also by enticing others to contribute to infrastructure projects that will aid inclusive growth and transformation.

THE DBSA'S VALUABLE CONTRIBUTION

Despite the challenging macro-economic environment, the DBSA again delivered outstanding results: Infrastructure financing for the year totalled R12.4 billion, bringing to R64.4 billion the total disbursed over the past five years. Municipalities received R5.6 billion in infrastructure financing, whilst R5.2 billion was committed to this segment. It is anticipated that over 224 000 households will benefit and 18 014 employment opportunities will be created once the committed projects are completed. During the year, 12 schools, 342 houses and 17 infrastructure projects were completed in secondary and under-resourced municipalities as part of the municipal implementation support programme.
28 health facilities and 10 rural access roads were completed. That created 10 255 employment opportunities and supported 500 small and medium enterprises.

I thank the DBSA Board, management and staff for their ongoing commitment to sustainable infrastructure development.

The DBSA, as a state-owned enterprise, is encouraged to continue building strong relationships on the continent, as there are many projects which they can co-deliver with African partners. The state plays a leading role in capital investment, due to the resources it can mobilise. Together, those resources can be deployed strategically to advance the development of South Africa, the region and the continent.

Malusi K N Gigaba, MP
Minister of Finance

DBSA MANDATE

In broad and aspirational terms, the DBSA has the following vision:

VISION

A prosperous and integrated resource-efficient 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 solutions to:

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

Since 1994, the DBSA has positioned itself as a development finance institution (DFI) that champions, and often leads, infrastructure integration and development. It has sought to promote economic and social development by mobilising financial and other resources from the national and international private and public sectors for sustainable development projects in South Africa, the SADC region and the whole of the African continent.

The constitution and conduct of the DBSA Board of Directors are primarily governed by the Development Bank of Southern Africa Act, No 13 of 1997 (DBSA Act) and further regulated by the Public Finance Management Act, No 1 of 1999 (PFMA), the principles of the King Code of Governance Principles for South Africa 2016 (King IV) and the Protocol on Corporate Governance in the Public Sector. The DBSA's mandate is defined in section 3 of the DBSA Act.

In fulfilling its mandate, the DBSA is guided by a number of international, regional and local policies, accords and agreements, and subscribes to the goals and targets of the United Nations' *Transforming our World: The 2030 Agenda for Sustainable Development*. Furthermore, in accordance with COP22, we support business innovation and bringing scale to the emerging green economy. At a national level, the DBSA strives to improve the lives of all South Africans through the investment in infrastructure and in keeping with the priorities and objectives of the National Development Plan.

The DBSA is recognised as a single yet critical component of the national infrastructure system. The strategies listed below will assist the DBSA in fulfilling its mandate as defined in the DBSA Act:

- **Large-scale infrastructure investment**, in energy, transport, water and ICT as well as education, health and housing; as a critical enabler to foster economic growth.
- **Supporting integrated urban infrastructure development** in cities to promote economic growth and efficient spatial development which is key to achieving inclusive economic growth, job creation and poverty eradication in our urban areas.
- **The provision of much-needed planning and implementation support to municipalities**, together with increased private sector involvement with specific emphasis on lower tier secondary cities and under-resourced municipalities, intended to alleviate some of the mentioned constraints and fully enable expanded lending take-up.
- **Support to large state-owned companies** that play a central part in government's infrastructure development programme (in areas such as transportation, logistics, bulk water and energy), managed under the auspices of the Presidential Infrastructure Coordinating Commission (PICC).
- **Serving both domestic and regional requirements**. South Africa has concluded various bi-national and trade agreements with countries across the continent to support broader regional integration in line with the SADC integrated Infrastructure Development Plan, the Programme for Infrastructure Development in Africa (PIDA) and Africa 2063.
- **Crowding in the private sector** as the DBSA acts as a catalyst for third parties' participation in infrastructure development. Operating within the constraints of a limited balance sheet demands greater third party involvement from the private sector, international DFIs and pension funds.
- **Lifting the standard of living** by providing social infrastructure development in education, health, sanitation and other spheres. The DBSA not only finances but also provides direct implementation support, on a cost-recovery basis, for social infrastructure projects.
- **Remaining financially sustainable** as the DBSA develops strategies to ensure it meets its developmental mandate. The DBSA seeks to generate net returns on average equity of at least 4.5% annually (i.e. the average of the upper and lower inflation target bands of 3% to 6% respectively as defined by the South African Reserve Bank). The DBSA strives to ensure it remains below the regulatory gearing limit of 250% beyond the 2020 financial year.
- **Striving for continuous improvement and innovation** that secures the required results. There is increasing competition for deals, funding and professionals. There is a greater demand for sustainable investments from investors and this attracts new competitors. Apart from the traditional role players, a growing number of emerging countries are engaging with Africa as development finance partners. The DBSA is challenged to become a development financier of choice and strives to identify its niche, its comparative advantage and its value proposition.

THE DBSA'S ROLE IN SUPPORTING THE NDP AND SDG OBJECTIVES

The United Nations adopted 17 Sustainable Development Goals (SDGs) to shape a development agenda until 2030. The DBSA's investments are informed by the SDGs and it has identified six of these goals as its main priorities. The strategy of the DBSA is also linked to the objectives of the National Development Plan (NDP). The table illustrates how the DBSA can play a direct role in achieving the SDG and NDP objectives:

	SDG outcome	NDP outcome	
6 CLEAN WATER AND SANITATION	Ensure availability and sustainable management of water and sanitation for all	• Quality healthcare for all	3 GOOD HEALTH AND WELL-BEING
7 AFFORDABLE AND CLEAN ENERGY	Ensure access to affordable, reliable, sustainable and modern energy for all	• Environmentally sustainable and resilient: Transition to a low carbon-economy	12 RESPONSIBLE CONSUMPTION AND PRODUCTION
8 DECENT WORK AND ECONOMIC GROWTH	Build resilient infrastructure, promote inclusive and sustainable industrialisation, and foster innovation	• Investing in economic infrastructure • Improving the quality of education, training and innovation	4 QUALITY EDUCATION
11 SUSTAINABLE CITIES AND COMMUNITIES	Make cities and human settlements inclusive, safe, resilient and sustainable	• An inclusive and integrated rural economy • Transforming human settlements • Building a capable and developmental state	9 INDUSTRY, INNOVATION AND INFRASTRUCTURE
14 LIFE BELOW WATER	Take urgent action to combat climate change and its impacts		13 CLIMATE ACTION
17 PARTNERSHIPS FOR THE GOALS	Strengthen the means of implementation and revitalise the global partnership for sustainable development		16 PEACE, JUSTICE AND STRONG INSTITUTIONS

The other SDGs are:

1 NO POVERTY · 2 ZERO HUNGER · 5 GENDER EQUALITY · 10 REDUCED INEQUALITIES · 15 LIFE ON LAND

More details regarding the United Nations Sustainable Development Goals can be found online at www.un.org/sustainabledevelopment/sustainable-development-goals.

SUSTAINABLE DEVELOPMENT GOALS

THE DBSA AND ITS STRATEGY

AT THE CORE OF OUR MANDATE, THE DBSA SEEKS TO PLAY A PIVOTAL ROLE IN DELIVERING DEVELOPMENTAL INFRASTRUCTURE IN SOUTH AFRICA AND THE REST OF AFRICA.

The articulation of the DBSA's strategy for 2018 is summarised in the table below. The strategy is driven by the need to create world-class infrastructure catalysing capabilities in an ever-increasing competitive environment. The DBSA has chosen to respond in ways that will give effect to that, and has initiated actions to achieve that.

Emerging themes that demand a response	Responses and interventions formulated

As a result of global best practice:
• Play more of a role of a catalyst for private sector funding to invest in infrastructure, i.e. the role of "catalysing" or "crowding in"
• Form strategic partnerships so that the development finance institutions with similar mandates can pool funding and can be optimally invested across national boundaries
• Develop a programmatic approach rather than a project-by-project basis
• Align to global development and sustainability goals
	Focus on catalytic roles by:
	• Taking certain unique positions in transactions:
	  - Credit enhancement positions
	  - Taking longer tenor
	  - Development of structured finance solutions and products
	• Playing unique roles in the development landscape
	  - Preparation of master plans from which projects are identified and initiated
	  - Preparation of infrastructure papers for investment

As a result of increasing competition: • More asset management mandates are in existence and more funding allocated to development finance, sustainability and responsible investing	Leverage unique position, reputation and ratings in order to: • Form strategic partnerships on both the deal and funding sides • Initiate programmes for other DFIs and private sector to participate in Manage Infrastructure delivery mandates on behalf of other institutions

STRATEGIC DRIVERS

- Attain best practice of "catalysing development"
- A progressively more competitive sector

Response: Formalising and deepening "catalysing competencies"

- Advise, plan and prepare infrastructure projects for investment and delivery
- Crowd in third party capital as far as possible
- Bulk efforts through programme development and management as far as possible
- Partner with organisations with similar development mandates
- Secure implementation mandates from institutions

Choices made: Actions taken

- Implement innovative credit enhancement products
- Leverage longer tenor advantage
- Forge domestic regional and international cooperation with DFIs
- Establish and manage project management offices
- Take a programmatic approach wherever possible

*Turn over to view fold out

STRATEGIC ENABLERS

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

STRATEGIC OBJECTIVES

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

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

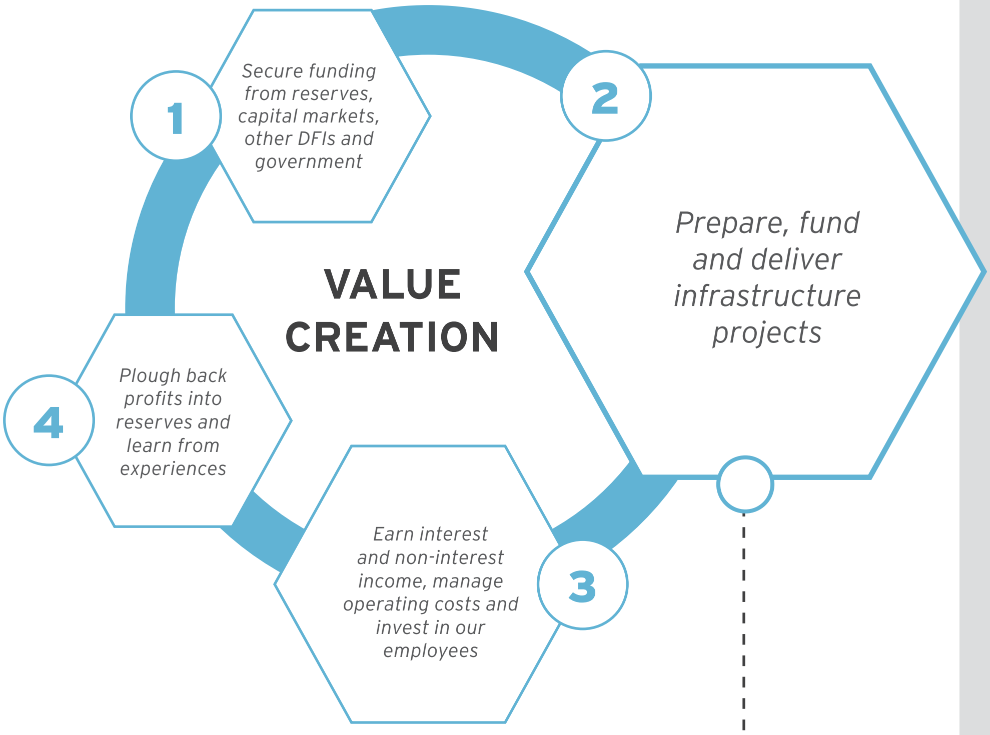
The strategy maintains focus on social and economic infrastructure development but with an emphasis on driving financial and non-financial investments in the primary sectors of energy, transport, water and communications, whilst providing support to various social sectors such as health, education and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

Create and maintain a 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 stimulating and exciting environment, which encourages development and growth.
Balance sheet capacity	Balance sheet strengthening and implementing action of strategies in order to meet the growth ambitions.
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 should drive performance.
Developing and leveraging our strategic 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 the business to gain a competitive advantage through access to knowledge and project funding. Distinguishing ourselves by proactively partnering with our clients and development partners to originate, plan and deliver infrastructure projects.
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.
Provide innovative infrastructure solutions	Innovation can support the DBSA to solve client and market needs more effectively, gain a competitive edge through product diversification, accelerate delivery of infrastructure, expand reach and provide solutions to ensure the effective utilisation of resources as well as the transition to a low-carbon economy.

VALUE CREATION

The DBSA strategy is designed around the ability to leverage its competitive advantages as described below:

COMPETITIVE ADVANTAGE	SOURCE OF COMPETITIVE ADVANTAGE
Integrated infrastructure solutions provider	• The DBSA operates across the infrastructure finance value chain and can therefore offer clients an integrated solution. • Opportunities for cross-selling across DBSA divisions.
Early-stage risk	• As a DFI, the DBSA is positioned to take on early-stage risk.
The DBSA – a trusted partner	• The DBSA is positioned to leverage its role as a trusted partner between the government and the private sector.



THE DBSA'S PRIMARY FOCUS

The DBSA has chosen to offer solutions from end to end along the infrastructure delivery value chain as follows:

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

KEY PERFORMANCE INDICATORS (KPIs)

1 **Secure funding from reserves, capital markets, other DFIs and government**	2 **Prepare, fund and deliver infrastructure projects**	3 **Earn interest and non-interest income, manage operating costs and quality of loan book and invest in our employees**	4 **Plough back profits into reserves and learn from experiences**
Internal ratios • Debt/equity • Liquidity coverage • Net stable funding	Prepare • Gross value of bankable projects prepared Finance • Value of infrastructure disbursements • Planning and implementation support to municipalities Delivery • Total funds under management • Implementation support to SIP 6 • Cost-to-income ratio of Infrastructure Delivery Division (IDD)	Financial • Sustainable earnings • Net interest margin • Cost-to-income ratio (excluding IDD) • Non-performing loan book after specific impairments Human capital • Development and retention of key skills • Leadership development as part of succession planning programme • Implementation of culture change initiative	• Return on average equity • Client and partner satisfaction • New product development (product diversification) • Effectiveness of business intelligence and knowledge management processes

*Refer to page 16 for our historical and targeted performance against our **key performance indicators**.*

OUR BUSINESS MODEL

HOW WE SUPPORT INFRASTRUCTURE DEVELOPMENT AND CREATE VALUE

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

OUR RESOURCES

INTELLECTUAL CAPITAL

The DBSA has a strong brand, reputation and relationships.

We possess valuable industry-specific expertise and know-how in infrastructure investment. By combining this advantage with our own resources and those catalysed from third parties, we are able to play a leading role in meeting the infrastructure need in Southern Africa.

We have a competitive advantage through our ability to absorb counter-cyclical risk. This allows us to develop new and innovative products and processes.

SOCIAL CAPITAL

Our clients, partners and government relationships are central to our business to support infrastructure development. We rely on these relationships to deliver on our mandate.

The communities in which we operate are at the core of what we do. Delivering on the infrastructure need expands our social capital. This includes making more people economically active as well as contributing to their education, health and housing.

Late or non-delivery of these vital services erodes social capital.

*Refer to the separate **Sustainability Review** for the DBSA's projects, not only in infrastructure delivery, but also health, education, housing and energy and water supply.*

FINANCIAL CAPITAL

Our financial capital comprises funds available for use in our business, including financing resources, such as debt and equity, as well as funds generated through our operations and investments.

Financial capital is generated through net interest income, services and investment returns, and conserved through cost-efficiency. It is distributed as expenses, such as salaries. It is also applied to improved socio-economic conditions, thereby making it a sustainably available capital.

*Refer to page 18 of the **Sustainability Review** for a Value Added Statement, reflecting how the DBSA's financial capital was earned and distributed in the past two years.*

*Refer to the **Chief Financial Officer's** report for the DBSA's financial performance.*

HUMAN CAPITAL

Human capital takes the form of the people we employ as well as others we work with through our partners, customers and suppliers, together with their health, knowledge and skills. It depends on the availability of appropriate skills, and efforts by us and our network to invest in, expand and transfer skills.

Our commitment to human capital growth is evident from our focus on improving employee diversity and ongoing investment in skills transfer and training.

*Refer to the Human Capital section on pages 76 to 81 of the **Sustainability Review** for further information on our efforts to preserve and enhance this capital.*

		DESCRIPTION	2017	2016
INTELLECTUAL CAPITAL	Our strong brand, reputation and relationships.	Experience in infrastructure development:	**33 years**	32 years
		Owned by the South African government.		
		Infrastructure development services: project preparation, financing and implementation.		
SOCIAL CAPITAL	The communities in which we operate are at the core of what we do. Clients, partners and government relationships are central to our business to support infrastructure development.	Countries in which we have active exposures:	**14 countries**	13 countries
		Key regulators: the National Treasury, Parliament, Department of Labour and the Johannesburg Securities Exchange.		
FINANCIAL CAPITAL	Funds available for use in our business, including financing resources, such as debt and equity, as well as funds generated through our operations and investments.	Capital and reserves:	**R32.0 billion**	R29.3 billion
		Additional capital received from government to support growth:	**R nil**	R3.0 billion
		Financial market liabilities:	**R 50.6 billion**	R51.8 billion
		Cash generated from operations:	**R3.8 billion**	R3.0 billion
HUMAN CAPITAL	The people we employ as well as others we work with and their health, knowledge and skills.	Number of employees:	**491**	461
		Number of contract employees to support infrastructure delivery:	**97**	108

OUR OUTPUTS

PROJECT PREPARATION

Appointed as managing agent for €100 million Infrastructure Investment Programme for South Africa (IIPSA) and SADC Project Preparation Development Facility (PPDF)

Total projects approved for funding:

R585 million

[2016: R7.6 billion]

Total funding mobilised for project preparation cost (including co-financing):

R163 million

[2016: R446 million]

Projects being prepared for funding at year-end:

R64 billion

[2016: R216 billion]

INFRASTRUCTURE FINANCING

Total approvals:

R15.3 billion

[2016: R24.6 billion]

Total disbursements:

R12.4 billion

[2016: R17.1 billion]

- Energy 2017: **R7.2 billion** [2016: R9.3 billion]
- Water 2017: **R1.5 billion** [2016: R1.5 billion]
- Transport 2017: **R1.9 billion** [2016: R2.7 billion]
- Communications 2017: **R143 million** [2016: R369 million]
- Secondary sectors 2017: **R1.7 billion** [2016: R3.2 billion]

Number of projects supported:

62

[2016: 74]

Total commitments:

R13.3 billion

[2016: R18.3 billion]

Disbursements to the rest of SADC:

R1.9 billion

[2016: R3.3 billion]

Disbursement to municipalities in South Africa:

R5.6 billion

[2016: R8.1 billion]

- to metros: **R4.5 billion** (2016: R7.5 billion)
- to secondary municipalities: **R839 million** [2016: R430 million]
- to under-resourced municipalities: **R240 million** [2016: R173 million]
- Book debt to metros, secondary and under-resourced municipalities: **R27 billion** [2016: R24 billion]
- Total number of municipal clients: **126** [2016: 149]

Secondary and under-resourced municipalities

- Planning: Infrastructure master plans and detailed designs completed

Two

[2016: Four]

- Implementation
  - Number of municipalities supported: **21** [2016: 12]
  - Number of projects in planning stage: **nil** [2016: 10]
  - Projects in construction: **4** [2016: 36]
  - Projects completed: **17** [2016: 70]

DEVELOPMENT OUTCOMES

Municipal (South Africa)[1]

- **Energy** (includes upgrading of substations and electrification of households) - total households impacted:
  182 727
  [2016: 251 680]
- **Rehabilitation of roads** - total households impacted:
  842
  [2016: 33 450]
- **Water** (includes reticulation and provision of bulk water) - total households impacted:
  22 814
  [2016: 63 216]
- **Sanitation** (includes reticulation, upgrading and construction of waste water treatment works) - total households impacted:
  15 533
  [2016: 254 560]
- **Residential facilities** - total households impacted:
  1 328
  [2016: 34 889]
- **Transportation** - total households impacted:
  792
  [2016: nil]

Non-municipal (South Africa and SADC)[1]

- **Energy generation**
  - Coal: **38 MW** [2016: 65 MW]
  - Renewable (solar IPP): **20 MW** [2016: nil MW]

  Total project impact: **860 MW** [2016: 9 000 MW]
- **Education**
  - Student accommodation: **1 139 beds** [2016: 1 000 beds]

  Total project impact: **1 800 beds** [2016: 1 000 beds]
- **ICT**
  - Fibre-optic roll out: **564 km** [2016: nil km]

  Total project impact: **1 500 km** [2016: nil km]
- **Transport**
  - Kilometers of rail: **53 km** [2016: nil km]
    Total project impact: **425 km** [2016: nil km]

Implementation support to municipalities (non-lending)[2]

- **Number of households** that received access to new and improved service in water, sanitation and electricity:
  7 545
  [2016: 63 242]
- **Temporary job opportunities created**:
  1 178
  [2016: 5 240]

1. Anticipated development impact based on signed commitments.
2. Actual development impact based on 17 projects completed from secondary under-resourced municipalities.

INFRASTRUCTURE IMPLEMENTATION

→ Value of funds under management:

R3.3 billion

[2016: R3.3 billion]

→ Value of infrastructure delivered:

R2.8 billion

[2016: R2.6 billion]

- → Schools completed: **12** [2016: 35]
- → Schools in construction: **10** [2016: 22]
- → Storm damaged schools refurbished: **49** [2016: nil]
- → Houses built: **342** [2016: 1 382]
- → Health facilities completed: **28** [2016: 111]
- → Storm damaged clinics refurbished: **6** [2016: nil]
- → Rural access roads completed: **14** [2016: nil]
- → **44** municipal projects completed [2016: 54]

FINANCIAL RESULTS

Net profit:

R2.8 billion

[2016: R2.6 billion]

Debt-to-equity ratio (excluding callable capital):

158%

[2016: 178%]

Cost-to-income ratio:

18.8%

[2016: 28.7%]

Staff costs:

R604 million

[2016: R731 million]

Paid to providers of capital (interest expense):

R3.7 billion

[2016: R3.4 billion]

Schools

- → Scholars enrolled during 2017: **>4 254** [2016: >17 900]
- → Total number of learners benefiting since inception: **>40 254** [2016: >36 000]

Health

- → More than **266 000** [2016: 35 000] people gained access to health counseling and testing in newly built clinics

Employment creation

- → Jobs created: **9 077** [2016: 6 462]

SMME development

- → Value of funds allocated to SMMEs: **R439 million** [2016: 710 million]
- → SMMEs benefiting: **500** [2016: 665]

*Refer to the separate **Sustainability Review** for more information on these development outcomes as well as examples of the DBSA's projects and initiatives to achieve the development outcomes*

KEY PERFORMANCE INDICATORS AND TARGETS

Objective	Key performance indicator	Target 2017	Actual 2017	Target 2018	Target 2019	Target 2020
CUSTOMER PERSPECTIVE (47%)						
	Project preparation					
	Gross value of bankable projects prepared	**R9.0 billion**	R0.6 billion	R20 billion	R22 billion	R25 billion
	Infrastructure financing					
	Total value of infrastructure unlocked	**R35.2 billion**	R48.2 billion	R57.5 billion	R75.5 billion	R104.1 billion
Sustained growth in development impact	Value of third party funds catalysed by the DBSA	**R5.6 billion**	R31.9 billion	R12.6 billion	R19.6 billion	R30.2 billion
	Value of infrastructure disbursements	**R16.4 billion**	R12.4 billion	R18 billion	R19.5 billion	R21 billion
	• South Africa	**R12.8 billion**	R8.7 billion			
	– Municipalities	**R6.0 billion**	R5.6 billion	R5.6 billion	R5.8 billion	R6.2 billion
	• Metropolitan cities	**R4.8 billion**	R4.5 billion	R4.3 billion	R4.4 billion	R4.8 billion
	• Secondary municipalities	**R1.0 billion**	R0.8 billion	R1.1 billion	R1.2 billion	R1.2 billion
	• Under-resourced municipalities	**R200 million**	R240 million	R200 million	R200 million	R200 million
Providing integrated infrastructure solutions	– Social infrastructure (education, health, housing and water)	**R1.2 billion**	R0.4 billion	R1.8 billion	R2.5 billion	R3.2 billion
	– Economic infrastructure (transport, energy and ICT)	**R5.6 billion**	R2.7 billion	R5.6 billion	R5.7 billion	R5.6 billion
	• Rest of Africa (including SADC)	**R3.6 billion**	R3.7 billion	R2.0 billion	R1.6 billion	R1.8 billion
	• SADC (excluding RSA)	**R2.5 billion**	R1.9 billion	R3.5 billion	R3.9 billion	R4.2 billion
	Structured Finance funds disbursed	**-**	-	R2.0 billion	R4.0 billion	R10.0 billion
	Implementation and delivery support programmes					
	Total funds under management and catalysed	**R4.2 billion**	R3.3 billion	R6.9 billion	R10.4 billion	R17.9 billion
	Client and partner satisfaction					
	Client and partner satisfaction – rating out of 5	**4**	3.9	4	4	4

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

The DBSA primarily plays a key role in the preparation, funding and building phases of the infrastructure development value chain.

The table below summarises the performance against the 2017 targets and the targeted deliverables for 2018 as well as the further two years to March 2020. The DBSA utilises the balanced scorecard methodology as a strategic measurement, alignment and management tool. The Board has oversight and approves the annual score derived from the Balanced Scorecard. This, in turn, is used as a basis for performance-based remuneration.

Refer to page 8 of the Annual Financial Statements.

Objective	Key performance indicator	Target 2017	Actual 2017	Target 2018	Target 2019	Target 2020
FINANCIAL PERSPECTIVE (33%)						
Maintain financial sustainability	Sustainable earnings[1]	**R1.1 billion**	R3.6 billion	Not applicable[1]	Not applicable[1]	Not applicable[1]
	Non-interest revenue (excluding IDD)	**R250 million**	R278 million	R250 million	R300 million	R350 million
	Net-interest margin[1]	**40.9%**	49.8%	Not applicable[1]	Not applicable[1]	Not applicable[1]
	ROE on sustainable earnings	**Not applicable**	11.6%	4.7%	4.7%	4.7%
	Net operating cash generated from operations	**Not applicable**	R3.8 billion	R3.9 billion	R4.1 billion	R4.4 billion
INTERNAL PERSPECTIVE (10%)						
Continuous improvement of internal systems and processes	Cost-to-income ratio: Financing business	**35%**	15%	30%	30%	30%
	Cost-to-income ratio of IDD[1]	**95%**	128%	Not applicable[1]	Not applicable[1]	Not applicable[1]
	Balance sheet capacity: Capital management	**Capital management strategy/ framework approved**	Capital management strategy and framework approved	Target to be determined	Target to be determined	Target to be determined
	Innovation	**Approval of an innovative concept/ product**	Four innovative concepts approved	Target to be determined	Target to be determined	Target to be determined
LEARNING AND GROWTH (10%)						
Create and maintain high performance environment	Development and retention of key skills	**85% of critical skills retained**	89%	>95%	>95%	>95%
	Reduction in entropy score	**3% reduction**	5% reduction from 2016 results	2%	2%	2%

1. Not applicable means that the key performance indicator is no longer part of the corporate balanced scorecard measures.

ENGAGING WITH OUR STAKEHOLDERS

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

DBSA STAKEHOLDER MAP

Stakeholders	How we engage	What we engage on	Stakeholders' contribution to value creation	Pages
Government (shareholder representative)	Regular meetings with the Minister of Finance and the National Treasury	The DBSA's developmental role; long-term sustainability; financial performance and Shareholder Compact	Provides the link to ensure alignment of the DBSA with National Priorities	4 to 5
Employees	Staff engagements at numerous levels; training and development needs analysis; results presentations; performance reviews; internal media; whistle-blower's hotline; and staff surveys	Strategy; financial performance; people development and training, transformation and employment equity, and Code of Conduct	To enhance employees' engagement and commitment as their efforts contribute to our success	78 to 81 and Sustainability Review
Clients and partners	Client and partner surveys; client and partner meetings; and marketing campaigns	Client needs (funding and non-funding support); implementation support (non-funding support); perceptions and expectations; job creation and environmental impact	Their business provides the basis for our continued growth To understand our clients' and partners' needs and enhance our development impact	9 to 17, 59 to 71 and the Sustainability Review
Regulators	Regular communication, meetings and reports with/to: • Standing Committee on Finance • Select Committee on Finance • National Treasury • Financial Intelligence Centre • Department of Labour • Johannesburg Stock Exchange	Compliance requirements; needs and expectations; feedback on performance and human capital matters, governance, financial control and risk	Provides the enabling regulatory framework in which we operate	28 to 52 and External auditor's report
Providers of finance	Meetings with analysts and rating agencies; investor road shows; announcement of results and website	Financial performance; market trends and issues; future prospects and organisational sustainability	Provide financial capital required to sustain and grow the business	76 to 81 and Annual Financial Statements
Suppliers	One-on-one meetings and presentations Tender invitation	Contract and service agreements and performance	Our objectives can only be achieved if we enjoy the loyal support of our suppliers Suppliers provide the valued expertise, products and services required to maintain our business and facilitate growth	Sustainability Review
Community	Project implementation; community surveys; marketing campaigns and website	Investment in socio-economic development; access to basic services and local labour opportunities	Communities are ultimately a key beneficiary of our services and they provide a deeper understanding of our social responsibility expectations, including job creation and environmental impact	14 to 15 and Sustainability Review
Media	Media briefings; press conferences and releases and print media	Key strategic initiatives; project information; operational and financial performances	Raise public awareness of our strategy, products and services as well as our operational results	

MANAGING OUR RISKS AND OPPORTUNITIES

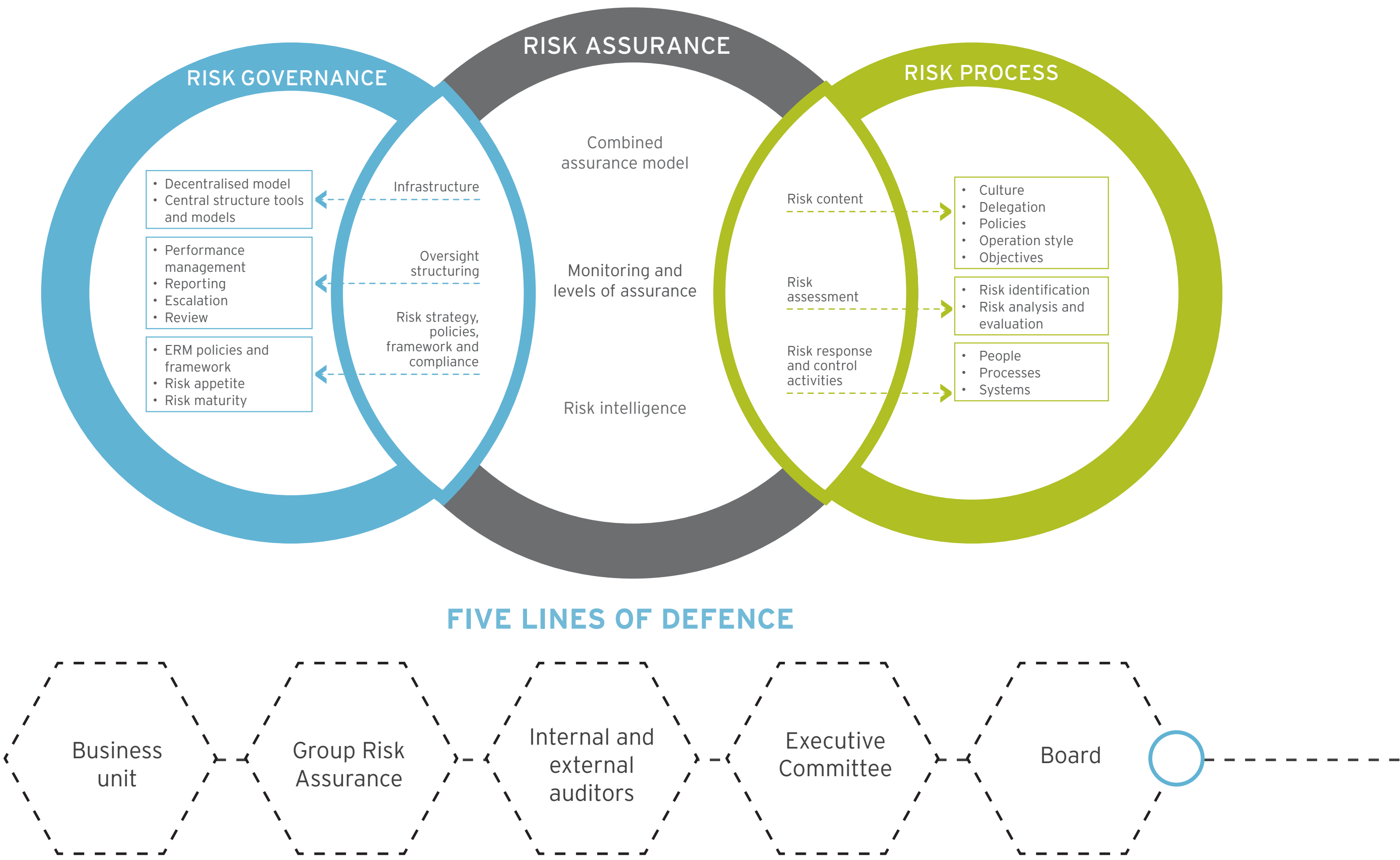
At the DBSA, anticipating and responding to our risks and opportunities is a fundamental part of delivering on our mandate and ensuring that we deliver on a sustainable basis. The DBSA Board is ultimately accountable for the effective management of risks and has adopted an enterprise-wide risk management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

RISK IS MANAGED ON FOUR LEVELS	
Strategic risk	The possibility that unforeseen opportunities or threats may render the DBSA's strategy ineffective or uncompetitive or that events or circumstances may occur which could hinder the ability of the DBSA to implement its strategy and successfully deliver on its mandate
Operational risk	The possibility that internal or external events and circumstances can have a disruptive impact on the reliability, continuity, quality and efficiency of the DBSA's operations or cause damage to tangible assets or harm to intangible assets
Business risk	The possibility that unknown events or circumstances can result in deviations from the returns expected on individual business propositions or impact on the planned outcomes of specific value-creating initiatives
Financial risk	The possibility that financial losses may arise from the DBSA's treasury operations due to volatilities in the market, counterparty defaults and liquidity positions

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

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

THE DBSA ENTERPRISE-WIDE RISK MANAGEMENT SYSTEM



The Group Risk Assurance division provides risk policies, strategies and best practice standards for the DBSA 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, while the Group Risk Assurance division undertakes risk monitoring and consolidated reporting at a group-wide level, drawing on and aggregating the risk reporting from the divisions. The Audit and Risk Committee is mandated to oversee the implementation of the DBSA's ERM framework and assesses key risk reports and indicators on a quarterly basis.

INTERNAL CONTROL ENVIRONMENT

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

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

QUALITY ASSURANCE ASSESSMENTS FOR THE INTERNAL AUDIT FUNCTION

Internal Audit conforms to the International Professional Practice Framework 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 IV. The function has further implemented a Quality Assurance and Improvement Programme where internal quality assurance assessments are conducted on an ongoing basis for all audit engagements. Additionally, periodic self-assessments are conducted to assess the function as a whole in terms of quality, and areas of improvement.

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

COMBINED ASSURANCE

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

The DBSA's combined assurance model addresses the key risks facing the DBSA, coupled with the key processes and controls in place to ensure the mitigation and/or minimisation of these key risks. Along with the five lines of defence strategy that the DBSA has adopted, the combined assurance model seeks to identify the assurance providers of the identified key risks. The assurance providers are delineated in the combined assurance map, which is based on the corporate strategic objectives and risks. The map drives the internal audit annual plan and the three-year rolling plan.

The assurance providers report accordingly to the required governing bodies regarding the outcome of the assessment of the risks and control environment in place to mitigate those risks.

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

Additionally, the Internal Audit function annually issues a written assessment to the Audit and Risk Committee, as required by King IV. 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.

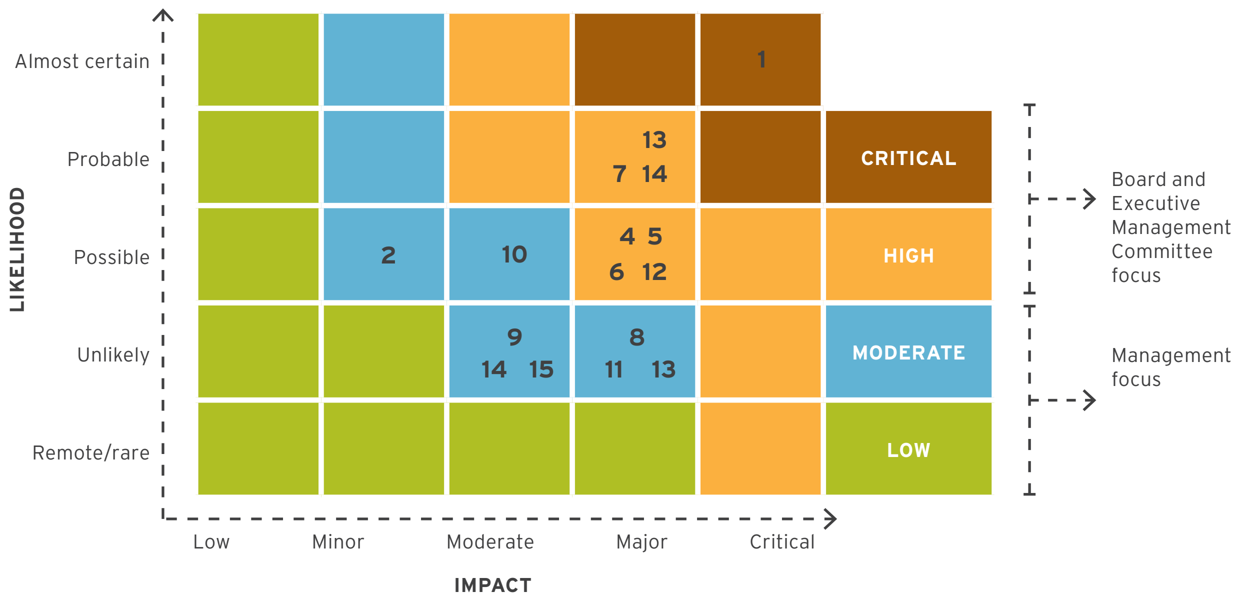
LINE OF DEFENCE	ROLE	RESPONSIBILITY
First	**Business units, support functions, line management and all staff**	Implementation and management of risk
Second	**Group Risk Assurance**	Perform a policy-setting and monitoring role to ensure implementation of risk management principles and adherence to regulation and legislation
Third	**Internal and external audit**	Independent assurance on the 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 accountable to the shareholder for strategy and performance

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

KEY ENTERPRISE-WIDE RISKS

The DBSA Board and management team continuously review the top corporate risks to ensure an appropriate understanding of our operating environment.

The residual risks facing the DBSA are reflected on this heat map:



KEY RISK INDICATORS

Residual risk improved compared to prior year | Residual risk unchanged compared to prior year | Residual risk increased compared to prior year | New top risk

	RISK	CONTEXT	STEPS TAKEN IN MITIGATION	LINK TO STRATEGY
Strategy and execution				
1	**Macro-economic** Risk of an uncertain and volatile macro-economic environment **Residual risk: Critical**	The global macro-economic environment has increasingly become more volatile to note a few examples: sustained low commodity prices notably oil price, rise in interest rates and Brexit event. Locally the South Africa sovereign credit rating was lowered to sub-investment grade. Further, the continued volatility of the rand and slow economic growth are seen as exacerbating this risk in the short to medium term.	• Dedicated market analysis • Continuous assessment of alternative sources of funding • Review and improvements of pricing model • Pro-active monitoring of the credit portfolio	
2	**Changing competitive landscape** Failure to innovate and adapt to a changing infrastructure development market **Residual risk: Moderate**	The developmental finance landscape is constantly evolving with the emergence of new players. Competition is also increasing and becoming more complex, with commercial banks investing in sectors that the DBSA has traditionally focused on, for example, second-tier metros and secondary municipalities.	• Innovation has been prioritised as an imperative • Ongoing analyses of economic and global market conditions • Board review and challenge of strategy • Improving service offering to stakeholders by providing enhanced infrastructure solutions throughout the value chain • Project preparation function to support the development of the project pipeline • Provision of planning and implementation support to under-capacitated municipalities	
3	**Credit Risk** Ineffective credit default, concentration risk including ineffective pricing, capital allocation and poor deal selection **Residual risk: High**	As a DFI, the DBSA provides loans to clients, which exposes it to credit risks. Credit risk is the risk of default on a debt that may arise from a borrower failing to make required payments.	• Proactive risk management applying due diligence process for new deals • Monitoring reviews and governance reporting and oversight • Credit monitoring, analysis and reporting on the health of the portfolio, and concentration risks • Formal watch listing process to proactively identify emerging risks impacting portfolio • Business Support and Recovery function • Collateral administration process	
4	**Country and political** Risk of geo-political events in the countries in which the DBSA operates, leading to increase in credit impairments and reducing financing opportunities **Residual risk:** **High**	Changes in government policies or decisions impact opportunities and projects that the DBSA is pursuing or is invested in within the region that the DBSA operates. Political events have a bearing on infrastructure opportunities we pursue.	• Country risk management framework and model is in place, limits are applied at a country level, based on risk profile • Deal-specific mitigants are considered, for example, political risk insurance, effective deal structuring, investing in projects of strategic importance to target country, and minimising impact when there are political changes • Inter-governmental relations are developed and maintained in partnership with the Department of International Relations • Ongoing stakeholder management • Developing and leveraging key strategic partnerships	

	RISK	CONTEXT	STEPS TAKEN IN MITIGATION	LINK TO STRATEGY
5	**Capital and funding** Risk of inadequate capital levels to sustain the business and execute our strategic growth, including potential increased cost of funding due to external events impacting competitiveness **Residual risk: High**	The DBSA has capital restrictions through the maximum gearing ratio. However, if it is to meet its infrastructure developmental targets over the medium term, it requires an appropriate level of capital and funding to sustainably meet its objectives.	• Continuous review of alternative sources of funding • Capital management project is in progress • Strategy, financial plan and three-year financial forecast annually reviewed and approved by the Board • Cost-recovery principles incorporated in memoranda of agreement • Treasury strategy and risk framework implemented	
6	**Occupational health and safety** Risk arising from the events in the workplace leading to illnesses, accidents, injuries, fatalities and impacting the health and well-being of DBSA staff, and their partners in projects and operations **Residual risk: High**	The DBSA leadership recognises that people is the most valuable asset and as such want to ensure that reasonable practicable safe solutions are implemented during all our activities and operations. This risk is much higher in the Infrastructure Delivery Operations.	• Occupational health and safety governance, policy and process enhancement • Ongoing monitoring of projects/contractors • Site and induction and awareness training • Continuous reporting to oversight committees • Dedicated OHS specialists in the built environment	
7	**Infrastructure implementation** Failure to deliver on the DBSA's non-financing mandate, including the risks associated with construction-related activities, such as safety, pipeline and contractor management risks **Residual risk: High**	The risk relates to the actual delivery of infrastructure, which is not the same as the lending operations of the DBSA. Some specific examples are ineffective supply chain and contractor management processes.	• Construction risk framework work-in- progress • Dedicated built environment legal skills to review contracts and memoranda of agreement • Pricing model has been developed to determine the true costs of implementing these mandates. All projects are implemented on a direct cost-recovery basis • Closer monitoring of projects for all contracts and projects	
8	**Development impact** Risk of lower-than-expected development impact and supporting projects that impact society and environment negatively **Residual risk: Moderate**	The DBSA's mission is to advance development impact in the region and effectively integrate and implement solutions to improve the quality of lives and support economic growth through investment and development of infrastructure.	• Project-level risk management controls such as contractual and risk financing mechanism • Rigorous social and environmental appraisal	
9	**Reputational** Failure to prevent and respond to reputational risk events impacting on the DBSA's goodwill and reputation **Residual risk: Moderate**	Management acknowledges the importance of upholding a good reputation to our stakeholders.	• Implementation of reputational risk management framework • Implementation of brand, communication and marketing strategies	

	RISK	CONTEXT	STEPS TAKEN IN MITIGATION	LINK TO STRATEGY
10	**Sustainability** Risk of the DBSA's inability to be a responsible social citizen, preserve and maintain long-term social, economic and environmental balance in fulfilling its mandate and operations **Residual risk: Moderate**	South Africa is a signatory to the UN Sustainable Development Goals and the DBSA is one of the local DFIs positioned to assist the country in delivering on this aspiration. The DBSA has embedded sustainability assessments in projects we prepare, finance and implement including operations thus enhancing the sustainable development of the social, economic and ecological environment.	• Environmental, societal, and technical assessments are performed during the early review and due diligence of the projects in the project appraisal process • Risk responses for projects deemed to be above appetite require clauses on legal contracts, periodic reporting and monitoring • Rigorous social and environmental appraisal	
11	**Stakeholder management** Risks from failure to identify and build effective relationships with key stakeholders, resulting in expectations not being met and impacting long-term sustainability **Residual risk: Moderate**	The DBSA recognises that effective stakeholder management is imperative to the success of achieving its strategic and operational goals and objectives.	• Managing stakeholders according to the approved stakeholder framework • Brand, communication and marketing strategy	
12	**Delivery and execution** Risk of inefficient processes, including inefficient collaboration and alignment impacting efficiencies and targets **Residual risk: High**	We strive for operational excellence by creating an operating model, structure, skills and processes that enable efficient provision of innovative finance for development and enhanced project execution capabilities.	• Various initiatives identified and implemented to improve process efficiencies • Continuous improvement initiative in line with high performance values • Improving internal collaboration through the value chain in order to improve client services and products	
13	**Human capital** Failure to maintain a high performance culture; recruit, develop and retain key staff members **Residual risk: Moderate**	People are the DBSA's most valuable resource and leadership is committed to attracting, developing, retaining and rewarding the best people. The DBSA leadership recognises that a positive culture will support a high performance outcome.	• Implementation of a culture change programme • Retention strategy, which includes performance incentives benchmarked with peers, enhancement of the performance management process, talent management and succession plans reviewed regularly	
14	**Information technology** Cyber security risk as well as inadequate and unavailable ICT systems **Residual risk: Moderate**	In today's world ICT is a key enabler in unlocking operational effectiveness to continue to deliver on the DBSA's mandate. In addition, increased sophistication of cyber attack capabilities, including related legislative requirements, require focus from a risk perspective.	• ICT governance, strategy and related processes are in place • Implementing information security management system and cyber security management strategy	
COMPLIANCE RISK				
15	**Compliance and governance** Risk of non-compliance to laws and regulations as well as fraud and corruption **Residual risk: Moderate**	There has been increasing regulation within the financial services sector and focus on conduct risk by regulators since the 2009 financial crisis and the DBSA is not immune to these growing requirements, especially with growth into the rest of the continent.	• Internal controls reviewed on a regular basis • Fraud prevention plan as well as a fraud hotline is in place • Dedicated governance, compliance and legal functions • Project-specific reviews for each of the deals we finance • Compliance monitoring process is in place	


02
GOVERNANCE

02
GOVERNANCE

CHAIRMAN'S STATEMENT

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

JABU MOLEKETI
CHAIRMAN

ECONOMIC OVERVIEW

The current outlook for South Africa's economy is shaped by a convergence of long-term structural trends, decline in the terms of trade for commodity producers, and a vulnerability to new shocks. Profound uncertainty exists about future economic prospects. Growth is too low to raise living standards and reverse the effective exclusion of one third of the working population. The government is experiencing challenges in implementing structural reform, removing infrastructure bottlenecks and continued commitment to fiscal consolidation.

The currency experienced a sharp decline in December 2015 and has not reached previous levels. The global uncertainty that exists further affects South Africa's economic prospects adversely.

GDP growth rates	2017 %	2016 %
Global	**3.4**	3.1
Advanced economies	**1.8**	1.6
Emerging & Developing economies	**4.6**	4.2
South Africa (SARB, Jan 2017)	**1.2**	0.1

SOUTH AFRICA'S RATINGS REVIEW

After the year-end, Standard & Poor's (S&P) Global downgraded South Africa's sovereign credit rating one notch from BBB- to BB+, with a negative outlook, placing the country's bonds in "speculative grade". Fitch subsequently downgraded both South Africa's local and foreign currency ratings. Moody's placed South Africa on review for downgrade which culminate into a credit downgrade for both long-term foreign currency and local currency ratings to Baa3 to Baa2 with a negative outlook. The key factors considered by the ratings agencies have been infrastructure constraints, especially in the power sector, unstable labour relations, high rates of unemployment, slow economic growth rates, risks to fiscal consolidation given the large share that the public sector wage bill makes of recurrent expenditure, escalating contingent liabilities accumulated by State Owned Enterprises as well as governance failures among them.

CRITICAL FACTORS INFLUENCING THE OUTLOOK FOR INFRASTRUCTURE IN AFRICA

The SSA region remains at a crossroads: macroeconomic and governance fundamentals have improved significantly in recent years, but lower commodity prices and a more moderate global growth outlook now demand greater state efficiency and efficacy if the region's growth dynamic is to regain its momentum. While political and social stability remain prerequisites for economic growth, many African countries, including South Africa, are facing a complex array of environmental, political, social, technological and business challenges.

It is estimated that Africa's population of one billion in 2010 should double by 2050. To that end, and according to the IMF, addressing the infrastructure gap remains critical to allow new higher-productivity sectors to develop, generate jobs for the rapidly growing young population, and foster integration into global value chains.

The African continent is urbanising fast (the share of urban residents has increased from 14% in 1950 to 40% today, and is expected to be 50% by the mid-2030s). This presents immense opportunities and challenges for human development. As the 2016 African Economic Outlook sets out, two-thirds of the investments in urban infrastructure to 2050 have yet to be made, the scope is large for new, wide-ranging urban policies to turn African cities and towns into engines of sustainable structural transformation.

Furthermore, African economies face the challenge of structural transformation in a global context of climate change (i.e. agricultural resources for both food and jobs, welfare challenges for SSA's rural poor, the already limited water supply is expected to be negatively affected). It is therefore highly likely that climate change could lead to mass migration and rapid urbanisation, which in turn would impact on human settlements and their supporting infrastructure.

Finally, security risks have recently come to the forefront in a number of African countries – especially due to the rise of religious extremism. The Arab Spring of North Africa has had significant impact on East and West African markets and politics, making marches and civil uprisings common occurrences to bring about change- and South Africa is not immune to this rising trend.

SOCIO-POLITICAL OVERVIEW

In addition to the abovementioned economic issues, South Africa faces a number of socio-political factors that are creating uncertainty and impacting on investments in infrastructure. These include, but are not limited to: rapid urbanisation, high rates of unemployed youth and high levels of disparity. The growth in informal settlements reflect all of these phenomena. The levels of social conflict and protest are increasing as a starkly unequal society continues to grow ever more unequal in an economy constrained by structural limitations and policies aimed at transformation, often at the expense of country competitiveness.

In South Africa, 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 could boost long-term growth potential. Greater competitiveness could enable local firms to access new markets and hire more people. Thus the NDP correctly points out that rebalancing and transforming the South African economy will take time.

Greater regional integration has also provided a new growth opportunity for South African businesses. Greater integration should positively influence the rate of development on the continent and is therefore considered an essential building block towards a prosperous Africa.

INFRASTRUCTURE OUTLOOK

South Africa is considered to be the most developed infrastructure market in Africa. According to the latest World Economic Forum competitiveness rankings, the country's transportation infrastructure in particular, compared favourably to that of its peer economies. Furthermore, the country plans to sustain its focus on infrastructure investment for the foreseeable future, with a R2.2 trillion commitment over the next decade. Over the

CHAIRMAN'S STATEMENT CONTINUED

next three years projected public-sector capital expenditure of R865.4 billion is expected to address infrastructure bottlenecks. This investment in infrastructure represents a significant economic opportunity for the country as well as for job creation.

However, there are still major gaps in electricity supply and access to clean water and sanitation facilities. The country's municipal infrastructure asset base remains under strain, owing to low levels of investment and poor maintenance with backlogs in bulk infrastructure remaining critical. The DBSA will continue to work closely with the new political incumbents following the recent municipal elections, as well as a range of public and private sector stakeholders in order to crowd-in investment in metros and smaller municipalities to ensure the timely infrastructure delivery.

Furthermore, the DBSA's investments will be informed by the Presidential Infrastructure Coordinating Commission's (PICC) pipeline of projects as well as the guidelines for capital investment priorities provided by the NDP. Linked to the NDP is the Integrated Urban Development Framework (IUDF). In the forthcoming year, the DBSA will continue to assess opportunities to support these initiatives as well as consider ways to further align its operations to these imperatives.

Outside of South Africa, 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. Despite the recent commodity price decreases, the region's infrastructure sector has been identified as one of the major global growth points for the next 20 years, specifically in sectors such as mining and agriculture.

Investor appetite for the region has also been reflected in a significant increase in investment in renewable power projects.

South Africa is also 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.

THE DBSA'S STRATEGIC RESPONSE

The Board and management have achieved significantly enhanced balance sheet strength and sustainable earnings over the past three years, and have now re-envisioned the DBSA's future course with an ambitious target of achieving R100 billion per annum in infrastructure unlocked by 2020, while remaining sustainably profitable. This will be achieved by doing the following:

- The balance sheet strength allows the DBSA to take unique, catalysing investment positions in order to be able to crowd-in third party capital. It therefore enhances the multiplier factor of own-capital versus third party capital invested in infrastructure development.
- Taking such unique investment positions will require taking less favourable positions on the risk-return continuum in order to enhance investment returns for third parties, although some of this reduction will be offset by diversifying revenues to non-interest revenue earned from fees.
- These fees will be earned from other infrastructure-catalysing activities such as preparation of municipal infrastructure plans, project identification, project preparation for investment, as well as infrastructure delivery via programme management and the maintenance of infrastructure assets in order to preserve and extend their useful lives.

In order to achieve the above, there are specific key competencies the DBSA has identified that the organisation must become proficient in:

- Crowding in third parties to take investment positions with the DBSA (by innovating products to enhance returns for others, and by being able to occupy and be competitive in all segments of the infrastructure delivery value chain).
- Forging deep partnerships with other strategic organisations in the infrastructure development sector in order to secure multiple small advantages in the sector.
- Avoiding direct competition as far as possible with commercial banks and other funders and by regarding third parties as co-investors.
- Using the DBSA's longer-tenor cost-of-funding advantage wherever possible to protect margins while catalysing and crowding-in third parties.
- Ensuring that the prudential limits are observed and that investing in infrastructure development is not constrained.

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

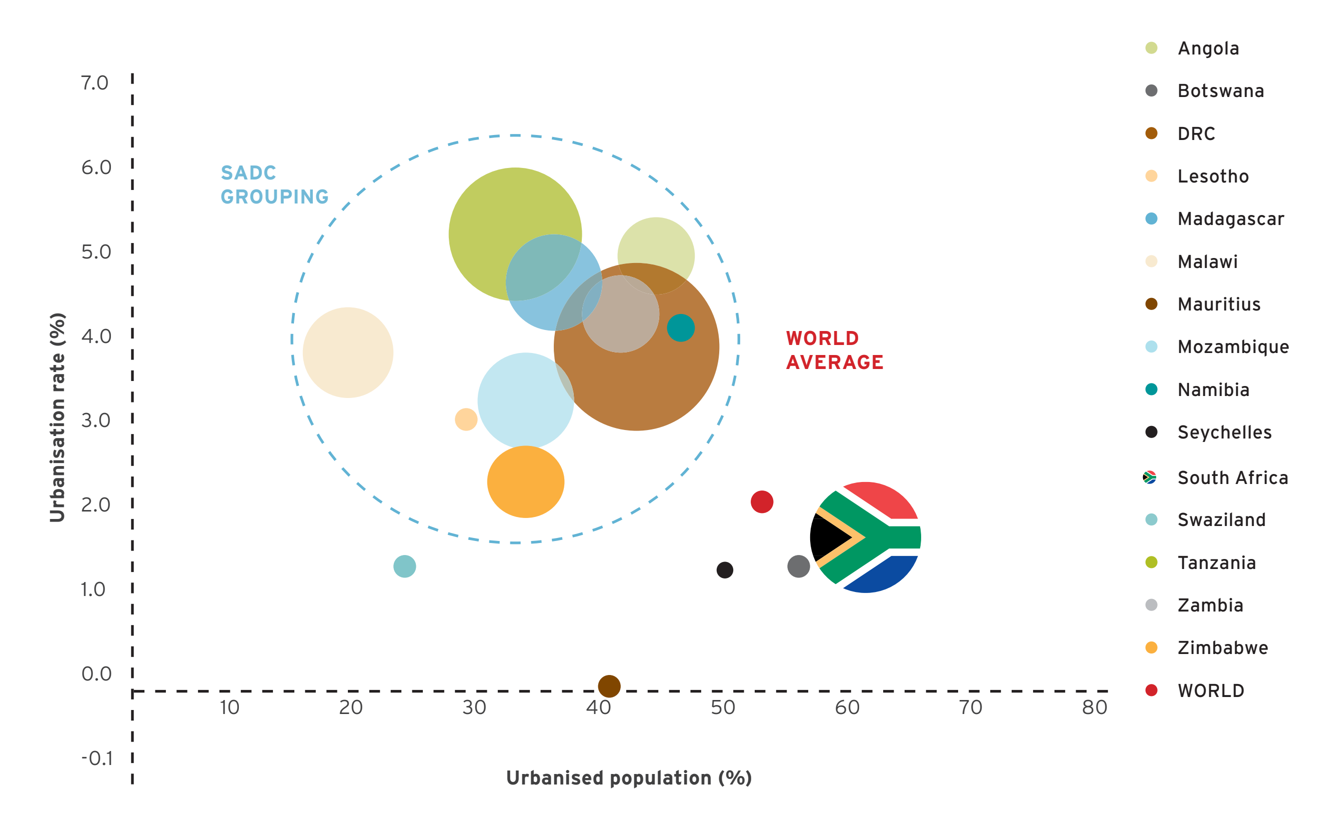
*See the **strategy** section, which starts on page 9 and the **stakeholder engagement** on page 19.*

GOVERNANCE

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

During the financial year, the DBSA conducted a web-based self-assessment using the Governance Assessment Instrument (GAI) made available by the Institute of Directors in Southern Africa (IoDSA). The results of the assessment indicated an overall assessment grading of AAA (2016: AAA), representing a "highest application" level across the various assessed categories. The assessment highlighted the need for the Board to ensure that the IT strategy is effectively integrated into strategic and business processes, as well as the monitoring of significant IT investments and expenditure. The Board will address this in the next financial year.

URBANISATION IN SOUTH AFRICA VS. SADC COUNTRIES VS. WORLD AVERAGE



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

- Review of delegation of authority to ensure alignment with the mandate as prescribed by the DBSA Act, including the delegation between the shareholder, Board and Chief Executive Officer (CEO)
- Skills identification assessment following recent changes to the Board. The Board identified the need to expand the skills base in terms of legal, credit, risk management as well as the need to appoint chartered accountants
- The nomination and recommendation to the Minister of Finance will continue into the new financial year
- Continuous director training
- Involvement of selected Board members in the culture improvement project to ensure that the right tone is set at the top

The DBSA is wholly owned by the South African government. The Minister of Finance holds the Board of Directors accountable for managing the DBSA to deliver on this mandate. During the year, we held an annual general meeting with the shareholder, where specific resolutions were taken.

This provided an opportunity for the shareholder and the Board to engage on strategic and operational matters.

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

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

*The **Directors' Report** can be found on pages 7 to 10 of the Annual Financial Statements.*

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

The diverse and experienced Board of Directors has been charged with the governance of the DBSA and is well suited to oversee the delivery of the strategy.

Refer to the **governance structure** on page 33, which depicts the aspects of the strategy delivered by the executive functions and governed by the committees of the Board and, ultimately, the Board as a whole.

As previously communicated on Ms Thembisa Dingaan's term coming to an end on 31 May 2017, we also bid farewell to four Board members (Dr Lungile Bhengu Baloyi, Ms Busisiwe Mabuza, Ms Dawn Marole and Mr Arthur Moloto) whose term had come to an end on 31 July 2017. I would like to take this opportunity to express gratitude to my fellow Board members for their invaluable contribution. In the same vein, I would like to warmly welcome the appointment of the six new Board members, whose details are found in the SENS report.

*Brief profiles of all current **Directors** are provided on pages 34 to 37.*

PERFORMANCE

The DBSA's total disbursements over the past five years amount to R64.4 billion, mostly in South Africa. As a result, the total development assets increased to R78.8 billion (2016: R77.1 billion) and total assets to R83.7 billion (2016: R82.3 billion).

The DBSA produced a net profit of R2.8 billion (2016: R2.6 billion), further contributing to ensuring its financial sustainability, which remains a vital pre-requisite to its ongoing ability to deliver on its mandate of infrastructure development support.

*The results are discussed in more detail in the section **performance and outlook**, on pages 54 to 61.*

I congratulate the executive team and all DBSA staff, admirably led by Patrick Dlamini as the CEO, on another strong set of results and the significant impact that has been achieved.

Jabu Moleketi
Chairman

GOVERNANCE STRUCTURE

MINISTRY OF FINANCE (SOLE SHAREHOLDER)
Minister Malusi Gigaba

DBSA Board
Chairman: Jabu Moleketi

	ARC	BCIC	HRNSEC	IDKC
BOARD COMMITTEE	**AUDIT AND RISK COMMITTEE**	**BOARD CREDIT AND INVESTMENT COMMITTEE**	**HUMAN RESOURCES, REMUNERATION, NOMINATION, SOCIAL AND ETHICS COMMITTEE**	**INFRASTRUCTURE DELIVERY AND KNOWLEDGE MANAGEMENT COMMITTEE**
Non-executive members	Gugu Mtetwa (Chairperson)	Busisiwe Mabuza (Chairperson)	Dawn Marole (Chairperson)	Frans Baleni (Chairperson)
	Martie Janse van Rensburg Dawn Marole Arthur Moloto	Jabu Moleketi Arthur Moloto Gugu Mtetwa Anuradha Singh Martie Janse van Rensburg	Frans Baleni Lungile Bhengu-Baloyi Busisiwe Mabuza Jabu Moleketi Gugu Mtetwa Mark Swilling	Lungile Bhengu-Baloyi Jabu Moleketi Anuradha Singh Mark Swilling Martie Janse van Rensburg Malijeng Ngqaleni
Executive members		Patrick Dlamini Kameshni Naidoo		Patrick Dlamini
Responsibilities	Oversees the DBSA's internal control framework, reviews and evaluates the integrity of financial and other statutory reporting, financial strategy, budget, capital expenditure, treasury strategies, loan impairments, enterprise risk management processes (including ICT risks) and compliance with laws and regulations.	Reviews credit strategy, credit risk management policy and programme, trends in portfolio quality and adequacy of provision for credit losses.	The committee's mandate covers the implementation of the human capital strategy, the nomination of directors, remuneration for the DBSA, Directors' affairs, governance, social and ethics matters.	Oversees the implementation of the strategic mandate and infrastructure delivery programmes, as well as the policy, advisory and knowledge management function.
For further detail	*See pages 46 and 47 for the **Audit and Risk Committee report**.*	*See pages 49 and 50 for the **Board Credit and Investment Committee report**.*	*See page 51 for the **Human Resources, Remuneration, Nomination, Social and Ethics Committee report**.*	*See page 52 for the **Infrastructure Delivery and Knowledge Management Committee report**.*

DBSA Executive Management Committee
Chairman: Patrick Dlamini

STEERING COMMITTEE	**ASSET-LIABILITY AND SUPPLY CHAIN MANAGEMENT COMMITTEES**	**INVESTMENT COMMITTEE**	**CORPORATE SERVICES COMMITTEE**	**INFRASTRUCTURE DELIVERY AND KNOWLEDGE MANAGEMENT COMMITTEE**
	Kameshni Naidoo (Chairperson)	Paul Currie (Chairperson)	Dolores Mashishi (Chairperson)	Mohammed Bhabha (Chairperson)

BOARD OF DIRECTORS

AT 31 MARCH 2017

2 **FRANS BALENI**
DEPUTY CHAIRMAN
HRNSEC
IDKC

3 **PATRICK DLAMINI**
CHIEF EXECUTIVE OFFICER
BCIC
IDKC

1 **JABU MOLEKETI**
CHAIRMAN
BCIC
HRNSEC
IDKC

6 **MARTIE JANSE VAN RENSBURG**
ARC
BCIC
IDKC

5 **DR LUNGILE BHENGU-BALOYI**
HRNSEC
IDKC

4 **KAMESHNI NAIDOO**
CHIEF FINANCIAL OFFICER
BCIC

7 **BUSISIWE MABUZA**
BCIC
HRNSEC

CHAIRMAN

1 **JABU MOLEKETI**
Director of companies
Born: 1957
Independent Non-executive Director from 1 January 2010
Chairman from 1 September 2011

Expertise
Financial economist, strategic leadership

Academic qualifications
- *Advanced Management Programme (AMP), Harvard Business School, USA*
- *Masters of Science in Financial Economics, University of London, UK*
- *Post-graduate diploma in Economic Principles, University of London, UK*

Listed entity or SOC directorships
- *Brait South Africa: Non-executive Chairman*
- *Remgro (Pty) Limited: Non-executive Director*
- *MMI Holdings: Non-executive Director*
- *Vodacom Group Limited: Non-executive Director*

DEPUTY-CHAIRMAN

2 **FRANS BALENI**
Director of Companies
Born: 1960
Independent Non-executive Director from 1 January 2010
Deputy-Chairman 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, Bishop's Stortford, U.K.*

Listed entity or SOC directorships
- *Petro SA: Non-executive Director*

EXECUTIVE DIRECTORS

3 **PATRICK DLAMINI**
Chief Executive Officer
Born: 1969
Executive Director from 1 September 2012

Expertise
Strategic leadership, human capital development and finance

Academic qualifications
- *Master of Science in Global Finance (MSGF), HKUST-NYU Stern*
- *Advanced Executive Programme, Kellogg School of Management, USA*
- *EDP, University of the Witwatersrand Business School*
- *BCom, University of KwaZulu-Natal*

4 **KAMESHNI NAIDOO**
Chief Financial Officer
Born: 1974
Executive Director from 1 January 2013 to 31 August 2017

Expertise
Finance

Academic qualifications
- *Advanced Management Programme (AMP), Harvard Business School, USA*
- *Chartered Accountant (SA)*
- *Advanced Certificate in Auditing, University of Johannesburg*

INDEPENDENT NON-EXECUTIVE DIRECTORS

5 **DR LUNGILE BHENGU-BALOYI**
Founder and Director: Development and Leadership Consulting
Born: 1956
Independent Non-executive Director from 1 August 2011

Expertise
Research, policy analysis, project management, public health law practitioner, poverty reduction and 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*

6 **MARTIE JANSE VAN RENSBURG**
Director of Companies
Born: 1957
Independent Non-executive Director from 1 January 2016

Expertise
Finance, treasury, project finance, infrastructure delivery and strategy

Academic qualifications
- *Chartered Accountant (SA)*

Listed entity or SOC directorships
- *FirstRand Bank Limited, Non-executive member: Africa and Specialised Finance Credit Committee*
- *Sephaku Holdings Limited: Non-executive Director and Chairman of the Audit and Risk Committee*
- *Ashburton: Non-executive member of Investments Credit Committee*
- *SaveTNet Cyber Safety NPC (non-profit company): Non-executive Chairman*

7 **BUSISIWE MABUZA**
Director of Companies
Born: 1963
Independent Non-executive Director from 1 August 2011

Expertise
Finance, business and strategic investment

Academic qualifications
- *MBA, Stern School of Business, New York University*
- *BA (Mathematics), City University of New York (Hunter College), USA*

Listed entity or SOC directorships
- *Afgri Limited: Non-executive Director*
- *Industrial Development Corporation: Non-executive Director*
- *Tsogo Sun Holdings: Non-executive Director*

BOARD COMMITTEES:

ARC	Audit and Risk Committee
BCIC	Board Credit and Investment Committee
HRNSEC	Human Resources, Remuneration Nomination, Social and Ethics Committee
IDKC	Infrastructure Delivery and Knowledge Management Committee

QUALIFICATION AND EXPERIENCE:

- L Leadership
- F Finance and investments
- G Government
- E Economics
- L Labour and talent development
- S Social and sustainable development
- R Research and policy
- L Law
- E Engineering

BOARD OF DIRECTORS CONTINUED

AT 31 MARCH 2017

8 DAWN MAROLE

ARC
HRNSEC

9 ARTHUR MOLOTO

ARC
BCIC

10 GUGU MTETWA

ARC
BCIC
HRNSEC

11 ANURADHA SINGH

BCIC
IDKC

12 PROF MARK SWILLING

HRNSEC
IDKC

13 MALIJENG NGQALENI

IDKC

8 **DAWN MAROLE**
Chairman: Executive Magic (Pty) Limited Consulting
Born: 1960
Independent Non-executive Director from 1 August 2011

Expertise
Strategic management, finance, human capital and business development

Academic qualifications
- *Executive Leadership Development Programme, GIBS*
- *MBA NEU Boston, Massachusetts, USA*
- *BCom (Acc), University of Zululand*
- *Diploma Tertiary Education, University of South Africa*

Listed entity or SOC directorships
- *MTN Group Limited, Non-executive Director*
- *Resilient Property Income Fund: Non-executive Director*
- *Santam Limited Non-executive Director*
- *South African Post Office: Non-executive Director*

9 **ARTHUR MOLOTO**
Political and Economic Advisor to the Speaker of National Assembly at Parliament of South Africa
Born: 1968
Independent Non-executive Director from 1 August 2014

Expertise
Law, economics and political strategy

Academic qualifications
- *MSc in Finance and Financial Law, University of London, UK*
- *Post-graduate diploma in Economic Principles, University of London, UK*
- *Bachelor of Arts Honours Development Studies, University of Limpopo*

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

10 **GUGU MTETWA**
Director of Companies
Born: 1979
Independent Non-executive Director from 1 August 2014

Expertise
Business Management, auditing and financial management

Academic qualifications
- *Partner development programme, GIBS*
- *Executive Leadership Development Programme, University of Stellenbosch Business School*
- *Chartered Accountant (SA)*

Listed entity or SOC directorships
- *Equites Property Fund Limited, Non-executive Director*
- *Italtile Limited: Non-executive Director*
- *Santam Limited: Non-executive Director*
- *Land Bank: Non-executive Director*

11 **ANURADHA SINGH**
General Manager: Infrastructure at MTN Group Limited
Born: 1971
Independent Non-executive Director from 1 August 2014

Expertise
Finance and business investment

Academic qualifications
- *MBA, Wits Business School*
- *BSc Eng (Mechanical), University of Natal (Durban)*

12 **PROF MARK SWILLING**
Divisional Head: Sustainable Development, University of Stellenbosch
Born: 1960
Independent Non-executive Director from 1 August 2014

Expertise
Research, policy analysis, sustainable development

Academic qualifications
- *PhD, Department of Sociology, University of Warwick, UK*
- *Bachelor of Arts Honours, Department of Political Studies, Wits University*
- *Bachelor of Arts, Wits University*

NON-EXECUTIVE DIRECTOR

13 **MALIJENG NGQALENI**
Deputy-Director General: Inter-governmental Relations (IGR), National Treasury
Born: 1959
Non-executive Director from 1 January 2016 (shareholder representative)

Expertise
Economics

Academic qualifications
- *MSc Agricultural Economics: University of Saskatchewan, Canada*
- *BA Economics: National University of Lesotho*

COMPANY SECRETARY

14 **BATHOBILE SOWAZI**
DBSA Company Secretary from 1 May 2011
Born: 1972

Academic qualifications
- *LLB, Rhodes University*
- *BA Law, University of Swaziland*
- *Advanced Banking Law, University of Johannesburg*

14 **BATHOBILE SOWAZI**
COMPANY SECRETARY

BOARD COMMITTEES:

- ARC Audit and Risk Committee
- BCIC Board Credit and Investment Committee
- HRNSEC Human Resources, Remuneration Nomination, Social and Ethics Committee
- IDKC Infrastructure Delivery and Knowledge Management Committee

QUALIFICATION AND EXPERIENCE:

- L Leadership
- F Finance and investments
- G Government
- E Economics
- L Labour and talent development
- S Social and sustainable development
- R Research and policy
- L Law
- E Engineering

SUMMARY

GOVERNANCE REPORT

AT 31 MARCH 2017

The DBSA applies sound corporate governance structures and processes, which the Board considers pivotal to delivering sustainable growth in the interests of all stakeholders. The DBSA's values-driven culture and Code of Ethics underpin its governance structures and processes, committing the organisation to high standards of business integrity in all its activities. Governance structures and processes are reviewed regularly, and adapted to accommodate internal developments and reflect national best practice.

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

GOVERNANCE FRAMEWORK

KEY LEGISLATION

- DBSA Act
- Public Finance Management Act
- Companies Act (where appropriate)

GOVERNANCE PRINCIPLES

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

POLICIES AND PROCEDURES IN PLACE

- Board Charter
- Code of Ethics
- Board and sub-committee terms of reference
- Conflict of interest
- Delegation of authority
- Company Secretary
- Ethics hotline
- Annual review of finance function
- Gift policy
- Politically exposed person (PEP)

Details of the Charter, including the role and responsibilities of the Company Secretary, as well as the Code of Ethics are available on our website, www.dbsa.org

GOVERNANCE PARTNERSHIPS

- SADC Development Finance Resource Centre (DFRC)

- Ethical leadership
- Zero tolerance for corruption and anti-competitive behaviour
- Clearly defined roles and responsibilities

For a more comprehensive report on the DBSA's enterprise-wide risk management processes, including internal control environment and the combined assurance, as well as material risks identified, refer to pages 20 and 25.

DISCLOSURE ON ROTATION:

The following key issues have been identified:

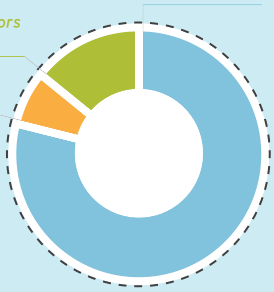
- The terms of the Chairman and Deputy Chairman both expire on 31 December 2018. The Board and shareholder are having engagements on the Board succession plan to ensure that there is no impact on the continuity of the Board or culture.
- Although members' terms are staggered to ensure rotation of directors on annual basis, there is a need to ensure that at any point we do not have a significant number of members retiring at the same time although eligible for re-appointments. Six new Board members were appointed with effect from 1 August 2017 following the end of term of the four Board members.

BOARD AND COMMITTEE RECORD OF ATTENDANCE

	DBSA Board	Audit and Risk	Board Credit and Investment	Human Resources, Remuneration, Nomination, Social and Ethics	Infrastructure Delivery and Knowledge Management	Combined ARC/ BCIC valuations	Combined ARC/HRNSEC
Number of meetings							
Scheduled	4	4	10	4	4		
AGM	1						
Strategy	1	-					
Risk-focused		2					
Combined ARC/BCIC valuations[1]						2	
Combined ARC/HRNSEC[6]							1
Special			4				
Independent Non-executive Directors							
Jabu Moleketi (Chairman)	6		8	4	2	2	1
Frans Baleni (Deputy Chairman)	5			4	4 (Chair)		1
Lungile-Bhengu-Baloyi	6				4		1
Thembisa Dingaan[3]	0		3 (Chair)			0	
Martie Janse van Rensburg	6	8	14		4		1
Busisiwe Mabuza[3]	6		13 (Chair)			2[2]	1
Dawn Marole	6	6		4 (Chair)		1	1
Arthur Moloto	6	6	12			0	1
Gugu Mtetwa	6	6 (Chair)	14	4		2	1
Anuradha Singh	6		10		4	2	
Mark Swilling	2			2	2		
Non-executive Directors							
Malijeng Ngqaleni[3]	6				2		
Executive Directors							
Patrick Dlamini (Chief Executive Officer)[4]	6	4	12	4	3	1	1
Kameshni Naidoo (Chief Financial Officer)[4,5]	6	4	14			1	1

1. *Combined ARC and BCIC valuations meeting to assess investment valuations. Conducted twice a year*
2. *BCIC members joining ARC meeting for investment valuations assessment*
3. *Board term of Ms Tembisa Dingaan ended on 31 May 2016. Ms Busisiwe Mabuza appointed as chairperson of BCIC*
4. *By invitation*
5. *The Acting CFO attended three of the six ARC meetings and one combined ARC and HRNSEC meeting on behalf of the CFO*
6. *Combined HRNSEC and ARC, special meeting convened to discuss remuneration policy/incentives*

BOARD INDEPENDENCE



- The Minister approves appointment of Directors
- The Chairman is an Independent Non-executive Director
- HRNSEC and ARC: No Executive Directors as members
- Declaration of interest at each meeting

DIVERSITY

MALE:
38%
Black male:
29% (4)
White male:
7% (1)

FEMALE:
62%
Black female:
57% (7)
White female:
7% (1)

EFFECTIVE GOVERNANCE LEADERSHIP

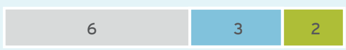
AADFI SGRS rating:
A+ (2015: A)
IODSA KING III self-assessment rating:
AAA (2015: AAA)
Accredited as a Green Climate Fund

Biennial Board effectiveness review conducted in 2017

ROTATION

Appointed for **three-year** term	Maximum number of terms: **3**	Left the Board during 2017: **1**	Joined the Board during 2017: **0**

Tenure of Non-executive Directors



Number of Non-executive Directors

0 - 3 years   >3 - 6 years   >6 years

55% with less than 3 years

82% with less than 6 years

The contract terms for each of the Directors are on page 9 of the Directors' Report.

ACTIVE PARTICIPATION

- **4** Annual Board meetings
- **1** Strategy session
- **1** Annual general meeting
- **31** Board sub-committee meetings
- **93%** Attendance of meetings

Bi-annual Board effectiveness review in progress

DIRECTOR QUALIFICATION AND EXPERIENCE

- L **LEADERSHIP** **13** (100%)
- F **FINANCE AND INVESTMENTS** **7** (53%)
- G **GOVERNMENT** **2** (15%)
- E **ECONOMICS** **3** (23%)
- L **LABOUR AND TALENT DEVELOPMENT** **3** (23%)
- S **SOCIAL AND SUSTAINABLE DEVELOPMENT** **2** (15%)
- R **RESEARCH AND POLICY** **2** (15%)
- L **LAW** **1** (7%)
- E **ENGINEERING** **1** (7%)

ENSURING EFFECTIVE GOVERNANCE AND GOOD CORPORATE CITIZENSHIP

Board independence + **Qualification and experience** + **Rotation** + **Active participation** = **Effective governance leadership**

APPLICATION OF KING IV PRINCIPLES

The King IV Report on corporate governance for South Africa, 2016 (King IV) was launched on 1 November 2016. Whilst disclosure on the application of King IV is only effective in respect of financial years starting on or after 1 April 2017, immediate transition is encouraged.
The DBSA prides itself on its high standards of corporate governance and has commenced implementing King IV. In order to benchmark the DBSA's practices against the latest available guidelines and trends, it completed an assessment of its practices against the principles of King IV. Below are details of the practices implemented and progress made towards achieving the 16 principles and desired governance outcomes:

PRINCIPLES	PRACTICES IMPLEMENTED AND PROGRESS MADE
Governance outcome: ethical culture	
1. The accounting authority should lead ethically and effectively	The DBSA's directors hold one another accountable for decision-making and acting in a way that displays the ethical characteristics stated in King IV. We furthermore undertook an assessment of the performance of individual members of the Board, which included peer evaluation of the ethical characteristics demonstrated by each director. As a result of the evaluation, the Board agreed to make ongoing professional development of its members a priority for the coming year so that Board members are able to fully demonstrate the characteristic of being informed.
2. The accounting authority should govern the ethics of the SOE in a way that supports the establishment of an ethical culture	The DBSA has established the values of honesty, communication, effectiveness and transparency as the convictions that guide the way it does things even when no one is watching. The DBSA has a Code of Ethics in place, which is applicable to employees and is incorporated as part of the contractual arrangements with parties in the supply chain management. All employees are required to attend ethics awareness training at least once a year and performance evaluations of employees include ethical conduct. The DBSA had a forensic fraud audit conducted and an independent ethics assessment is planned for the upcoming year, which will guide the steps to be taken to enhance ethical management. It will also enable the Board to get an estimation of the extent to which we have achieved effective ethics management. *The **Code of Ethics** is available on our website, **www.dbsa.org**.*
3. The accounting authority should ensure that the SOE is and is seen to be a responsible corporate citizen	The DBSA strives to integrate responsible corporate citizenship as part of the way it does business and performance measures in respect thereof are shared across functions and business units. The Board has delegated to the Social and Ethics Committee, among others, the responsibility for monitoring the overall responsible corporate citizenship performance of the DBSA. In this regard, the committee is working closely with the Chief Executive Officer, Ethics Officer and the executives responsible for risk, human resources and stakeholder relationships. *For more detail on how the DBSA addressed responsible citizenship, refer to the **Human Resources, Remuneration, Nomination, Social and Ethics Committee (HRNSEC) report** on page 51.*
Governance outcome: performance and value creation	
4. The accounting authority should appreciate that the SOE's core purpose, its risks and opportunities, strategy, business model, performance and sustainable development are all inseparable elements of the value creation process	The Integrated Annual Report demonstrates that organisational performance is understood as both the achievement of objectives and the enhancement of the capitals and relationships that the DBSA uses and affects, i.e. value creation. Sustainable development is seen to be a source of opportunity and the DBSA defines its core purpose, sets and achieves its strategic objectives with reference to risk and opportunity. The Board assesses on a continual basis the positive and negative outcomes resulting from its business model and responds to it as highlighted in the Integrated Annual Report. *To view the DBSA's core purpose, risks and opportunities, strategy and business model, as well as the performance in terms thereof, refer to the **overview** section which commences on page 9.*
5. The accounting authority should ensure that reports issued by the SOE enable stakeholders to make informed assessments of the SOE's performance and its short, medium and long-term prospects	The Integrated Annual Report presents material information in an integrated manner and provides users with a holistic, clear, concise and understandable presentation of the DBSA's performance in terms of sustainable value creation in the economic, social and environmental context within which it operates. *The DBSA's complete **Integrated Annual Report** can be downloaded from our website, **www.dbsa.org**.*

PRINCIPLES	PRACTICES IMPLEMENTED AND PROGRESS MADE
Governance outcome: adequate and effective control	
6. The accounting authority should serve as the focal point and custodian of corporate governance in the SOE	The role and responsibilities of the Board are as set out under principle 6 of King IV. These roles and responsibilities are articulated in the Board Charter and reflected in the work plan. The Board serves as the focal point and custodian of corporate governance of the DBSA both in terms of how its role and responsibilities are documented and the way that it executes its duties and decision-making. *The **Board Charter** is available on our website, **www.dbsa.org**.*
7. The accounting authority should comprise the appropriate balance of knowledge, skills, experience, diversity and independence for it to discharge its governance role and responsibilities objectively and effectively	The Board, with the assistance of the Human Resources, Remuneration, Nomination, Social and Ethics Committee (HRNSEC) considers, on an annual basis, its composition in terms of balance of skills, experience, diversity, independence and knowledge and whether this enables it to effectively discharge its role and responsibilities. The Board is satisfied that there is a balance of skills, experience, diversity, independence and knowledge needed to discharge its role and responsibilities. The Board has taken steps to strengthen its succession plan to also include an immediate and interim succession plan in the event of an unforeseen event. *For more detail on the composition of the **Board of Directors**, refer to page 34.*
8. The accounting authority should ensure that its arrangements for delegation within its own structures promote independent judgement, and assist with balance of power and the effective discharge of its duties	There is clear delegation of authority from the Board to the Chief Executive Officer and subsequently to the employees. The composition of the committees of the Board and the distribution of authority between the Chairman and other directors is balanced and does not lead to instances where individual(s) dominate decision-making within governance structures or where undue dependency is caused. There are terms of references for the committees. *For more detail on the composition of the **Board's committees**, refer to page 33.* The Audit and Risk Committee is satisfied that the auditor is independent as the audit firm has been appointed with the designated partner having oversight of the audit. The Chief Financial Officer is the head of the finance function and she has three senior managers reporting to her. Internal Audit is an independent function that reports to the Audit and Risk Committee of the Board, and the Chief Executive Officer is responsible for the day-to-day administration of the function. An assessment of the effectiveness of the Chief Financial Officer function is performed annually by the Audit and Risk Committee. *The **Audit and Risk Committee's report** can be found on pages 46 and 47.*
9. The accounting authority should ensure that the evaluation of its own performance and that of its committees, its chair and its individual members, support continued improvement in its performance and effectiveness	Assessments of the performance of the DBSA Chief Executive Officer and Company Secretary are conducted annually. The performance of the Board structures and its members are conducted every three years simultaneously. The three-year interval allows the opportunity for thorough remedial interventions. It is the opinion of the Board that the Board and its structures should function in an integrated manner and a simultaneous assessment of the whole Board structure would highlight issues that affect the whole structure. As reported in 2016, succession planning for Board members and fragmentation, overlap of the functions of the Board and its committees, and ongoing professional development of members of the Board were identified as key matters to address. The Board has developed a preliminary succession plan which will be finalised after further discussion and consultation and implemented in the year ahead. The particular development needs of the Board and individual members have been identified and the DBSA Company Secretary has assisted the Board in designing a professional development programme that addresses both. Furthermore, the Board, with the assistance of the DBSA Company Secretary, undertaken a holistic review of its Board Charter and the terms of references in order to achieve better integration and co-ordination among the Board and all its committees.

APPLICATION OF KING IV PRINCIPLES CONTINUED

PRINCIPLES	PRACTICES IMPLEMENTED AND PROGRESS MADE
10. The accounting authority should ensure that the appointment of, and delegation to, management contribute to role clarity and the effective exercise of authority and responsibilities	The Board has reserved for itself the powers as referred to in the Board Charter. The Board also reserves the right to finally approve strategy, business plans, annual operational budgets, key policies as defined, as well as employee collective bargaining agreements. A detailed delegation of authority is in place. *The Board Charter is available on our website, **www.dbsa.org**.* A succession plan for the CEO is not in place. The Board plans to address this matter during the upcoming year. *For the executive and senior **management structure**, refer to page 65.* *For the qualifications and other information about members of the **Executive Committee**, refer to page 66.* The DBSA has a full-time Company Secretary with the requisite knowledge, experience and stature. No major issues or concerns have been identified and the Board is satisfied that the DBSA Company Secretary and the function that she oversees are performing well. The Company Secretary does sign off on disclosure of membership of Board structures, number of meetings of each and attendance at each meeting as well as overall content of the committee information and reporting that are in the public domain. *For an abbreviated curriculum vitae of the **Company Secretary**, refer to page 37.* The Board is satisfied that the DBSA is appropriately resourced and that its delegation to management contributes to an effective arrangement by which authority and responsibilities are exercised.
11. The accounting authority should govern risk in a way that supports the SOE in setting and achieving its strategic objectives	At the DBSA, anticipating and responding to risk is a fundamental part of delivering on our mandate and ensuring that we deliver on a sustainable basis. The DBSA Board is ultimately accountable for the effective management of risks and has adopted an enterprise-wide risk management (ERM) framework and approach to managing risk exposures. This approach ensures that the DBSA takes a holistic view of the risks inherent in its strategy, operations and business, and that the management of risks is embedded into the mainstream planning, business and decision-making processes. The Audit and Risk Committee assists the Board with the governance of risk. *For more details on the DBSA's risks and the management thereof, refer to the section **managing our risks and opportunities** on page 20.*
12. The accounting authority should govern technology and information in a way that supports the SOE setting and achieving its strategic objectives	The Board is aware of the importance of technology and information as it is inter-related with the strategy, performance and sustainability of the DBSA. The Audit and Risk Committee assists the Board with the governance of information technology. The DBSA's ICT Strategic plan, ICT Governance Framework and ICT Governance Strategy are in place and incorporate the relevant legislated requirements and frameworks. The implementation of ICT governance has been duly delegated to management. Management has implemented structures which deal with IT governance, risk management, IT infrastructure and architecture, implementation of IT projects and reviews with regard to benefits realisation. There has been focus on cyber security as well as data management, including disaster recovery processes. The Internal Audit function annually issues a written assessment to the Audit and Risk Committee, providing 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. *For more details on the governance of information and technology, refer to the **Audit and Risk Committee report** on page 46.*
13. The accounting authority should govern compliance with applicable laws and adopted, non-binding rules, codes and standards in a way that supports the SOE being ethical and a good corporate citizen	The responsibility of compliance management has been delegated to the Audit and Risk Committee, ensuring that it plays an oversight role in respect of the compliance risk of the DBSA. There were no material or repeated regulatory penalties, sanctions or fines for contraventions of, or non-compliance with, statutory obligations. *For more details on the **fruitless and wasteful expenditure** please refer to note 49 to the Annual Financial Statements.*
14. The accounting authority should ensure that the SOE remunerates fairly, responsibly and transparently so as to promote the achievement of strategic objectives and positive outcomes in the short, medium and long term	The Board has approved remuneration policy which clearly articulates the direction and approach on the company's remuneration. The DBSA remunerates fairly, responsibly and transparently so as to deliver on its strategic initiatives and to promote the creation of value in a sustainable manner. *For more information, refer to the **remuneration report** on page 45.*

PRINCIPLES	PRACTICES IMPLEMENTED AND PROGRESS MADE
15. The accounting authority should ensure that assurance services and functions enable an effective control environment, and that these support the integrity of information for internal decision-making and of the SOE's external reports	The DBSA has implemented a combined assurance model which is co-ordinated and managed by the Internal Audit function. A combined assurance policy has been developed, which includes the formation of a formal Combined Assurance Working Committee comprising representatives from business, risk management, compliance, as well as internal and external audit. This ensures that all levels of assurance can be provided by the various assurance providers, supporting the independent assurance provided by both internal and external audit. Quarterly assurance reporting is done by the Combined Assurance Working Committee to the Audit and Risk Committee. The Board is satisfied that assurance results in an adequate and effective control environment and integrity of reports for better decision-making. *For more information on the DBSA's **combined assurance model**, refer to page 21.*
Governance outcome: trust, good reputation and legitimacy	
16. In the execution of its governance role and responsibilities, the accounting authority should adopt a stakeholder-inclusive approach that balances the needs, interests and expectations of key stakeholders in the best interests of the SOE over time	The DBSA has identified key stakeholder groupings and their legitimate and reasonable needs, interests and expectations. Stakeholder relationship programmes have been developed to ensure continual engagement and staying attuned. The DBSA has also introduced systems to gather and analyse information that could provide useful intelligence on stakeholder perceptions or which could adversely affect the DBSA's reputation. *For more details on the DBSA's interaction with its stakeholders, refer to the section **engaging with our stakeholders** on page 19.*

It is envisaged that this King IV Application Register will in future not be included in the Integrated Annual Report, but only be made available online.

*An up-to-date version of this **King IV Application Register** is available on our website, **www.dbsa.org**.*

REMUNERATION REPORT

For the DBSA to achieve its mandate, the organisation is committed to a remuneration philosophy that:

- Supports the execution of the DBSA's mandate and business strategy
- Promotes good governance and risk management
- Aligns its policies, procedures and practices with best practice and legislation (the PFMA and King IV, in particular)
- Motivates and reinforces performance at all levels (organisational, divisional, unit and individual)
- Ensures the long-term financial sustainability of the DBSA.

The DBSA's application of its remuneration philosophy aims to meet the strategic objectives of:

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

BOARD REMUNERATION

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

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

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

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

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

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

*Details of **fees earned by the Non-executive Directors** are reflected in note 42.2 to the Annual Financial Statements.*

EMPLOYEE REMUNERATION

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

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

GUARANTEED PACKAGES

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

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

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

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

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

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

*Refer to note 18.2 to the Annual Financial Statements for further details of the **post-retirement medical benefits liability**.*

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

Increases in the guaranteed package for employees are based on a review of market data, the consideration of individual performance and potential, and the business priorities of the DBSA.

The DBSA provides a range of benefits to employees over and above their guaranteed remuneration packages.

Key benefits include study assistance for employees, study assistance for employees' children in tertiary education, annual leave, sick leave, as well as maternity and paternity leave.

SHORT-TERM INCENTIVES

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

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

*Refer to the **Directors' report** on page 7 of the Annual Financial Statements for performance against the predetermined goals.*

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

ROLE	MAXIMUM PERCENTAGE
Chief Executive Officer	100
Chief Financial Officer	80
Group executives	80

AUDIT AND RISK COMMITTEE REPORT

FOR THE YEAR ENDED 31 MARCH 2017

We are pleased to present our report for the financial year ended 31 March 2017.

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

MEMBERSHIP

The Audit and Risk Committee members and attendance are reflected on page 38 in the summary governance report. In compliance with Treasury Regulations 27.1.3 and 27.1.4, the Chairperson is an Independent Non-executive Director and has the requisite business, financial and leadership skills for the position. All the committee members are financially literate, with all being Independent Non-executive Directors.

*The names and qualifications of **directors serving on the Audit and Risk Committee** are detailed in the Board of Directors section of the Integrated Annual Report on pages 34 to 37.*

IMPACT OF KING IV

King IV recommends disclosing the date of the first appointment of the external auditor (which was 22 November 2013) and the date of the appointment of the predecessor firm (which was 22 November 2013). King IV recommends that the Audit Committee be responsible for the auditor independence oversight as recommended by the Independent Regulatory Board for Auditors and provides factors that may influence the independence of the auditor. The committee has to apply the independence test of the external auditor annually to ensure that reporting is reliable, transparent and a fair representation for the use of stakeholders. The committee has satisfied itself of the auditor's independence.

Audit quality is enhanced by reporting on significant audit matters arising from the audit and how the matters were addressed.

*The significant audit matters, together with the Audit and Risk Committee's responses, where applicable, are detailed in the **Independent Auditor's report** on pages 3 to 6 of the Annual Financial Statements.*

King IV expands on the King III combined assurance model to include "five lines of assurance" to incorporate all assurance providers to enable an effective control environment to strengthen decision-making. Horizontal assurance includes internal audit, risk and compliance whilst vertical assurance includes line managers, frameworks, policies, procedures and system controls. **Internal Audit** remains a pivotal part of governance relating to assurance. The Internal Audit function will be relied on, not to only contribute insight into the organisation, but to provide foresight through the use of pattern recognition, trend assessment, analysis and scenarios. As more reliance will be placed on Internal Audit, the committee and the Board will apply its mind to the assurance standards expected from the Internal Auditors.

AUDIT AND RISK COMMITTEE RESPONSIBILITY

The functions of the Audit and Risk Committee are regulated by the PFMA and King IV. The committee oversees the internal control framework and reviews and evaluates the integrity of financial and other statutory reporting, risk management processes, compliance with laws and regulations and ethics management. It oversees the internal and external audit functions and reviews the internal audit plan and the annual assessments of significant risk exposures.

The committee oversees and also advises the Board on income, expenditure and capital budget requirements, tax management, treasury arrangements and funds mobilisation strategies, transfer pricing policies, development loan impairments, management of assets and liabilities and the DBSA's overall financial health and sustainability.

The Audit and Risk Committee reports that it has complied with its responsibilities arising from section 51(1)(a) of the PFMA and Treasury Regulations 27.1.7 and 21.1.10(b) and (c).

Section 51(1)(a)(ii) of the PFMA states the following:

(a) The Accounting Authority must ensure that the public entity has and maintains:
   - (i) Effective, efficient and transparent systems of financial and risk management and internal control.
   - (ii) A system of internal audit under the control and direction of an audit committee complying with and operating in accordance with regulations and instructions prescribed in terms of sections 76 and 77.
   - (iii) An appropriate procurement and provisioning system which is fair, equitable, transparent, competitive and cost-effective.

The Audit and Risk Committee's responsibilities also include:

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

COMBINED ASSURANCE

The Audit and Risk Committee's corporate governance processes comply with the requirements of the King Code of Governance Principles for South Africa 2016 (King IV) with respect to ensuring that a combined assurance model is applied to provide a co-ordinated approach to assurance. The model aims to optimise the assurance coverage obtained from risk, internal providers and external assurance providers on risks attached to the DBSA.

ASSURANCE BY MANAGEMENT

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

ASSURANCE BY GROUP RISK ASSURANCE (GRA)

The Board considers risk management to be a key business discipline designed to balance risk and reward and therefore, through the Audit and Risk Committee, oversees the approved ERM approach to the management of risk exposures. The Audit and Risk Committee delegated to management the responsibility to design, implement and monitor the risk management plan. To this end, the following internal management committees exist that monitor and report on various components of risk to the Audit and Risk Committee:

- Treasury-related risks are monitored through an internal Asset and Liability Management Committee
- Portfolio risks are monitored through the Investment Committee. Based on loans and equities portfolio reports received from management, the monitoring of the loan and equities portfolio is considered adequate
- Operational risks are addressed by the ERM framework.

Internal assurance from the GRA function was obtained through quarterly ERM reports and dashboards prepared independently of management and in accordance with the ERM framework.

Operational risk management is facilitated by the GRA function and reported through the ERM reports to the Audit and Risk Committee. These risks are considered in relation to assurance reports from other sources.

ASSURANCE BY INTERNAL AUDIT

Internal Audit is a key internal assurance provider and provides the Board with a report of its activities which, along with other assurance provider sources, is used by the Board in reporting on and assessing the system of internal control and risk management. The committee:

- Considered and recommended for approval to the Board the one- and three-year internal audit plans and monitored Internal Audit's adherence to these plans
- Received and reviewed reports from Internal Audit concerning the effectiveness of internal controls, systems and processes as well as the adequacy and appropriateness of management's corrective action plans
- Considered all material forensic reports and established whether appropriate action was taken by management.

ASSURANCE BY THE INDEPENDENT EXTERNAL AUDITOR

During the year, the committee:

- Reviewed and approved the external audit plan, including the proposed scope and audit fee and determined the nature and scope of non-audit services
- Received and reviewed external audit reports for the year pertaining to the Annual Financial Statements for the year ended 31 March 2017, and the interim results for the six months ended 30 September 2016

FRAUD AND CORRUPTION

The Audit and Risk Committee provides oversight over the fraud and corruption prevention controls and mechanisms within the DBSA's operating environment. To this end:

- Risk incidents are logged in an operational risk register and monitored
- There is sufficient forensic capability in Internal Audit, with an appointed forensic specialist
- The DBSA has a toll-free whistle-blowing hotline operated by Deloitte, and employees are encouraged to report any suspected corrupt, fraudulent, criminal or unethical practices

IT GOVERNANCE

The Audit and Risk Committee provides oversight over the IT systems and automated controls and mechanisms within the DBSA's operating environment. To this end:

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

THE EFFECTIVENESS OF INTERNAL CONTROL

Based on the information and explanations given by management and Internal Audit, discussions with the independent external auditor on the results of their audits and the status in addressing the matters raised, nothing significant has come to the attention of the Audit and Risk Committee to indicate that any material breakdown in the functioning of these controls, procedures and systems has occurred during the year under review.

The Audit and Risk Committee reviewed the findings by the Internal Audit on the breakdown of internal controls within the Infrastructure Delivery Division. Management has subsequently put measures in place to strengthen these weaknesses, which the Committee will be monitoring.

The Audit and Risk Committee is therefore of the opinion, that the financial records may be relied upon for preparing the Annual Financial Statements, and that accountability for assets and liabilities is maintained.

THE QUALITY OF MANAGEMENT AND QUARTERLY REPORTS SUBMITTED IN TERMS OF THE PFMA

The Audit and Risk Committee is satisfied with the content and quality of quarterly reports prepared by management of the DBSA and reviewed by the Board of Directors during the year under review.

EVALUATION OF INTEGRATED ANNUAL REPORT, ANNUAL FINANCIAL STATEMENTS AND SUSTAINABILITY REVIEW

The Audit and Risk Committee has:

- Reviewed the Integrated Annual Report and Sustainability Review
- Reviewed and discussed the audited Annual Financial Statements with the independent external auditor and the Accounting Authority
- Reviewed the independent external auditor's management letter and management's response thereto
- Reviewed changes in accounting policies and practices
- Reviewed significant adjustments resulting from the audit.

The Audit and Risk Committee has evaluated the Integrated Annual Report and Annual Financial Statements for the year ended 31 March 2017 and considers that it complies, in all material respects, with the requirements of sections 27 to 31 of the Companies Act, the PFMA, IFRS and that the adoption of the going concern basis in preparing the Annual Financial Statements is appropriate. It is of the opinion that the audited Annual Financial Statements should be accepted and read together with the report of the independent external auditor.

Gugu Mtetwa
Chair of the Audit and Risk Committee

BOARD CREDIT AND INVESTMENT COMMITTEE REPORT

FOR THE YEAR ENDED 31 MARCH 2017

We are pleased to present our report for the financial year ended 31 March 2017.

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

MEMBERSHIP

The BCIC members and attendance are reflected on page 38 in the summary governance report. The Chairperson is an Independent Non-executive Director and has the requisite business, financial and leadership skills for the position. All the committee members have development and financial literacy, with the majority being Non-executive Directors.

*The names and qualifications of **directors serving on the Board Credit and Investment Committee** are detailed in the Board of Directors section on pages 34 to 37.*

IMPACT OF KING IV

King IV introduces the term "risk and opportunity governance". The Board is stretched to utilise integrated thinking to exercise caution not to take excessive risks that may lead to organisational failure. Risk and opportunity governance sets the tone for organisations to realise risk management should cover both the negative and positive potential governance outcomes. The Board is responsible for setting the risk tolerance levels relevant to the organisational strategy and objectives.

*The DBSA's significant risks, together with the opportunities they bring and the impact on the DBSA's strategy, are detailed in the section **Managing our risks and opportunities** on pages 20 to 25.*

BOARD CREDIT AND INVESTMENT COMMITTEE RESPONSIBILITY

The Board has delegated the responsibility for the management of credit and investment risk to its BCIC, supported by the executive management-level Investment Committee. The BCIC is responsible for the approval of all transactions that would result in the DBSA's 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 transactions that would result in the aggregate exposure to a single obligor being below the approval limits delegated by the BCIC.

In managing credit and investment risks further, the DBSA, through its Group Risk Assurance division, also seeks to embed policies and processes on credit and investment risk appetite and prudential limits. It guides the formulation of risk strategy and businesses' risk positioning by ensuring that sound risk principles and practices are adopted and maintained.

Finally the DBSA, in support of its mandate, seeks to align development impact with credit and investment risk decisions and to optimise reward by evaluating risk exposures and ongoing outcomes in tandem.

*Refer to pages 14 and 15 for a summary of the outputs and estimated **development outcomes.***

*Pages 69 and 70 provide an overview of the DBSA's two **infrastructure financing divisions.***

*Refer to pages 74 to 82 of the Chief Financial Officer's report for an overview of the **quality of the credit portfolio**.*

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

	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	All	All	
Rest of Africa	**MS1 – MS10**	**MS11-MS13**	**Above MS13**
• SADC: Low-risk countries	US$50 million	US$20 million	All
• SADC: Medium-risk countries	US$20 million	US$10 million	All
• SADC: High-risk and post-conflict countries	US$10 million	All	All
• SADC: Private sector clients	All	All	All
• Rest of Africa	All	All	All

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

BOARD CREDIT AND INVESTMENT COMMITTEE REPORT CONTINUED

FOR THE YEAR ENDED 31 MARCH 2017

SUMMARY OF NEW LOANS APPROVED

The total value of new loans approved during the year are detailed in the table below. It reflects the value of loans approved by the Executive Investment Committee (IC) and by this committee (BCIC) in terms of their respective authority limits, together with the percentage thereof approved at BCIC:

	Approved by IC R million	Approved by BCIC R million	TOTAL R million	BCIC approval %
South Africa				
• Municipal clients	1 467	5 507	6 974	79
• Non-municipal clients	851	6 095	6 946	88
Rest of Africa				
• SADC	–	870	870	100
• Rest of Africa	–	974	974	100
TOTAL	2 318	13 446	15 764	85

Note: These loans are new loans only and do not include any restructuring of existing loans.

Busisiwe Mabuza
Chairperson of the Board Credit and Investment Committee

HUMAN RESOURCES, REMUNERATION, NOMINATION, SOCIAL AND ETHICS COMMITTEE REPORT

FOR THE YEAR ENDED 31 MARCH 2017

We are pleased to present our report for the financial year ended 31 March 2017.

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

MEMBERSHIP

The HRNSEC members and attendance are reflected on page 38 in the summary governance report. The Chairperson is an Independent Non-executive Director. All committee members are Non-executive Directors and all members have the requisite business, financial and leadership skills for the position. The CEO is not a member of the committee but attends meetings by invitation.

*The names and qualifications of **directors serving on the committee** are detailed in the Board of Directors section on pages 34 to 37.*

IMPACT OF KING IV

King IV recommends that the committee should "uphold, monitor and report on organisational ethics, responsible corporate citizenship, sustainable development and stakeholder-inclusivity beyond mere compliance."

The committee will re-assess its composition to ensure that the requisite skills and experience are present to fulfil the requirement of the oversight of ethics management including the social aspects of the remuneration policy.

HUMAN RESOURCES, NOMINATIONS, SOCIAL AND ETHICS COMMITTEE RESPONSIBILITY

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

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

GOVERNANCE, NOMINATIONS AND DIRECTORS' AFFAIRS

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

REMUNERATION

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

*Refer to note 42.2 of the Annual Financial Statements for **fees paid to Non-executive Directors, Executive Directors and Group Executives**.*

HUMAN RESOURCES

- Review and recommend the DBSA human capital strategy and risk management strategy to be implemented. Further detail regarding the remuneration philosophy and policies is provided in the remuneration report on page 45
- Monitor implementation and execution of the human capital strategy and transformation and issues policy requirement for implementation by management. A key focus area for the committee was the monitoring of the DBSA's culture change programme. Significant improvements were achieved
- Review performance scorecards. Refer to the Directors' report in the Annual Financial Statements report for the performance against the 2017 Balanced Scorecard
- Oversee employment equity and other human capital statutory reports
- Oversee the implementation of the DBSA's training and development plan.

*Refer to pages 78 and 80 of the Sustainability Review for further detail regarding the DBSA's **employment and diversity numbers**, as well as investment in **training programmes.***

SOCIAL AND ETHICS

The committee ensures that management cultivates a culture of ethical conduct and sets the values to which the DBSA adheres. In this respect the committee:

- Monitor the activities, having regard to relevant legislation and codes of best practice, in respect of social and economic development, good corporate citizenship, the environment, health and public safety, consumer relationships and sound labour and employment practices
- Review the DBSA's values and considers for recommendation to the Board the ethics-related policies like the Conflict of Interest Policy, Code of Ethics, Gift- and Whistle-blowing policies
- Consider and recommend for approval to the Board the ethics management programme.

*Refer to the **Chairman's statement** and **summary governance report**, as reflected on pages 28 to 53 for further detail.*

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

INFRASTRUCTURE DELIVERY AND KNOWLEDGE MANAGEMENT COMMITTEE REPORT

FOR THE YEAR ENDED 31 MARCH 2017

We are pleased to present our report for the financial year ended 31 March 2017.

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

MEMBERSHIP

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

The ***IDKC members and attendance*** *are reflected on page 38 in the summary governance report.*

The names and qualifications of ***directors serving on the IDKC*** *are detailed on pages 34 to 37.*

INFRASTRUCTURE DELIVERY AND KNOWLEDGE MANAGEMENT COMMITTEE RESPONSIBILITY

The IDKC is a sub-committee of the Board of Directors and supports the Board in the execution of its duties. The committee is accountable to the Board to properly consider and evaluate any matter that it has been mandated to deal with. The Board has ultimate responsibility in controlling the business and directing the operations of the DBSA. This includes accepting strategic mandate programmes that will help with infrastructure delivery and programme implementation support in South Africa. Monitoring existing mandates, approval and monitoring of key infrastructure projects, and overseeing the knowledge and research programmes of the DBSA in line with the philosophy that it is a centre of excellence in infrastructure development.

IMPACT OF KING IV

King IV recommends organisations to pro-actively engage with regulators, legislators and industry associations. The Board would have to understand the compliance and regulatory universe of the DBSA to fulfil this King IV recommendation. Relationships of trust should be built with the regulators to ensure the organisation is not at risk of any material non-compliance of any current and future compliance related matters. The committee does not envisage any insurmountable obstacles in this quest.

NON-FINANCING INFRASTRUCTURE DELIVERY SUPPORT AND PROGRAMME IMPLEMENTATION (STRATEGIC MANDATES)

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

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

Refer to page 71 for an overview of performance results for the ***Infrastructure Delivery division****.*

INFRASTRUCTURE DELIVERY

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

The committee:

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

KNOWLEDGE MANAGEMENT

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

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

Frans Baleni

Chairman of the Infrastructure Delivery and Knowledge Management Committee

03
PERFORMANCE AND OUTLOOK

03

PERFORMANCE AND OUTLOOK

CHIEF EXECUTIVE OFFICER'S REPORT

"The DBSA produced a strong financial performance with net profit of R2.8 billion (2016: R2.6 billion) and sustainable earnings of R3.6 billion (2016: R1.4 billion)"

Patrick Dlamini
Chief Executive Officer

OVERVIEW OF THE OPERATING ENVIRONMENT

The past year proved to be both challenging and exciting. Growth in the South African economy remains under pressure, although there are signs of improvements in commodity prices.

The DBSA has therefore further improved its strategy to ensure that it optimises its catalytic role in delivering infrastructure investment by drawing private sector and other third party funding closer to the multitude of opportunities for developing Africa's much-needed infrastructure, thereby moving beyond the constraints of its own capital. In addition, we established an innovation hub to provide new products to optimise the new funding channels.

PERFORMANCE REVIEW

KEY PERFORMANCE SCORECARD

	2017 Actual	2016 Actual	% Variance	2017 Target	% Variance
Project preparation					
Funding approved by the Board	**R0.6 billion**	R7.6 billion	↓ (93)	R9.0 billion	↓ 90
Financing					
Total disbursement	**R12.4 billion**	R17.1 billion	↓ (28)	R16.4 billion	↓ (4)
South Africa					
Metros	**R4.5 billion**	R7.5 billion	↓ (40)	R4.8 billion	↓ 88
Secondary and under-resourced municipalities	**R1.1 billion**	R0.6 billion	↑ 83	R1.2 billion	↓ (70)
Other social	**R0.4 billion**	R0.6 billion	↓ (34)	R1.2 billion	↓ (50)
Economic	**R2.7 billion**	R4.9 billion	↓ (81)	R5.6 billion	↓ (13)
Rest of Africa (excluding RSA)	**R3.7 billion**	R3.5 billion	↑ 5	R3.6 billion	↑ (30)
of which SADC (excluding RSA)	**R1.9 billion**	R3.3 billion	↓ (43)	R2.5 billion	↓ (6)
Infrastructure delivery					
Total funds under management	**R3.3 billion**	R3.3 billion	↓ (0)	R4.2 billion	↓ 3
Financial					
Sustainable earnings	**R3.6 billion**	R1.4 billion	↑ 142	R1.1 billion	↑ 56
Net profit	**R2.8 billion**	R2.6 billion	↑ 3	R1.0 billion	↑ 189

*Refer to the Directors' report in the 2017 Annual Financial Statements for the **performance against detailed predetermined objectives**.*

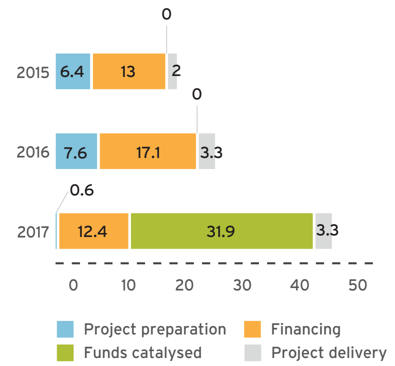
In line with the strategy of operating across the infrastructure value chain, the DBSA delivered total infrastructure support to the value of

R48.2 billion

(2016: R28.0 billion).

The International Financing division reached its targets, whilst SA Financing was hampered by delays in the Renewable Energy Independent Power Producers Procurement programme (REIPPP) and other projects. Profitability was aided by the cost containment resulting in a well-managed loan book whilst non-performing loans at 3.3% of the gross book (2016: 3.7%). This compared very favourably with the 6% target.

Three-year infrastructure support (R billion)



PROJECT PREPARATION

The evolution of our strategy towards catalysing third party investment has shifted attention away from the project development and preparation business. At year-end we were evaluating projects to the value of R64 billion (2016: R216 billion).

Refer to page 68 for further detail and highlights of the ***DBSA's Project Preparation business****.*

INFRASTRUCTURE FINANCING

Total approvals amounted to R15.3 billion (2016: R24.6 billion) and commitments to R13.3 billion (2016: R18.3 billion).

Disbursements for the year totalled R12.4 billion (2016: R17.1 billion), including R4.5 billion (2016: R7.5 billion) to metros, R2.7 billion (2016: R4.9 billion) to the economic infrastructure sector and R3.7 billion (2016: R3.5 billion) outside South Africa. The performance across the various market segments was, however, mixed. We experienced greater competition from DFIs and commercial banks in certain core sectors, especially in respect of independent power producers (IPPs), secondary municipalities and the SADC region, whilst various projects planned for disbursement during the financial year did not materialise.

2017 SA disbursements: primary sectors R7.3 billion (2016: R10.5 billion)

2017 SA disbursements: secondary sectors R1.1 billion (2016: R3.1 billion)

2017 rest of Africa disbursements: primary sectors R3.4 billion (2016: R3.4 billion)

Refer to pages 69 and 70 for further detail and highlights of the ***DBSA's funding divisions****.*

INFRASTRUCTURE DELIVERY

The DBSA supports government in leveraging skills and capabilities to accelerate the implementation of a number of programmes through the provision of project management and implementation support in key priority sectors of education, health and housing as well as various urban infrastructure programmes. All non-financing activities are provided on a full cost-recovery basis. IDD experienced a challenging year as it sought to re-examine its operating structure and model in order to gear up for greater scale in the near future. The development of the contractor base was slower than anticipated, and clients also experienced delays in their own organisations which, in turn, led to delays in the DBSA's environment.

Total funds under management amounted to R3.3 billion (2016: R3.3 billion), whilst the value of infrastructure delivered increased to R2.8 billion (2016: R2.6 billion).

Refer to page 71 for further detail and highlights of the ***DBSA's Infrastructure Delivery division****.*

FINANCIAL PERFORMANCE

The DBSA produced a strong financial performance with net profit of R2.8 billion (2016: R2.6 billion) and sustainable earnings of R3.6 billion (2016: R1.4 billion).

Total assets grew by 2% to R83.7 billion (2016: R82.3 billion). The total development assets increased by 2% to R78.8 billion (2016: R77.1 billion). The debt-to-equity ratio (excluding callable capital) of 158% (2016: 178%) remained well below the 250% statutory threshold.

Overall, our financial position remains sound, with our bond auctions consistently oversubscribed during the course of the financial year.

Refer to pages 74 to 82 for more detail in the ***Chief Financial Officer's report****.*

DEVELOPMENT IMPACT CONTINUES TO GROW

During the year, we supported various municipalities with planning and implementation support. Seventeen (17) (2016: 70) projects were completed in the electricity, water, sanitation, roads and storm water sectors. An estimated 7 545 (2016: 63 242) households are expected to benefit whilst 1 178 (2016: 5 240) jobs were created. Through our funding activities an estimated 224 036 (2016: 638 000) households stand to benefit from new or upgraded infrastructure.

The summary of our estimated and actual ***development outcomes*** *across the services portfolio is presented on pages 14 and 15.*

OUR PEOPLE

At year-end the DBSA employed 491 (2016: 461) permanent and fixed-term contract people as well as 97 (2016: 108) fixed-term contractors for selected programmes and agencies. Staff retention remained a crucial focus area. The retention rate of critical skills was 89% (2016: 95%) at the end of March 2017 against a target of 85%.

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

During the year R 15.2 million (2016: R10.3 million) was invested in staff training.

Refer to pages 77 to 80 of the Sustainability Review for additional ***human capital information****.*

CHIEF EXECUTIVE OFFICER'S REPORT CONTINUED

OUTLOOK

The DBSA will continue to drive infrastructure investment in South Africa and the rest of the African continent amidst a world economy that shows slow signs of recovery in Europe, some geo-political risk in the Middle East and Africa, and new trading conditions arising from the change in the US government.

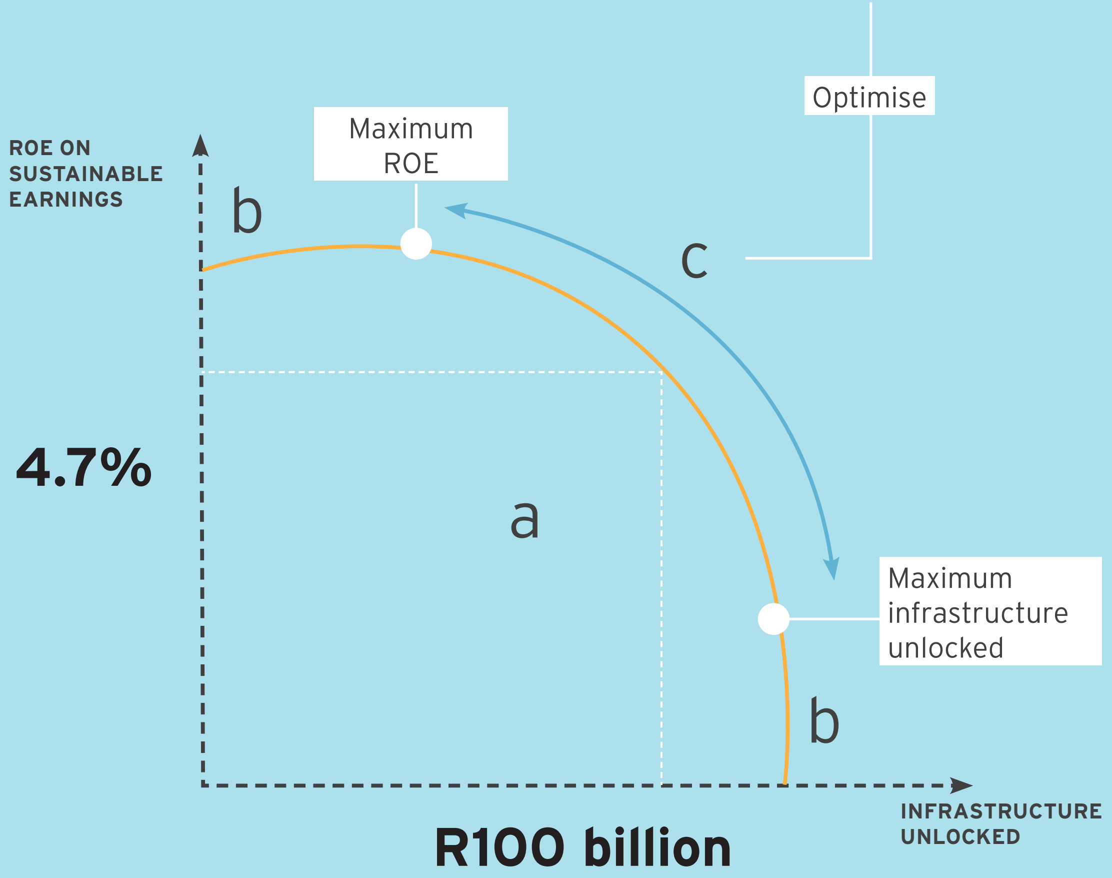
Unlock infrastructure to the value of

R100 billion p.a.

by 2021 while maintaining financial sustainability

THE DBSA'S CHALLENGE: ACHIEVING AN OPTIMAL POSITION OF SUSTAINABLE DEVELOPMENT

Consider the dual objectives of achieving infrastructure development impact and remaining financially sustainable by analysing the graphic below:



- WE ARE BIGGER THAN OUR BALANCE SHEET
- WE ARE A CATALYST FOR OTHERS TO INVEST
- WE HAVE A STRONG POSITION
- WE CAN DO MORE

a. It is impossible to maximise both objectives simultaneously. We have to find that optimal position along the curve
b. Below a certain minimum of one or the other objectives there is no longer a replacement of one at the expense of the other, but reduction in both (below a certain minimum level of infrastructure unlocked, even financial sustainability is eroded)
c. Range of indeterminacy

This is the optimisation that the DBSA strives to achieve. It will seek to disburse R20 billion in 2018, whilst crowding in a further R26.9 billion of additional investment in infrastructure through strategic partnerships and innovative products. Furthermore, the DBSA is exploring ways in which it can play a meaningful role in developing and delivering infrastructure that brings about inclusive, broad-based economic growth and competitiveness.

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

Although the DBSA is required to play a counter-cyclical role in uncertain times such as these, we have not been immune to the impact of the environment.

The need to improve and increase infrastructure in municipalities is of critical importance. The demand on existing and new infrastructure is expected to rise with more people migrating to larger cities and towns in search of employment opportunities and the expansion of businesses that utilise the current existing infrastructure in their daily operations. Recognising that the demand for infrastructure is the greatest in large urban centres, the DBSA and the National Treasury are collaborating to support the development of economic infrastructure to expand the income generation base of municipalities.

We are proud of our high standard of corporate governance, which provides us with the structure and confidence to address these challenges.

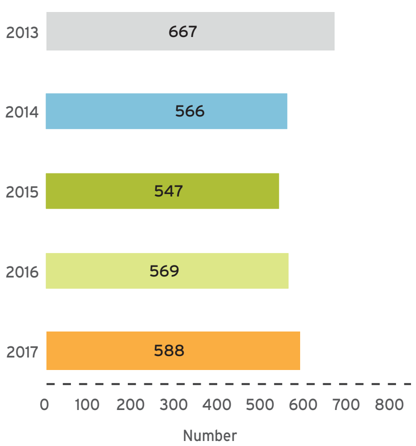
GRATITUDE

I thank all the people of the DBSA – our Board, management and staff – for your valuable contribution to our performance. Together, we will face a bright future. I am confident that our sound governance will continue providing the platform for success in our role as a catalyst for economic growth.

Patrick Dlamini
Chief Executive Officer

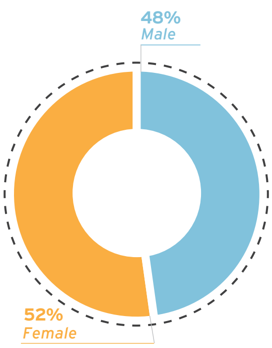
EMPLOYMENT STATISTICS

Employment statistics (headcount)

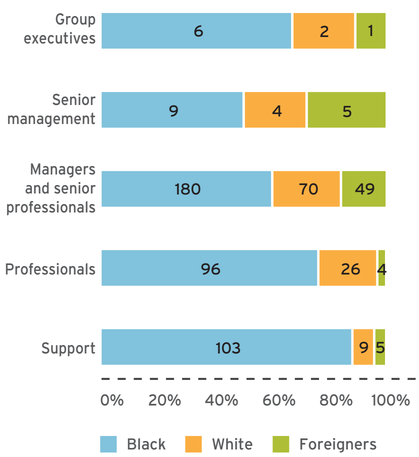


Includes contractors in the Infrastructure Delivery division

Employment diversity (gender %)

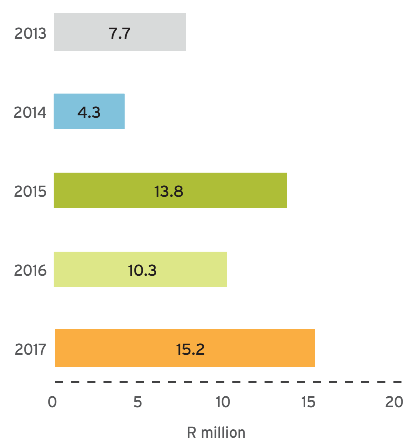


Employment statistics per job category

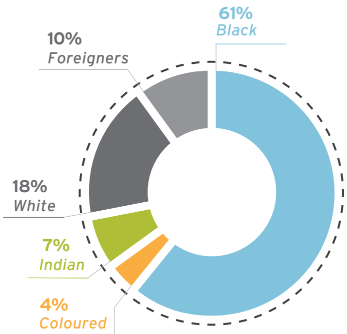


Includes contractors in the Infrastructure Delivery division

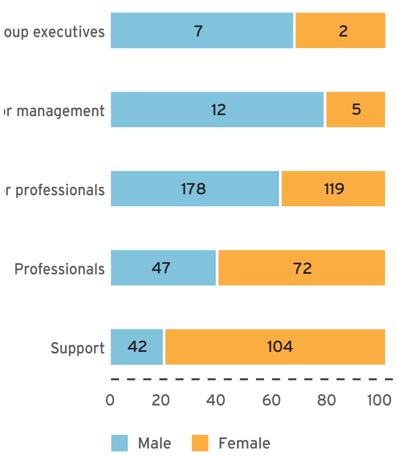
Training spend



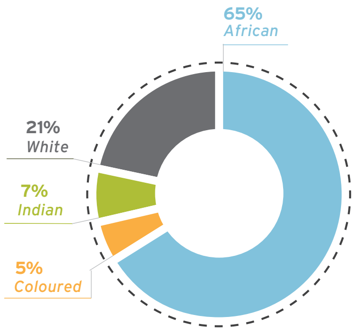
Employment diversity



Gender diversity per job category



Spend by ethnic group



ORGANISATIONAL STRUCTURE

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

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

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

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

CHIEF EXECUTIVE OFFICER

- PROJECT PREPARATION
- INTERNAL AUDIT
- CORPORATE SECRETARIAT

- South Africa Financing
  - Metros
  - M2/M3
  - SOE/Energy/ Environ
  - Transport, Logistics, Telecoms
- International Financing
  - Coverage
  - Transactions
- Financing Operations
  - Product and Sector Experts
  - Portfolio Management
- Finance
  - Finance
  - Treasury
  - Supply Chain Management
- Risk
  - Enterprise Risk Management & Compliance
  - Legal
- Strategy
  - Strategy
  - Knowledge Management
  - Transformation
  - Strategic Partnerships
  - Communications /Marketing & Events
- Corporate Services
  - Information Technology
  - Facilities Management
  - Human Capital
- IDD
  - Business Development & Stakeholder Relations
  - Business Performance & Operations
  - Programme Delivery

1. The ***Chief Executive Officer's report*** appears on pages 56 to 61.
2. For more information on ***South Africa Financing*** refer to page 69.
3. For more information on ***International Financing*** refer to page 70.
4. For more information on ***Project Preparation*** refer to page 68.
5. For more information on ***Infrastructure Delivery*** refer to page 71.
6. For more information on ***Corporate Services*** refer to the Sustainability Review.
7. The ***Chief Financial Officer's report*** appears on pages 74 to 82.
8. For more information on the ***DBSA's Risk Management*** refer to pages 20 to 25.
9. For more information on ***Internal Audit*** function's activities refer to page 21.

Executives
General Managers
Units

EXECUTIVE MANAGEMENT

AT 31 MARCH 2017

1 PATRICK DLAMINI

2 KAMESHNI NAIDOO

3 MOHAMMED BHABHA

4 PAUL CURRIE

5 ERNEST DIETRICH

6 MICHAEL HILLARY

7 DOLORES MASHISHI

8 RIEAZ (MOE) SHAIK

9 MOHAN VIVEKANANDAN

EXECUTIVE DIRECTORS

1 **PATRICK DLAMINI**

Chief Executive Officer
Born: 1969
Executive Director as from 1 September 2012

Academic qualifications
- *Master of Science in Global Finance (MSGF), HKUST-NYU Stem*
- *Advanced Executive Programme, Kellogg School of Management, USA*
- *EDP, University of the Witwatersrand Business School*
- *Business Studies Unit, Natal Technicon*
- *BCom, University of KwaZulu-Natal*

Directorships
- *DBSA*
- *BOPHYLD: Director*
- *Bridges Worldwide SA: Director*
- *Xcargo: Director*
- *Lanseria Holding: Non-executive Director*
- *Lanseria International Airport: Non-executive Director*

*See the **Chief Executive Officer's report** on pages 56 to 61*

2 **KAMESHNI NAIDOO**

Chief Financial Officer
Born: 1974
Executive Director as from 1 January 2013 to 31 August 2017

Academic qualifications
- *Advanced Management Programme (AMP), Harvard Business School, USA*
- *Chartered Accountant (SA)*
- *Advanced Certificate in Auditing, University of Johannesburg*

Directorships
- *DBSA*

*See the **Chief Financial Officer's report** on pages 74 to 82*

GROUP EXECUTIVES

3 **MOHAMMED BHABHA**

Acting Group Executive: Infrastructure Delivery
Born: 1959
Appointed as acting: 23 June 2016
DBSA staff member from 1 October 2006

Academic qualifications
- *B Proc (UNISA)*
- *Admitted as Attorney at Law Advanced Executive Programme, University of Western Cape*
- *Finance for Non-Financial Managers Certificate*

*For portfolio performance and outlook see **Infrastructure Delivery** on page 71.*

4 **PAUL CURRIE**

Chief Risk Officer
Born: 1962
Appointed: 17 May 2010

Academic qualifications
- *Advanced Management Programme, INSEAD*
- *MBA (with distinction), Institute of Financial Management, Manchester Business School and University of Wales*
- *Chartered Accountant (SA)*
- *Post-graduate diploma in Accountancy, University of Port Elizabeth*
- *BCom (Accounting), University of Port Elizabeth*
- *BSc (Physiology), University of Cape Town*

*See managing our **risks and opportunities** on pages 20 to 25.*

5 **ERNEST DIETRICH**

Group Executive: South Africa Financing
Born: 1963
Appointed: 1 February 2016
DBSA staff member from 2 January 2001

Academic qualifications
- *CFA Charter*
- *MBA, University of Cape Town*
- *MSc (Mathematics), University of Western Cape*
- *HDE, University of Western Cape*

*For portfolio performance and outlook see **South Africa Financing** on page 69.*

6 **MICHAEL HILLARY**

Group Executive: Financing Operations
Born: 1970
Appointed: 1 October 2012

Academic qualifications
- *MBA, University of Witwatersrand*
- *BCom (Hons), University of Witwatersrand*
- *CAIB (SA), Institute of Bankers*

7 **DOLORES MASHISHI**

Group Executive: Corporate Services
Born: 1968
Appointed: 1 September 2011

Academic qualifications
- *General Management Programme, Harvard Business School, USA*
- *Strategic Management: Human Resources, University of the Witwatersrand Business School*
- *Management Advancement Programme, University of the Witwatersrand Business School*
- *MSc Ed (Development Psychology), University of Illinois, Chicago*
- *BEd (Psychology), University of the Witwatersrand*
- *BA Ed (Education and Psychology), University of North West*

*Refer to pages 76 to 81 of the Sustainability Review for additional **human capital information**.*

8 **RIEAZ (MOE) SHAIK**

Group Executive: International Financing
Born: 1959
Group Executive: 13 August 2012 to 11 August 2017

Academic qualifications
- *AMP, Harvard Business School, USA*
- *Masters degree in Optometry (cum laude) University of KwaZulu-Natal*
- *B Optometry, University of KwaZulu-Natal*
- *BSc (Computer Science), University of KwaZulu-Natal*

*For portfolio performance and outlook see **International Financing** on page 70.*

9 **MOHAN VIVEKANANDAN**

Group Executive: Strategy
Born: 1973
Appointed: 24 March 2014

Academic qualifications
- *MBA, Kellogg School of Management, USA*
- *Bachelor of Arts (Honours) in Economics and Mathematical Methods in the Social Sciences (MMSS), Northwest University, USA*
- *Project and Infrastructure Finance Programme, London Business School*

*Refer to pages 9 to 11 for an overview of our **strategy**.*

*For the **organisational structure** of the DBSA, see page 65.*

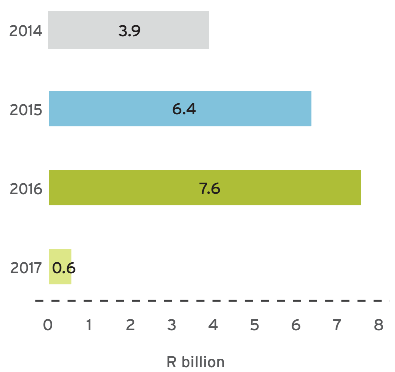
DIVISIONAL OVERVIEW

PROJECT PREPARATION

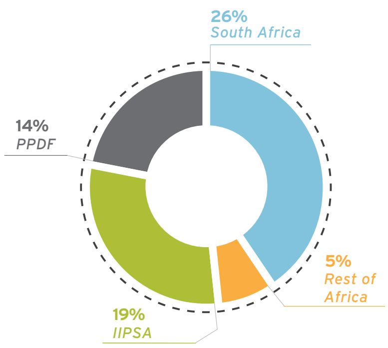
Objective
To support the de-risking of infrastructure project and deliver project concepts to bankability.

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

Value of projects prepared and approved for funding by the DBSA (R billion)



Preparation pipeline at year-end (R billion)



		2017	2016
Operational performance			
Value of projects approved for funding by the DBSA	R billion	**0.6**	7.6
Value of projects unlocked for funding by third parties	R billion	**0.6**	24.7
Employee numbers (including permanent and contractors for programme management support)		**16**	11
Financial performance			
Operating income	R million	**31**	50
Net (loss)/profit	R million	**(22)**	16

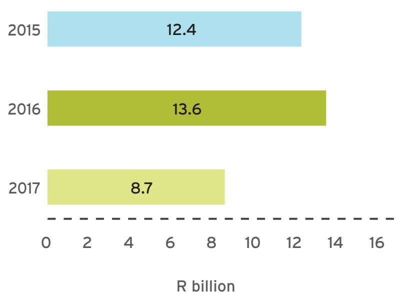
Highlights	Challenges	Looking ahead
• Accreditation of the DBSA to the Global Climate Fund, thus enabling access to US$10 billion committed to the fund to support low emission and climate resilient projects. Projects in energy, water and transport sectors are eligible to benefit from this concessional funding in both development and implementation stages • R130 million mobilised from third parties to fund preparation costs	• Uncertain legislative and regulatory environment in most countries outside South Africa to facilitate preparation of projects	• Focus on a programmatic approach in project preparation, especially in water and energy sectors, and the under-capacitated municipalities • Crowd-in R10 billion worth of debt or other funding from third party funders

SOUTH AFRICA FINANCING

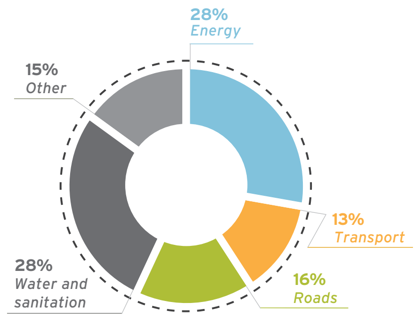
Objective
To support the South African infrastructure development agenda through financing and non-financing support services for the municipal sector and project financing of large-scale infrastructure projects and programmes.

Major services
- Provide conventional and boutique financing service:
  - Balance sheet loans
  - Mezzanine finance and guarantees
  - Limited resource project finance
  - Provide under-resourced municipalities with infrastructure planning and implementation support

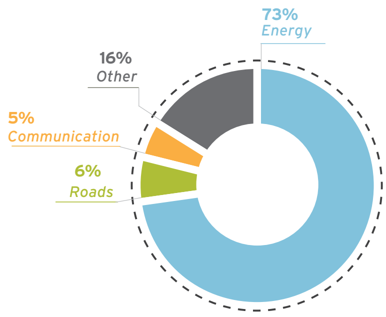
Total SA disbursements



SA municipal disbursements per sector



SA non-municipal disbursements per sector



Refer to page 14 for estimated ***development impact***

		2017	2016
Operational performance			
Approvals	R billion	**13.4**	15.1
Commitments	R billion	**9.7**	11.9
Disbursements	R billion	**8.7**	13.6
	Employee number	**69**	70
	Financial performance		
Net interest income	R million	**2 581**	2 150
Net profit before portfolio impairment	R million	**2 841**	1 837
Net profit	R million	**2 835**	1 699
Total assets	R million	**60 717**	57 369
Net interest margin	%	**45**	43

Highlights
- 83% growth in disbursements to secondary and under-resourced municipalities
- 17 infrastructure projects completed in secondary and under-resourced municipalities. More than 7 545 households stand to benefit
- Planning support provided to a number of municipalities, including the development of water and sanitation services plans
- Recognised through various industry awards for support to the energy sector including: IJ Global Awards: 2016: African Renewables Deal of the Year, African Green Future Leadership Award and Women in Transport (best performing institution in transport)

Challenges
- Limited balance sheet financing opportunities in various sectors, including transport, ICT, education and bulk water
- Rolling out the DBSA's conditional grant-bridging finance programme

Looking ahead
- Roll out an integrated solution to under-capacitated municipalities, including planning, financing and implementation support
- Engaging with metros and secondary municipalities to identify and prioritise infrastructure projects for off-balance sheet funding through limited/non-resource funding structures
- Developing in corporation with key stakeholders' feasible models for addressing the substantial shortages of student accommodation

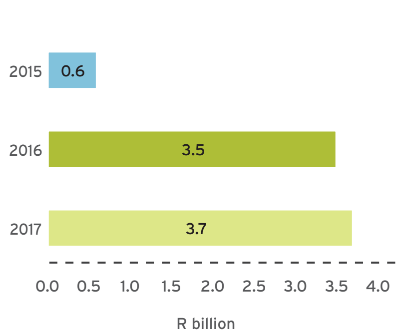
DIVISIONAL OVERVIEW CONTINUED

INTERNATIONAL FINANCING

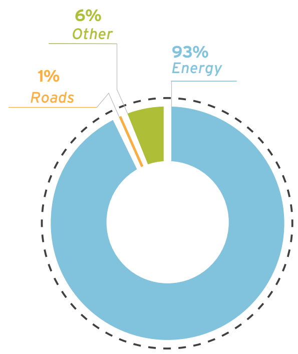
Objective
Support South Africa's and the DBSA's regional development and integration strategy, aimed at facilitating trade in Africa by investing in infrastructure projects outside South Africa.

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

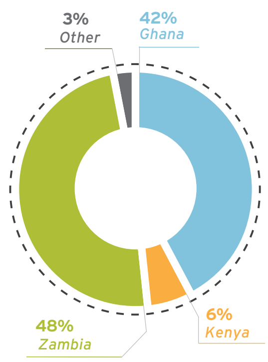
Total international disbursements



International disbursements per sector



International disbursements per country



*Refer to page 14 for estimated **development impact***

		2017	2016
Operational performance			
Approvals	R billion	**1.8**	9.5
Commitments	R billion	**3.6**	6.4
Disbursements	R billion	**3.7**	3.5
Employee numbers		**26**	31
Financial performance			
Net interest income	R million	**970**	867
Net profit before portfolio impairment	R million	**1 631**	1 073
Net profit/(loss)	R million	**1 124**	75
Total assets	R million	**18 062**	19 696
Net interest margin	%	**75**	73

Highlights
- R3.7 billion disbursed to the Rest of Africa excluding SADC region
- Memorandum of understanding finalised with Power Africa
- Launched the one-stop boarder post Beitbridge
- Memorandum of understanding with the Infrastructure Bank PLC

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

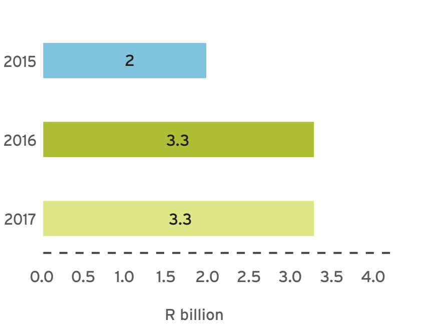
Looking ahead
- Challenging year anticipated due to uncertain economic environment
- Focus on developing and leveraging key partnerships to unlock infrastructure
- Capitalise on strategic partnerships for deal origination and pipeline building

INFRASTRUCTURE DELIVERY

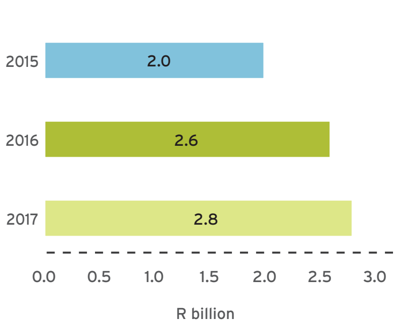
Objective
Support the South African government in leveraging skills and capabilities to accelerate the implementation of infrastructure programmes in the key priority sectors of education, health and housing, as well as various municipal infrastructure programmes.

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

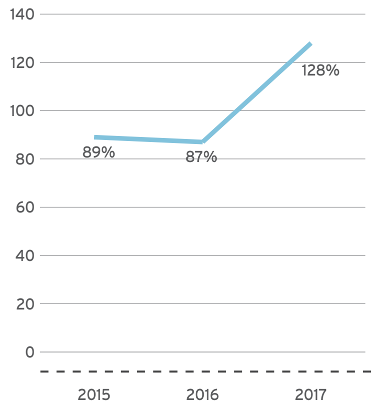
Funds under management



Value of funds delivered



Cost-to-income ratio (%)



Refer to page 15 for estimated ***development impact***

		2017	2016
Operational performance			
Schools completed	Number	**12**	35
Houses completed	Number	**198**	1 382
Heath facilities	Number	**35**	111
Jobs created	Number	**9 077**	6 464
SMMEs benefiting	Number	**500**	665
Value of spend allocated to SMMEs	R million	**449**	710
Employee numbers			
Permanent		**4**	6
Contractors		**97**	88
Financial performance			
Operating income	R million	**140**	194
Net (loss)/profit	R million	**(40)**	27
Total assets	R million	**107**	123

Highlights	**Challenges**	**Looking ahead**
• Advanced our service offering in the areas of maintenance of infrastructure • 49 KwaZulu-Natal storm damaged schools were refurbished	• Delays in executing certain projects due to non-performance by contractors or unplanned scope changes • Budget constraints from line department	• Continue to improve internal efficiencies • Seek to replicate turnkey solutions for large infrastructure projects

FIVE-YEAR KEY FINANCIAL INDICATORS

		2017	2016	2015	2014	2013
FINANCIAL POSITION						
Cash and cash equivalents	R million	**2 299**	2 085	3 902	4 136	1 252
Financial market assets	R million	**1 915**	2 429	3 047	3 470	4 859
Investment in development activities[1]	R million	**78 768**	77 064	63 123	55 459	47 075
Other assets	R million	**671**	768	872	761	779
Total assets	R million	**83 653**	82 346	70 944	63 826	53 965
Financial market liabilities[2]	R million	**50 613**	51 791	46 163	42 887	36 159
Other liabilities	R million	**1 009**	1 290	1 098	1 038	1 100
Total liabilities	R million	**51 622**	53 081	47 261	43 925	37 259
Total equity	R million	**32 031**	29 265	23 683	19 901	16 706
FINANCIAL PERFORMANCE						
Interest on development loans	R million	**6 911**	6 052	4 806	4 205	3 631
Interest on investments	R million	**462**	463	521	372	437
Total interest received	R million	**7 373**	6 541	5 327	4 576	4 068
Interest expense	R million	**3 704**	3 355	3 003	2 488	2 442
Net interest income	R million	**3 669**	3 186	2 324	2 088	1 626
Operating income[3]	R million	**4 722**	3 591	2 697	2 667	1 938
Operating expense[4]	R million	**837**	975	886	758	948
Sustainable earnings/(loss)[5]	R million	**3 564**	1 385	808	374	(600)
Profit/(loss) for the year	R million	**2 821**	2 577	1 214	787	(826)
FINANCIAL RATIOS						
Total capital and reserves to development loans	%	**44.8**	42.1	41.8	39.7	39.2
Long-term debt/equity	%	**158.1**	177.8	195.7	216.3	217.3
Debt/equity (including callable capital)[6]	%	**97.4**	152.7	162.6	174.3	168.8
Cash and cash equivalents to total assets	%	**2.2**	2.5	5.5	6.5	2.3
Total capital and reserves to assets	%	**38.3**	35.5	33.4	31.2	31.0
Financial market liabilities to investment in development activities	%	**64.3**	67.2	73.1	77.3	76.8
Non-performing book debt as a % of gross book debt	%	**3.3**	3.7	5.1	5.8	7.3
Return/(loss) on average total equity	%	**9.2**	9.7	5.7	4.3	(4.8)
Return/(loss) on average total assets	%	**3.4**	3.4	1.8	1.3	(1.6)
Interest cover	times	**2.0**	1.9	1.8	1.8	1.6
Net interest income margin[7]	%	**49.8**	48.7	43.6	45.6	40.0
Cost-to-income ratio	%	**18.8**	28.7	34.4	28.4	48.9

1. *Development activities include development loans, development bonds and equity investments.*
2. *Financial market liabilities comprise medium- to long-term funding debt securities, medium- to long-term funding lines of credit, funding under repurchase agreements and derivative assets held for risk management.*
3. *Operating income excludes net foreign exchange gain/(loss), net gain/(loss) from financial assets and liabilities and impairments.*
4. *Operating expense comprises personnel expenses, general and administration expenses and depreciation.*
5. *Sustainable earnings/(loss): net profit/(loss) before grants and adjustments to foreign exchange and financial assets and liabilities, but includes revaluations on equity investments.*
6. *Measure includes R20 billion (2016: R4.8 billion) callable capital.*
7. *This ratio is calculated as net interest income (interest income less interest expense) over interest income.*

CHIEF FINANCIAL OFFICER'S REPORT

"The DBSA is proud to present another set of strong financial results despite the volatile and adverse macro-economic environment."

Kameshni Naidoo
Chief Financial Officer

The DBSA is proud to present another set of strong financial results despite the volatile and adverse macro-economic environment. This was achieved on the back of cost-effective funding, cost-reflective pricing strategies and quality of the loan book. This was further aided by realised gain in the sale of investment in equities.

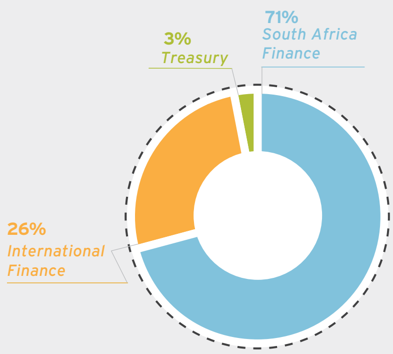
FINANCIAL AND OPERATIONAL PERFORMANCE

*Refer to page 77 for the **statement of financial performance.***

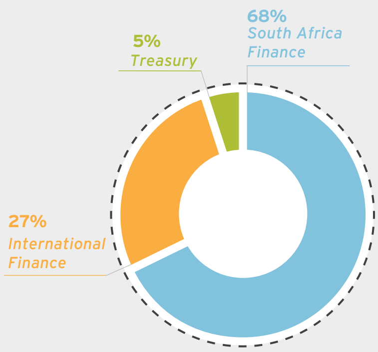
The improvement in profitability was a result of both improved operational performance and realised gain from equities. Profit from operations for the year increased by 9% to R2.8 billion (2016: R2.6 billion). Operating income increased by 24% to R4.8 billion (2016: R3.8 billion), whilst sustainable earnings was particularly encouraging at R3.6 billion (2016: R1.4 billion). The return on average equity declined marginally to 9.2% (2016: 9.7%), while return on average total assets remained the same at 3.4% (2016: 3.4%).

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

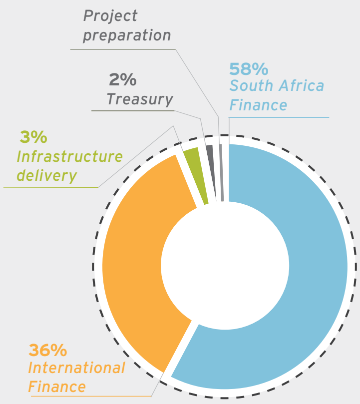
Net interest income by segment 2017



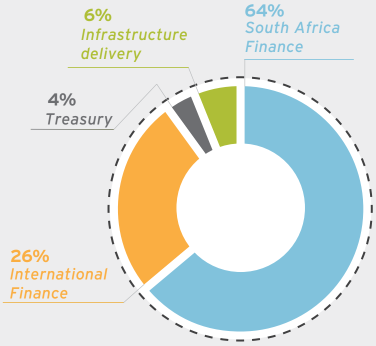
Net interest income by segment 2016



Operating income by segment 2017



Operating income by segment 2016



CHIEF FINANCIAL OFFICER'S REPORT CONTINUED

NET INTEREST INCOME

The improvement in both net interest income and net interest margin was mainly due to early loan disbursements as well as the successful execution of our pricing and funding strategies. 93.6% (2016: 96.1%) of interest income was received in cash.

Overall the net interest margin improved to 49.8% (2016: 48.7%).

NON-INTEREST REVENUE

Non-interest revenue increased by 156% to R1.1 billion compared to R410 million earned in the prior year. The increase was mainly due to the equity gain realised of R635 million and net fee income received during the year.

IMPAIRMENTS

Impairments for the year decreased from R1.4 billion to R339 million mainly due to collections and payments on some of the non-performing exposures. The South Africa economic growth remained subdued and possibility of increase on the interest rates in the new financial year are likely to impact the performance of the loan book and impairment provisions thereon.

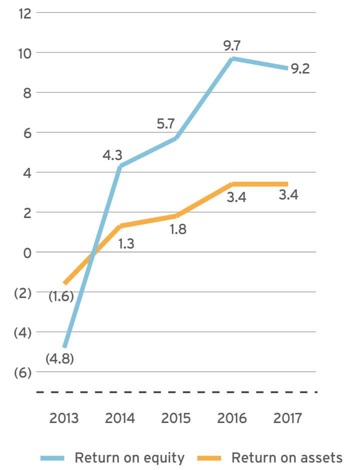
EXPENDITURE

The DBSA continues to improve its cost-management. The cost-to-income ratio improved significantly to 18.8% from 28.7% in 2016. Operating expenses, including personnel costs, other expenses as well as depreciation and amortisation decreased by 14.2% to R837 million.

FOREIGN EXCHANGE

The rand experienced tremendous volatility during the financial period, moving from R14.76/US$ at the beginning of the year to R13.42/US$ at 31 March 2017. This resulted in the DBSA recording foreign exchange revaluation losses of R0.6 billion (2016: profits of R1.0 billion) driven by the dollar asset net open position. The high level of volatility necessitates close monitoring of the foreign exchange rate movements with a view to taking hedging action that will lock-in gains recorded to date in the event of a sustained appreciation of the rand.

Return on assets and equity (%)



STATEMENT OF FINANCIAL PERFORMANCE

FOR THE YEAR ENDED 31 MARCH 2017

in thousands of rand	2017 Actual	% change	2016 Actual
Interest income	**7 373 094**	13	6 541 028
Interest expense	**(3 703 760)**	10	(3 355 429)
Net interest income	**3 669 334**	15	3 185 599
Net fee income	**318 266**	15	275 914
Other operating income	**734 090**	446	134 355
Non-interest revenue	**1 052 356**	157	410 269
Net revaluation of equity investments – unrealised	**81 462**	(68)	253 172
Operating income	**4 803 152**	24	3 849 040
Project preparation	**(24 453)**	67	(14 651)
Development expenditure	**(27 181)**	(38)	(43 869)
Impairment loss on financial assets	**(339 449)**	(76)	(1 426 159)
Personnel expenses	**(603 608)**	(17)	(730 937)
Other expenses	**(202 180)**	(5)	(213 653)
Depreciation and amortisation	**(31 249)**	2	(30 593)
Grants	**(10 781)**	160	(4 129)
Sustainable profit	**3 564 314**	157	1 385 049
Net foreign exchange gains	**(618 649)**	(162)	1 002 172
Net revaluation of financial instruments	**(124 816)**	(166)	189 458
Profit from operations	**2 820 849**	9	2 576 679
Net interest margin (%)	**49.8**		49
Cost-to-income ratio (%)	**18.8**		29
Return on average equity (%)	**9.2**		9.7
Return on average assets (%)	**3.4**		3.4

*Refer to the **Statement of Comprehensive Income** on page 12 and **Statement of Other Comprehensive Income** on page 13 and notes thereto contained in the Annual Financial Statements.*

BALANCE SHEET STRENGTHENING

*Refer to page 79 for the **statement of financial position**.*

DEVELOPMENT LOANS AND BONDS

The gross development loan book increased by 3% (2016: 23%) to R75.6 billion (2016: R73.3 billion) on the back of R12.1 billion (2016: R16.5 billion) disbursements, R6.9 billion (2016: R6.1 billion) in interest capitalised, R1.7 billion (2016: R3.0 billion) in foreign exchange adjustments and R15.2 billion (2016: R11.5 billion) in repayments. The top 10 loan disbursements for the year accounted for 55% (2016: 60%) of the total disbursements. The South Africa Financing division experienced growth in gross loan book of 5% (2016: 21%) to R58.0 billion (2016: R55.1 billion) and the International Financing division declined by 3% (2016: 29%) to R17.6 billion (2016: R18.2 billion).

Development bonds remained flat at R1.3 billion (2016: R1.3 billion). The development bond portfolio is designated as "held-to-maturity" and "held at amortised cost" in support of balance sheet strengthening in maintaining appropriate levels of volatility introduced by fair value designation.

IMPAIRMENTS AND THE QUALITY OF THE LOAN BOOK

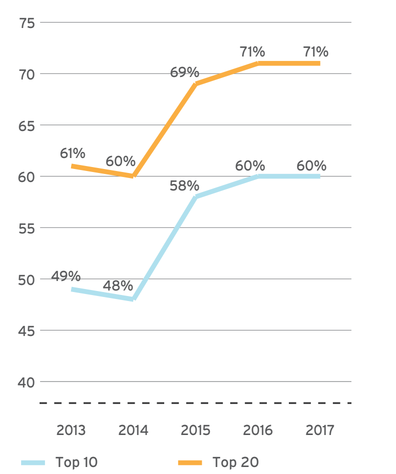
The strength and quality of the development book continues to improve and a significant part is rated as medium risk. In line with the credit review process, the recoverability of the loan book is assessed regularly. Based on the detailed assessment conducted, the non-performing development loan book improved to R2.5 billion (2016: R2.7 billion). At 3.3% (2016: 3.4%), the value of non-performing loans (NPLs) as a percentage of the gross development loan book is within an acceptable level of 6% (2016: 6%). The impairment provision increased to R4.2 billion from R3.8 billion in line with the deterioration in the general macro-economic environment as reflected on before.

Provisions against NPLs (specific impairments) has decreased to R1.8 billion and the NPL coverage ratio increased marginally from 72.3% to 72.5%. The NPL coverage ratio is a measure of the amount of specific impairment provision held against the NPLs and management expects to recover the unimpaired portion through the realisation of securities and other recovery methods.

Provisions against the performing book (portfolio impairments) increased from R1.8 billion (2.5% of the performing book) to R2.4 billion (3.2% of the performing book), mainly attributable to the growth in the loan book.

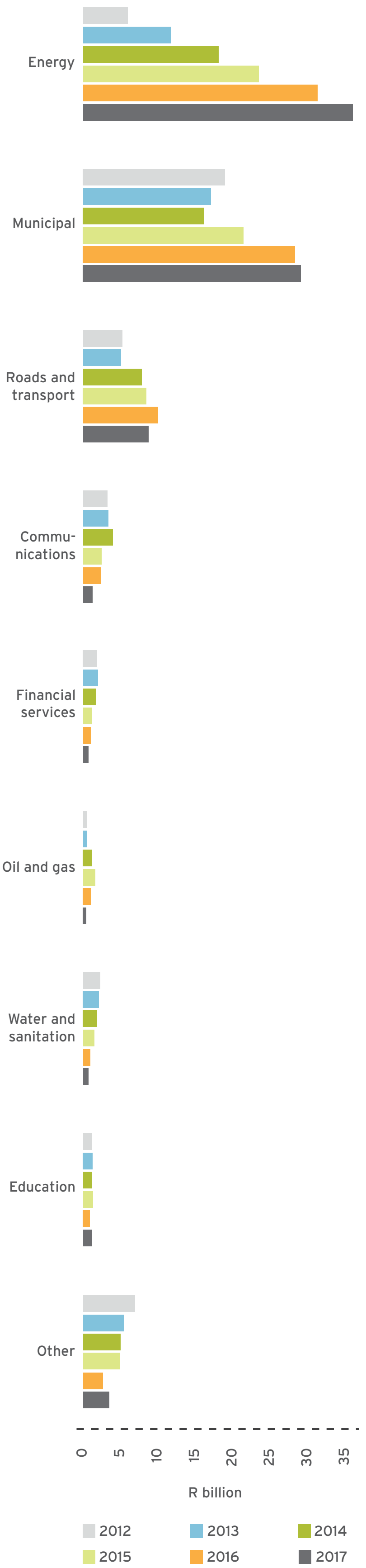
As detailed in the following graph, the top 10 and top 20 exposures comprised 60% (2016: 60%) and 71% (2016: 71%) of the total loan book respectively. The level of concentration in these obligors has increased over the past year.

Top 10 and top 20 clients as % of total book

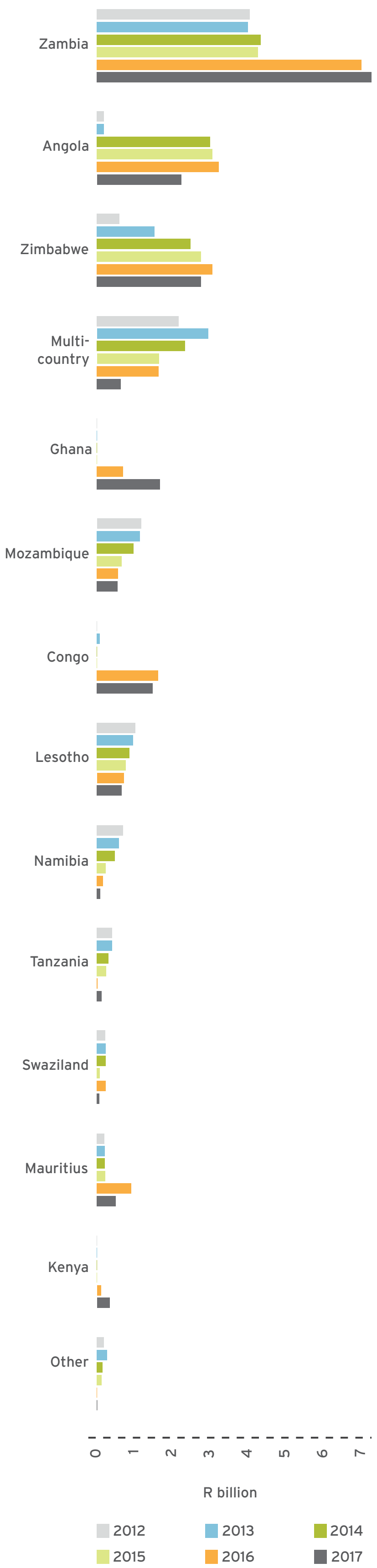


CHIEF FINANCIAL OFFICER'S REPORT CONTINUED

Sector Exposures (excluding South Africa)



Exposure by country



Zambia, with R7.1 billion (2016: R6.5 billion), remains the country outside of South Africa to which the DBSA's exposure is the highest. Zimbabwe with R2.6 billion (2016: R3.0 billion) and Angola with R2.1 billion (2016: R2.8 billion) are the countries to which the DBSA had the second and third highest rest-of-Africa exposure. Outside of these top three countries, the exposure to other countries has declined or remained fairly consistent.

The DBSA's exposure to the energy sector at year-end was R43.9 billion (2016: R29.0 billion), representing 58% (2016: 39.9%) of the total portfolio. Exposure to the roads and transport sector decreased to R8.1 billion (2016: R9.3 billion). Our investment in the energy sector is in line with the economic challenges facing South Africa. It is anticipated that our role will evolve over the next 20 years towards the transport and water security segments.

Direct loan exposure to municipalities, excluding bonds, increased in the year from R24.6 billion to R27.0 billion.

STATEMENT OF FINANCIAL POSITION

AS AT 31 MARCH

in thousands of rand	2017	% change	2016
ASSETS			
Cash and cash equivalents	**2 299 247**	10	2 084 565
Other receivables	**121 982**	(12)	138 533
Investment securities	**1 069 085**	(16)	1 265 218
Derivative assets held for risk management	**846 141**	(27)	1 163 533
Post-retirement medical benefits investment	**45 251**	(9)	49 978
Equity investments	**5 972 509**	(5)	6 278 575
Development bonds	**1 290 319**	–	1 290 296
Development loans	**71 505 178**	3	69 494 954
Property and equipment	**415 409**	(17)	501 202
Intangible assets	**87 958**	11	79 142
Total assets	**83 653 079**	2	82 345 996
LIABILITIES			
Other payables	**838 591**	(6)	894 795
Provisions	**126 630**	(17)	152 533
Liability for funeral benefits	**3 226**	4	3 100
Liability for post-retirement medical benefit	**40 712**	(83)	239 289
Funding: debt securities	**36 454 261**	3	35 271 135
Funding: lines of credit	**14 015 426**	(14)	16 371 534
Derivative liabilities held risk management	**142 857**	(0)	148 551
Total liabilities	**51 621 703**	(3)	53 080 937
EQUITY			
Share capital	**200 000**	–	200 000
Retained earnings	**17 514 577**	19	14 544 861
Permanent government funding	**11 692 344**	0	11 692 344
Revaluation reserve on land and buildings	**198 322**	(26)	269 256
Hedging reserve	**141 680**	15	123 050
Reserve for general loan risk	**2 287 491**	(6)	2 436 358
Fair value reserve	**(3 038)**	275	(810)
Total equity	**32 031 376**	9	29 265 059
Total liabilities and equity	**83 653 079**	2	82 345 996

Refer to the ***Statement of Financial Position*** *on page 11 and notes thereto contained in the Annual Financial Statements.*

EQUITY INVESTMENTS

Equity investments decreased by 5% (2016: 23%) to R6.0 billion (2016: R6.3 billion) mainly due to proceeds amounting to R1 billion (2016: R166 million) from the successful exit of equity investments with realised gains amounting to R664 million (2016: R44 million) coupled with foreign exchange loss adjustments on the foreign component of the equities portfolio. The DBSA continues to monitor the equity investments portfolio closely to ensure that losses emanating from a decline in the value of these investments are recognised as soon as they are detected. The DBSA has a commitment of R1.2 billion (2016: R1.6 billion) in existing equity projects.

DERIVATIVE ASSETS AND LIABILITIES HELD FOR RISK MANAGEMENT

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

As part of the DBSA's risk management approach, it uses interest rate swaps and foreign exchange contracts as hedging instruments. Derivative assets decreased from R1.2 billion to R0.8 billion during the year, mainly due to the maturing of the derivative instruments, strengthening the EUR/ZAR exchange rate environment and decreasing outlook on long-end interest rate environment experienced during the year ending 31 March 2017.

LIQUIDITY PORTFOLIO

The DBSA has a capital market programme, which plays a pivotal role in ensuring sufficient liquidity to meet all financial obligations on a timely basis. The liquidity portfolio is made up of cash and liquid assets that meet the criteria for high-quality liquid assets. At 31 March 2017, the portfolio stood at R3.4 billion (2016: R3.3 billion).

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

CHIEF FINANCIAL OFFICER'S REPORT CONTINUED

Long-term funding mismatches are managed according to the net stable funding (NSF) ratio guidelines (Basel III measure to promote use of stable funding). As at 31 March 2017, the DBSA meets the 100% minimum requirement for the NSF ratio, as was the case at the previous year-end.

WORKING CAPITAL

*Comprehensive disclosure on **working capital** is provided in notes 6 and 16 to the Annual Financial Statements.*

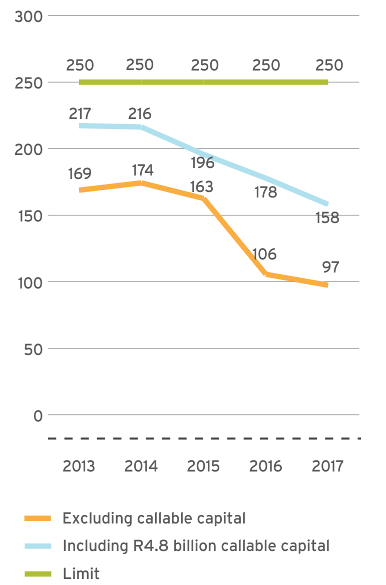
At the end of the financial year, approximately 87% (2016: 88%) of total debtors related to debtors in the Infrastructure Delivery division. We expect this trend to continue as stakeholders see value in our ability to assist in delivering and implementing infrastructure solutions at scale.

EQUITY

The last tranche of capital injection from National Treasury was received in the previous year ended 31 March 2016. This significantly assisted in enhancing our capital adequacy and supporting growth in our disbursements.

The debt-to-equity ratio has decreased to 158% from the prior year of 178% due to the impact of the profit generated for the year. Including the callable capital of R20 billion (2016: R20 billion), the ratio declines to 97% (2016: 106%).

Debt-to-equity ratio (%)



STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 MARCH

in thousands of rand	2017	% change	2016
Net (loss)/profit for non-cash items	**459 125**		(137 003)
Interest received	**6 864 688**		6 308 445
Interest paid	**(3 446 294)**		(3 115 067)
Net (decrease)/increase in working capital	**(110 897)**		(31 060)
Net cash generated by operating activities	**3 766 622**	25	3 025 315
Development loan disbursements	**(12 103 967)**		(16 461 393)
Development loan principal repayments	**8 572 092**		5 549 156
Net increase in equity investments	**732 770**		(368 767)
Grants paid	**(35 171)**		(18 781)
Net repayments/(advances) on national mandates	**2 821**		100 357
Net cash used in development activities	**(2 831 455)**	(75)	(11 199 428)
Purchase of property and equipment	**(3 987)**		(15 919)
Proceeds from sale of property and equipment	**853**		207
Purchase of intangible assets	**(21 493)**		(14 728)
Movement in financial market assets	**(832 878)**		(197 871)
Net cash utilised by investing activities	**(857 505)**	(612)	167 432
Receipts from National Treasury	**–**		3 000 000
Financial market liabilities repaid	**(27 050 711**		(20 163 956)
Financial market liabilities raised	**27 206 684**		23 249 923
Net cash generated from financing activities	**155 973**	(97)	6 085 967
Net decrease in cash and cash equivalents	**233 635**		(1 929 714)
Effect of exchange rate movement on cash balances	**(18 953)**		103 616
Movement in cash and cash equivalents	**214 682**		(1 817 098)
Cash and cash equivalents at the beginning of the year	**2 084 565**		3 901 663
Cash and cash equivalents at the end of the year	**2 299 247**	10	2 084 565

*Refer to the **Statement of Cash Flows** on page 15 and notes thereto contained in the Annual Financial Statements.*

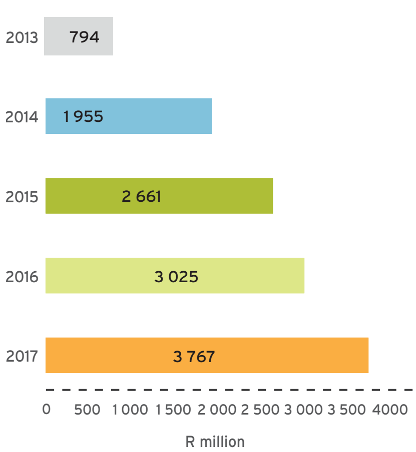
CASH GENERATED FROM OPERATING ACTIVITIES

Cash generated from operations increased by 25% (2016: 14%) year-on-year to R3.8 billion (2016: R3.0 billion), largely boosted by the cash received from the disposal of an equity investment. The increasing trend is due to implementation of the financial strategy over the years.

The DBSA closed the year with a cash position of R2.3 billion (2016:R2.1 billion). The major cash inflows being development loan repayments of R8.6 billion (2016: R5.5 billion); liabilities raised R27 billion (2016: 23 billion) and interest received R6.9 billion (2016: R6.3 billion). Interest received represents 94% of interest income accrued.

Major cash outflows being development loan disbursements R12 billion (2016: 16 billion); liabilities repaid R27 billion (2016: R20 billion) and interest paid R3.4 billion (2016: 3.1 billion).The graph below depicts an improving trend year-on-year in the cash generated from operations.

Cash generated by operating activities



OTHER SIGNIFICANT ITEMS

The auditor's report outlines certain key audit matters to assist users of the Annual Financial Statements in their understanding of the statements. Note that these items are not cause for concern but rather an indication of importance.

The DBSA will implement of IFRS 9 to 1 April 2018, in line with the standard.

FUNDING LIABILITIES

Funding liabilities decreased by R 1.17billion (2016: increased by R5.7 billion) during the financial year to R50.4billion (2016: R51.6billion), compared to a R1.67 billion) increase in development assets. The difference was covered mainly by operational cash flows. Debt securities amounting to R6.3 billion (2016: R6.1 billion) are measured at fair value, whilst the remainder are measured at amortised cost.

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

CHIEF FINANCIAL OFFICER'S REPORT CONTINUED

The DBSA was more active in the short to medium section of the capital market funding and conducted five (5) auctions during the year. Floating Rate and Commercial Paper issuances, as well as revolving credit facilities have been used primarily as part of the asset-lead-liability-lag strategy, which resulted in diversification of funding and minimising the cost of debt. Our domestic medium-term note (DMTN) programme, registered with the Johannesburg Securities Exchange, remained the same at R80 billion during the year. At year-end, R49.2 billion (2016: R49.4 billion) remains available.

CREDIT RATINGS

The table below summarises the ratings as at 31 March 2017.

Agency	Rating type	Long-term rating	Short-term rating	Outlook
Fitch	National	AA+	F1+(zaf)	Stable
Moody's	Foreign currency	Baa2	Prime-2	Under review
	National scale	Aa1.za	P-1.za	Negative
S&P	Foreign currency	BBB-	A-3	Negative
	Local currency	BBB	A-2	Negative

However, post 31 March 2017, Fitch affirmed the DBSA credit rating for national long-term rating at AA+; Moody's downgraded the DBSA long-term foreign currency to Baa3 from Baa2, and short-term foreign currency to prime-3 from prime-2. S&P downgraded the DBSA by one-notch to BB+ and BBB- for foreign and local currencies, respectively.

EVENTS AFTER THE REPORTING PERIOD

Refer to note 53 of the Annual Financial Statements.

We will continue to monitor the effects of the credit rating downgrades on the cost of funding and any concomitant refinancing risk.

OUTLOOK

The DBSA remains carefully optimistic about the financial prospects of the coming year.

We have established a healthy loan book to drive net interest income, our main source of income. Despite the low growth expectancy, there is a substantial pipeline of opportunities and a need for infrastructure investment, which will drive disbursements, especially in the SADC region. The municipal market in South Africa, especially M2/M3 continues to require capacity building.

We expect to start seeing the results of the updated strategy in crowding in funding for infrastructure investment. This will provide the DBSA with a more diversified income structure as the benefits will flow in the form of fees. This will have the added benefit of avoiding the debt: equity ceiling that is inherent in the DBSA's capital structure. Other structured finance products should also emanate from the innovation hub. Financial sustainability remains a key strategic imperative and we will continue to focus on net interest margin, cost-containment, balance sheet strengthening, foreign exchange management, as well as liquidity management.

Kameshni Naidoo
Chief Financial Officer

FINANCIAL DEFINITIONS

Callable capital	The authorised but as yet unissued share capital of the DBSA
Cost-to-income ratio	Operating expenses, including personnel, other, depreciation and amortisation expenses, as a percentage of income from operations
Income from operations	Net interest income, net fee income and other operating income
Interest cover	Interest income divided by interest expense
Debt/equity ratio (including callable capital)	Total liabilities, excluding other payables, provisions and liabilities for funeral benefits, as a percentage of total equity
Long-term debt-to-equity ratio	Total liabilities, excluding other payables, provisions and liabilities for funeral benefits, (including callable capital) as a percentage of total equity and callable capital
Net interest margin	Net interest income as a percentage of interest income
Return on average assets	Net profit or loss for the year expressed as a percentage of average total assets
Return on average equity	Net profit or loss for the year expressed as a percentage of average total equity
Sustainable earnings	Profit or loss from operations before net foreign exchange gain/(loss) and net gain/(loss) from financial assets and financial liabilities, but including revaluation on equity investments

ABBREVIATIONS AND ACRONYMS

AADFI	Association of African Development Finance Institutions
AFD	Agence Française de Développement
AfDB	African Development Bank
ASIDI	Accelerated Schools Infrastructure Delivery Initiative
B-BBEE	Broad-based Black Economic Empowerment
BRIC	Brazil, Russia, India and China
BRICS	Brazil, Russia, India, China and South Africa
BSC	Balanced Scorecard
COMESA	Common Market for Eastern and Southern Africa
DBE	Department of Basic Education
DBSA	Development Bank of Southern Africa Limited
DFI	Development Financial Institution
DFID	The United Kingdom's Department for International Development
DFRC	Development Finance Resource Centre
DIRCO	Department of International Relations and Cooperation
DTI	Department of Trade and Industry
ECOWAS	Economic Community of West African States
EIB	European Investment Bank
EPC	Engineering, procurement and construction
GAI	Government Assessment Instrument
GDP	Gross domestic product
GRA	Group Risk Assurance
ICAS	Independent Counselling and Advisory Services
ICT	Information and communications technology
IDIP	Infrastructure Delivery Improvement Programme
IFRS	International Financial Reporting Standards
IIPSA	Infrastructure Investment Programme for South Africa
IoDSA	Institute of Directors of South Africa
IUDF	Integrated Urban Development Framework
KfW	The German agency Kreditanstalt für Wiederaufbau
JICA	Japan International Cooperation Agency
MIG	Municipal Infrastructure Grant
MTEF	Medium-Term Economic Framework
NDP	National Development Plan
NEPAD	New Partnership for Africa's Development
NSC	North-South Corridor
PFMA	Public Finance Management Act
PICC	Presidential Infrastructure Coordinating Commission

PIDA	Programme for infrastructure development in Africa
PPP	Public/private partnership
PRASA	Passenger Rail Agency of South Africa
REIPPP	Renewable Energy Independent Power Producers Procurement
SA Inc	South Africa Incorporated
SADC	Southern African Development Community
SANRAL	South African National Roads Agency Limited
SDG	Sustainable development goal
SIP	Strategic integrated project
SMME	Small, medium and micro-enterprise
SOC	State-owned company
SOE	State-owned enterprise
SSA	Sub-Saharan Africa
UNOPS	United Nations Office for Project Services

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