

Bending the arc of history  
towards shared prosperity

**2018**  
INTEGRATED ANNUAL REPORT

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# REPORT NAVIGATION

Our reporting suite for 2018 consists of three reports:



The **2018 Integrated Annual Report**, which is our primary communication with our stakeholders.



The **2018 Annual Financial Statements**, which include the directors' report and the independent auditor's report.



The **2018 Sustainability Review**, which provides further information on our sustainability performance.



Indicates a **website reference** where more information can be found.



Indicates a **page reference** for further 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 CAPITAL



**Financial**  
Our equity, debt, funding from investors and clients



**Intellectual**  
Our brand, innovation capacity and experience



**Human**  
Our culture, our people, their development and our collective knowledge



**Social and relationships**  
Our relationships with clients, partners and government



**Manufactured**  
Our business structure and operational processes



**Natural**  
Our impact on natural resources



Refer to pages 22 to 23 for further details of the capitals and how we use them to create value for our stakeholders.

# ABOUT OUR 2018 INTEGRATED REPORT

This is the sixth Integrated Annual Report presented by the Development Bank of South Africa (DBSA). In this report, we review our performance for the financial year ended 31 March 2018; and provide our stakeholders with a concise and transparent assessment of our ability to create sustainable value and deliver on our mandate. Our report provides material information relating to our strategic business model, operating context, material risks, stakeholder interests, performance, prospects and governance for the year under review.

## REPORTING PRINCIPLES AND ASSURANCE

This Integrated Annual Report is compiled and presented in line with the requirements of the King Code of Governance Principles for South Africa 2016 (King IV), the International Integrated Reporting Framework (IIR) 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) and the requirements of the Public Finance Management Act, No 1 of 1999 (PFMA) and the Companies Act of South Africa, No 71 of 2008 (Companies Act), where appropriate.

The DBSA applies a combined assurance model to obtain assurance within reasonable cost from its Risk Management Function and the internal and external assurance providers on risks affecting it. For more information, see the Audit and Risk Committee report on pages 63 to 66.

The DBSA receives external assurance from its auditor, the Auditor-General of South Africa, on the fair presentation of the Annual Financial Statements. Our external auditor has issued a report, not only 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 controls. The findings are included in the Auditor-General's Report to Parliament on the Annual Financial Statements.

## MATERIALITY

We concentrate on items both qualitative and quantitative in nature, that are material to the DBSA's ability to deliver on its mandate and strategy. We define material issues as those with the potential to substantially impact our ability to create and sustain value for our stakeholders. In identifying matters that 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.

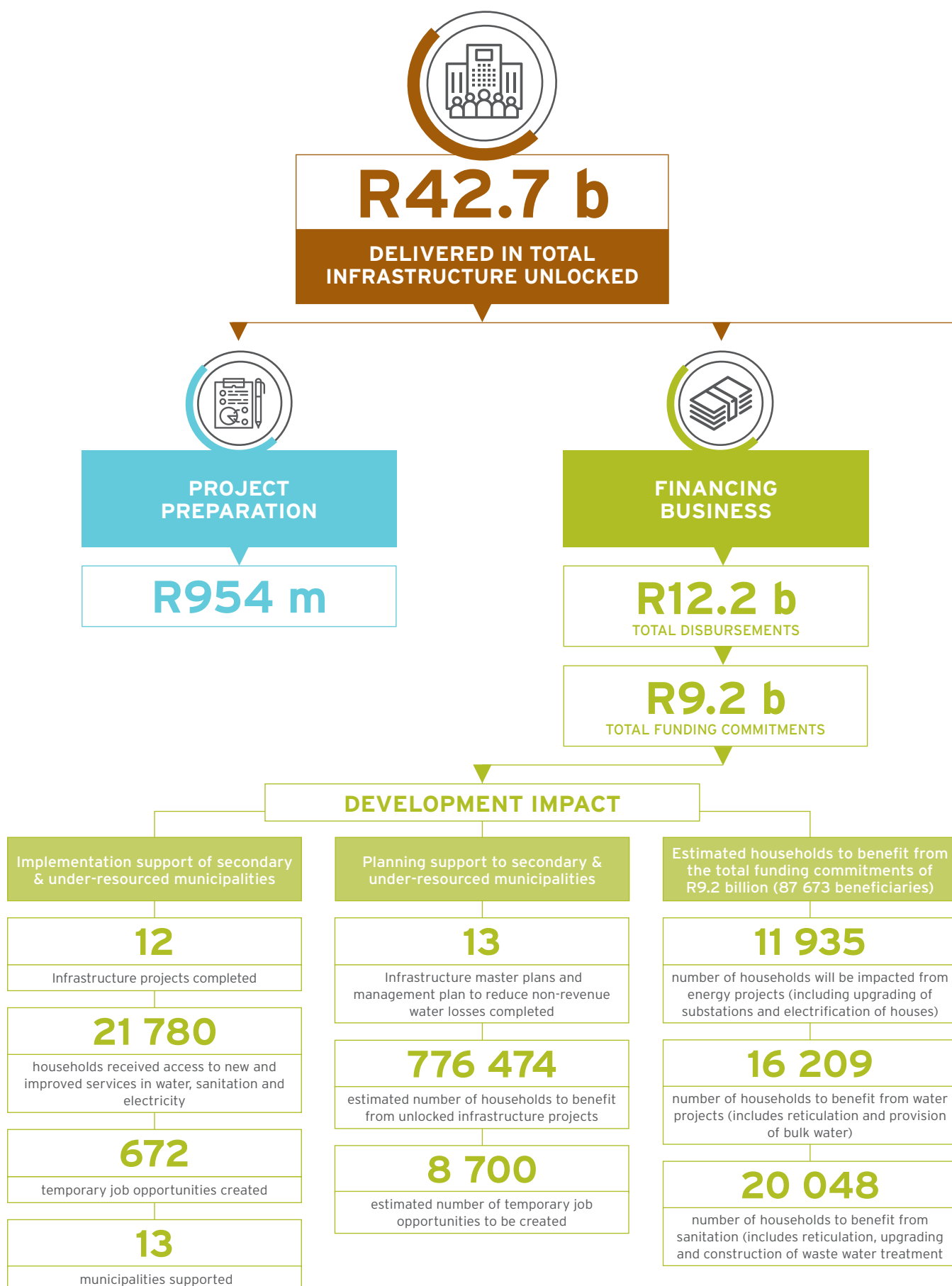
We discuss the rationale and implementation of our refocused strategy and new operating structure, intended to optimise our developmental impact and ability to create value for all stakeholders, while remaining financially sustainable. Value creation is achieved by applying and leveraging our capitals to deliver developmental impact in line with the mandate and with value for all stakeholders.

## 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, which convened internal teams with the relevant skills and experience to undertake the reporting process and provided management oversight. Internal parties have devoted significant thought to how best to communicate the DBSA story. The Board, after applying its collective mind to the preparation and presentation of the report, concluded that it was presented materially in accordance with the IIR Framework and approved it for publication on 03 August 2018.

The DBSA is committed to improving on this report further and would appreciate your constructive feedback. Comments may be sent to The Head: Corporate Strategy at [corporatestrategy@dsba.org](mailto:corporatestrategy@dsba.org), or delivered to the DBSA premises at 1258 Lever Road, Headway Hill, Midrand.

# PERFORMANCE HIGHLIGHTS





**R42.7 b**  
DELIVERED IN TOTAL  
INFRASTRUCTURE UNLOCKED



**FUNDS  
CATALYZED**

**R25.2 b**



**INFRASTRUCTURE  
DEVELOPMENT DIVISION**

**R4.3 b**  
FUNDS UNDER MANAGEMENT

**R3.3 b**  
INFRASTRUCTURE DELIVERED IN 2018

**DEVELOPMENT IMPACT**

**EDUCATION**

**34 376**  
learners benefited from 8 new schools completed

**85 007**  
learners benefited from the refurbishments of the 102 storm damaged schools

**21**  
schools in construction

**HEALTH**

**25**  
health facilities refurbished

**>148 000**  
people benefited by accessing HCT in VCT clinics

**8**  
new schools completed

**HOUSING**

**112**  
houses completed

**102**  
storm damaged schools refurbished

**MUNICIPAL PROJECTS**

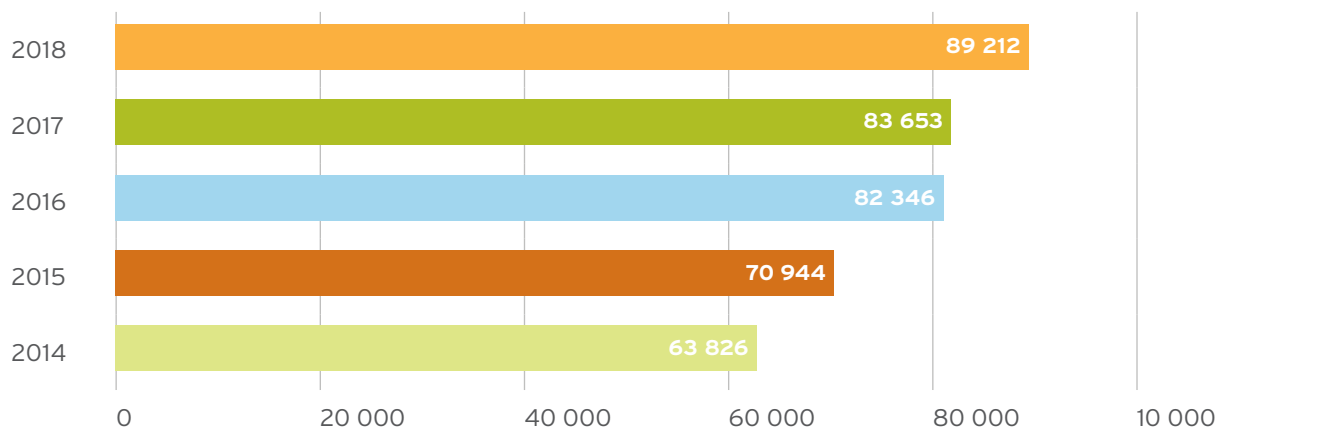
**8**  
municipal projects completed

**12**  
educational and accommodation facilities refurbished

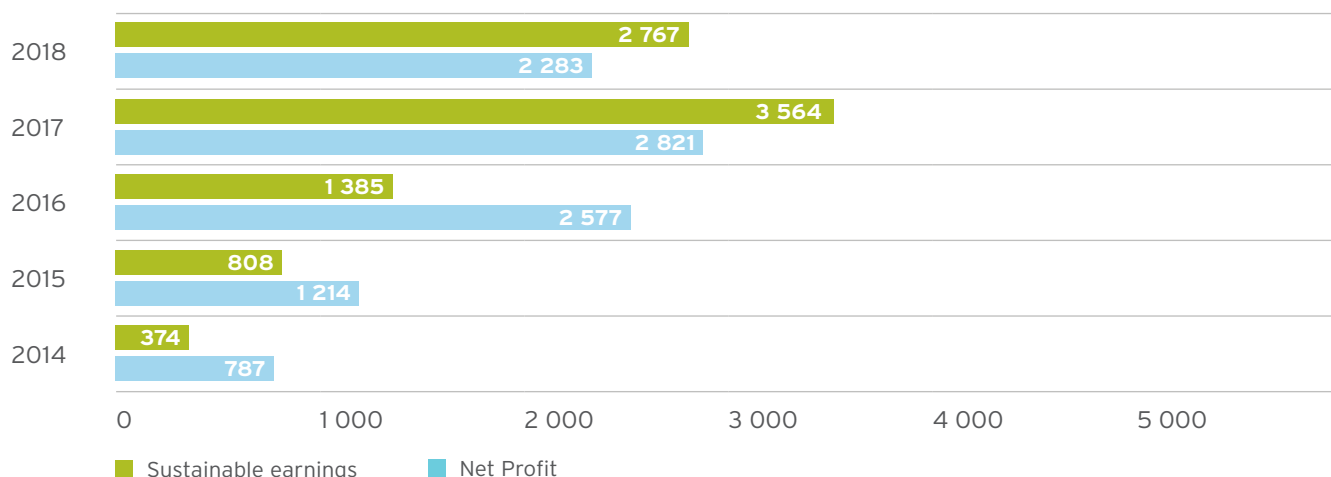
# PERFORMANCE HIGHLIGHTS

continued

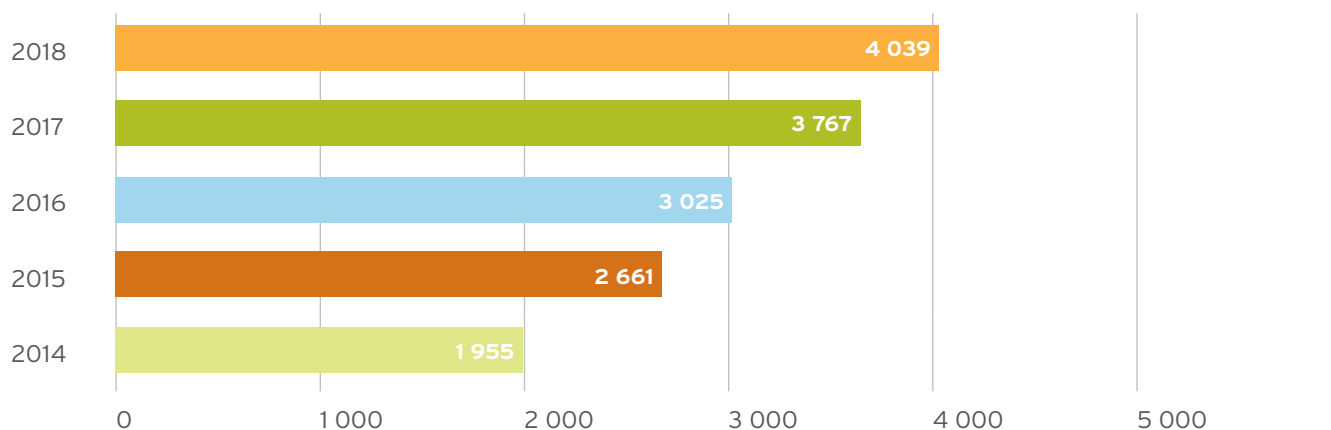
## Total assets (R million)



## Sustainable earnings and net profit (R million)



## Cash generated from operating activities (R million)

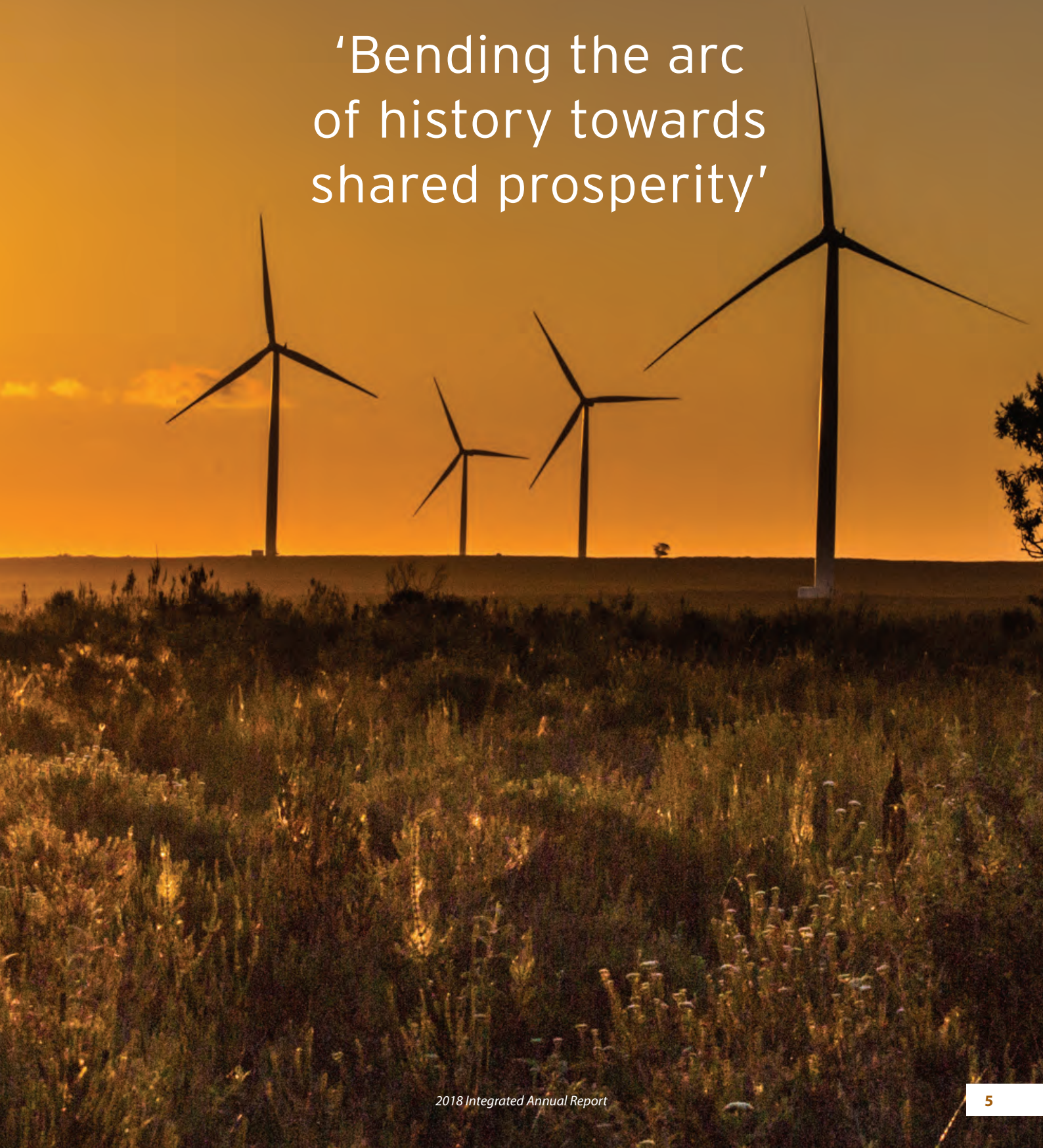




## OUR INTENTION

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‘Bending the arc  
of history towards  
shared prosperity’





# 01

## OVERVIEW







## FOREWORD BY THE MINISTER OF FINANCE

Nhlanhla Nene  
**Minister of Finance**

In line with the medium-term strategic framework and the National Development Plan (NDP), the 2018 Budget prioritises spending on social and economic infrastructure such as schools, health facilities, roads and transport, energy, and water and sanitation. Investment in infrastructure is crucial for Africa's development, strengthening of regional markets and putting Africa in a global competitive map. Infrastructure development should be seen as a tool for promoting economic growth, reducing poverty and improving health and education services in any economy. Efforts should be strengthened to close the financing gap regarding infrastructure on the continent given the benefits that can be derived in this regard.

South Africa's drive to improve the planning and execution of megaprojects and delivery of quality infrastructure has, in recent years, been inhibited by a slowdown in infrastructure spending as a result of the challenging economic landscape. However, the economic backdrop does not diminish the need for infrastructure development. Achieving the goals of the NDP - eliminating poverty and reducing inequality

by 2030 - remain imperative. Investment in social infrastructure, such as health, housing and education, as well as bulk enabling infrastructure such as energy, water and transport are essential to stimulate economic growth and job creation, thereby fostering the NDP objectives.

South Africa can only achieve these goals by drawing on the energies of its people, growing an inclusive economy, building capabilities, enhancing the capacity of the state, and promoting leadership and partnerships throughout society. State-owned Companies (SOCs) play a central part in government's infrastructure development programme. Between 1998/99 and 2016/17, the public sector spent more than R2.7 trillion on infrastructure. State-owned companies have been the biggest contributors to public-sector expenditure over this period, spending R1.2 trillion in total. Municipalities and provincial departments have also increased their infrastructure spending, contributing R554 billion and R643 billion respectively, to build schools, hospitals, clinics and other community-related infrastructure.

However, SOCs have limited capacity to increase the level of investment required to achieve targeted economic infrastructure growth rates while maintaining sustainable levels of borrowing. A proper balance needs to be maintained between the prioritisation of infrastructure delivery and development impact and the need to remain profitable. The Bank has a pivotal



role to play in delivering developmental infrastructure in South Africa. Supported by the Private Sector Participation Framework, approved by Cabinet in 2017, the DBSA aims to catalyse funds and facilitate processes that will leverage private sector and International Development Finance Institutions (DFIs) participation, as well as provide capital for high-risk investments.

The DBSA's mandate includes, inter alia, large-scale infrastructure investment, in energy, transport, water and ICT, as well as education, health and housing. The Bank will focus on improving and increasing infrastructure delivery in municipalities where demand in metros on existing and new infrastructure continues to rise above municipal capacities. This demand is driven by rapid urbanisation and the expansion of businesses that utilise the existing infrastructure. The DBSA will continue to provide services such as infrastructure planning, project preparation and implementation support to under-resourced municipalities for projects funded by government, as well as to assist them in building sustainable institutional capacity.

Providing solutions to expedite infrastructure development in this market is a catalyst for socio-economic development within municipalities, creating job opportunities for the growing population and improving standards of living. The Bank has extensive expertise and product offerings that address the specific challenges that constrain infrastructure development in municipalities. The DBSA particularly plays a key role in supporting under-resourced municipalities, providing development planning and implementation support interventions in the origination of critical infrastructure projects. I believe this space calls for much more innovative and creative measures to find solution for the chronic ills that if left undone runs the risk of collapsing the entire municipal system and worst case, crippling the fiscus as a whole.

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 spur growth and expand the revenue generation base of municipalities. The DBSA seeks to augment its disbursements by increasingly focusing on the 'catalytic' role of enabling sustainable infrastructure development. This will be done through taking early-stage risk, expanding loan syndication and developing new structured products to increase developmental impact. Key to the Bank's strategy is to mobilise capital from third party investors, especially from private

parties and commercial finance institutions. Crowding-in private sector investment is essential to driving development in our large urban centres.

The level of infrastructure investment required by South Africa and the rest of the African continent is not something that either the DBSA or the South African government can manage on its own, reinforcing the importance of the role DBSA needs to play to raise investment levels through innovative catalytic mechanisms. It is now widely accepted that traditional development finance institutions should work together with private sector investors to maximise impact. In 2015, a cohort of DFIs, in a paper titled "From Billions to Trillions: Transforming Development Finance", underlined that investments of all kinds, public and private, national and global, in both capital and capacity, are essential to meet the investment needs of the United Nations Sustainable Development Goals.

DFI's and particularly DBSA as one of the leading DFI's in Africa, have a central role to play in realising the ambitions of the NDP and the Sustainable Development Goals (SDG). The strategic refocus on optimising its catalytic role to enable sustainable infrastructure development will galvanise the Bank's contribution to achieving the SDGs and NDP goals. Furthermore, a catalysing role to crowd in funders will result in the DBSA playing a much stronger role in terms of stimulating the economy. Achieving the Bank's stated ambition of unlocking R100 billion infrastructure per annum in 2019/20 will start to have a material impact on GDP growth.

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



**Nhlanhla Nene, MP**  
**Minister of Finance**



# OVERVIEW OF THE DBSA

The DBSA is a state-owned development finance institution, which operates across the infrastructure value chain to deliver developmental infrastructure in South Africa and the rest of the African continent. Our primary purpose is to promote economic development and growth, human resource development and institutional capacity building by mobilising financial and other resources from the national and international private and public sectors for sustainable development projects and programmes on the African continent.

## OUR VISION

A prosperous and integrated resource efficient region, progressively free of poverty and dependency

## OUR 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 the investment in **economic infrastructure**
- Support **regional integration**
- Promote sustainable use of **scarce resources**

## OUR VALUES

**High performance:** We are enabled, empowered and inspired to deliver consistent quality, effective and efficient results for which we are accountable and rewarded

**Shared vision:** We share and keep the sustainability, strategic intent and mandate of the DBSA top of mind in all our decisions and actions

**Integrity:** Our deals, interactions and actions are proof of transparent and ethical behaviour that shows respect and care for all our people (employees, stakeholders, clients and communities)

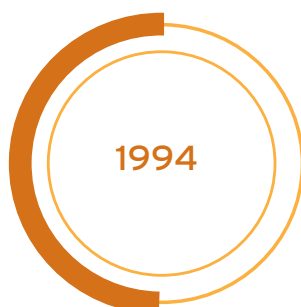
**Innovation:** We challenge ourselves continuously to improve what we do, how we do it and how well we work together

**Service orientation:** We deliver responsive and quality service that speaks to the need of our clients and continuously build relationships that result in win-win outcomes



### Conduit of public finance and government agency for the homelands

The DBSA facilitated infrastructure development within the homeland constitutional dispensation that prevailed



### Financier and partner

The DBSA's role and function transformed under the new constitutional and economic dispensation of South Africa, and it emerged as a DFI with a sharp focus on infrastructure development, especially in southern Africa, enshrined in the Development Bank of Southern Africa Act (No 13 of 1997)



### Financier, partner and adviser

The DBSA increased the importance of development impact, emphasising its position as a knowledge institution, intensifying risk management and embedding a strong governance framework

## OUR KEY STRATEGIC OBJECTIVES

### **Sustained growth in developmental impact:**

Grow each of our businesses aggressively to maximise developmental impact.

### **Integrated infrastructure solutions provider:**

Provide integrated infrastructure solutions across the value chain and be the partner of choice for infrastructure solutions.

### **Financial sustainability:**

Maintain profitability and operational efficiency to enable growth in equity and fund developmental activities.

## OUR HISTORY

The measure of our success is not based on financial indicators, but the sustainable impact on the quality of life of poor South Africans as well as Africans on the continent. Our evolution as an organisation has been driven by a spirit of broadening the horizons of what is seemingly possible to facilitate and expedite economic development and growth, the improvement of the quality of lives of people and the promotion of regional integration through infrastructure finance and development.

In 2018, our journey continued as the Bank evolved from a provider of infrastructure finance to an organisation that works through the infrastructure value chain to unlock the infrastructure gaps facing the country and the region.



### **Financier, adviser, implementer and integrator**

Increased impetus for accelerated delivery from government and its development partners renewed emphasis on addressing infrastructure delivery gaps



### **Financier, partner, adviser, project preparer and implementer**

Advanced development of the region through investment in regional infrastructure



### **Financier, strategic partner, adviser, project preparer, implementer and catalyser**

Focused on a holistic approach to development by creating favourable investment conditions and terms for third-party investment, as well as financing and advisory solutions, along the entire infrastructure delivery value chain

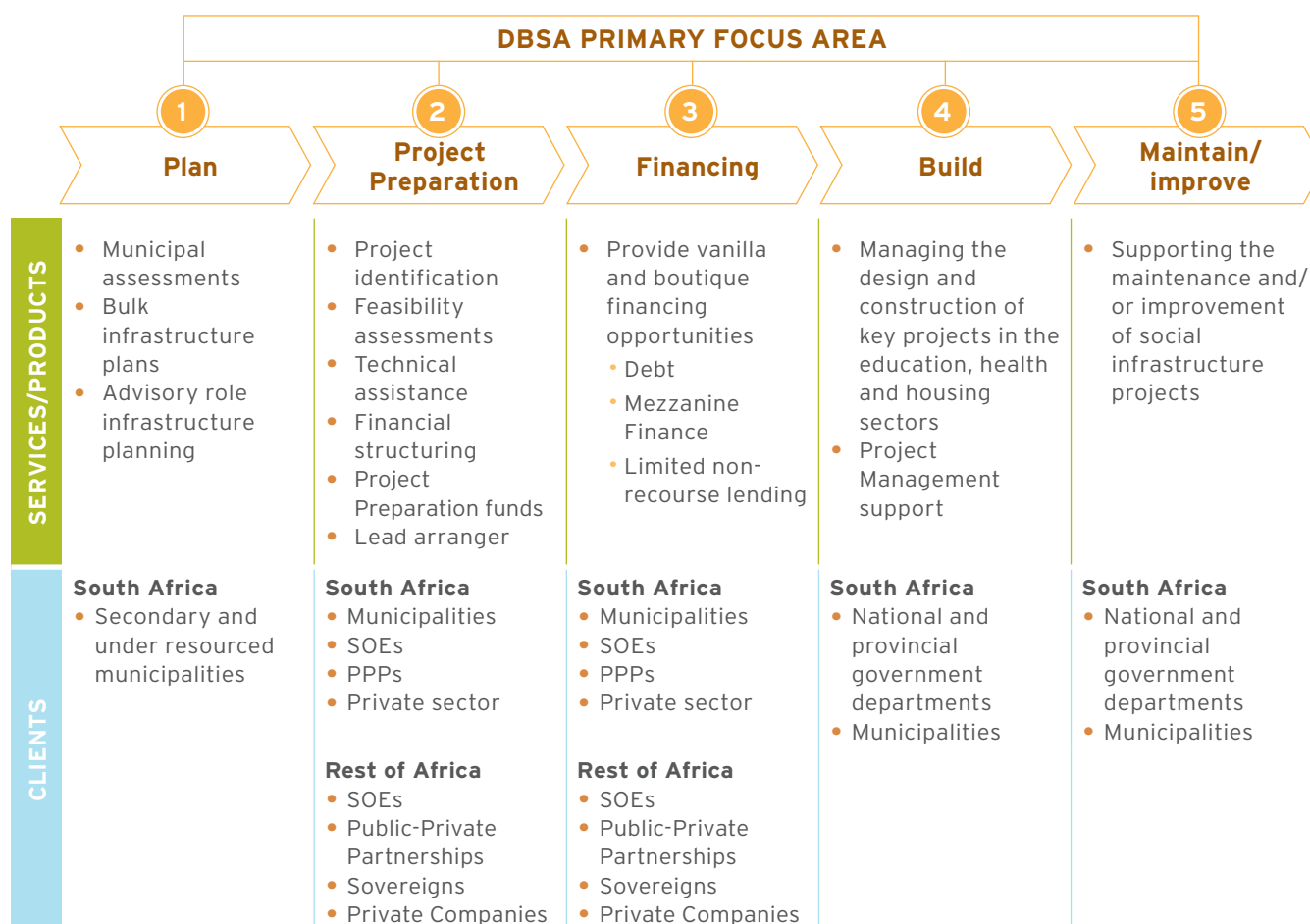
# HOW WE OPERATE

We create value and deliver on our mandate through a new organisational structure that incorporates a specialised frontline to better leverage the DBSA's competitive advantage.

- 1 PROJECT PREPARATION DIVISION** provides financial, strategic and technical support and expertise focused on growing the DBSA project pipeline and delivering sizeable projects with significant economic and developmental impact.
- 2 INFRASTRUCTURE DELIVERY DIVISION** provides infrastructure delivery implementation support to accelerate development and enhance development impact.
- 3 TRANSACTING DIVISION** at the core of infrastructure financing in the DBSA, is focused on funding solutions that enable the development of social and economic infrastructure in the local government, energy, water, transport and information and communications technology (ICT) sectors.
- 4 COVERAGE DIVISION** is building a robust pipeline of projects through catalysing investment by developing relationship and crowding-in third-party investors and tailoring infrastructure financing solutions to best meet clients' needs.

## OUR PRINCIPAL ACTIVITIES

We take a holistic view of infrastructure development by addressing the entire value chain rather than adhering to a narrow focus on funding and financing.

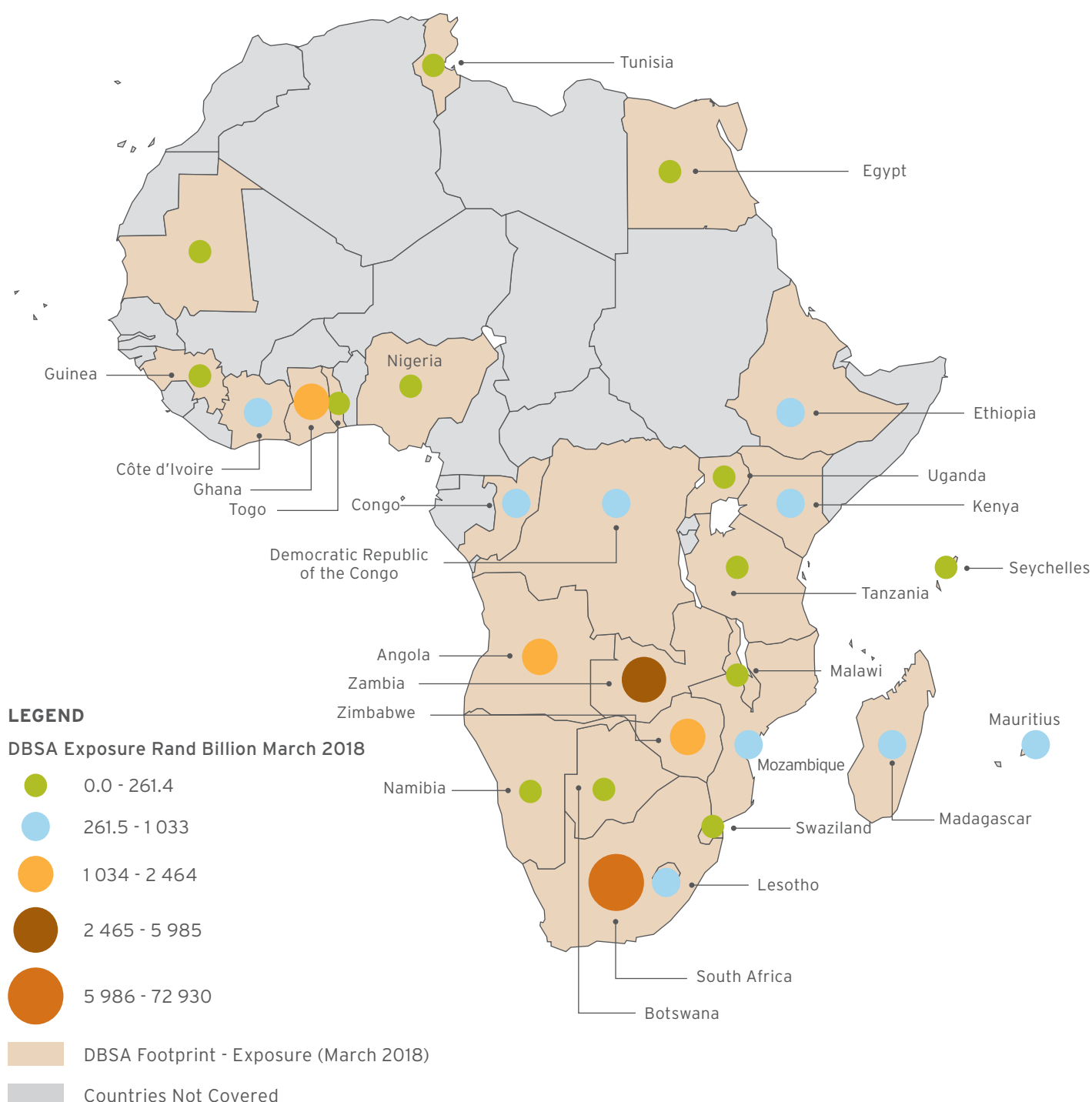




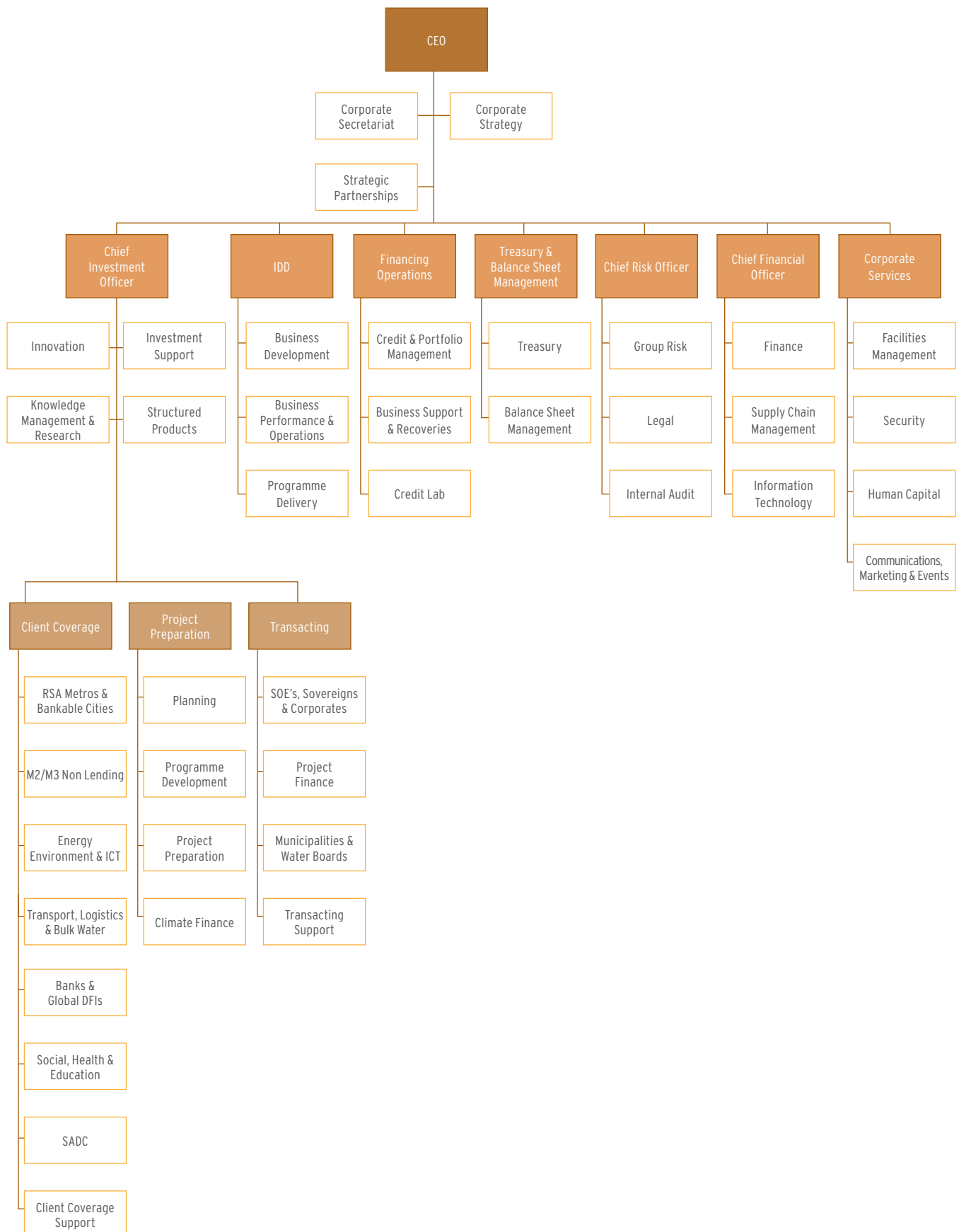
# WHERE WE OPERATE

Approximately 70% of the DBSA's balance sheet is focused in South Africa. The remainder funds the DBSA's regional development and integration strategy, which is aimed largely at the Southern African Development Community (SADC), although it broadly includes countries outside of SADC for selected regional economic communities, such as the tripartite free-trade area linking SADC, Common Market for Eastern and Southern Africa (COMESA) and the Economic Commission for Africa (ECA) as well as corridor development.

## DBSA EXPOSURE AND FOOTPRINT (MARCH 2018)



# OUR ORGANISATIONAL STRUCTURE



# OUR OPERATING CONTEXT

We operate under the legislative mandate set out in the DBSA Act No 13 of 1997, and are further guided by a number of international, regional and local policies, accords and agreements.

## The DBSA'S LEGISLATIVE MANDATE

In terms of the DBSA Act, No 13 of 1997 (Section 3), the main objectives of the Bank are to:

- Mobilise financial and other resources from the private and public sectors, national or international, on a wholesale basis, as determined in the regulations
- Appraise, plan and monitor the implementation of development projects and programmes
- Facilitate the participation of the private sector and community organisations in development projects and programmes
- Provide technical assistance, particularly human resource development and training in the identification, preparation, evaluation, financing, implementation and management of development projects and programmes
- Fund or mobilise wholesale funding, as determined in the regulations, for initiatives to minimise or mitigate the environmental impact of development projects or programmes

In addition, the Bank is expected to support the developmental requirements of the region by:

- Assisting other international, national, regional and provincial initiatives to achieve an integrated finance system for development
- Assisting other institutions in the national or international, public and private sectors with the management of specific funds

## NATIONAL DEVELOPMENT PLAN










Our mandate and strategy are linked to the objectives of South Africa's NDP Vision 2030. The NDP sets out an integrated strategy for accelerating economic growth, eliminating poverty and reducing inequality. Faster economic growth is both a key objective of the NDP and a necessary condition to raise the resources needed to fund the country's social and economic transformation. Large-scale investment in infrastructure, especially in energy, transport, water and ICT as well as education, health and housing, is a critical enabler, and the DBSA should play a pivotal role in delivering developmental infrastructure in South Africa.

## NDP OUTCOMES

The diagram below illustrates our role in the implementation of the NDP as a policy imperative and outlines activities that are currently implemented in direct support.

NDP outcome	DBSA's role	Examples
Create an economy that will create more jobs		Financing of economic infrastructure to enable growth and job creation (direct and indirect)
Investing in economic infrastructure		Funding of various energy, transport, ICT and bulk water projects
Environmentally sustainable and resilient: Transition to a low-carbon economy		Preparation and funding of renewable energy programmes Funding of water, sanitation and mass-transit projects Providing planning and implementation support to under-resourced municipalities
An inclusive and integrated rural economy		Funding of bulk water supply and transport networks across the country Eastern Cape Rural Housing Programme Planning financing of small town infrastructure



NDP outcome	DBSA's role	Examples
South Africa in the region and the world		Funding of projects in SADC and rest of Africa North-south corridor
Transforming human settlements		Housing Programme Housing Impact Fund Support to urban development programmes
Improving the quality of education, training and innovation		Financing and construction of student accommodation at universities IDD: ASIDI programme Funding of tertiary institution infrastructure IDD: Refurbishment of damaged school infrastructure
Quality health care for all		IDD: Refurbishment of health clinics and construction of doctors' rooms
Social protection		
Building safer communities		Improvement of local government service delivery
Building a capable and developmental state		Provision of technical support in the planning and implementation of projects
Fighting corruption		Ensuring highest levels of transparency in infrastructure financing and governance IDD: Management of procurement processes in appointing service providers
Transforming society and uniting the country		Supporting development impact through investment in social and economic infrastructure Financing of black-owned entities

 Direct
  Indirect
  Not applicable

## UNITED NATIONS SUSTAINABLE DEVELOPMENT GOALS

We subscribe to the goals and targets of the United Nation's 'Transforming our world: The 2030 Agenda for Sustainable Development'. The United Nations adopted 17 SDGs to shape the development agenda to 2030. The DBSA's investments are informed by the SDGs, and its contribution to the realisation of the SDGs is focused on goals 6, 7, 8, 11, 13 and 17. Goals 1, 3, 4 and 5 are indirectly supported by the Bank's core activities.



SDG outcome	DBSA's role	Examples
SDG 6: Ensure availability and sustainable management of water and sanitation for all		Funding of bulk water, reticulation and sanitation infrastructure Post implementation reviews
SDG 7: Ensure access to affordable, reliable, sustainable and modern energy for all		Preparation and funding of independent power producers (IPPs)
SDG 9: Build resilient infrastructure, promote inclusive and sustainable industrialisation, and foster innovation		Funding of various water, sanitation, renewable energy and mass transit projects
SDG 11: Make cities and human settlements inclusive, safe, resilient and sustainable		IDD: Provided implementation support in the delivery of 112 social housing units at City of Ekurhuleni Financing of municipal infrastructure
SDG 13: Take urgent action to combat climate change and its impacts		Green Fund Funding of IPPs
SDG 17: Strengthen the means of implementation and revitalise the global partnership for sustainable development		Partnerships with • Global and regional DFIs • Association for African Development Finance Institutions



Direct



Indirect



Not applicable

## Agenda 2063 of the African Union

We are aligned to the foundation and aspiration of the African Union's Agenda 2063. It is a strategic framework for the socio-economic transformation of the continent over the next 50 years. It builds on, and seeks to accelerate the implementation of past and existing continental initiatives for growth and sustainable development.

Some of the past and current initiatives it builds on includes the Lagos Plan of Action, The Abuja Treaty, The Minimum Integration Programme, the Programme for Infrastructural Development in Africa (PIDA), the Comprehensive Africa Agricultural Development Programme (CAADP), The New partnership for Africa's Development (NEPAD), Regional Plans and Programmes and National Plans. It is also built on national, regional, continental best practices in its formulation.

The following form the Foundations for Agenda 2063:

- The Constitutive Act of the African Union
- The African Union Vision
- The 8 Priority Areas of AU 50th Anniversary Solemn Declaration
- African Aspirations for 2063
- Regional and Continental Frameworks
- Member States National Plans

The seven African Aspirations were derived through a consultative process with the African Citizenry. These are:

- A prosperous Africa, based on inclusive growth and sustainable development
- An integrated continent, politically united, based on the ideals of Pan Africanism and the vision of Africa's Renaissance
- An Africa of good governance, democracy, respect for human rights, justice and the rule of law
- A peaceful and secure Africa
- Africa with a strong cultural identity, common heritage, values and ethics

- An Africa whose development is people driven, relying on the potential offered by people, especially its women and youth and caring for children
- An Africa as a strong, united, resilient and influential global player and partner

## SADC Regional Infrastructure Development Master Plan (RIDMP)

The primary objective of the SADC Regional Infrastructure Development Master Plan (RIDMP) is to define the minimum, but ultimate regional/trans-boundary infrastructure development requirements and conditions to facilitate the implementation and realization by year 2027 of the key infrastructure in the water, energy, transport, tourism, meteorology and telecommunication sectors that will move forward the SADC Agenda and enable the SADC region to realise its goal: The attainment of an integrated regional economy on the basis of balance, equity and mutual benefit for all member states. The SADC goal is premised on the three key objectives of poverty eradication, food security and economic development.

The key aims of infrastructure development include the following:

- Providing infrastructure support for regional integration within the context of the regional economic integration agenda; and
- Infrastructure provision for poverty eradication through enhanced universal access to water supply and sanitation, transport, secure energy sources, communications and ICT, in order to maximise economic development and attain the MDGs targets, as the SADC region seeks to address its overarching objective of reducing poverty.

The RIDMP also constitutes a key input to the proposed COMESA-EAC-SADC Inter-regional Infrastructure Master Plan and the continental Programme for Infrastructure Development of Africa(PIDA).

## OTHER POLICY IMPERATIVES

### Integrated Urban Development Framework

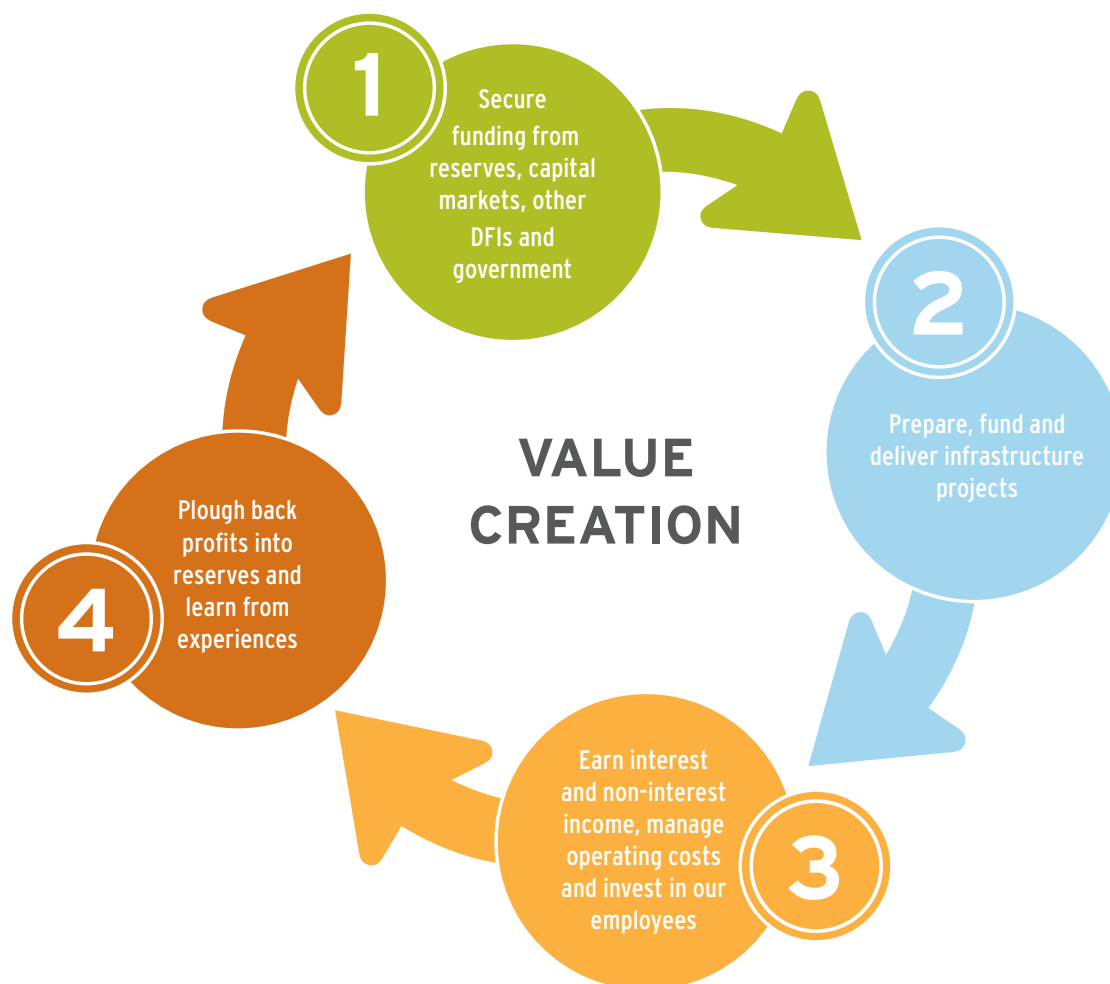
- Promotes effective use of capital in towns and cities in South Africa to create efficient, inclusive urban development
- The DBSA engages with National Treasury to develop mechanisms to integrate the principles of the framework in financing activities.

### Private Sector Participation Framework

- Governs the relationship in joint ventures between SOCs and the private sector
- Focus is on projects that are critical to the economic infrastructure rollout of the government.

# OUR VALUE PROPOSITION

We support infrastructure development and create value by maximising the efficient use of the resources available. We offer a range of innovative services across the infrastructure financing value chain, spanning project preparation, infrastructure financing and implementation capabilities.



Our sustainability and delivery of infrastructure development in South Africa and the rest of Africa depends on our ability to effectively use and manage the resources and relationships in our value chain. The resources and relationships comprise the Six Capitals, as defined in the IIRC's Framework for Integrated Reporting – financial, manufactured, intellectual, human, social and relationship, and natural capital.

The inputs of each capital underpin the delivery of our strategy and enable us to advance some of the UN SDGs as well as the NDP goals. Through our business activities, the Six Capitals are increased and transformed into outputs and outcomes that represent the creation of value for all stakeholders. Each of the Six Capitals plays a role in our business model, as illustrated over the next few pages.



# OUR BUSINESS MODEL

The effective and balanced use of our resources that are described below, enable the DBSA to create long-term sustainable value for all our stakeholders while preserving the financial resilience of the organisation. Improving the lives of African people is at the centre of everything we do, as is demonstrated in 'Stories from our Stakeholder' on pages 30-33.



## FINANCIAL CAPITAL

Financial capital is our strong balance sheet and position as one of the leading DFI in Africa, which enables crowding-in investment from other sources.



## INTELLECTUAL CAPITAL

Intellectual capital is our considerable industry-specific expertise and knowhow in infrastructure.



## SOCIAL AND RELATIONSHIP CAPITAL

Social and relationship capital is our relationships with our clients, funders, partners, government and society that are central to supporting infrastructure development.



## HUMAN CAPITAL

Human capital is the people we employ as well as others with whom we work.



## NATURAL CAPITAL

Natural capital is our positive and negative impact on natural resources through our operations and business activities.



## MANUFACTURED CAPITAL

Manufactured capital is our business structure and operational processes.



Read more in story 3 from our stakeholders on page 32



Read more on the Operations outside South Africa in the case studies pages 44 to 53 of the Sustainability Review



Read more in story 4 from our stakeholders on page 33



Read more in story 1 from our stakeholders on page 30



Read more in the Energy cases studies pages 39 to 43 of the Sustainability Review



Read more in story 2 from our stakeholders on page 31



# HOW WE CREATE AND SUSTAIN VALUE THROUGH THE SIX CAPITALS

Key resources	Key inputs
 <p><b>Financial Capital</b></p> <p>Our financial capital is derived from:</p> <ul style="list-style-type: none"> <li>• Capital generated through net interest income, services and investment returns</li> <li>• Capital dividends generated are reinvested in the business</li> <li>• Debt financing</li> <li>• Capital is generated through net interest income, services and investment returns</li> <li>• Crowded-in third-party funding</li> <li>• Funds managed on behalf of others</li> </ul> 	<ul style="list-style-type: none"> <li>• R34.3 billion capital and reserves</li> <li>• R53.6 billion financial market liabilities</li> <li>• R4.0 billion cash generated from operations</li> <li>• R3.8 billion net interest earned</li> </ul>
 <p><b>Intellectual Capital</b></p> <p>Our intellectual capital is derived from:</p> <ul style="list-style-type: none"> <li>• Decades of experience of infrastructure financing in Africa</li> <li>• Strong brand, reputation and relationships</li> <li>• Knowledge sharing with strategic partners</li> <li>• Innovative products generated from our Innovation unit</li> <li>• High-risk capital available to buffer investments in models that are new or not clearly defined</li> <li>• Due diligence, project development</li> <li>• Enterprise risk management framework</li> <li>• Specialised skills and expertise of employees</li> </ul> 	<p>34 years of experience in infrastructure development</p>
 <p><b>Social and Relationship Capital</b></p> <p>Our social and relationship is derived from:</p> <ul style="list-style-type: none"> <li>• Relationship with government as an SOC</li> <li>• Relationships with other DFIs and development partners</li> <li>• Strategic partnerships</li> <li>• Stakeholder engagement</li> <li>• Activities in the communities in which we operate</li> </ul> 	<ul style="list-style-type: none"> <li>• 14 countries in which we have active exposures</li> <li>• 113 municipal clients</li> </ul>
 <p><b>Human Capital</b></p> <p>Our human capital is derived from:</p> <ul style="list-style-type: none"> <li>• Employees</li> <li>• Partners</li> <li>• Customers and suppliers</li> <li>• Availability of appropriate skills</li> </ul> 	<ul style="list-style-type: none"> <li>• 476 permanent employees</li> <li>• 98 contract employees to support infrastructure delivery</li> </ul>
 <p><b>Natural Capital</b></p> <p>Our natural capital is derived from:</p> <ul style="list-style-type: none"> <li>• Use of natural resources such as land, water and power</li> <li>• Developing products that promote environmental responsibility</li> <li>• Supporting climate action in financial institutions</li> <li>• Accreditation with the Global Environment Facility (GEF) as project agency</li> <li>• Several clean development mechanism (CDM) projects</li> </ul>  	<ul style="list-style-type: none"> <li>• 4.5 megawatts of electricity consumed</li> <li>• 10 186 kilolitres of water consumed</li> </ul>
 <p><b>Manufactured Capital</b></p> <p>Our manufactured capital is derived from:</p> <ul style="list-style-type: none"> <li>• Processes</li> <li>• Information technology (IT) systems</li> </ul>	<p>R27.6 million capital expenditure for the year. R83.7 million in the past three years</p>

How we manage our capital	Key outputs from our business activities
<p>Our revised strategy optimises the Bank's catalytic role by drawing in private sector and other third-party funding.</p> <ul style="list-style-type: none"> <li>• Derisking our investments</li> <li>• Maintaining credit ratings</li> <li>• Attracting funding from various sources</li> <li>• Capital management programme</li> <li>• Sound governance and risk management processes</li> </ul> <p>☞ Refer to page 17 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.</p> <p>☞ Refer to the Chief Financial Officer's report for the DBSA's financial performance.</p>	<p><b>FINANCIAL PERFORMANCE</b></p> <p>Net profit: R2.3 billion [2017: R2.8 billion]  Cost-to-income ratio: 21.7 % [2017: 18.8%]  Paid to providers of capital (interest expense): R3.9 billion [2017: R3.7 billion]  Debt-to-equity ratio (excluding callable capital): 156 % [2017: 158%]  Staff costs: R703 million [2017: R604 million]  Third-party funds catalysed: R25.2 billion [2017: R31.9 billion]  Value of funds under management: R4.3 billion [2017: R3.3 billion]</p>
<ul style="list-style-type: none"> <li>• Strategic partnerships</li> <li>• Strategic engagements in industry events</li> <li>• Innovation unit</li> <li>• Embedding a culture of innovative thinking</li> <li>• Enterprise Risk Management framework</li> </ul>	<p><b>PROJECT PREPARATION</b></p> <p>Total projects prepared and committed for DBSA funding: R954 million [2017: R0.6 billion]  Total municipal projects unlocked for funding through planning support: R540 million [2017: nil]  Total projects prepared and committed by third-party funders: R15.3 billion [2017: nil]  Total funding mobilised for project preparation cost (including co-financing): R87 million [2017: R163 million]  Projects prepared and approved for funding by DBSA at year-end: R7.6 billion [2017: R6.4 billion]</p>
<ul style="list-style-type: none"> <li>• Coverage team dedicated to building relationships with funders and stakeholders</li> <li>• Meeting client expectations</li> <li>• CSI projects</li> <li>• Regular and meaningful stakeholder engagement</li> </ul> <p>☞ Refer to the separate Sustainability Review for DBSA's projects, not only in infrastructure delivery, but also health, education, housing and energy and water supply.</p> <p>☞ Refer to Engaging With Our Stakeholders for further details of our stakeholder engagement.</p>	<p><b>INFRASTRUCTURE FINANCING</b></p> <p>Total approvals: R14.5 billion [2017: R15.8 billion]  Total disbursements: R12.2 billion [2017: R12.4 billion]  Energy 2018: R6.9 billion [2017: R7.2 billion]  Water 2018: R0.5 billion [2017: R1.5 billion]  Transport 2018: R1.9 billion [2017: R1.9 billion]  Communications 2018: R10 million [2017: R143 million]  Projects supported: 38 [2017: 62]  Total commitments: R9.2 billion [2017: R13.3 billion]  Disbursement to municipalities in South Africa: R3.3 billion [2017: R5.6 billion]  Number of municipal clients: 113 [2016: 126]  Book debt to secondary and under-resourced municipalities: R27 billion [2017: R27 billion]  Disbursements to the rest of Africa (excluding RSA): R3.2 billion [2017: R1.9 billion]</p>
<ul style="list-style-type: none"> <li>• Employee diversity</li> <li>• Ongoing investment in skills transfer and training</li> <li>• Nurturing and managing partnerships</li> <li>• Gender mainstreaming</li> </ul> <p>☞ Refer to the Human Capital section on page 54 to 58 of the Sustainability Review for further information on our efforts to preserve and enhance this capital.</p>	<p><b>Secondary and under-resourced municipalities</b></p> <p>Planning: Infrastructure master plan and management plan to reduce non-revenue water losses completed 13 [2017: 4]</p>
<ul style="list-style-type: none"> <li>• DBSA's Environmental Policy and Environmental and Social Safeguard Standards</li> <li>• Co-funding of the Renewable Energy and Independent Power Producers (REIPP) programme</li> <li>• Green Climate Fund to upscale investment in climate change and adaptation</li> <li>• Support to the Department of Water Affairs: Water Resource Commission</li> <li>• Energy efficient buildings</li> </ul> <p>☞ Refer to the Natural Capital section on pages 59 to 60 of the Sustainability Review for further information on our efforts to preserve and enhance this capital.</p> <p>☞ Refer to pages 42 to 43 of the Sustainability Review for further information on the Global Environment Facility.</p>	<p><b>Implementation</b></p> <p>Number of municipalities supported: 13 [2017: 21]  Projects completed: 12 [2017: 12]</p> <p><b>INFRASTRUCTURE IMPLEMENTATION</b></p> <p>Value of funds under management: R4.3 billion [2017: R3.3 billion]  Value of infrastructure delivered: R3.3 billion [2017: R2.8 billion]  Schools completed: 8 [2017: 12]  Schools in construction: 21 [2017: 10]  Storm-damaged schools refurbished: 102 [2017: 49]  Refurbished educational and accommodation facilities completed: 12 [2017: nil]  Houses built: 112 [2017: 342]  Health facilities refurbished: 25 [2017: 28]  14 [2017: 44] municipal projects completed</p>
<p>Investment in systems</p>	



# OUR DEVELOPMENT OUTCOMES

We rely on all of the capitals to deliver on our mandate. In terms of our mandate, there is a high expectation of delivery of social capital in the form of development impact. This includes making more people economically active as well as contributing to their education, health and housing.

## INFRASTRUCTURE FINANCING



### Municipal (South Africa)

Energy (includes upgrading of substations and electrification of households) - number of households impacted: 11 935 [2017: 182 727]  
Rehabilitation of roads - number of households impacted: 39 480 [2016: 842]

Water (includes reticulation and provision of bulk water) - number of households impacted: 16 209 [2017: 22 814]

Sanitation (includes reticulation, upgrading and construction of waste water treatment works) - number of households impacted: 20 048 [2017: 15 533]

### Planning support to municipalities (non-lending)<sup>1</sup>:

Estimated number of households to benefit from unlocked infrastructure projects: 776 474 [2017:nil]

Estimated number of temporary job opportunities to be created: 8 700 [2017:nil]

### Implementation support to municipalities (non-lending)

Number of households that received access to new and improved service in water, sanitation and electricity: 21 780 [2017: 7 545]

Temporary job opportunities created: 672 [2017: 1 178]

### Non-municipal (South Africa)

Renewable [wind IPP]: 42 MW [2017: 20 MW]

Total project impact: 140 MW [2017: 860 MW]

### Non-municipal (rest of Africa)

Energy generation: total impact of 2 070 MW (DBSA contribution: 111 MW)



## INFRASTRUCTURE IMPLEMENTATION



### Schools beneficiaries

Learners enrolled during 2018: 34 376 [2017: 4 254]

Total number of learners benefiting since inception: 74 630 [2017: 40 254]

Total number of learners benefiting from refurbished storm-damaged schools: 85 007 [2017: 20 183]

### Health beneficiaries

More than 148 000 [2017: >266 000] people gained access to health counselling and testing in newly built clinics

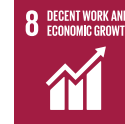
### Employment creation

Jobs created: 8 492 [2017: 9 077]

### SMME development

Value of funds allocated to SMMEs: R364 million [2017: R493 million]

SMMEs benefiting: 717 [2017: 500]



<sup>1</sup> Estimated number of households and temporary jobs created from the projects identified from the planning support will be achieved if funding is allocated to the identified projects yearly until the projects are completed.

☰ 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 development

# KEY PERFORMANCE INDICATORS

1

Secure funding from reserves, capital markets, other DFIs and government

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

2

Prepare, fund and deliver infrastructure projects

#### 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 Strategic Infrastructure Project 6 (SIP6)
- Cost-to-income ratio of IDD

3

Earn interest and Non-interest income, manage operating costs and quality of loan book and invest in our employees

#### 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

4

Plough back profits into reserves and learn from experiences

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

 Refer to page 79 for our historical and targeted performance against our **financial key performance indicators**.

# ENGAGING WITH OUR STAKEHOLDERS

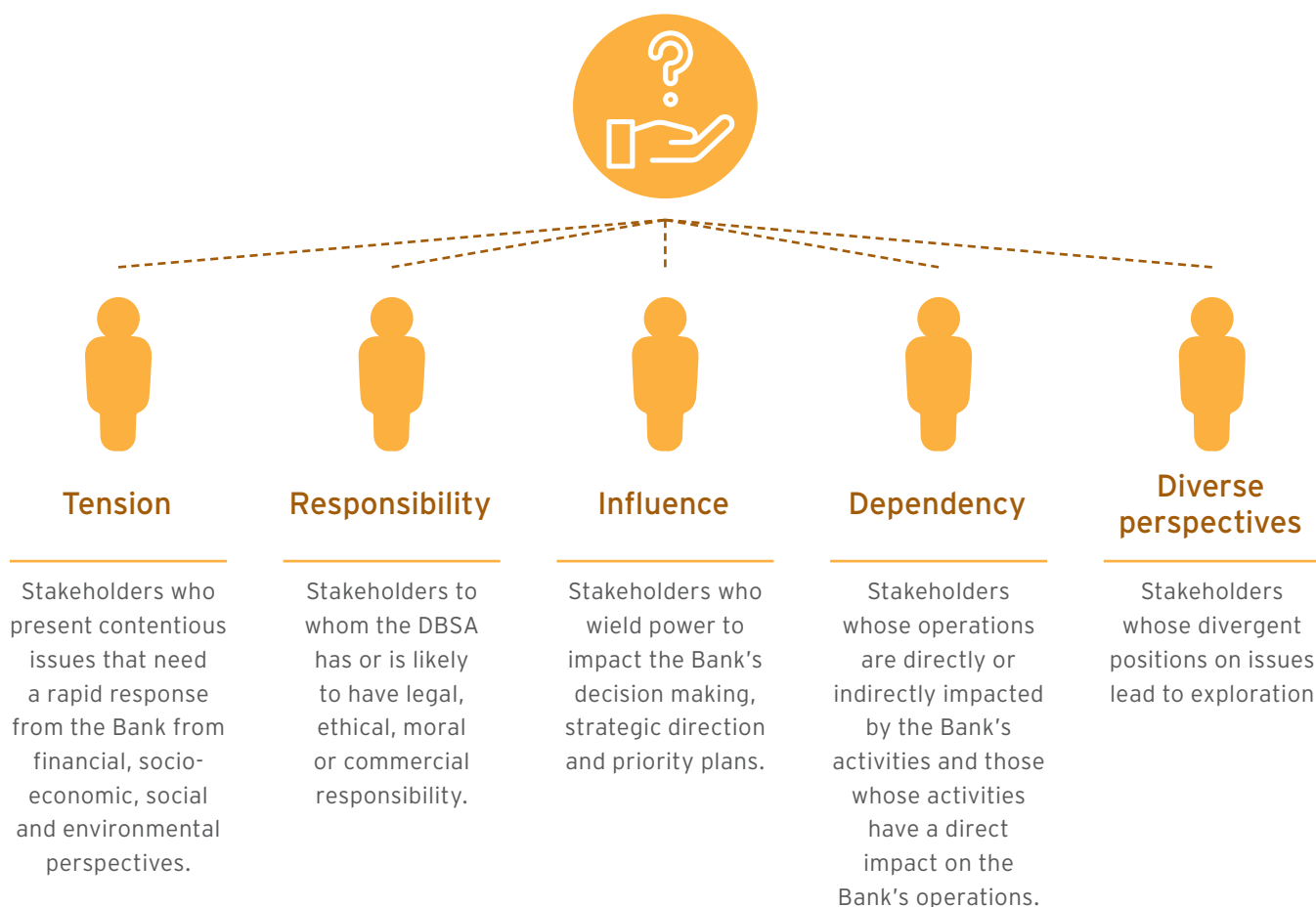
Managing stakeholder relationships is key to sustainable value creation and is vital for the effective execution of DBSA's mandate. We define our stakeholders as individuals or institutions that could potentially impact the Bank's achievement of the desired development impact, attributable to DBSA pursuits in infrastructure financing and delivery.

Our stakeholders contribute to our value creation process, which is articulated through our projects business processes and procedures, to a greater or lesser degree. We consider our stakeholders to have some form of capital at risk, mostly financial or human capital, or something to gain or lose, as a result of DBSA's actions. The identification of stakeholders forms a very important step in the Bank's stakeholder relationship management framework, and great care and effort are dedicated to this process. The DBSA has established a methodology for identifying relevant stakeholders in a systematic manner, guided

by their attributes. Set criteria are used to ascertain whether the organisations and individuals with which the Bank has some level of relationship may or may not be deemed stakeholders. The following questions encapsulate the criteria and stakeholders are then categorised according to their assigned attributes as described below:

- Will the person or his/her organisation be directly or indirectly affected by the DBSA?
- Does the person or his/her organisation hold a position which could influence the DBSA?
- Does the person have an impact on the intended project's resources (material, personnel, funding)?
- Does the person or his/her organisation have any special skills or capabilities the project will require?
- Does the person potentially benefit from the project or is he/she in a position to resist this change?

## Attribute Description



## OUR KEY STAKEHOLDER GROUPS

Stakeholders	How we engage	What we engage on	Stakeholders' contribution to value creation	Pages
<b>Government (shareholder representative)</b>	Regular meetings with the Governor of the DBSA and 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	8 to 9 and 49 of the Integrated Annual Report
<b>Employees</b>	Staff engagements at numerous levels; training and development needs analysis; results presentations; performance reviews; internal media; whistleblower'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	56 to 58 and Sustainability Review
<b>Clients and partners</b>	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	42 to 74 and 26 to 53 and Sustainability Review
<b>Regulators</b>	Regular communication, meetings and reports with/to: Standing Committee on Finance Select Committee on Finance Financial Intelligence Centre 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	3 to 7 and External auditor's report in the Annual Financial Statements
<b>Providers of finance</b>	Meetings with analysts and rating agencies; investor roadshows; announcement of results; website	Financial performance; market trends and issues; future prospects and organisational sustainability	Provide financial capital required to sustain and grow the business	88 to 97 and Annual Financial Statements
<b>Suppliers</b>	One-on-one meetings and presentations Registration on panel via open tender process	Contract, service agreements and performance Contracting for infrastructure construction and maintenance	The ability to achieve our objectives can be achieved only 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
<b>Community</b>	Project implementation; community surveys; marketing campaigns and website Development Facilitation	Investment in socio-economic development; access to basic services and local labour opportunities Mobilising local contractors in construction projects community participation and buy-in to project delivery	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	22 to 23 and Sustainability Review
<b>Media</b>	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	



## OUR PARTNERSHIPS

The DBSA prides itself on long-standing and well-established relationships with various government departments for partnering in the delivery of social and economic infrastructure. Our Coverage Division is focused on building and maintaining key partnerships. It has established partnerships with investors and funders, which enable the Bank to provide blended funding solutions for infrastructure financing. The DBSA continues to maintain its position as a leader in the market and as a key driver of infrastructure service delivery in this space, a strength that the Coverage Division intends to expand.

Many African countries are not sufficiently economically diversified to withstand the impact of external shocks. There is considerable potential for the Bank to provide meaningful solutions that will reduce the impact of external shocks and increase economic growth. This positions our Coverage Division as a key role-player as a regional integrator for infrastructure project financing, and establishes the DBSA as a thought leader in infrastructure development in an intra-funding partnership role.

South African Partnership	Beneficiary municipality	Outcome/deliverable/result
Western Cape Provincial Government and DBSA partnership on the programme to support Western Cape local municipalities with the development of Integrated Infrastructure Growth Plans.	All local municipalities of the Western Cape	<ul style="list-style-type: none"> <li>The DBSA made a monetary contribution of R2.2 million towards the partnership</li> <li>Two Development Facilitators in the planning and engineering fields were jointly appointed by the DBSA in 2017 for a period of two years and were deployed to work in the Western Cape local municipalities</li> <li>R23 million has been raised and committed by the Department of Rural Development for Beaufort municipality and R5 million raised from the National Lotteries Board for Beaufort West and Kannaland municipalities for water infrastructure</li> </ul>

Development of strategic investment partnerships is a key element of the DBSA's partnership strategy. We forge partnerships with entities that can deliver bankable project pipelines for co-financing with commercial financial institutions and DFIs, project sponsors such as South African metros, intermediate cities, state-owned enterprises (SOEs) and key influential regional entities, including SADC, the East African Community (EAC) and the New Partnership for Africa's Development (NEPAD).

Our partnership footprint is in line with our geographic mandate spanning local, continental and global geographic regions. We leverage our expertise and balance sheet to form strategic partnerships to achieve a greater development impact. Our partnerships also position the Bank to capitalise on attractive opportunities emanating from the size of some African economies. In doing so, the Bank mitigates the current risks of continued sovereign downgrades, changes in the government subsidy/grant allocations and regional economic downturns resulting from fluctuating commodity prices.

# WHO ARE OUR PARTNERS

1

NATIONAL  
(RSA)



2

REGIONAL  
(AFRICA)



3

GLOBAL



# STORIES FROM OUR STAKEHOLDERS

## 1 CREATING AN INCLUSIVE AND SUPPORTIVE WORKPLACE

When Ananias Mashila was selected to be on the DBSA Learnership Programme that started in December 2017, he did not know what to expect. As a deaf Bachelor of Arts in Administration graduate from the University of South Africa, he was hoping that the opportunity to lead the team on the Learnership Programme will get him closer to his objective of assisting others like him to gain knowledge and reach their potential.

Ananias cannot hide his excitement about the learning opportunities that the organization has provided for him. He is currently assigned to Internal Audit and is on a steep learning curve in terms of how audits are conducted.

The DBSA is committed to developing learning and employment opportunities for people with disabilities (PWD) in line with creating an inclusive and supportive workplace. People with disabilities represent 5% of the total population

and only less than 1% are employed. They represent a significant talent pool that has not been afforded an appropriate opportunity to develop and realise its full potential in the South African economy.

*"The first impression I got of the DBSA was that it is a highly professional environment. It provides a lot of opportunities for someone like me to learn and to grow. I enjoy being part of the DBSA team and I am happy that there is mutual respect amongst us."*

A comprehensive Business Administration career development programme has been established for the learners and covers both theory and practical work over a 12 month period.





## 2

## USING OUR KNOW HOW TO SAVE LIVES

The residents of Tembisa in the City of Ekurhuleni have been witnessing horrific accidents, sometimes resulting in tragic loss of lives, as many of them were illegally crossing the railway line separating the Golden Gate and Thami Mnyele area. A previous attempt by the city to construct an underpass bridge for residents had not been successful. The DBSA was appointed by the City of Ekurhuleni to source a contractor to implement the Tembisa Rail Cycle Underpass Bridges.

The first phase of the project required a temporary suspension of services by PRASA to shut down the rail line that links Tembisa to the rest of Gauteng. This presented a challenge as the majority of the community prefer to use the train for their daily commute. The Bank was granted access to construct the bridges from 9 December 2017 to 9 January 2018 and during that time, PRASA had to forgo revenue that could have been generated during the period.

The DBSA managed to successfully oversee the completion of the bridges and handed over the railway line back to PRASA in January 2018, two days ahead of schedule.

Interviewed by one of the project team, one regular user said in a video clip:

*"I am pleased that this bridge has brought relief from fear of being run down by the train. Although people are complaining that the bridges will be a hub for robbery, robbery was always there all along."*

The interviewee is a disabled elderly woman who is a regular traveller on this crossing, distributing pamphlets.

Phase two entails constructing access ramps and drainage lines, these are still under construction.





# STORIES FROM OUR STAKEHOLDERS

continued

## 3 DEVELOPING A SEAMLESS, SAFE, EFFICIENT RAILWAY SERVICE: NORTH-SOUTH RAIL CORRIDOR

The development of a highly efficient and reliable railway network that transports goods through various countries between South Africa and the Democratic Republic of Congo is no longer a pipedream for the rail operators in the region. The development of the North-South Rail Corridor Study that was undertaken to implement a single, coordinated infrastructure plan, investment plan and operating model for the rail operators across the corridor to improve efficiencies across the network and to increase intra-African trade is closer to becoming a reality.

The North-South Rail Corridor is a network of about 4000km of rail that runs from the mining district of Kolwezi in the DRC to the ports of Durban and Richards Bay in South Africa. The corridor has been operated for many years by five sovereign rail operators and while they each followed their own development and maintenance plans, the lack of co-ordination has resulted in decreased efficiencies and poor customer service. The corridor facilitates trade through transporting goods from the petrochemicals, agricultural, mining as well

as retail products and plays a significant role in the SADC regional industrialization.

The North-South Corridor Study is managed by the NEPAD Business Foundation and the DBSA plays a significant role of managing the grant funds from the SADC Project Preparation Development Facility that are used for the project. Although the implementation process is ongoing, rail operators across the network are already seeing results.

"I think that there has been a lot of success in the short term, we are getting more freight onto the corridor and we have now generated a container train that runs regularly between Zambia and South Africa so we are transporting fuel on the corridor for the first time. Although the study is an ongoing process, there are immediate tangible results and successes", says Kenn Verster, Divisional Chief Executive Officer for Capital Projects at Grindrod.\*

*\*Source: NEPAD Business Foundation, Video on North-South Corridor*



## 4

## CARING FOR COMMUNITIES WHERE WE OPERATE

The DBSA employs the best service providers and holds them accountable to adhering to high standards of safety at construction sites. However, even with the best human resources on the sites, tragedy can still strike. In 2016, a group of small boys were able to gain access to the construction site at Gobinamba, near Port St Johns in the Eastern Cape where a school was being built. This led to the loss of Ntombovuyo Sihola's son in a drowning incident.

The DBSA assisted and supported the family during the tragedy and realised that more could be done for the family, headed by a 56 year old mother of seven and grandmother of four.

Ntombovuyo's mother was the only employed adult at the time, earning R700 a month working as a labourer on the Extended Public Works Programme.

The DBSA had become aware of the ordeal and felt compelled to contribute to the upliftment of the living standards of the Sihola family. A home was built for the

family and the DBSA facilitated the empowerment of the family by educating Luviwe, Ntombovuyo's daughter. The DBSA provides for the full high school tuition, boarding and all necessities and continues to monitor Luviwe's educational and social progress. The DBSA provides for extra tuition support to bridge the gap between Luviwe's previous and current educational environments. The hope is that Luviwe will help break the vicious circle of poverty for this family.

*"The 24th of October 2017 was like a dream when I walked into a fully furnished three bedroom house. Without the DBSA's support, I could have never taken my child to a school like St John's College, or any school outside Gobinamba that would give her opportunities for the future. My daughter, Luviwe, 13 years of age in grade 8, has in six months developed and grown in many ways. She has settled well into the boarding school."*



# OUR STRATEGY AT A GLANCE

We seek to play a pivotal role in delivering developmental infrastructure in South Africa and the continent, through three key strategic objectives:

**Sustained growth in developmental impact:**

Grow each of our businesses aggressively to maximise developmental impact.

**Integrated infrastructure solutions provider:**

Provide integrated infrastructure solutions across the value chain and be the partner of choice for infrastructure solutions.

**Financial sustainability:**

Maintain profitability and operational efficiency to enable growth in equity and fund developmental activities.

Our strategy strives to augment disbursements by focusing increasingly on the catalytic role in enabling sustainable infrastructure development. We intend to achieve this through taking early-stage risk, deploying guarantees, expanding loan syndication and developing new structured products to increase developmental impact.

## STRATEGIC AMBITION

Unlock R100 billion in sustainable infrastructure development annually, which will contribute 2% to the GDP, whilst maintaining financial sustainability<sup>1</sup>

## PATHS TO VICTORY

Continue core long-term infrastructure lending activities

De-risk project finance structures to crowd-in third party funding

Greater investment in early-stage programme and project development

Develop structured products and funding structures to unlock infrastructure and crowd-in third party funding

Establish project management offices and focus on maintaining of public infrastructure

## SOURCES OF COMPETITIVE ADVANTAGE

Strategic partnerships

Greater risk-return trade-off and longer tenors

Integrated infrastructure solutions, including early-stage risk and delivery capability

Access to concessionary financing

<sup>1</sup> The DBSA has unlocked infrastructure to the value of R42.7 billion during 2017/18 financial year



## STRATEGIC ENABLERS

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

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 accessing concessional capital to meet developmental mandate.
Market intelligence	Acquiring relevant actionable knowledge and understanding of our selected industry market and geographic sectors, economic business trends, clients and competitors, 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.

## KEY PERFORMANCE INDICATORS AND TARGETS

The table below summarises the performance against the 2018 targets and the targeted deliverables for 2019 as well as the further two years to March 2021. The DBSA uses balanced scorecard methodology as a strategic measurement, alignment and management tool. The Board has oversight over the annual score derived from the balanced scorecard and approves it. This, in turn, is used as a basis for performance-based remuneration.

 Refer to pages 9 to 10 of the Annual Financial Statements.

OBJECTIVE	KEY PERFORMANCE INDICATOR	TARGET 2018	ACTUAL 2018	TARGET 2019	TARGET 2020	TARGET 2021
<b>FINANCIAL PERSPECTIVE (50%)</b>						
Maintain financial sustainability	<b>Financial</b>					
	Non-interest revenue (excluding IDD and equity)	R250 million	R421 million	R275 million	R285 million	R300 million
	Cost-to-Income ratio (Financing business, excl. IDD)	30%	19%	30%	30%	30%
	ROE (calculated on sustainable earnings)	4.7%	8.3%	6.0%	6.0%	6.0%
	Net cash generated from operations	R3.9 billion	R4.0 billion	R3.4 billion	R3.5 billion	R4.1 billion
	Capital management	100% completion of the signed off capital management plan	100% completion of the signed off capital management plan	Board approval of the Capital Management strategy at Q1 review; Full execution of strategy by financial year end	Exceed approved quantitative capital management targets	Exceed approved quantitative capital management targets
	<b>Disbursements</b>					
	Total disbursements	R20.0 billion	R12.2 billion	R16.0 billion	R18.0 billion	R20.0 billion
	RSA Local Government – Top 5 Metros	R4.3 billion	R3.0 billion	R4.0 billion	R4.4 billion	R4.8 billion
	RSA Local Government – Smaller Metros and Intermediate Cities	R1.1 billion	R238 million	R0.7 billion	R0.9 billion	R1.1 billion
	Under-resourced municipalities	R200 million	R42 million	Not applicable <sup>1</sup>	Not applicable <sup>1</sup>	Not applicable <sup>1</sup>
	RSA Social	R1.8 billion	R222 million	R1.4 billion	R1.8 billion	R1.9 billion
	RSA Economic	R5.6 billion	R5.5 billion	R4.5 billion	R4.8 billion	R5.4 billion
	Outside South Africa	R5.0 billion	R3.2 billion	Not applicable <sup>1</sup>	Not applicable <sup>1</sup>	Not applicable <sup>1</sup>
	SADC Countries	R3.5 billion	R1.3 billion	R3.2 billion	R3.5 billion	R4.0 billion
	Non-SADC Countries	-	-	R 2.2 billion	R2.6 billion	R2.8 billion
	<b>Structured Finance (included in disbursements)</b>					
	Structured Finance	R2.0 billion	Rnil	R 2.0 billion	R 4.0 billion	R 6.0 billion



OBJECTIVE	KEY PERFORMANCE INDICATOR	TARGET 2018	ACTUAL 2018	TARGET 2019	TARGET 2020	TARGET 2021
<b>LEARNING AND GROWTH PERSPECTIVE (10%)</b>						
<b>Sustained growth in development impact</b>	<b>Under-resourced Municipalities under-resourced Municipalities</b>					
	Value of infrastructure unlocked for under-resourced municipalities	-	-	R0.5 billion	R1.0 billion	R1.5 billion
	<b>Project Preparation</b>					
	Value of projects prepared and committed	R10.0 billion	R954 million	R7.0 billion	R8.5 billion	R10.0 billion
	<b>Infrastructure Delivered</b>					
	Value of infrastructure delivered	-	-	R3.6 billion	R3.8 billion	R3.9 billion
	Value of funds under management	R3.9 billion	R4.3 billion	Not applicable <sup>1</sup>	Not applicable <sup>1</sup>	Not applicable <sup>1</sup>
	<b>Total funds catalysed</b>					
	Total 3 <sup>rd</sup> party funds catalysed	R25.6 billion	R23.9 billion <sup>2</sup>	R27.7 billion	R38.6 billion	R49.2 billion
	<b>Economic Transformation</b>					
<b>Integrated infrastructure solutions provider</b>	Value of projects for black-owned entities (51%) approved for project preparation funding	-	-	R400 million	R500 million	R600 million
	Value of projects by black-owned entities (51%) that are committed for lending	-	-	R0.8 billion	R1.0 billion	R1.2 billion
	<b>Client satisfaction survey</b>					
	Client satisfaction survey	Conducting survey (rating of 4 out of 5)	Rating of 4 out of 5	3.8	3.0	3.0
<b>LEARNING AND GROWTH PERSPECTIVE (10%)</b>						
<b>Create and maintain a high performance culture</b>	% Retention of critical staff members	Lose less than 5% of critical skills	Lost 7% of critical skills	Lose less than 10% of critical skills list	Lose less than 10% of critical skills list	Lose less than 10% of critical skills list
	Reduction in the Bank's entropy score	1% reduction on the entropy score	3% improvement from 2016/17 results	1% reduction on the entropy score	1% reduction on the entropy score	1% reduction on the entropy score
	Adherence to critical training plan aligned to the talent plan	80% of milestones completed [per project plan]	100%	90% of milestones completed [per project plan]	90% of milestones completed [per project plan]	90% of milestones completed [per project plan]
<b>INTERNAL PROCESS PERSPECTIVE (25%)</b>						
<b>Continuous improvement of internal systems and processes</b>	Improvement in the BBBEE Score	-	-	LEVEL 3	LEVEL 3	LEVEL 3
	<b>Governance</b>					
	Number of outstanding significant internal audit findings past due	-	-	0	0	0
	External audit outcomes	-	-	CLEAN AUDIT	CLEAN AUDIT	CLEAN AUDIT
	Percentage of unremediated risk policy breaches that have exceeded their risk appetite	-	-	0%	0%	0%
	% of fruitless, irregular, unauthorised and wasteful expenditure	-	-	0% of total expenditure	0% of total expenditure	0% of total expenditure
	% of fruitless, irregular, unauthorised and wasteful expenditure - IDD	-	-	0% of total expenditure	0% of total expenditure	0% of total expenditure

<sup>1</sup> Not Applicable means that the key performance indicator is no longer part of the corporate balanced scorecard measures.

<sup>2</sup> Total third party funds catalysed for 2018 included funds catalyzed by project preparation, lending divisions and infrastructure delivery

# MANAGING OUR RISKS AND OPPORTUNITIES

Managing risk and opportunities is a fundamental part of delivering on our mandate, ensuring that the Bank delivers, 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. This ensures that management of risks is embedded into the mainstream planning, business and decision-making processes.

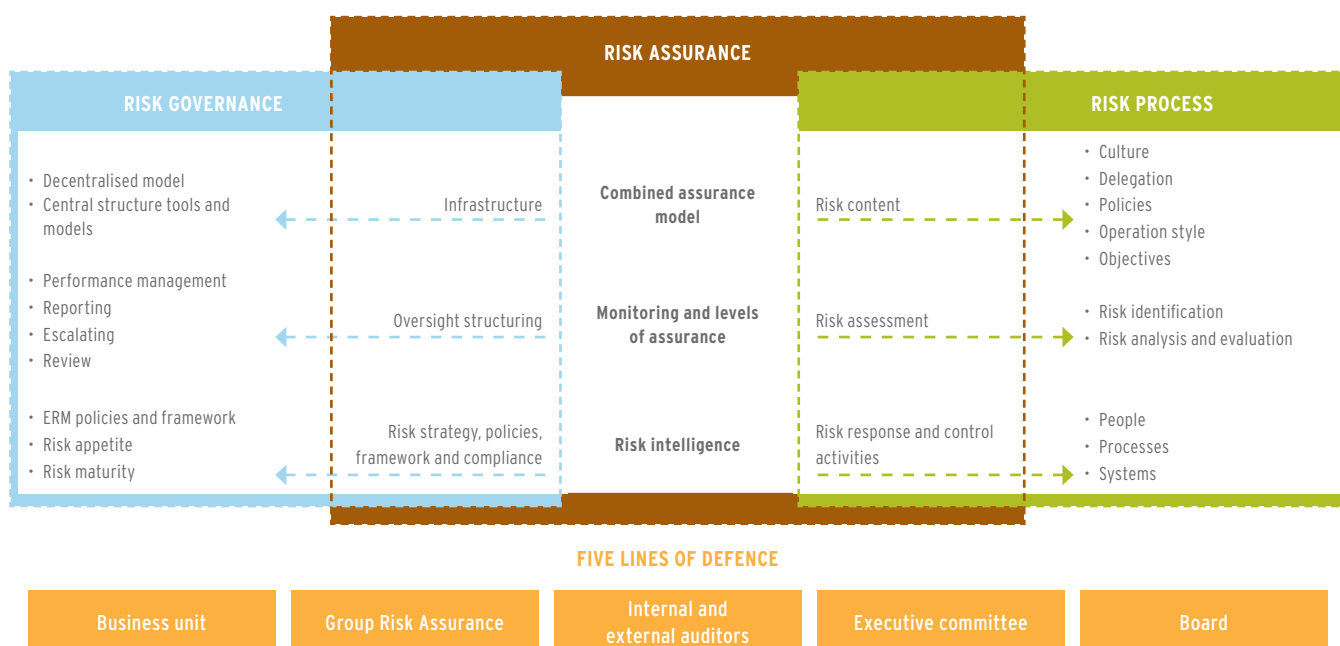
## RISK IS MANAGED ON FOUR LEVELS

Strategic	The possibility that unforeseen opportunities or threats may render the DBSA's strategy ineffective or uncompetitive or that events or circumstances may occur that could hinder the ability of the DBSA to implement its strategy and successfully deliver on its mandate
Operational	The possibility that internal or external events and circumstances may 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	The possibility that unknown events or circumstances may result in deviations from the returns expected on individual business propositions or impact on the planned outcomes of specific value-creating initiatives
Financial	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:

- 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 response 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 DBSA's five lines of defence risk model clearly defines the roles and responsibilities for the management of risk within the Bank. This emphasises the fundamental concept that risk ownership and management are everyone's responsibility, from the Board right through to the client-facing units as indicated below:

LINE OF DEFENCE	ROLE	RESPONSIBILITY
First	Business units, support functions, line management and all employees	Controlling and monitoring the risks in the operating environment
Second	Group Risk Assurance Division	Providing risk policies, strategies and best practice standards Mitigating the main risk exposures inherent in the DBSA's mandate Monitoring implementation of risk management principles and adherence to regulation and legislation Group-wide risk monitoring and consolidation of reporting, drawing on and aggregating the risk reporting from the divisions
Third	Internal and external audit	Providing independent assurance on the effectiveness of risk management
Fourth	Executive Committee	Responsibility for and oversight of DBSA activities to ensure that they are consistent with business strategy and policies approved by the Board
Fifth	Board	Overseeing the activities of the DBSA and accounting to the shareholder for strategy and performance The Audit and Risk Committee is mandated to oversee the implementation of the DBSA's ERM framework and assesses key risk reports and indicators quarterly

## 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 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 published by the

Institute of Internal Auditors (IIA). 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 in terms of the Institute of Internal Auditors (IIA) Standards as required. The external quality assurance assessment was conducted in 2018 and included a review of Internal Audit function against the International Professional Practices Framework (IPPF), PFMA, Treasury Regulations and King IV. DBSA Internal Audit function "generally conforms" to the requirements.

## COMBINED ASSURANCE

In line with recommendations of King IV, the DBSA has implemented a combined assurance model which is coordinated and managed by the Internal Audit function. This 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. The combined assurance model, with the five lines of defence strategy, 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 on 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. For the first time, this year a written assessment was provided consolidating management assurances and all other independent assurance providers.

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.

## KEY ENTERPRISE-WIDE RISKS

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

	RISK	DESCRIPTION	RESIDUAL RISK
1	Macroeconomic	Risk of an uncertain and volatile macroeconomic environment	High
2	Changing operating environment	Failure to innovate and adapt to a changing infrastructure development market	Moderate
3	Credit risk	Ineffective credit default, concentration risk, including ineffective pricing, capital allocation and poor deal selection	Moderate
4	Country and political	Risk of geo-political events in the countries in which the DBSA operates, leading to increase in credit impairments and reduced financing opportunities	Moderate
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	Low
6	Occupational health and safety	Risk arising from events in the workplace leading to illnesses, accidents, injuries, fatalities and impacting the health and wellbeing of DBSA staff, and partners in projects and operations	Moderate
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	Moderate
8	Development impact	Risk of lower-than-expected development impact and supporting projects that impact society and environment negatively	Low
9	Reputational	Failure to prevent and respond to reputational risk events impacting on the DBSA's goodwill and reputation	Moderate
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	Low
11	Stakeholder management	Risk from failure to identify and build effective relationships with key stakeholders, resulting in expectations not being met and impacting long-term sustainability	Low
12	Human capital	Failure to maintain a high-performance culture, recruit, develop and retain key staff members	Moderate
13	Cyber risk	Risk arising from accidental or malicious breaches of information security, adversely impacting DBSA and clients	Low
14	Governance and conduct	Risk of non-compliance with laws and regulations, and fraud and corruption	Low

**Table Legend:** The table below summarises the legend used in the top corporate risks table above.

Colour Scheme			
Residual Risk	Low	Moderate	High



# 02

GOVERNANCE







## LETTER FROM OUR CHAIRMAN

Jabu Moleketi  
**Chairman**

The year 2018 was eventful for South Africa, marked by significant political uncertainty and challenging economic conditions. The DBSA's financial year started with a bleak economic outlook, the country having just come out of a brief recession and burdened with the looming threat of yet further credit ratings downgrades. These rating concerns were particularly worrying, given that our sovereign ratings were revised down to sub-investment grade by both Fitch Ratings and Standard & Poor's the year before. Investor confidence was impacted by protracted domestic policy uncertainty and continued deterioration in perceptions of the quality of governance in public institutions, balanced on the positive side by confidence in constitutional institutions, such as the judiciary.

Pleasingly, the year ended on a more positive note, with a GDP growth rate of 1.3% for 2017 exceeding National Treasury's expectations of 1.0% growth. The International Monetary Fund (IMF) World Economic Outlook for 2018 raised its growth forecast for South Africa from 0.9% in 2018 and 2019, to 1.5% and 1.7%, respectively. Although the outlook is more positive, the country's growth

prospects remain fragile, with high unemployment exacerbating widespread poverty and dulling the hopes of a better future for many. The IMF report cites improving infrastructure as imperative for reinvigorating economic growth and making it more inclusive. Infrastructure is a transformative force that enables trade and builds social cohesion. It is also instrumental in fostering regional integration, which is the key to building African markets and supporting growth across the continent.

## STRATEGIC OVERVIEW

The inherent weaknesses that remain in the market reinforce the importance of the DBSA's role in raising investment levels through innovative catalytic mechanisms. That role can sustainably play out only in concert with a wide range of complementary economic and social reforms that will progressively reduce poverty, unemployment and inequality on an environmentally sustainable basis.

The Bank's revised growth strategy tabled by management and approved by the Board in November 2016, has largely been implemented in the 2018 financial year, with pleasing results. This has repositioned the Bank from an emphasis solely on traditional lending, towards an approach that complements the Bank's direct lending by enhancing its development impact through catalysing and leveraging third-party participation. The new strategy, therefore, seeks to augment disbursements by increasingly focusing on the catalytic role of enabling sustainable infrastructure development at a scale beyond

that which the Bank would be able to achieve on the strength of its own balance sheet alone. This will be achieved through engaging in early-stage risk, deploying guarantees and other forms of credit enhancements aimed at crowding in more risk-averse private capital, expanding loan syndication and developing innovative structured solutions to remove the impediments to critical infrastructure. The strategy recognises that lending on the strength of the DBSA's balance sheet has limits, which, in turn, constrains the scale of the Bank's potential development impact. At the core of our new growth strategy is the mobilisation of capital from third-party investors, particularly from private parties and institutional investors, and, more specifically, from those in pursuit of a desired social or environmentally positive impact. As an organ of the state, the DBSA is capitalised with a mandated purpose that is, and needs to be, pursued in a way that leverages the limited resources available to the Bank in the most productive manner possible.

This is a strategic response, firstly to the limitations of the Bank's balance sheet in the face of the enormity of the development needs of the country and continent, and secondly, to several factors that have been adversely impacting the performance of the organisation in terms of growth and development impact. This past year saw a further realignment of the organisational structure and operating model, to improve organisational efficiencies and position the Bank to be both more responsive to the growing need for its products and services, and more proactive in sculpting innovative solutions to the many development challenges encountered daily.

The lingering difficult macroeconomic environment in South Africa, and most African countries, is impacting GDP growth and constraining infrastructure investment. In addition, South Africa's sovereign ratings downgrade and, consequently, that of the DBSA and the banking sector as a whole, is weighing on investor appetite and the cost of borrowing. At the same time, the need for sustainable infrastructure development remains critical, as is emphasised by the SDGs, Conference of the Parties COP 21, Agenda 2063, SADC Regional Infrastructure Development Master Plan (RIDMP) and South Africa's own NDP.

On the positive side, refocusing the DBSA to target the entire infrastructure finance value chain has already seen positive impact from the Bank's newer businesses, in project preparation and infrastructure delivery. Devised a few years ago with the aim of increasing the development impact of the Bank, both business lines have since made significant contributions to the Bank's overall impact, beyond that achieved through its direct lending operations. On the implementation side for example, in the year under review, our Infrastructure Delivery Division delivered social

infrastructure to the value of R3.31 billion, comprising primarily of eight new schools, 112 new housing units, 25 refurbished health facilities, 102 refurbished storm-damaged schools and 12 refurbished student accommodation facilities. The Bank's project preparation business, in turn, has brought a number of infrastructure projects to bankability, this in addition to the critical role it has played in supporting the IPP Office of the Department of Energy in the crafting and rollout of the different phases of the country's Renewable Energy Independent Power Producer Programme (REIPPP). New investment opportunities are emerging across a number of sectors in South Africa, such as the expected gas-to-power programme and further investment in renewable energy. Closely linked to these, the DBSA, as an accredited agent of both the Global Environmental Facility (GEF) and the Green Climate Fund (GCF), has access to a significant pool of concessional funds to further drive investment in climate mitigation and adaptation projects and programmes, both within South Africa and across the continent.

Outside of South Africa, opportunities in the East African economies and other key markets are becoming increasingly robust, whilst closer to home, the focus remains on regional integration through infrastructure development.

## ADDRESSING GOVERNANCE RISK

Following a year during which our country witnessed institutional governance failures of a scale that would have been impossible to envision at the dawn of our democracy, I'm proud of the DBSA's track record, of our own strong governance structures and processes, and of the Bank's steadfast adherence to sound governance as the foundation of its operations. Even though South Africa is only beginning to grasp the full cost of the governance failings that appear to have snagged our country's growth, it is readily evident that poor governance has a tangible impact on the availability and cost of capital, and constricts economic growth and opportunity for all. As the IMF's April 2014 Fiscal Monitor notes, and with poor governance a major contributor to investment and infrastructure development inefficiencies, reducing all inefficiencies in public investment by 2030 would provide the same boost to the capital stock as increasing government investment by five percentage points of GDP in emerging market economies, and by 14 percentage points of GDP in low-income countries.

As an intermediary leveraging capital, both public and private, our role in ensuring good governance extends beyond our internal structures and processes. In upholding our partnership with our investors through



protecting our own interests as a responsible lender, we have a duty to address governance gaps and breakdowns as and when evident, even at our borrowers and other clients.

## TRANSFORMATION

The DBSA drives inclusive growth in South Africa through the developmental and transformative impact of infrastructure financing and other development interventions of the Bank. In 2017/2018, our Infrastructure Delivery Division awarded construction contracts to the value of R364 million to 717 small, medium and micro enterprises (SMMEs), 60% of which was delivered through BEE companies and which created 8 492 temporary jobs.

Following a sharp decline in the Bank's B-BBEE rating under the revised charter, the DBSA, through a conscious effort, improved to a level 4 BBBEE rating in September 2017, improving by two levels from our 2016 level 6 rating. Economic transformation is considered a strategic initiative, which is intertwined with the DBSA's mandate and its impact in effecting change in South African society. We pay close attention to economic transformation activities and opportunities across the enterprise, in lending, procurement and in the management of third party funds, to identify opportunities to achieve an even greater impact.

As one of its economic transformation intervention strategies, the Bank will target more projects for black-owned entities to be approved for project preparation funding. This is set to increase exponentially, with targets for the next three years between R400 million and R600 million. The value of projects committed for lending to BEE companies in the year under review was R0.76 billion, which we intend to improve incrementally to reach R1.2 billion by 2020/21.

In the context of the Bank's infrastructure funding mandate, and the sparse opportunities for private sector participation in this sector, we will, nevertheless, focus more over the next three years on ensuring to the extent that we can, that substantive contributions to economic transformation are integral to the projects and programmes financed and crafted by the Bank. There is a strong emphasis on gender mainstreaming in the DBSA's BBBEE and economic transformation initiatives. In the next three years, we aim to increase traditional infrastructure lending to black women-owned entities and to do more on enterprise and supplier development; and procure from black women-owned companies. Internally we are striving to increase the proportion of black women at senior management level.

The work that we do as a DFI should help transform South Africa into a society of which we can be proud.

## APPRECIATION

As I approach the end of my three-term tenure as the DBSA Chair, it is worth reflecting, particularly, on the path of the DBSA over the last few years. Following the 2012 organisational review, enforced by the spiralling cost basis of the Bank at the time, and the somewhat painful transition period that typically follows an organisational review of that magnitude, I am confident that the Bank is on the right track. This transformation is a credit to the guidance and close oversight of the Board, but is also in large part the result of the resolute and sterling efforts of the CEO, Patrick Dlamini, to transform the organisation. The extent of the transformation thus far is reflected in both the financial results and development outcomes achieved over the last few years, and in the levels of staff engagement as measured periodically by the Barrett Survey.

I want to commend the CEO, his executive and management teams, and the DBSA staff on the Bank's performance in 2018, and for their collective and determined efforts to contribute to meaningful and sustainable infrastructure and social development in our country and the broader region that the Bank serves. In addition, I congratulate them on the smooth transition to the realigned operating structure and their willingness to embrace change enthusiastically in pursuit of new possibilities.

I would like to extend my sincere appreciation to all my colleagues, past and present, on the DBSA Board and to our development partners, as we steered the DBSA in its mission to improve the lives of the people of Africa. To the Ministers and shareholder representatives whom I've had the privilege to serve under, thank you for your constant support and commitment to working with us in sculpting and refining our strategy over time, in our continued efforts to improve on the DBSA product and service offering, and all with the ultimate aim of maximising the Bank's development impact.

May the DBSA grow to new development heights in the years ahead.



**Jabu Moleketi**  
Chairman

# GOVERNANCE STRUCTURE

## MINISTRY OF FINANCE (SOLE SHAREHOLDER) Minister: Nhlanhla Nene

DBSA Board Chairman: Jabu Moleketi

	ARC	BCIC	HRNC	SEC	IDKC	IVC
BOARD COMMITTEE	AUDIT AND RISK COMMITTEE	BOARD CREDIT AND INVESTMENT COMMITTEE	HUMAN RESOURCES, REMUNERATION AND NOMINATION COMMITTEE	SOCIAL AND ETHICS COMMITTEE	INFRASTRUCTURE DELIVERY AND KNOWLEDGE MANAGEMENT COMMITTEE	INVESTMENT VALUATIONS COMMITTEE
Non-executive members	Gugu Mtetwa (Chairperson)	Anuradha Singh (Chairperson)	Frans Baleni (Chairperson)	Frans Baleni (Chairperson)	Martie Janse van Rensburg (Chairperson)	Gugu Mtetwa (Chairperson)
	Martie Janse van Rensburg Zanele Monnakgotla Blessing Mudavanhu Bulelwa Ndamase Patience Nqeto Anuradha Singh	Frans Baleni Martie Janse van Rensburg Jabu Moleketi Zanele Monnakgotla Gugu Mtetwa Blessing Mudavanhu Bulelwa Ndamase	Jabu Moleketi Lufuno Motsherane Gugu Mtetwa Letlhogonolo Noge-Tungamirai Patience Nqeto Mark Swilling	Jabu Moleketi Lufuno Motsherane Gugu Mtetwa Letlhogonolo Noge-Tungamirai Patience Nqeto Mark Swilling	Frans Baleni Jabu Moleketi Lufuno Motsherane Malijeng Ngqaleni Letlhogonolo Noge-Tungamirai Mark Swilling	All ARC and BCIC members are members of this committee

Executive <sup>1</sup> members		Patrick Dlamini Boitumelo Mosako			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 and remuneration for the DBSA.	Has oversight of and reporting on organisational ethics, responsible corporate citizenship, sustainable development and stakeholder relationships.	Oversees the implementation of the strategic mandate and infrastructure delivery programmes, as well as the policy, advisory and knowledge management function.	The committee's mandate is to review and recommend to the DBSA Board all investment valuations, impairments, equity valuations reports, non-performing loan book reports, credit portfolio reports and financial assets and liabilities portfolios
For further detail	See pages 63 and 66 for the Audit and Risk Committee report.	See page 67 and 68 for the Board Credit and Investment Committee report.	See page 69 and 70 for the Human Resources, Remuneration and Nomination report.	See page 71 for the Social and Ethics Committee report.	See page 73 and 74 for the Infrastructure Delivery and Knowledge Management Committee report.	See page 72 for the Investment Valuation committee report.

## DBSA Executive Management Committee Chairman: Patrick Dlamini

EXECUTIVE MANAGEMENT COMMITTEE	ASSET AND LIABILITY COMMITTEE	SUPPLY CHAIN MANAGEMENT COMMITTEE	INVESTMENT COMMITTEE	INFRASTRUCTURE DELIVERY AND KNOWLEDGE MANAGEMENT COMMITTEE
	Boitumelo Mosako (Chairperson)	Boitumelo Mosako (Chairperson)	Mpho Kubelo (Chairperson)	Michael Hillary (Acting Chairperson)

<sup>1</sup> Chief Executive Officer is a standing member of BCIC and IDKC; and he attends other Board sub-committee meetings by invitation, whilst the Chief Financial Officer is a standing member of BCIC and attends other Board sub-committee meetings by invitation.



# BOARD OF DIRECTORS



**Mr Phillip Jabulani Moleketi (61)**  
Director of companies

BCIC HRNC IDKC  
SEC IVC

DBSA Non-executive and Independent Director as from 1 January 2010  
Chairman of the DBSA Board as of 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
- Postgraduate Diploma in Economic Principles, University of London, UK

#### Other directorships:

- Harith Fund Managers: Non-executive director
- Brait South Africa: Non-executive Chairman
- Remgro (Pty) Limited: Non-executive director
- MMI Holdings: Non-executive director
- Aluwani Capital: Non-executive director
- Newshelf 1078 (Pty) Limited: Non-executive director
- Centre for Education in Economics and Finance Africa (NPO - non-profit organisation): Non-executive director
- Vodacom Group Limited: Non-executive Chairman
- PPC Non-executive Chairman



**Mr Frans Msokoli Baleni (58)**  
Director of companies

BCIC HRNC  
SEC IDKC

DBSA Non-executive and Independent Director as of 1 January 2010

Deputy Chairman of the DBSA Board as of 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, UK

#### Other directorships:

- University of Johannesburg: Deputy Chairman of Council: Non-executive
- Jolinkomo Family Trust: Trustee
- Petro SA: Non-executive director
- Energy and Water Sector Education and Training Authority (EWSETA): Non-executive director
- F11 Management Consulting (Pty) Ltd: Non-executive director
- ADC Cables (Pty) Limited: Non-executive director



**Mr Patrick Dlamini (48)**  
Chief Executive and Managing Director: DBSA

BCIC IDKC

DBSA Executive Director and CEO as of 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's Business School.
- Business Studies Unit, Natal Technikon.
- BCom, University of KwaZulu-Natal.

#### Other directorships:

- BOPHYLD: Director
- Bridges Worldwide SA: Director
- Xcargo: Director
- Lanseria Holdings: Non-executive director
- Lanseria International Airport: Non-executive director

BOARD COMMITTEES	ARC	Audit and Risk Committee	SEC	SEC Social and Ethics Committee
	BCIC	Board Credit and Investment Committee	IDKC	Infrastructure Delivery and Knowledge Management Committee
	HRNC	Human Resource, Remuneration and Nomination Committee	IVC	Investment Valuations Committee



**Ms Boitumelo Mosako (40)**  
Chief Financial Officer

BCIC

DBSA Group Executive as of 1 April 2018  
and Executive Director as of  
1 June 2018

**Expertise**

Auditing and financial management

**Academic qualifications:**

- Chartered Accountant (SA)
- Higher Diploma in Auditing, Postgraduate Diploma in Accounting, University of Cape Town
- BCom Accounting, University of Cape Town

**Directorships:**

None



**Ms Martie Janse van Rensburg (61)**  
Director of companies

ARC

BCIC

IDKC

IVC

DBSA Non-Executive and Independent  
Director as of 1 January 2016

**Expertise**

Finance, treasury, project finance,  
infrastructure delivery and strategy

**Academic qualifications:**

- Executive Programme in Strategy and Organisation, Stanford University Business
- Chartered Accountant (SA)
- BCompt Hons, UNISA
- BCom, University of the Free State

**Other directorships:**

- Sephaku Holdings Limited: Non-executive Director and Chairman of the audit and risk committee
- Ashburton: Non-executive member of investment credit committee
- SaveTNet Cyber Safety NPC (non-profit company): Non-executive chairman
- Independent Regulatory Board for Auditors (IRBA): Non-executive director, Deputy Chairman and Chairman of the Disciplinary Advisory Committee
- First Rand Bank Wholesale Credit Committee (International and specialised finance): Non-executive member



**Ms Zanele Monnakgotla (46)**  
Managing Director of Freewi Technologies Pty Ltd

ARC

BCIC

IVC

DBSA Non-executive and Independent  
Director as of 1 August 2017

**Expertise**

Business Management, project finance,  
development finance, legal, corporate  
finance and risk management

**Academic qualifications:**

- Masters in Finance, Wits Business School
- Management Advanced Programme, Wits University
- LLM in Tax, Wits University
- LLB, Rhodes University
- BCom, Rhodes University

**Other directorships:**

- SASOL Inzalo: Non-executive Chairman of Sasol Inzalo Public Limited
- Small Enterprise Development Agency (SEDA): Non-executive director
- South African Bureau of Standards (SABS): Non-executive director. Chairman of the financial investments committee.
- Companies and Intellectual Property Commission: Member of audit committee.
- Department of Public Enterprises: Member of audit committee.
- National Advisory Council on Innovation: Council member

**BOARD COMMITTEES**

ARC

Audit and Risk Committee

BCIC

Board Credit and Investment Committee

HRNC

Human Resource, Remuneration and Nomination Committee

SEC

SEC Social and Ethics Committee

IDKC

Infrastructure Delivery and Knowledge Management Committee

IVC

Investment Valuations Committee

# BOARD OF DIRECTORS

continued



**Mr Lufuno Motsherane (48)**

Head: Human capital  
CIPC

HRNC

SEC

IDKC

DBSA Non-Executive and Independent  
Director as of 1 August 2017

#### Expertise

Human resource management, strategic  
management

#### Academic qualifications:

- Postgraduate Diploma (Management)  
MANCOSA
- Honours (Human Resources  
Development) Southern Business  
School

#### Other directorships:

- Lelo Systems: Executive director
- LN Trading enterprise: Executive  
director



**Ms Gugu Mtetwa (38)**

Director of companies

ARC

BCIC

HRNC

SEC

IVC

DBSA Non-executive Director as of 1  
August 2014

#### Expertise

Business management, auditing and  
financial management

#### Academic qualifications:

- Chartered Accountant (SA)
- Partner development programme, GIBS
- Executive Leadership Development  
Programme, USB
- Postgraduate Diploma in Accounting,  
University of Cape Town
- Bachelor of Commerce (Accounting),  
University of Cape Town

#### Other directorships:

- Equites Property Fund Limited: Non-  
executive director
- Italtile Limited: Non-executive director
- Santam Limited: Non-executive  
director
- Land Bank: Non-executive director
- Sasfin Holdings: Non-executive  
director



**Dr Blessing Mudavanhu (46)**

Founder and President of Dura  
Capital Ltd

ARC

BCIC

IVC

DBSA Non-executive Director as of 1  
August 2017

#### Expertise

Banking, risk management, business  
management and development finance

#### Academic qualifications:

- PhD Mathematics, University of  
Washington, USA
- MS Financial Engineering, University of  
California, Berkeley, USA
- MS Applied Mathematics, University of  
Washington
- USA BS Honours Mathematics,  
University of Zimbabwe

#### Other directorships:

- African Banking Corporation  
(Zimbabwe): Non-executive director

BOARD COMMITTEES	<b>ARC</b>	Audit and Risk Committee	<b>SEC</b>	SEC Social and Ethics Committee
	<b>BCIC</b>	Board Credit and Investment Committee	<b>IDKC</b>	Infrastructure Delivery and Knowledge Management Committee
	<b>HRNC</b>	Human Resource, Remuneration and Nomination Committee	<b>IVC</b>	Investment Valuations Committee



**Ms Bulelwa Ndamase (47)**  
Managing Director of Ndamase Incorporated

ARC

BCIC

IVC

DBSA Non-executive Director as of 1 August 2017

**Expertise**

Legal, business management, strategic management and development

**Academic qualifications:**

- Masters in Law, Georgetown University, USA
- LLB, University of Natal
- BA, University of Cape Town

**Other directorships:**

- Durban International Convention Centre (Durban ICC): Non-executive Director
- Chairperson of the Appeals Board of Cooperative Banks



**Ms Malijeng Ngqaleni (59)**  
Deputy Director-General: Intergovernmental Relations (IGR), National Treasury

IDKC

DBSA Non-executive as of 1 January 2016 (Shareholder representative)

**Expertise**

Economics, policy, government and leadership

**Academic qualifications:**

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

**Other directorships:**

None



**Ms Letlhogonolo Noge-Tungamirai (35)**  
Strategic Adviser - Human Capital Solutions

HRNC

SEC

IDKC

DBSA Non-executive Director as of 1 August 2017

**Expertise**

ICT, human capital solutions, business strategic management

**Academic qualifications:**

- MBA (Business Administration), Wits Business School
- Postgraduate Diploma in Management, Wits Business School Management Advancement Programme, Wits Business School
- Master Network Engineering Diploma, Torque-IT
- IT Programming Diploma, CTU Training Solutions
- Levels, International School Of South Africa (ISSA)

**Other directorships:**

- Boxing South Africa (BSA): Non-executive director

BOARD COMMITTEES

ARC

Audit and Risk Committee

SEC

SEC Social and Ethics Committee

BCIC

Board Credit and Investment Committee

IDKC

Infrastructure Delivery and Knowledge Management Committee

HRNC

Human Resource, Remuneration and Nomination Committee

IVC

Investment Valuations Committee



# BOARD OF DIRECTORS

continued



**Ms Patience Nosipho Nqeto (60)**  
Director of companies

**ARC** **HRNC**  
**SEC** **IVC**

DBSA Non-executive and Independent Director as of 1 August 2017

#### Expertise

Business management, strategic management, peoples management, financial management, policy management and administration

#### Academic qualifications:

- MBA, University of Charles Sturt, Australia
- Honours (Economics), University of South Africa
- BCom, University of Transkei

#### Other directorships:

- Bongo Strategic Compass (Pty) Ltd: Non-executive director



**Ms Anuradha Singh (47)**  
General Manager: Infrastructure at MTN Group Limited

**ARC** **BCIC** **IVC**

DBSA Non-executive Director as of 1 August 2014

#### Expertise

Finance and business investment

#### Academic qualifications:

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

#### Other directorships:

- MTN South Sudan: Non-executive director
- MTN Guinea: Non-executive director
- MTN Bissau: Non-executive director



**Prof Mark Swilling (58)**  
Divisional Head: Sustainable Development, Stellenbosch University

**HRNC** **SEC** **IDKC**

DBSA Non-executive Director as of 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

#### Other directorships:

- Centre for Complex Systems in Transition, Stellenbosch University: Co-director
- Management Board of the Centre for Renewable and Sustainable Energy Systems, Stellenbosch University: Member
- International Resource Panel, convened by the United Nations Environment Programme: Member
- World Academy of Arts and Science: Fellow



**Ms Bathobile Sowazi (46)**  
Company Secretary

DBSA Company Secretary from 1 May 2010

#### Academic qualifications

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

#### BOARD COMMITTEES

**ARC** Audit and Risk Committee

**BCIC** Board Credit and Investment Committee

**HRNC** Human Resource, Remuneration and Nomination Committee

**SEC** SEC Social and Ethics Committee

**IDKC** Infrastructure Delivery and Knowledge Management Committee

**IVC** Investment Valuations Committee

# SUMMARY GOVERNANCE REPORT

FOR THE YEAR ENDED 31 MARCH 2018

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

The Board considers corporate governance to be a priority and endeavours to go beyond minimum

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

## GOVERNANCE FRAMEWORK

### KEY LEGISLATION

- DBSA Act amended
- Public Finance Management Act
- Companies Act (where applicable)

### GOVERNANCE PRINCIPLES

- King IV
- Corporate Governance Development Framework
- Association of African Development Finance Institutions (AADFIs) Prudential Standards Guidelines and Rating System
- United Nations Global Compact

### POLICIES AND PROCEDURES IN PLACE

- Board Charter
- Board Committees Terms of Reference
- Code of Ethics
- Delegation of Authority
- Directors' Policy on Conflict of Interest
- Employees' Policy on Conflict of Interest
- Gift and Hospitality Policy
- Whistleblowing Policy
- Appointment of DBSA Nominee Directors and Private Equity Advisory Committee Member Policy
- Anti Corruption and Fraud Hotline
- Ethics Hotline

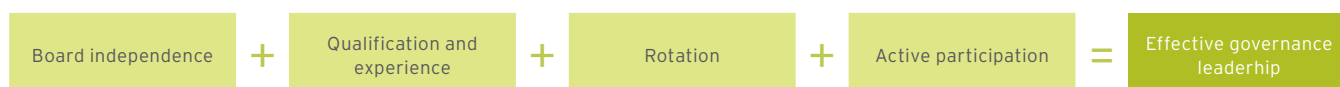
### GOVERNANCE PARTNERSHIPS

- DFI Corporate Governance Working Group
- Corporate Governance framework Research Institute
- Organisation for Economic Co-operation and Development
- African Peer Review Mechanism



Details of the **Board 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](http://www.dbsa.org).

## ENSURING EFFECTIVE GOVERNANCE AND GOOD CORPORATE CITIZENSHIP



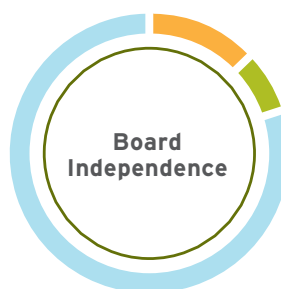
## EFFECTIVE GOVERNANCE LEADERSHIP



- AADFI SGRS rating:  
**A+ (2016:A+)**
- GAI King IV self-assessment rating: **95%** satisfactory applied (2017: AAA on King III conducted by IOD)
- Accredited by  
**Green Climate Fund**

Biennial Board effectiveness review conducted in 2017/18

## BOARD INDEPENDENCE



**Executive Directors;**  
**13%**

**Non-Executive Directors (Shareholder Representative),**  
**7%**

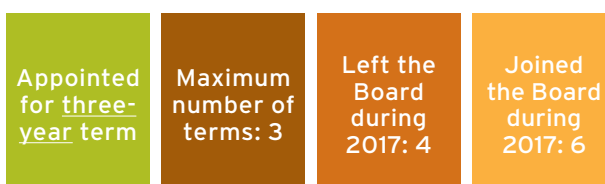
**Independent Non-Executive Directors**  
**80%**

- The Minister of Finance approves appointment of Directors
- 15 Board members
- The Chairman is an Independent Non-executive Director
- One shareholder representative
- Majority Independent Non-executive Directors
- HRNC, SEC and ARC: No Executive Directors as members
- Declaration of interests at each meeting

## DIRECTOR QUALIFICATION AND EXPERIENCE

<b>15</b>	<b>(100%)</b>	LEADERSHIP
<b>9</b>	<b>(60%)</b>	FINANCE & INVESTMENTS
<b>3</b>	<b>(20%)</b>	GOVERNMENT
<b>2</b>	<b>(13%)</b>	ECONOMICS
<b>3</b>	<b>(20%)</b>	LABOUR & TALENT DEVELOPMENT
<b>2</b>	<b>(13%)</b>	SOCIAL & SUSTAINABLE DEVELOPMENT
<b>2</b>	<b>(13%)</b>	RESEARCH AND POLICY
<b>2</b>	<b>(13%)</b>	LAW
<b>1</b>	<b>(7%)</b>	ENGINEERING

## ROTATION



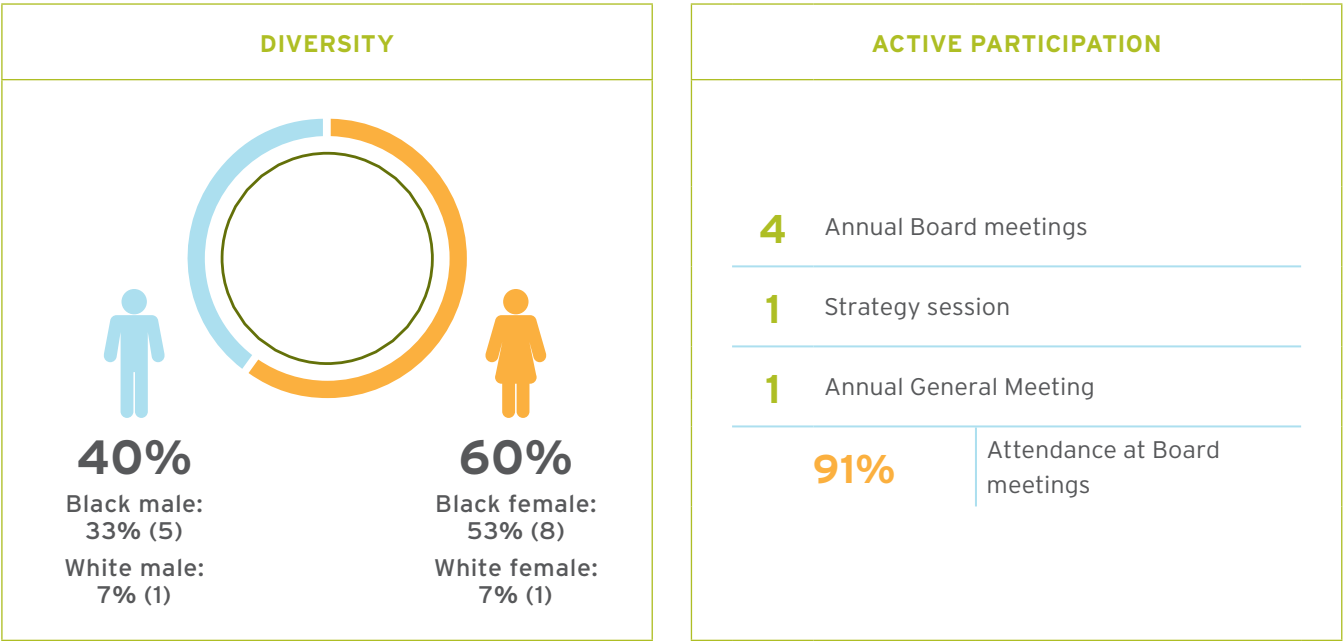
Tenure of Non-executive directors



Number of Non-executive directors



The **contract terms** for each of the Directors are on page 12 of the Directors' report.



**Disclosure on Rotation:**

- The following key issues have been identified:
- The terms of the Chairperson and Deputy Chairperson both expire on 31 December 2018. The Board and Shareholder are engaging on the Board succession plan to ensure that there is no impact on the continuity of the Board activities
  - Although members’ terms are staggered to ensure annual rotation of Directors, there is a need to ensure that at any point, no significant number of members are retiring at the same time.





## BOARD AND COMMITTEE RECORD OF ATTENDANCE

	BOARD COMMITTEE	ARC AUDIT AND RISK COMMITTEE	BCIC BOARD CREDIT AND INVESTMENT COMMITTEE	HRNC HUMAN RESOURCES, REMUNERATION AND NOMINATION COMMITTEE	SEC SOCIAL AND ETHICS COMMITTEE	IDKC INFRASTRUCTURE DELIVERY AND KNOWLEDGE MANAGEMENT COMMITTEE	IVC INVESTMENT VALUATIONS COMMITTEE <sup>2</sup>
<b>Number of meetings</b>							
Scheduled	4	4	10	6	2	4	2
AGM	1						
Strategy	1	-					
Risk-focused		2					
Other/Special				1			
<b>Independent Non-executive Directors</b>							
Jabu Moleketi (Chairman)	4		5	4	1	2	1/2
Frans Baleni (Deputy Chairman)	6		5	5 (Chair) <sup>9</sup>	2(Chair)	4	
Lungile Bhengu-Baloyi <sup>5</sup>	1			2		1	
Martie Janse van Rensburg <sup>8</sup>	6	5	8	2		3 (Chair)	2
Busisiwe Mabuza <sup>3,5</sup>	0/1		3 (Chair)	2			0/2
Dawn Marole <sup>5</sup>	1	2		4 (Chair)			1/1
Arthur Molot <sup>5</sup>	1	2	3	1/1			
Gugu Mtetwa	5	5 (Chair) <sup>10</sup>	9	5	2		2
Anuradha Singh	6	3	10 (Chair) <sup>7</sup>			1	2
Mark Swilling	5			3	0	2	
Patience Nqeto <sup>6</sup>	5/5	4/5		3/3	2/2		1/1
Lufuno Motsherane <sup>6</sup>	5/5			3/3	2/2	2/2	
Zanele Monnakgotla <sup>6</sup>	5/5	2/5	6/7				1/1
Lethogonolo	5/5			3/3	2/2	2/2	
Noge-Tungamirai <sup>6</sup>							
Bulelwa Ndamase <sup>6</sup>	5/5	4/5	7/7				1/1
Blessing Mudavanhu <sup>6</sup>	5/5	3/5	7/7				1/1
<b>Non-executive Directors</b>							
Malijeng Ngqaleni <sup>3</sup>	6					3	
<b>Executive Directors</b>							
Patrick Dlamini (Chief Executive Officer)	6	5 <sup>3</sup>	7	4 <sup>3</sup>		3	
Kameshni Naidoo (Chief Financial Officer) <sup>4</sup>	0	0	0				

1. Investment valuation meets twice a year to consider new investment valuations
2. BCIC and ARC members are Investment Valuations Committee members
3. By invitation
4. Ms Kameshni Naidoo left the Bank on 31 August 2017 and the acting CFO was appointed for the remainder of the financial year
5. Directors' term expired on 31 July 2017 and was not renewed
6. New Directors were appointed from 1 August 2017
7. Ms Anuradha Singh appointed Chairperson of BCIC from 1 August 2017
8. Ms Martie Janse van Rensburg appointed Chairperson of IDKC from 1 August 2017
9. Mr Frans Baleni appointed Chairperson of HRNC and SEC from 01 August 2017
10. Ms Gugu Mtetwa re-appointed Chairperson of Audit and Risk Committee from 1 August 2017


## MANAGING RISKS OF POLITICALLY EXPOSED PERSONS

The definition of politically exposed persons (PEPs) is wide ranging, but according to the Financial Intelligence Centre (FIC), a PEP is an individual who is or has in the past been entrusted with prominent public functions in a particular country. PEPs are considered to be high risk as they hold positions of power and influence that may be abused for private gain or to benefit family members or close associates. Due to these risks, it is imperative that the Bank takes steps to identify whether a client or prospective client is a PEP and ensure the necessary enhanced due diligence (EDD) and enhanced monitoring processes are applied. By setting up these processes, the DBSA will ensure that it is able to appropriately manage any legal and reputational risks that may arise from entering into business relationships with PEPs. It will also ensure compliance with various guidelines and directives issued by FIC, which are aimed at combating money-laundering and preventing and detecting fraud and other corrupt practices, including financing of terrorist activities.




The DBSA is not precluded from doing business with a PEP, thus the identification of a PEP does not on its own create an automatic reason to decline or reject an application for funding. However, when a PEP is identified, an EDD should be conducted prior to a decision on whether or not to establish a business relationship. The DBSA has adopted a PEP policy to mitigate reputational risk, operational risk and legal risk, based on internationally accepted best practice, standards and guidelines on the management of PEPs, whilst simultaneously meeting regulatory compliance standards imposed by the FIC Act. This policy applies to all PEPs who may have an interest in obtaining any form of financing from the DBSA. The policy also applies to any employees of the Bank who are PEPs.

During the 2017/18 financial year, the DBSA approved zero number of projects involving PEPs in respect of private companies and trusts.

## APPLICATION OF KING IV PRINCIPLES

Principles	Practices implemented and progress made
<b>GOVERNANCE OUTCOME: ETHICAL CULTURE</b>	
<b>1. The accounting authority should lead ethically and effectively</b>	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. The bi-annual board evaluation process will be finalised during the 2018/19 financial year. The Board has continuously undertaken ongoing professional development of its members.
<b>2. The accounting authority should govern the ethics of the SOE in a way that supports the establishment of an ethical culture</b>	<p>The DBSA has established the values of honesty, communication, effectiveness and transparency as the convictions that guide the way it operates even when no one is watching. The DBSA has a Code of Ethics in place which is applicable to employees and incorporated as part of the contractual arrangements with parties in the supply chain. All employees are required to attend ethics awareness training at least once every year. The Social and Ethics Committee of the Board was established during the 2017/18 financial year.</p> <p> The <b>Code of Ethics</b> is available on our website, <b><a href="http://www.dbsa.org">www.dbsa.org</a></b>.</p>

Principles	Practices implemented and progress made
<b>3. The accounting authority should ensure that the SOE is and is seen to be a responsible corporate citizen</b>	<p>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 and Board Credit and Investment Committee, amongst 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.</p> <p> For more detail on how the DBSA addressed responsible citizenship, refer to the <b>Social and Ethics Committee report</b> on page 71.</p>
<b>GOVERNANCE OUTCOME: PERFORMANCE AND VALUE CREATION</b>	
<b>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</b>	<p>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.</p> <p> 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 <b>OVERVIEW</b> section which commences on pages 10 to 13.</p>
<b>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</b>	<p>The Integrated Annual Report presents material information in a 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 is striving to fully achieve this principle by actively soliciting input from key users of our reports in order to create a learning cycle that will result in continual improvement of the way that we communicate with our stakeholders through our reports.</p> <p> The DBSA's complete <b>Integrated Annual Report</b> can be downloaded from our website, <b>www.dbsa.org</b>.</p>
<b>GOVERNANCE OUTCOME: ADEQUATE AND EFFECTIVE CONTROL</b>	
<b>6. The Accounting Authority should serve as the focal point and custodian of corporate governance in the SOE</b>	<p>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 workplan. The Board serves as the focal point and custodian of corporate governance of the DBSA, in terms of how its role and responsibilities are documented and the way that it executes its duties and decision-making.</p> <p> The <b>Board Charter</b> is available on our website, <b>www.dbsa.org</b>.</p>

Principles	Practices implemented and progress made
<p><b>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</b></p>	<p>The Board, with the assistance of the Human Resources, Remuneration and Nomination, Committee (HRNC), considers, annually, 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.</p> <p> For more detail on the composition of the <b>Board of Directors</b>, refer to pages 46 to 50.</p>
<p><b>8. The Accounting Authority should ensure that its arrangements for delegation within its own structures promote independent judgment, and assist with balance of power and the effective discharge of its duties</b></p>	<p>There is clear delegation of authority from the Board to the Chief Executive Officer and, subsequently, to employees.</p> <p>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 there is undue dependency. There are terms of reference governing the committees.</p> <p> For more detail on the composition of the <b>Board's committees</b>, refer to page 45.</p> <p>Internal Audit is an independent function that reports to the Audit and Risk Committee of the Board. The Chief Risk Officer is responsible for the day-to-day administration of the function.</p> <p>The Chief Financial Officer is the head of the finance function and senior managers report to her.</p> <p>An assessment of the effectiveness of the Chief Financial Officer function is performed annually by the Audit and Risk Committee.</p> <p> The <b>Audit and Risk Committee's report</b> can be found on pages 63 to 66.</p>
<p><b>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</b></p>	<p>Assessments of the performance of the DBSA Chief Executive Officer and Company Secretary are conducted annually. Independent assessments of the performance of the Board structures and their members are conducted every two years simultaneously. The two-year interval allows the opportunity for thorough remedial interventions.</p> <p>It is the opinion of the Board that the Board and its structures should function in an integrated manner and an assessment of the whole Board structure would highlight issues that affect the whole structure. 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.</p> <p>The Board has, furthermore, with the assistance of the DBSA Company Secretary, undertaken a holistic review of its Board Charter and the terms of references to achieve better integration and coordination among the Board and all its committees.</p>



Principles	Practices implemented and progress made
<p><b>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</b></p>	<p>The Board has reserved for itself the powers as referred to in the Board Charter and Delegation of Authority. The Board also reserves the right to finally approve strategy, business plans, annual operational budgets, key policies and employee collective bargaining agreements.</p> <p> <i>The Board Charter is available on our website, <b>www.dbsa.org</b>.</i></p> <p> <i>For the executive and senior <b>management</b> structure, refer page 45.</i></p> <p> <i>For the qualifications and other information about members of the <b>Executive Committee</b>, refer pages 84 to 86.</i></p> <p>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 signs 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.</p> <p> <i>For an abbreviated curriculum vitae of the <b>Company Secretary</b>, refer page 50.</i></p> <p>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.</p>
<p><b>11. The Accounting authority should govern risk in a way that supports the SOE in setting and achieving its strategic objectives</b></p>	<p>At the DBSA, anticipating and responding to risk are fundamental parts 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 opportunities; and has adopted an ERM framework and approach to managing risk exposures. This approach ensures that the DBSA takes a holistic view of the risks and opportunities inherent in its strategy, operations and business, and that the management of risks and opportunities is embedded into the mainstream planning, business and decision-making processes. The Audit and Risk Committee assists the Board with the governance of risk.</p> <p> <i>For more detail on the DBSA's risks and the management thereof, refer to the section <b>MANAGING OUR RISKS AND OPPORTUNITIES</b> on pages 37 to 39.</i></p>
<p><b>12. The Accounting Authority should govern technology and information in a way that supports the SOE setting and achieving its strategic objectives</b></p>	<p>The Board is aware of the importance of technology and information as they are inter-related with the strategy, performance and sustainability of the DBSA.</p> <p>The Audit and Risk Committee assists the Board with the governance of information and technology. The Bank'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 that deal with IT governance, risk management, IT infrastructure and architecture, implementation of IT projects and reviews of benefits realisation. 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, IT, 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. However the Board still wants sufficient focus on the ICT governance in the Bank.</p> <p> <i>For more detail on the governance of information and technology, refer to <b>Audit and Risk Committee</b> report on pages 65 to 66.</i></p>

Principles	Practices implemented and progress made
<b>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</b>	<p>The responsibility of compliance management has been delegated to the Audit and Risk Committee, ensuring that it plays an oversight role of the compliance risk of the DBSA.</p> <p>☰ For more detail on the <b>fruitless and wasteful expenditure</b> please refer to note 49 to the Annual Financial Statements.</p>
<b>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</b>	<p>The Board has approved a remuneration policy that clearly articulates the direction and approach on the company's remuneration.</p> <p>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.</p> <p>☰ For more information, refer to the <b>remuneration report</b> on pages 60 to 62.</p>
<b>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</b>	<p>The DBSA has implemented a combined assurance model that is coordinated 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, and 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.</p> <p>☰ For more information on the DBSA's <b>combined assurance model</b>, refer to pages 38 to 39.</p>
<b>GOVERNANCE OUTCOME: TRUST, GOOD REPUTATION AND LEGITIMACY</b>	
<b>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 material stakeholders in the best interests of the SOE over time</b>	<p>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 the ability to stay attuned. The DBSA has also introduced systems to gather and analyse information that could provide useful intelligence on stakeholder perceptions or that could adversely affect the DBSA's reputation.</p> <p>☰ For more detail on the DBSA's interaction with its stakeholders, refer to the section <b>ENGAGING WITH OUR STAKEHOLDERS</b> on pages 26 to 33.</p>

# 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, the Companies Act 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 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 that 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. To preserve their independence, Non-executive Directors do not qualify to participate in any variable pay incentive schemes. Board members are compensated for expenses incurred in pursuance of the DBSA's business.

The HRNC 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 for 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 Executive Management, are divided into fixed and variable components, including short- and long-term performance incentives. The long-term incentive scheme seeks to ensure that ultimate long-term delivery outcomes are achieved.

## GUARANTEED PACKAGES

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

The HRNC reviews the Chief Executive Officer and Executive Management remuneration and makes recommendations to the Board for approval by the Minister of Finance.


Salary increases in guaranteed pay for employees are decided upon using variables such as organisational and individual performance, affordability, inflation and market data.

In line with the principle of fair and responsible remuneration, the DBSA continuously investigates the internal pay gap and disparities in remuneration in the organisation. For FY2018, the increase percentage awarded to executives was lower than that of other employees.

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, compassionate/family responsibility leave as well as maternity and paternity leave.

The DBSA retirement age is 60 except for employees whose retirement ages, for historical reasons, are either 63 or 65.

The DBSA operates an unfunded defined post-retirement medical benefit plan for qualifying employees. The plan 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, the net amount being R20 000 paid to the family upon death of an employee or retired employee.

## SHORT-TERM INCENTIVES

All employees, including Executive Directors and Group Executives, participate in a yearly short-term incentive plan (STI). STI payments are discretionary and depend on business performance and individual contribution. The strategic aim of the STI is to create a performance culture by rewarding employees for achieving strong annual results on predetermined targets.

For the DBSA to qualify for a STI bonus pool, the organisation must achieve a minimum performance rating

of three in the annual balanced scorecard. To determine the size of the corporate short-term incentive pool, the following STI hurdles are measured:

- Infrastructure unlocked
- Sustainable earnings
- Operating cash flow generated


For the year under review, the DBSA achieved a weighted score of 3.2 out of 5, which equates to 64% of the maximum short-term incentive bonus allocation.

The performance of the Executive Management team is measured against predetermined goals approved by the Board.

The allocation of STI bonuses to executives is aligned to the State-Owned Entities Guidelines.

Job Category	Up to a maximum of Annual Guaranteed Pay
CEO	50%
Executives	35%

The distribution of the STI bonus pool to employees is made in line with the DBSA's internal distribution model and guidelines.

 Refer to the **Directors' report** in the Annual Financial Statements on pages 9 to 10 for performance against the predetermined goals.

## LONG-TERM INCENTIVES

The long-term incentive programme (LTI) is new and will be effected from the 2019 financial year.

The purpose of the LTI plan is to attract, motivate and reward employees who are able to positively influence the performance of the DBSA on a continued basis that aligns their interests with that of the Shareholder. Executive Directors, Group Executives and identified key employees are eligible to participate in the LTI (three-year cycle).

The LTI is determined by organisational performance measure, as follows:

- Total value of infrastructure unlocked over three years



- Non-performing loans (NPLs) as a percentage of loan book at the end of the three years
- Cumulative disbursements over three years

The allocation of LTI bonuses to executives will be aligned to the State-owned Entities Guidelines.

Job Category	Up to a maximum of Annual Guaranteed Pay
CEO	75%
Executives	50%

## OTHER INCENTIVES

The DBSA may award retention incentives to retain key employees and subject to approval by the delegated authority. A precondition of the retention incentives is that if the recipient of the incentive leaves the organisation within the period determined according to value and criticality of skill, he or she will be required to pay back the full incentive back to the DBSA.

## FUTURE AREAS OF FOCUS

HRNC will continue to review performance conditions for the STI and LTI annually or as required. Performance hurdles and matrices will be introduced to assess and monitor fair and responsible executive remuneration practices and further align executive remuneration disclosures to King IV requirements.

# AUDIT AND RISK COMMITTEE REPORT


## FOR THE YEAR ENDED 31 MARCH 2018

We are pleased to present our report for the financial year ended 31 March 2018.

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 54 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 46 and 50.


### IMPACT OF KING IV

King IV recommends disclosing the date of the first appointment of the **external auditor** which is 19 July 2018 and the date of the appointment of the predecessor firm which is 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.

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 that risk management should cover both 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 37 to 39.

### AUDIT AND RISK COMMITTEE RESPONSIBILITY

The functions of the Audit and Risk Committee are regulated by the PFMA and Companies Act. 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 advises the Board on income, expenditure and capital budget requirements, treasury arrangements and funds mobilisation strategies, 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 that 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 nominating to the Board for consideration
- Approving the terms of engagement of the external auditor(s), including their audit fee, and determining the nature and extent of any non-audit services
- Monitoring and reporting to the Board on the independence, objectivity and required skills and competence of the external auditor(s) to execute the audit in terms of International Standards on Auditing
- Monitoring the effectiveness of 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 ERM approach to and managing risk exposures
- Consideration of the expertise, resources and experience of the CFO, finance and internal audit functions.

## COMBINED ASSURANCE

King IV recommends a combined assurance model that includes five lines of assurance to incorporate all assurance providers to enable an effective control environment to strengthen decision-making. The five lines of defence are (1) Business units, support functions, line management and all employees (2) Group Risk Assurance Division (3) Internal and external audit (4) Executive Committee (5) Board. Horizontal assurance includes internal audit, risk and compliance, whilst vertical assurance include line managers, frameworks, policies, procedures and system controls. Internal audit remains a pivotal part of governance relating to assurance. The Internal Audit function is relied on, not only to 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.

The Audit and Risk Committee's corporate governance processes comply with the requirements of King IV on ensuring that a combined assurance model is applied to provide a coordinated 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, judgments 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.

In the reporting year, disbursement levels have been sluggish due to slowed down lending activities, as well as due to lower than expected economic growth. Reduced

global economic activity has contributed remarkably to scaled-back and declined governments' spending on infrastructure. Further on, governments were forced to rethink their priorities in infrastructure, thus restraining budgets on infrastructure projects.

With the presence of strong oversight, leadership and accountable staff, these risks are being managed within acceptable limit.

## 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 and transitional plan, including the proposed scope and audit fee and determined the nature and scope of non-audit services
- Reviewed and approved in consultation with the Minister of Finance and the DBSA Board the replacement of Nkonki Incorporated by the Auditor General South Africa
- Received and reviewed external audit reports pertaining to the Annual Financial Statements for the year ended 31 March 2018 and the interim results for the six months ended 30 September 2017.

The key audit matters identified during the year-end audit by the Auditor-General and how they were audited are detailed from pages 3 to 5 of the Report of the Auditor-General to Parliament in Annual Financial Statements. The Auditor-General has audited the following key audit

matters: allowance for credit losses on development loans, valuations of financial instruments at amortized cost and valuations of complex financial instruments at fair value. The Audit and Risk Committee is satisfied with the audit work conducted by the Auditor-General.

## 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:

- Fraud risk indicators and incidents are logged in an operational risk register and monitored
- A robust fraud prevention policy, plan and response plan is in place
- There is sufficient investigative capability within Internal Audit, with a Forensic Auditor and an IT Forensic Auditor forming part of the Internal Audit team
- The DBSA has a toll-free whistleblowing hotline operated by Whistle Blowers and employees are encouraged to report any suspected corrupt, fraudulent, criminal or unethical practice

The DBSA remains steadfast in its zero tolerance approach to any incident of fraud and corruption. All matters referred to Internal Audit for investigation, be it direct reports or via the whistleblowing hotline, are reported to the Audit and Risk Committee, and where necessary, to the relevant law enforcement agencies.

During the 2018 financial year, the DBSA Whistle Blowing Policy was reviewed and updated. Training on the policy is ongoing. In addition, the term of the previous whistleblowing hotline service provider came to an end and a new whistle-blowing hotline service provider appointed. The availability of the hotline was uninterrupted.

## 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 is a primary objective of the Business Technologies and Facilities unit. The existing IT governance framework and information security framework are currently being reviewed and updated
- A proper business recovery plan and offsite disaster recovery centre are in place and daily backups as well as periodic disaster recovery testing occur
- 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. It 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, and 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 occurred during the year under review.

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.

## ANNUAL REVIEW OF THE CFO, FINANCE AND INTERNAL AUDIT FUNCTIONS

The committee has assessed and is satisfied with the expertise, resources and experience of the CFO, finance and internal audit functions. Post-year end, a new CFO, Boitumelo Mosako was, appointed.

The committee has reviewed the external audit function. The main areas considered in the external audit function assessment include audit planning and design, audit approach, firm wide policies and procedures, audit execution and conclusion.

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

The Audit and Risk Committee has:

- Reviewed the Integrated Annual Report and Sustainability Review report
- Reviewed and discussed the audited Annual Financial Statements with the independent external auditor and the Accounting Authority
- Reviewed the independent external auditor's management letter and management's response thereto

The Audit and Risk Committee has evaluated the Integrated Annual Report and Annual Financial Statements for the year ended 31 March 2018 and considers that they comply, in all material respects, with the requirements of sections 27 to 31 of the Companies Act, the PFMA and IFRS, and that the adoption of the going-concern basis in preparing the Annual Financial Statements is appropriate. It is of the opinion that the audited Annual Financial Statements should be accepted and read together with the report of the independent external auditor.



**Gugu Mtetwa**

**Chairperson of the Audit and Risk Committee**

# BOARD CREDIT AND INVESTMENT COMMITTEE REPORT


FOR THE YEAR ENDED 31 MARCH 2018

We are pleased to present our report for the financial year ended 31 March 2018.

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 54 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 46 and 50.

## IMPACT OF KING IV

In term of King IV's '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 that 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 37 to 39.

## 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 aggregate exposure that is above the approval limits of the Investment Committee. The Investment Committee, which is chaired by the Chief Risk Officer, is responsible for approving transactions that would result in the aggregate exposure to a single obligor being below the approval limits delegated by the BCIC. The committee is also responsible for recommending aggregate exposures of more than the approved delegated limits to 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 risks decisions and to optimise reward by evaluating risk exposures and ongoing outcomes in tandem.

 Refer to pages 22 and 23 for a summary of the outputs and estimated **development outcomes**.

 Pages 102 and 105 provide an overview of the DBSA's two **infrastructure financing divisions**.

 Refer to pages 88 to 95 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.

## SUMMARY OF NEW LOANS APPROVED

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

	Approved by IC	Approved by BCIC	TOTAL	BCIC approval%
South Africa				
Municipal clients	R629 million	R5 800 million	R6 429 million	90%
Non-municipal clients	-	R5 638 million	R5 638 million	100%
Rest of Africa				
SADC	-	R887 million	R887 million	100%
Rest of Africa	-	R1 533 million	R1 533 million	100%
TOTAL	R629 million	R13 858 million	R14 487 million	96%

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



**Anuradha Singh**

**Chairperson of the Board Credit and Investment Committee**

# HUMAN RESOURCES, REMUNERATION AND NOMINATIONS COMMITTEE


FOR THE YEAR ENDED 31 MARCH 2018

We are pleased to present our report for the financial year ended 31 March 2018.

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

## MEMBERSHIP

HRNC members and attendance are reflected on page 54 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 positions. 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 46 and 50.

## HUMAN RESOURCES, REMUNERATION AND NOMINATIONS COMMITTEE RESPONSIBILITY

The Board of Directors has established the HRNC to support it in the execution of its duties in the implementation of the human capital strategy, nomination of Directors and executive remuneration, Directors' affairs, as well as 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. The committee is ultimately accountable and responsible for the performance, affairs and behaviour of the DBSA. The HRNC 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. It uses the services of independent advisers 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, 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, and 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 to the Board
- Develop a plan for identifying, assessing and enhancing Director competencies
- Ensure that Executive Directors and management succession plans are in place
- Review the performance of the CEO.

## REMUNERATION

- Consider for approval by the Board the remuneration policy and employment practices in addition to any other strategic human resource issues referred to it by management and the Board of Directors in line with market trends and prevailing legislation
- Review and recommend performance incentive policies applicable to the Executive Directors and Group Executives to the Board of Directors to ensure



that they are fairly rewarded for their individual and joint contribution to the DBSA performance

- Determine remuneration, retention incentive and termination policies and procedures for executive management
- Make recommendations to the shareholder on the fees of the Chairman and the Non-executive Directors
- Make recommendations to the Board on 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 42.1 and 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 pages 60 to 62.

- Monitor implementation and execution of the human capital strategy and transformation as well as issues policy requirement for implementation by management. A key focus area for the committee was monitoring 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 2018 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 82 and 83 for further detail on the DBSA's **employment and diversity numbers**, as well as investment in **training programmes** (shown on page 5 and 6 of this report for HRNC)



**Frans Baleni**

**Chairperson of the Human Resources, Remuneration and Nominations Committee**

# SOCIAL AND ETHICS COMMITTEE REPORT

## FOR THE YEAR ENDED 31 MARCH 2018

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We are pleased to present our report for the financial year ended 31 March 2018.

The Social and Ethics Committee (SEC) was constituted in the year under review and adopted an appropriate formal terms of reference as its SEC Charter.

### MEMBERSHIP

SEC members and attendance are reflected on page 54 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 46 and 50.

### SOCIAL AND ETHICS COMMITTEE RESPONSIBILITY

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

- Monitors activities, against relevant legislation and codes of best practice, of social and economic development, good corporate citizenship, the environment, health and public safety, consumer relationships and sound labour and employment practices
- Reviews the DBSA's values and considers for recommendation to the Board ethics-related policies such as conflict of interest, code of ethics, and Gift- and whistleblowing policies
- Considers and recommends for approval to the Board the ethics management programme.



**Frans Baleni**  
Chairperson of the Social and Ethics Committee

# INVESTMENT VALUATIONS COMMITTEE REPORT


FOR THE YEAR ENDED 31 MARCH 2018

We are pleased to present our report for the financial year ended 31 March 2018.

The Investment Valuations Committee (IVC) was constituted in the year under review and adopted appropriate formal terms of reference as its Investment Valuations Committee Charter. During the year the Committee has regulated its affairs in compliance with this Charter and has discharged its responsibilities as contained therein.


## MEMBERSHIP

The IVC members and attendance are reflected on page 54 in the Summary Governance report. The IVC comprises a mix of Audit and Risk Committee and Board Credit Investment Committee members. In line with the Committee's Charter, the Chairperson is the Chairperson of the Audit and Risk Committee. As such 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 Investment Valuations Committee** are detailed in the Board of Directors section on pages 46 and 50.

## IMPACT OF KING IV


In term of King IV's "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 37 to 39.

## INVESTMENT VALUATIONS COMMITTEE RESPONSIBILITY

The Board has delegated the responsibility of the evaluation of the Bank's valuation and impairments to its IVC. In addition, the Committee reviews the Bank's Equity Valuation Report, Non-performing Loan Book Report and Credit Portfolio Report as well as its Finance Assets and Liabilities Portfolio Report.

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

 Pages 102 and 105 provide an overview of the DBSA's two infrastructure financing divisions.

 Refer to pages 88 to 95 of the Chief Financial Officer's Report for an overview of the quality of the credit portfolio.



**Gugu Mtetwa**  
**Chair of the Investment Valuations Committee**

# INFRASTRUCTURE DELIVERY AND KNOWLEDGE MANAGEMENT COMMITTEE REPORT


FOR THE YEAR ENDED 31 MARCH 2018


We are pleased to present our report for the financial year ended 31 March 2018.

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. The Committee 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.

 **IDKC members and attendance** are reflected on page 54 in the Summary Governance report.

 The names and qualifications of **Directors serving on the IDKC** are detailed on pages 46 and 50.


## 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 for properly considering and evaluating any matter that it has been mandated to deal with. The Board has ultimate responsibility in controlling the business and directing the operations of the DBSA. This includes accepting strategic mandate programmes that will help with infrastructure delivery and programme implementation support in South Africa and the region, monitoring existing mandates, approval and monitoring of key infrastructure projects, and overseeing the knowledge and research programmes of the DBSA in line with the philosophy that it is a centre of excellence in infrastructure development.

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

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

 Refer to page 106 and 107 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 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, to support the process to measure 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.



**Martie Janse van Rensburg**

**Chairperson of the Infrastructure Delivery and Knowledge Management Committee**







# 03

## PERFORMANCE AND OUTLOOK









## CHIEF EXECUTIVE'S OFFICER'S REPORT

Patrick Dlamini

Adequate infrastructure is crucial for Africa's development, for strengthening regional markets and making African countries globally competitive. Infrastructure is the foundation of development, economic growth, reduced poverty and improved health and education services. While provision of hard infrastructure is important for long-term, sustainable growth, the provision of social infrastructure in the education, health, sanitation and other spheres, can bring short-term relief and strengthen the social fabric, while promoting resilient and productive communities. It is estimated by the African Development Bank that the continent's infrastructure needs between US\$130 and US\$170 billion a year, with a financing gap in the range of US\$68 to US\$108 billion. The level of infrastructure investment required by both South Africa and the rest of the African continent cannot be managed by the DBSA on its own. Bridging the gap will take a collective effort. For the DBSA, it is a journey that will be powered by partnerships and collaboration, and enabled by innovative

solutions to complex problems. To accelerate investments in infrastructure, we must offer new mechanisms and instruments to fund urgent needs.

Our refined strategy uses a number of ways to encourage more capital flow towards sustainable infrastructure, including focusing more investment on early-stage programme and project preparation facilities, and technical assistance to increase the 'bankability of project pipelines'.

Widening our view to address the entire value chain rather than a narrow focus on funding and financing will ensure that projects are prepared and bankable by the time financing is sought, thus avoiding delays that could result in substantial cost escalations and potentially lead to projects being only partially funded. The DBSA brings risk capital for early stage development financing, a resource that is not available to commercial banks or pension funds, but which drastically reduces project risk. Our role in crowding-in funders is to maximise the economic and developmental potential of projects, thus matching bankable infrastructure projects with funders. We aim to develop and facilitate the market rather than dominate it.

The DBSA has a key role to play as a catalyst for enhanced third-party participation in infrastructure development. Innovative ways need to be found to work with the private sector to ensure that infrastructure development

*Reference (2018 African economic outlook: African Development Bank makes a compelling case for Africa's industrialisation)*

and capacity building at municipal level continue at an improved rate. Our new strategic focus is to increase the pool of funding for development finance and create a critical mass, in this manner.

## PERFORMANCE REVIEW

Non-interest revenue for the year of R421 million was close to double the target of R250 million and up from R278 million in the previous year. Return on sustainable earnings was 8.3%, compared to 9.2% in the previous year but 74% above target. While sustainable earnings declined by 26%, the Bank is on a sound footing with

a high-quality portfolio. Net cash generated from operations was R4.0 billion, 3% above target and an increase of 7% year-on-year.

The DBSA delivered R43 billion in infrastructure development support in the 2017/18 financial year, while producing solid financial results. The disparity between actual disbursements and targets is a reflection of the tough operating environment as well as a high level of project delays. Our strategy of operating across the infrastructure value chain is gaining traction, with the catalytic role of the Bank delivering third-party funds above targets.

## FINANCIAL KEY PERFORMANCE INDICATORS

	2018	2017 Actual	% Variance	2018 Target	% Variance
<b>Project preparation</b>					
Value of targets prepared and committed for DBSA	R1.0 billion	R0.6 billion	83	R10 billion	(89)
<b>Infrastructure financing</b>					
Total disbursement	R12.2 billion	R12.4 billion	(2)	R20.0 billion	(39)
Value of funds catalysed	R25.2 billion	R31.9 billion	(21)	R25.6 million	(2)
Metros	R3.0 billion	R4.5 billion	(33)	R4.8 billion	(30)
Secondary and under-resourced municipalities	R0.3 billion	R1.1 billion	(75)	R1.3 billion	(78)
Other social	R0.2 billion	R0.4 billion	(44)	R1.8 billion	(88)
Economic	R5.4 billion	R2.7 billion	100	R5.6 billion	(4)
Rest of Africa (excluding RSA)	R3.2 billion	R3.7 billion	(14)	R5.0 billion	(36)
of which SADC (excluding RSA)	R1.3 billion	R1.9 billion	(32)	R3.5 billion	(63)
<b>Infrastructure delivery</b>					
Total funds under management	R4.3 billion	R3.3 billion	30	R3.9 billion	10
<b>Financial</b>					
Sustainable earnings	R2.8 billion	R3.6 billion	(22)	R1.5 billion	87
Net profit	R2.3 billion	R2.8 billion	(18)	R1.4 billion	64

## PROJECT PREPARATION

During the year, the DBSA prepared R954 million worth of projects, against a target R10 billion. Several projects expected to be confirmed during 2018 did not materialise, accounting for the underperformance. However, there was a considerable improvement on the previous year's R585 million worth of projects prepared. The DBSA prepared projects that are funded by third-party funders to the value of R15.3 billion, above the R10 billion target.

Large-scale infrastructure projects are very complex, with a multitude of risks and take years to be implemented. The DBSA alleviates the risks by identifying and eliminating key risks at the earliest possible stage. As a result, the risk of non-completion of projects is reduced, costs are better contained and timeous delivery is facilitated.

## INFRASTRUCTURE FINANCING

The limitation on the DBSA lending resources coupled with the demand to scale-up infrastructure investment



necessitated the Bank's catalytic function under the Coverage Division. The Coverage Division has an important role as an infrastructure funding partner in promoting the Bank as a thought leader in infrastructure development. Much of the Bank's contribution to social and development impact is largely dependent on the financial strength and institutional capability of municipalities and SOCs. The Coverage Division aims to improve solvency and long-term financial strategies for targeted municipalities. This aligns to the NDP and Integrated Urban Development Framework (IUDF) vision of expanded maintenance of new and existing infrastructure for developing cities as nerve centres for economic growth and development.

The DBSA continues to support enhancement of local government efficiencies and effectiveness. The Coverage Division has implemented a number of iterations of the revenue enhancement strategy at various municipalities. The demand for support and the need for structured solutions have grown.

The Transacting Division's total disbursement of R12.2 billion of infrastructure financing was a commendable achievement in the current economic climate. Disbursements were mixed across the different segments. Macroeconomic conditions and regulatory factors have a significant impact, causing delays in converting appraised projects.

As part of the due diligence process undertaken by Transacting Division, the Bank ensures that the project will not only be financially viable, but will have a strong socioeconomic impact, ultimately uplifting the standard of living of society. However, striking a balance between commercially viable and high development impact can be complicated, especially in municipalities. To address this, the Bank has sourced some concessionary financing from IIPSA to soften the debt burden on municipalities in dire need of financial intervention to continue service delivery.

## INFRASTRUCTURE DELIVERY

There was significant improvement in the IDD's performance against the balanced scorecard in 2018 compared to 2017. IDD plays a key government support role in accelerating the implementation of a number of programmes in key priority sectors such as education, health and housing and urban infrastructure. The value of funds under management, at R4.3 billion, exceeded the annual target of R3.9 billion, and the value of infrastructure delivered for the year, at R3.3 billion, met the target of R3.3 billion.

## IMPLEMENTATION OF STRATEGIC BUSINESS TRANSFORMATION INITIATIVES

The DBSA has a number of key transformation initiatives, which are critical for the journey from a provider of infrastructure finance to an organisation that works through the infrastructure value chain to unlock infrastructure gaps facing the country and the region. These include:

- Embedding a culture of innovation into the organisation to enhance critical thinking and innovative problem solving
- Building a new culture that fosters high performance
- Capital management project to quantify the Bank's portfolio and business risks
- Building strategic partnerships with local and international organisations to improve its position as a partner of choice.

## STRATEGIC PARTNERSHIPS

We have an extensive network of sustainable development investment and funding partners, including commercial banks and the private sector. Some of these relationships were forged decades ago. As a medium, niche organisation, we do not always have the broad skills required, hence we leverage our partnerships for skills sets. Reciprocally, our partners leverage on our relationship with governments and other DFIs. Most of infrastructure projects are government-led, thus the DBSA is positioned to facilitate access between governments and the private sector. Equally, the DBSA is positioned as an adviser to government, and those responsible for creating enabling legislation and policies.

## OUR PEOPLE

Our people are central to realising our vision and strategic ambition. We are committed to creating a high-performance environment that attracts and retains staff with the commitment and skills required. We continue to prioritise training and spent R11.4 million on training and development during the year.

## GOVERNANCE, COMPLIANCE AND RISK MANAGEMENT

The DBSA adheres to 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. A strong governance framework is imperative for stakeholders, especially strategic partners and investors. In addition, good governance is essential to avoid white elephants, fraud, waste and inefficiencies. It is critical to deliver sustainable, inclusive services that promote economic growth and innovation, and increase quality of life for citizens. It is also paramount to attaining the SDGs.

## OUTLOOK

In the year ahead, we expect the more positive economic outlook to prevail, with modest GDP growth accompanying it. Business and investment confidence is likely to improve. However, unemployment, inequality, poverty and poor education will continue to weigh on the country and these issues are inextricably linked to infrastructure development. The DBSA's development impact plays a tangible role in easing these burdens. We will continue to capitalise on the Bank's position to expand its developmental impact, as well as catalyse investments by the private sector into public infrastructure.

## GRATITUDE

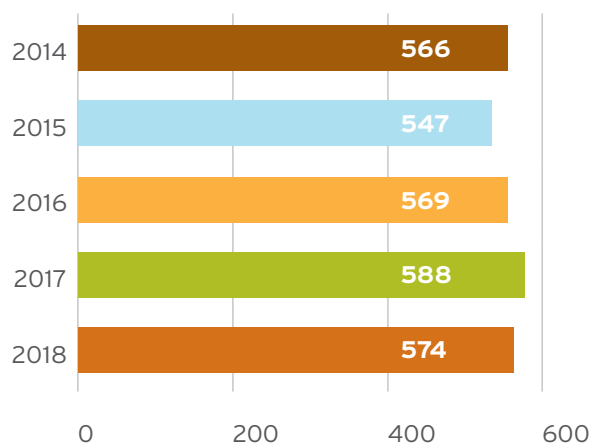
I would like to thank our Board for its oversight responsibilities and the invaluable contribution in formulating the DBSA's new strategic plan, and senior managers for their commitment to and enthusiasm in implementing our new operating model. I commend all of our staff for their valuable contribution to our performance during the year, achieved while embracing significant changes in their work environment.



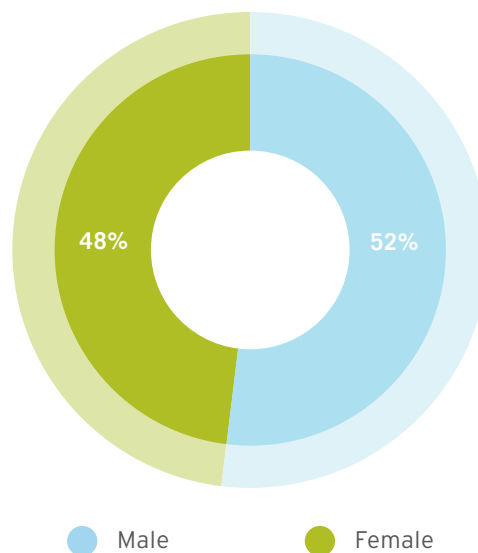
**Patrick Dlamini**  
**Chief Executive Officer**

## EMPLOYMENT STATISTICS 31 March 2018

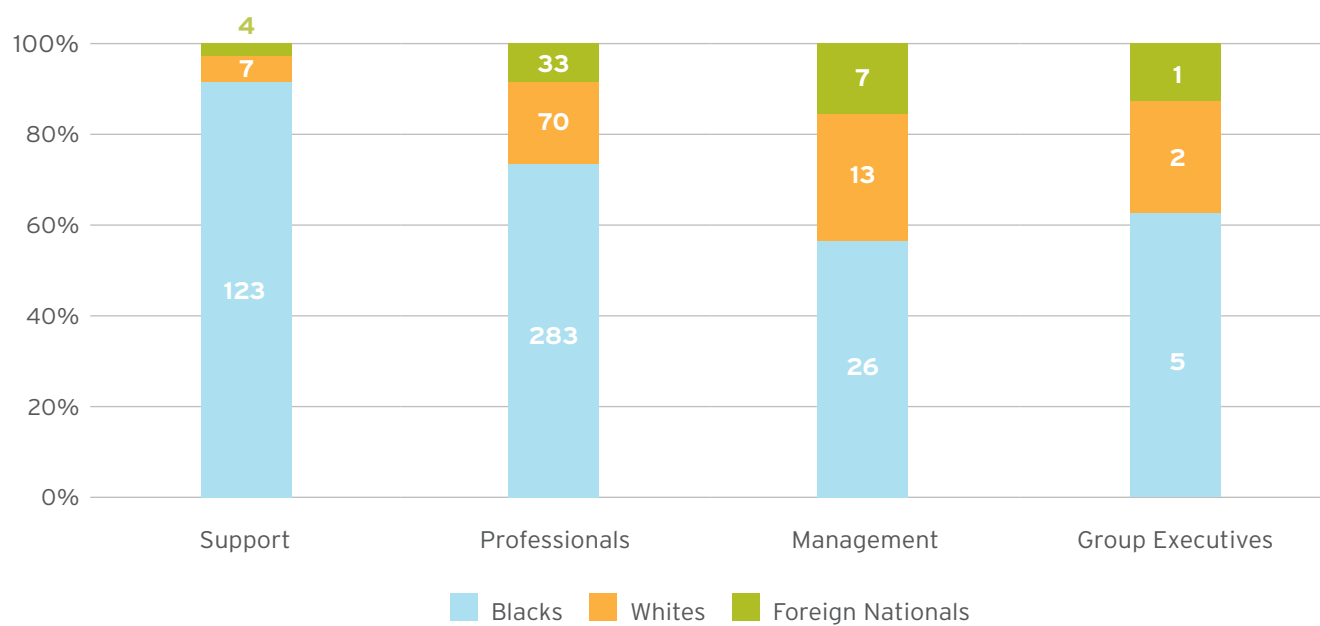
Employment statistics (Headcount)



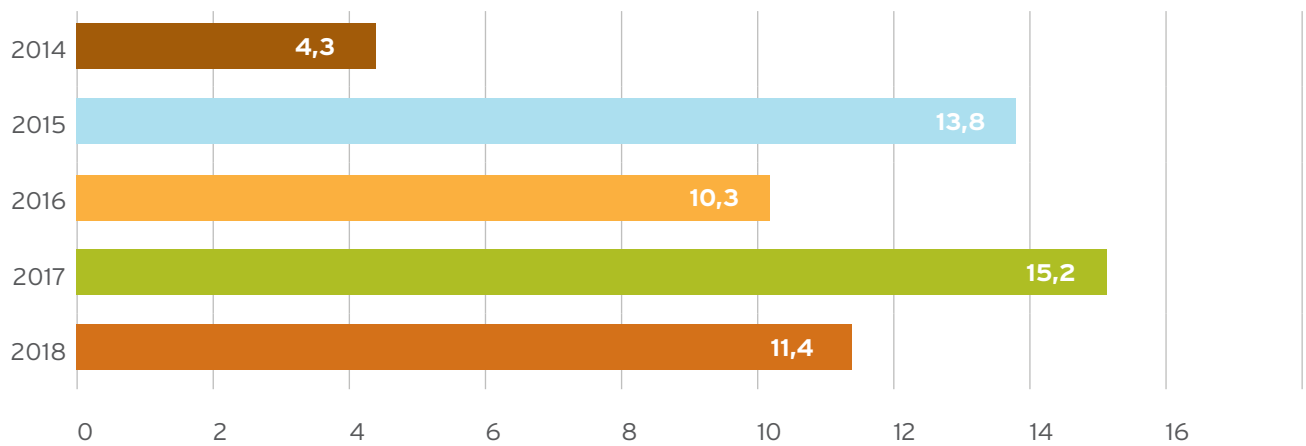
Employment diversity (gender %)



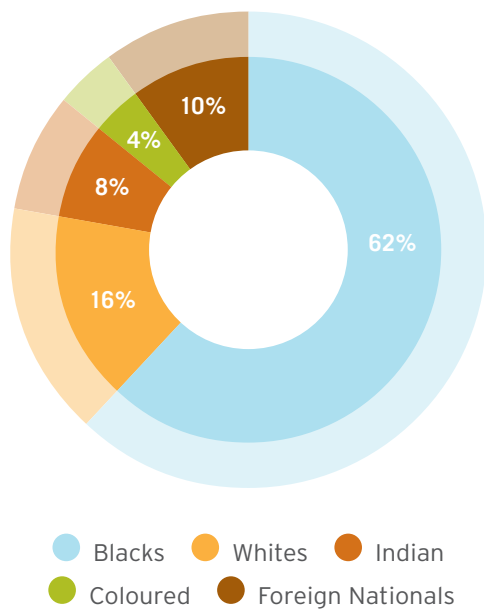
Employment Statistics per job category



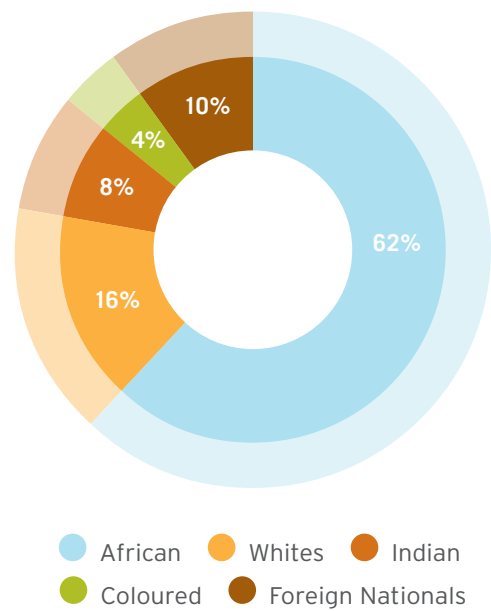
### Training spend (R million)



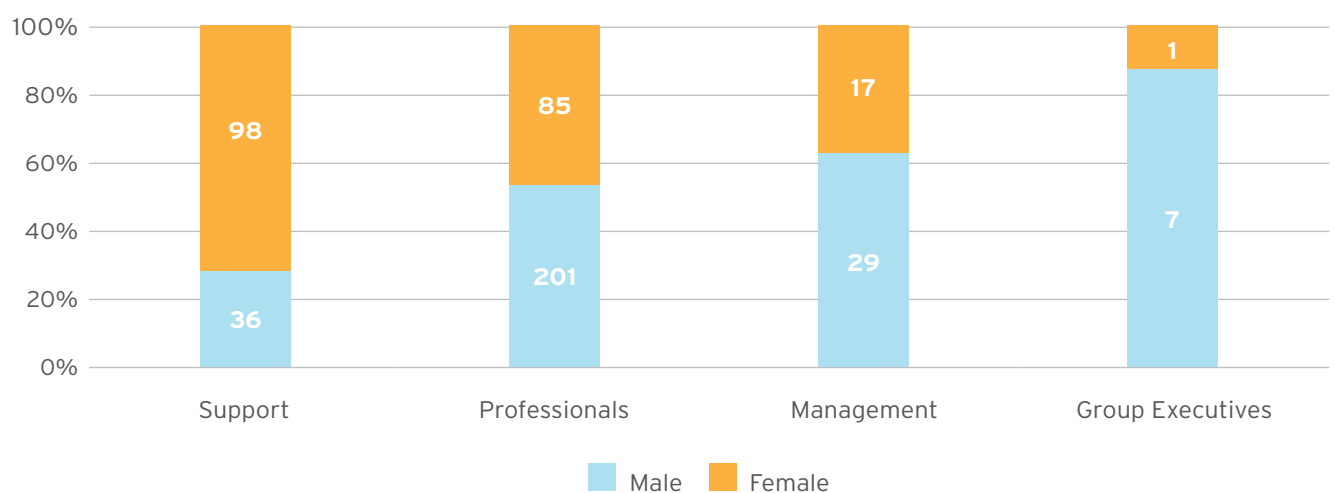
### Employment diversity per job category



### Training spend by ethnic group



### Gender diversity per job category





# GROUP EXECUTIVES



**Ms Boitumelo Mosako (40)**  
Chief Financial Officer

DBSA Group Executive as of 1 April 2018 and Executive Director as of 1 June 2018

**Academic qualifications:**

- Chartered Accountant (SA)
- Higher Diploma in Auditing, Postgraduate Diploma in Accounting, University of Cape Town
- BCom Accounting, University of Cape Town

**Directorships:**

None

☰ See Chief Financial Officer's Report on pages 88 to 95.



**Mr Mohammed Bhabha (59)**  
Acting Group Executive:  
Infrastructure Delivery

DBSA staff member as of 1 October 2006

**Academic qualifications:**

- Advanced Executive Programme, University of Western Cape
- Admitted as Attorney at Law
- Finance for Non-Financial Managers (Certificate)
- BProc (UNISA)

**Directorships:**

- Alexcor Rehabilitation Trust: Non-executive Director
- In Transformation Initiative
- Yammin Hammond and Partners
- MOE Consulting (PTY) LTD

☰ For portfolio performance and outlook, see **Infrastructure Delivery** on pages 106 to 107.



**Mr Paul Currie (56)**  
Chief Investment Officer and Acting  
Group Executive: Human Capital

DBSA staff member and Group Executive as of 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)
- Postgraduate Diploma in Accountancy, University of Port Elizabeth
- BCom (Accounting), University of Port Elizabeth
- BSc (Physiology), University of Cape Town

**Directorships:**

- Investment Committee member: Old Mutual Housing Impact Fund (DBSA nominee)

☰ See Chief Investment Officer's Report on pages 98 to 99.



**Mr Ernest Dietrich (55)**  
Group Executive: Treasury

DBSA staff member as from  
2 January 2001  
Group Executive as of 1 January 2016

**Academic qualifications:**

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

**Directorships:**

None

☰ See Treasury Report on page 97.



**Mr Michael Hillary (48)**  
Group Executive: Financing  
Operations

DBSA staff member and Group  
Executive as of 1 October 2012

**Academic qualifications:**

- MBA, University of Witwatersrand.
- BCom Hons, University of Witwatersrand
- CAIB (SA), Institute of Bankers

**Directorships:**

None



**Mr Mpho Kubelo (40)**  
Group Chief Risk Officer

DBSA Staff member as of 1 November  
2007

Group Executive as of 6 October 2017

**Academic qualifications:**

- Executive Development Programme, GIBS
- MBA, University of Witwatersrand: Business School
- CFA Charter
- Postgraduate Diploma in Business Administration, University of KwaZulu-Natal
- BSC Electrical Engineering, University of Witwatersrand

**Directorships:**

- Development Bank of Zambia (Non-executive)
- Trustee: Pan Infrastructure Development Fund: (DBSA nominee)

# GROUP EXECUTIVES

continued



**Ms Zodwa Mbele (46)**  
Group Executive: Transacting

DBSA staff member as of 9 October 2016.  
Acting Chief Financial Officer  
2 January 2017 - 31 March 2018.  
Group Executive as of 1 September 2017

#### Academic qualifications:

- Advanced Management Programme, Harvard Business School
- Executive Development Programme, University of Stellenbosch Business School
- Management Advanced Programme, Wits Business School
- Certificate in International Treasury Management ACT (UK)
- Chartered Accountant (SA)
- Bachelor of Accounting Science Honours Unisa Baccalaureus Paedonomia University of Zululand

#### Directorships:

- Stanlib Infrastructure Fund: Credit Committee
- Sentech SOC Limited: Non-executive Director
- Vergenoeg Mining (Pty) Ltd: Non-executive Director
- Merchant West (Pty) Ltd: Non-executive Director

☰ For portfolio performance and outlook, see **Infrastructure Financing** on page 103.



**Mr Mohale Rakgate (44)**  
Group Executive: Project Preparation

DBSA staff member of 1 December 2007  
Group Executive as of 1 September 2017

#### Academic qualifications:

- Advanced Management Programme, Harvard Business School
- Postgraduate Certificate in International Management, University of London
- BCom (Accounting), University of Limpopo

#### Directorships:

- Investment Committee Member: Green Fund (DBSA nominee)
- Director: Proparco (DBSA nominee)

☰ For portfolio performance and outlook, see **Project Preparations** on pages 100 to 101..



**Mr Mohan Vivekanandan (44)**  
Group Executive: Coverage

DBSA staff member and Group Executive as of 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), Northwestern University, USA
- Project and Infrastructure Finance Programme, London Business School

#### Directorships:

Director One and Only Cape Town (DBSA Nominee)

☰ For portfolio performance and outlook, see **Infrastructure Financing** on page 102.

## FIVE-YEAR KEY FINANCIAL INDICATORS

		2018	2017	2016	2015	2014
<b>Financial position</b>						
Cash and cash equivalents	R million	3 742	2 299	2 085	3 902	4 136
Financial market assets	R million	2 661	1 915	2 429	3 047	3 470
Investment in development activities <sup>1</sup>	R million	81 873	78 768	77 064	63 123	55 459
Other assets	R million	936	671	768	872	761
<b>Total assets</b>	R million	<b>89 212</b>	<b>83 653</b>	<b>82 346</b>	<b>70 944</b>	<b>63 826</b>
Financial market liabilities <sup>2</sup>	R million	53 573	50 613	51 791	46 163	42 887
Other liabilities	R million	1 318	1 009	1 290	1 098	1 038
<b>Total liabilities</b>	R million	<b>54 891</b>	<b>51 622</b>	<b>53 081</b>	<b>47 261</b>	<b>43 925</b>
<b>Total equity</b>	R million	<b>34 321</b>	<b>32 031</b>	<b>29 265</b>	<b>23 683</b>	<b>19 901</b>
<b>Financial performance</b>						
Interest on development loans	R million	7 192	6 911	6 052	4 806	4 205
Interest on investments	R million	559	462	489	521	372
<b>Total interest received</b>	R million	<b>7 751</b>	<b>7 373</b>	<b>6 541</b>	<b>5 327</b>	<b>4 576</b>
Interest expense	R million	3 905	3 704	3 355	3 003	2 488
<b>Net interest income</b>	R million	<b>3 845</b>	<b>3 669</b>	<b>3 186</b>	<b>2 324</b>	<b>2 088</b>
Operating income <sup>3</sup>	R million	4 278	4 722	3 596	2 697	2 667
Operating expense <sup>4</sup>	R million	906	837	975	886	758
Sustainable earnings/(loss) <sup>5</sup>	R million	2 767	3 564	1 385	805	359
<b>Profit/(loss) for the year</b>	R million	<b>2 283</b>	<b>2 821</b>	<b>2 577</b>	<b>1 214</b>	<b>787</b>
<b>Financial ratios</b>						
Total capital and reserves to development loans	%	45.7	44.8	42.1	41.8	39.7
Long-term debt/equity	%	156.2	158.1	177.8	195.7	216.3
Debt/equity (including callable capital) <sup>6</sup>	%	98.7	97.4	152.7	162.6	174.3
Cash and cash equivalents to total assets	%	4.2	2.7	2.5	5.5	6.5
Total capital and reserves to assets	%	38.5	38.3	35.5	33.4	31.2
Financial market liabilities to investment in development activities	%	65.4	64.3	67.2	73.1	77.3
Non-performing book debt as a % of gross book debt	%	4.5	3.3	3.7	5.1	5.8
Return/(loss) on average total equity	%	6.9	9.2	9.7	5.7	4.3
Return/(loss) on average total assets	%	2.6	3.4	3.4	1.8	1.3
Interest cover	times	2.0	2.0	1.9	1.8	1.8
Net interest income margin <sup>7</sup>	%	4.9	4.9	4.6	3.8	4.0
Cost-to-income ratio	%	21.7	18.8	28.7	34.4	28.4

<sup>1</sup> Development activities include development loans, development bonds and equity investments

<sup>2</sup> 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

<sup>3</sup> Operating income excludes net foreign exchange gain/(loss), net gain/(loss) from financial assets and liabilities and impairments

<sup>4</sup> Operating expense comprises personnel expenses, general and administration expenses and depreciation

<sup>5</sup> Sustainable earnings/(loss): net profit/(loss) before grants and adjustments to foreign exchange and financial assets and liabilities, but including revaluations on equity investments.

<sup>6</sup> Measure includes R20 billion (2017: R20 billion) callable capital

<sup>7</sup> This ratio is calculated as net interest income (interest income less interest expense) as a percent of interest-bearing assets.



# CHIEF FINANCIAL OFFICER'S REPORT

The DBSA financial results for the year reflect the continued slow economic growth in South Africa. While growth was recorded in certain sectors in the economy, raising GDP growth above expectations, the sectors in which the Bank operates have yet to benefit. The sluggish infrastructure development environment is evident in the impact on disbursements, which, at R12.2 billion, were R7.8 billion below the R20 billion target. In addition, the lending landscape was more challenging as a result of the sovereign downgrades and the general uncertainty surrounding SOEs. However, the Bank's strong capital position endures, supported by robust cash generation as a result of the strength of the DBSA's loan book.

## FINANCIAL AND OPERATIONAL PERFORMANCE

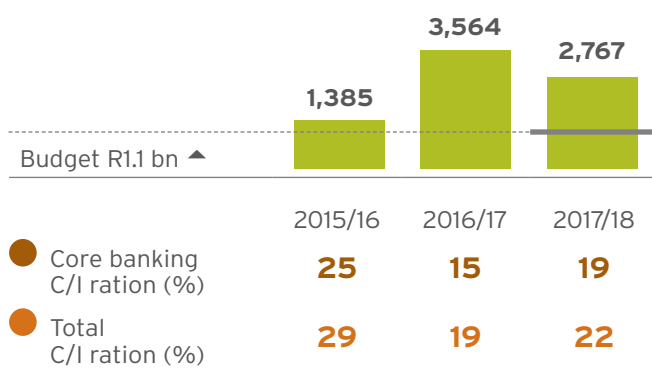
### STATEMENT OF FINANCIAL PERFORMANCE

FOR THE YEAR ENDED 31 MARCH 2018

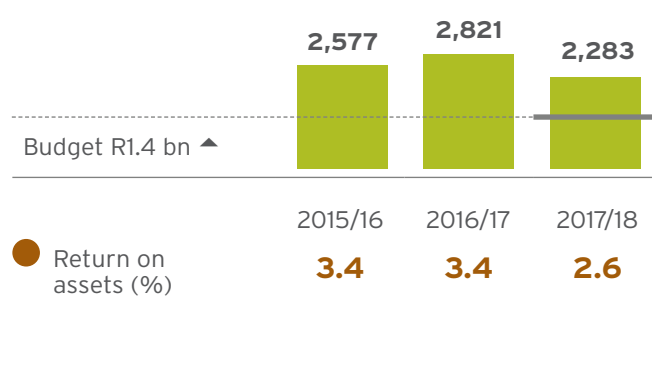
in thousands of rand	2018	% change	2017
Interest income	7 750 606	5%	7 373 094
Interest expense	(3 905 259)	5%	(3 703 760)
<b>Net interest income</b>	<b>3 845 347</b>	<b>5%</b>	<b>3 669 334</b>
Net fee income	190 196	-40%	318 266
Other operating income	242 540	-67%	734 090
<b>Non-interest revenue</b>	<b>432 736</b>	<b>-59%</b>	<b>1 052 356</b>
Net revaluation of equity investments - unrealised	50 835	-38%	81 462
<b>Operating income</b>	<b>4 328 918</b>	<b>-9%</b>	<b>4 803 152</b>
Project preparation	(7 094)	-71%	(24 453)
Development expenditure	(15 154)	-44%	(27 181)
Impairment loss on financial assets	(623 178)	84%	(339 449)
Personnel expenses	(702 880)	16%	(603 608)
Other expenses	(177 601)	-12%	(202 180)
Depreciation and amortisation	(25 871)	-17%	(31 249)
Grants	(9 766)	-9%	(10 718)
<b>Sustainable profit</b>	<b>2 767 374</b>	<b>-22%</b>	<b>3 564 315</b>
Net foreign exchange gains	(302 057)	-51%	(618 649)
Net revaluation of financial instruments	(182 440)	46%	(124 816)
<b>Profit from operations</b>	<b>2 282 877</b>	<b>-19%</b>	<b>2 820 849</b>
NII as a % of interest income	49.6%		49.8%
Cost-to-income ratio (%)	21.7%		18.8%
Return on average equity (%)	6.9%		9.2%
Return on average assets (%)	2.6%		3.4%

The DBSA achieved sustainable earnings and net profit ahead of targets, although there was a drop in sustainable earnings to R2.8 billion (2017: R3.6 billion) and net profit to R2.3 billion (2017: R2.8 billion).

### 1. Sustainable earnings (R'million)



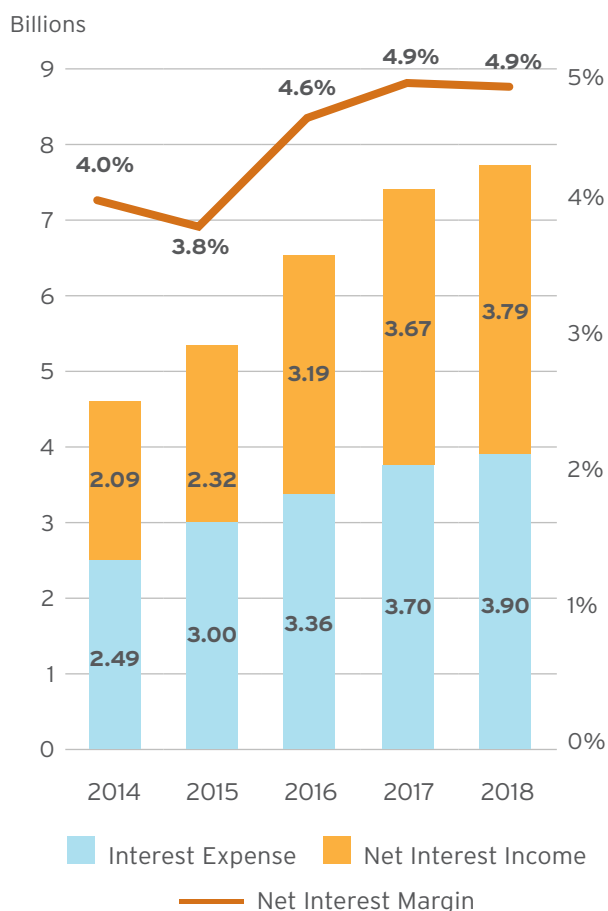
### 2. Net Profit (R'million)



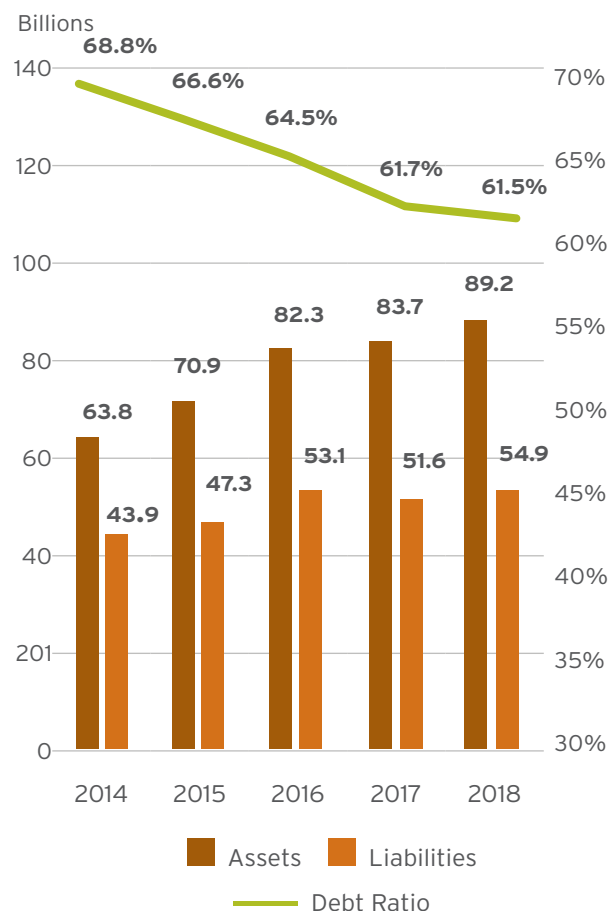
## NET INTEREST INCOME

Net interest margin has been on an upward trajectory over the past five years, from 4.0% in 2014 to 4.9% in 2018. This improvement was on the back of the improvement of the DBSA's debt ratio from 68.8% in 2014 down to 61.5% in 2018. Net interest income for the year was R3.8 million (2017: R3.7 million). Decreases in the South African interest rate during the year, by 25bps in July 2017 and another 25bps in March 2018, had an adverse impact on net interest income.

### Net interest Margin on interest bearing assets



### Debt Ratio



## NON-INTEREST REVENUE

Non-interest revenue amounted to R433 million compared to R1.1 billion in the prior year. The decrease was due mainly to the once-off equity gains realised of R635 million in the prior year.

## EXPENDITURE

The DBSA continues to focus on cost-containment, managing its cost-to-income ratio within acceptable levels of 21.7% compared to the limit of 35%. This was a slight increase compared to prior year's 18.8%, due mainly to once-off equity-realised gains received in prior year. Operating expenses increased by 8% to R940 million (2017: R837 million), but this was within budget amount.

## IMPAIRMENTS

Impairments for the year increased from R339 million in 2017 to R623 million in 2018, mainly due to the movement of loans between performing and non-performing and new disbursements.

## FOREIGN EXCHANGE

The rand experienced tremendous volatility during the financial period, moving from R13.42/US\$ on 31 March 2017 to R11.83/US\$ on 31 March 2018. This resulted in the DBSA recording foreign exchange revaluation losses of R302 million (2017: R619 million) driven by dollar asset net open position. The Bank started the year at a net open position of US\$396 million, which was reduced to US\$21 million in March 2018, constrained by a zero cost collar strategy implemented to curb foreign exchange losses.



## BALANCE SHEET STRENGTHENING

### DEVELOPMENT LOANS AND BONDS

The DBSA's balance sheet grew by 7% to R89 billion and the debt/equity ratio remained at a prudent level at 156.2%. The gross development loan book increased by 6% (2017: 3%) to R79.9 billion (2017: R75.7 billion) on the back of R11.9 billion (2017: R12.1 billion) disbursements, R7.3 billion (2017: R7.0 billion) in interest capitalised, R2.0 billion (2017: R1.7 billion) in foreign exchange adjustments and R13.4 billion (2017: R15.2 billion) in repayments. The top 10 loan disbursements for the year accounted for 93% (2017: 55%) of the total disbursements.

Development bonds were flat at R1.3 billion (2017: 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 continue to improve and a significant part is rated as

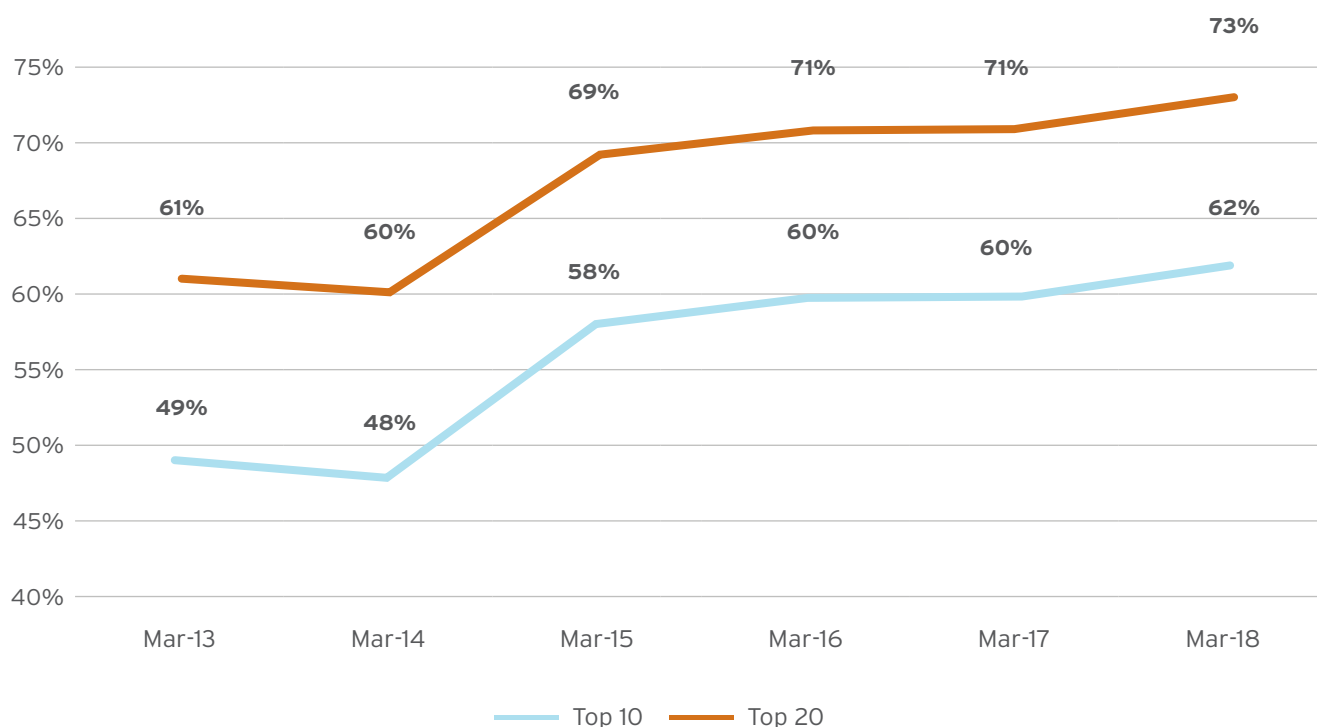
medium risk. In line with the credit review process, the recoverability of the loan book is assessed regularly. Based on the detailed assessment conducted, the non-performing development loan book increased to R3.6 billion (2017: R2.5 billion). At 4.5% (2017: 3.3%), the value of NPLs as a percentage of the gross development loan book is within an acceptable level of 6%. The impairment provision increased to R4.8 billion from R4.2 billion in line with the deterioration in the general macroeconomic environment, as reflected on before.

Provisions against NPLs (specific impairments) increased from R1.8 billion to R2.4 billion and the NPL coverage ratio decreased from 72.5% to 67.4%. 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.

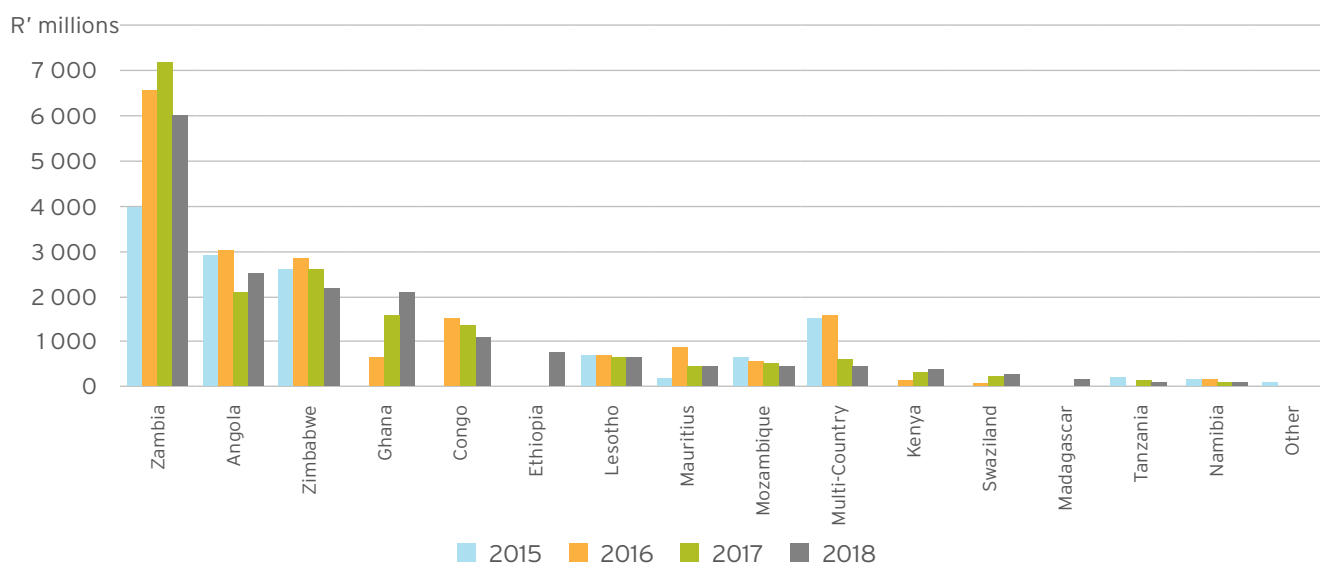
Provisions against the performing book (portfolio impairments) increased marginally, from R2.36 billion (3.2% of the performing book) to R2.42 billion (3.1% of the performing book), attributable mainly to the growth in the loan book.

As detailed in the following graph, the top 10 and top 20 exposures comprised 62% (2017: 60%) and 73% (2017: 71%) of the total loan book respectively.

Top 10 and top 20 clients as % of total book

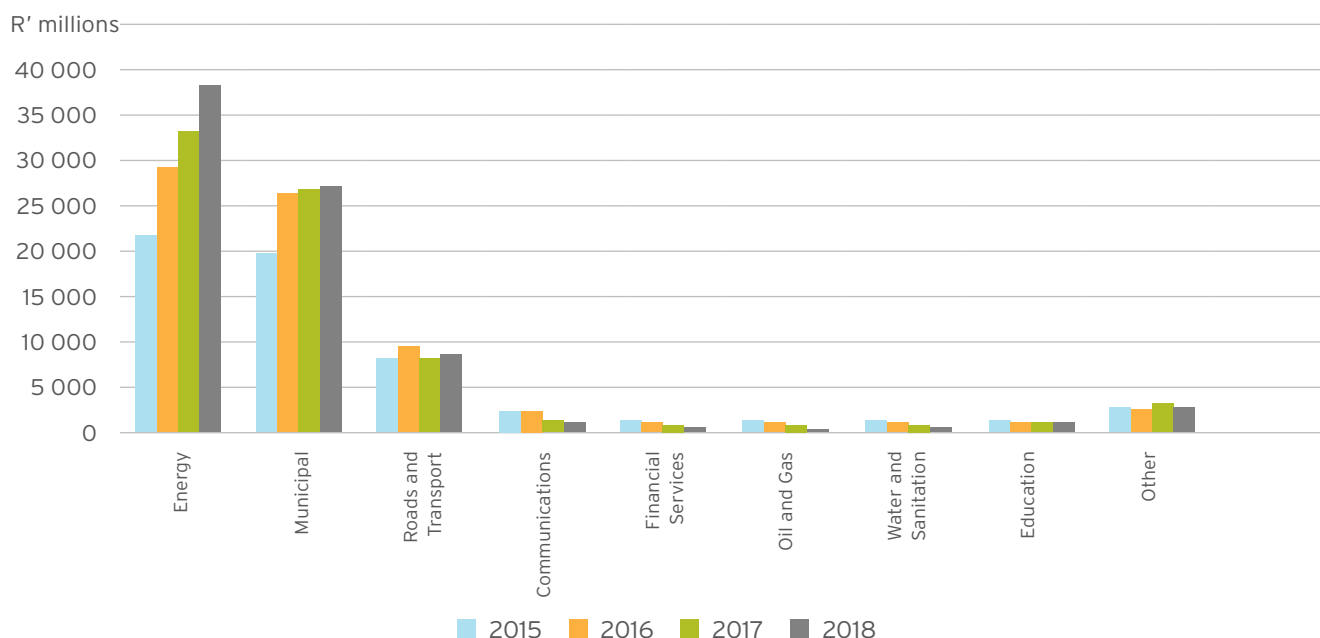


### Country exposures (excluding South Africa)



The Bank's exposure to Zambia decreased to R5.9 billion (2017: R7.1 billion). However, the country exposure remains the highest country exposure outside of South Africa. Angola, with R2.5 billion (2017: R2.1 billion), and Zimbabwe, with R2.2 billion (2017: R2.6 billion), are the countries to which the Bank had the second and third highest country exposure. Most of the other country exposures remained fairly consistent over the year, with new country exposure in Ethiopia and Madagascar.

### Exposures by sector



The DBSA's exposure to the energy sector (excluding municipalities) at year-end was R38.2 billion (2017: R33.4 billion), representing 48% (2017: 44%) of the total portfolio. Exposure to the roads and transport sector increased to R8.7 billion (2017: R8.1 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 R27.0 billion to R27.2 billion.



## STATEMENT OF FINANCIAL POSITION

AS AT 31 MARCH 2018

in thousands of rand	2018	% change	2017
<b>ASSETS</b>			
Cash and cash equivalents	3 741 853	63%	2 299 247
Other receivables	399 621	228%	121 982
Investment securities	1 420 920	33%	1 069 085
Derivative assets held for risk management	1 240 445	47%	846 141
Post-retirement medical benefits investment	45 446	0%	45 251
Equity investments	5 535 351	-7%	5 972 509
Development bonds	1 290 361	0%	1 290 319
Development loans	75 047 479	5%	71 505 178
Property and equipment	398 760	-4%	415 409
Intangible assets	91 710	4%	87 958
<b>Total Assets</b>	<b>89 211 946</b>	<b>7%</b>	<b>83 653 079</b>
<b>LIABILITIES</b>			
Other payables	1 204 264	44%	838 591
Provisions	66 640	-47%	126 630
Liability for funeral benefits	2 152	-33%	3 226
Liability for post-retirement medical benefit	44 604	10%	40 712
Funding debt securities	39 836 758	9%	36 454 261
Funding line of credit	13 677 213	-2%	14 015 426
Derivative liabilities held risk management	59 240	-59%	142 857
<b>Total liabilities</b>	<b>54 890 871</b>	<b>6%</b>	<b>51 621 703</b>
<b>EQUITY</b>			
Share capital	200 000	0%	200 000
Retained earnings	19 472 969	11%	17 514 577
Permanent government funding	11 692 344	0%	11 692 344
Revaluation reserve on land and buildings	183 809	-7%	198 322
Hedging reserve	151 883	7%	141 680
Reserve for general loan risk	2 611 976	14%	2 287 491
Fair value reserve	8 094	-366%	(3 038)
<b>Total equity</b>	<b>34 321 075</b>	<b>7%</b>	<b>32 031 376</b>
<b>Total liabilities and equity</b>	<b>89 211 946</b>	<b>7%</b>	<b>83 653 079</b>

## EQUITY INVESTMENTS

Equity investments decreased by 7% (2017: 5%) to R5.5 billion (2017: R6.0 billion). The decrease of R437 million can be attributed to R708 million repayments and R241 million adverse foreign exchange revaluations. This was, however, offset by disbursements of R286 million and favourable fair-value adjustments of R226 million. The DBSA continues to monitor the equity investments portfolio closely to ensure that losses emanating from the decline in the value of the investments are recognised as soon as they are detected.

## STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 MARCH 2018

in thousands of rand	2018	% change	2017
Net (loss)/profit for non-cash items	134 195		459 125
Interest received	7 498 264		6 864 688
Interest paid	(3 545 470)		(3 446 294)
Net (decrease)/increase in working capital	(47 523)		(110 897)
<b>Net cash generated by operating activities</b>	<b>4 039 466</b>	<b>7</b>	<b>3 766 622</b>
Development loan disbursements	(11 922 527)		(12 103 967)
Development loan principal repayments	5 981 190		8 572 092
Net increase in equity investments	398 151		732 770
Grants paid, development expenditure and project preparation	(16 860)		(35 171)
Net repayments/(advances) on national mandates	(46 016)		2 821
<b>Net cash utilised in development activities</b>	<b>(5 606 062)</b>	<b>98</b>	<b>(2 831 455)</b>
Net cash flows on property, plant and equipment	(11 669)		(3 134)
Purchase of intangible assets	(15 818)		(21 493)
Movement in financial market assets	(416 692)		(832 878)
<b>Net cash utilised in investing activities</b>	<b>(444 179)</b>	<b>48</b>	<b>(857 505)</b>
Financial market liabilities repaid	(15 504 634)		(27 050 711)
Financial market liabilities raised	19 048 287		27 206 684
<b>Net cash generated from financing activities</b>	<b>3 543 653</b>	<b>2 172</b>	<b>155 973</b>
Net decrease in cash and cash equivalents	1 532 878		233 635
Effect of exchange rate movement on cash balances	(90 272)		(18 953)
<b>Movement in cash and cash equivalents</b>	<b>1 442 606</b>		<b>214 683</b>
Cash and cash equivalents at the beginning of the year	2 299 247		2 084 565
<b>Cash and cash equivalents at the end of the year</b>	<b>3 741 853</b>	<b>63</b>	<b>2 299 246</b>

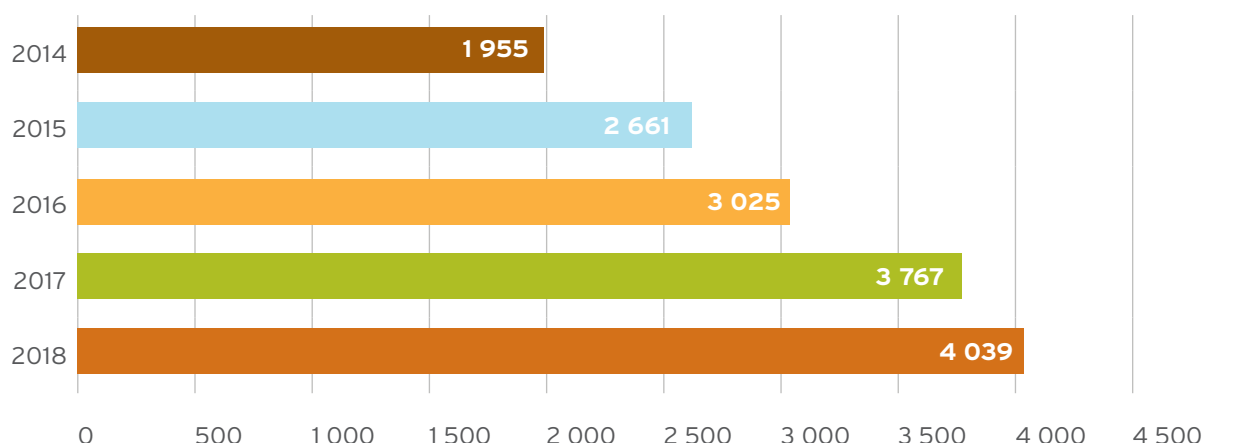
## CASH GENERATED FROM OPERATING ACTIVITIES

Cash generated from operations increased by 7% (2017: 25%) year-on-year to R4 billion (2017: R3.8 billion). The trend is due to implementation of the financial strategy over the years.

The bank closed the year with a cash position of R3.7 billion (2017: R2.3 billion), the major cash inflows being development loan repayments of R5.9 billion (2017: R8.6 billion); liabilities raised R19 billion (2017: R27 billion) and interest received R7.5 billion (2017: R6.9 billion). Interest received represents 97% (2017: 94%) of interest income accrued.

Major cash outflows are development loan disbursements of R11.9 billion (2017: R12 billion); liabilities repaid of R15.5 billion (2017: R27 billion) and interest paid R3.5 billion (2017: R3.4 billion). The graph below depicts an improving trend year-on-year in the cash generated from operations.

### Cash generated by operating activities



## FUNDING LIABILITIES

Funding liabilities increased by R3.0 billion (2017: decreased by R 1.2 billion) during the financial year, to R53.5 billion (2017: R50.5 billion), compared to a R3.1 billion increase in development assets. The difference was covered mainly by operational cash flows. Debt securities amounting to R6.5 billion (2017: R6.3 billion) are measured at fair value, whilst the remainder are measured at amortised cost.

## 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 IFRS 9 from 1 April 2018.

## EVENTS AFTER THE REPORTING PERIOD

No significant matters post year-end were identified. Refer to note 53 of the annual financial statements.

## OUTLOOK

The DBSA remains cautiously 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.

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 and liquidity management.

**Boitumelo Mosako**  
Chief Financial Officer



# TREASURY AND BALANCE SHEET MANAGEMENT OVERVIEW

## FUNDING

The Bank maintains a flexible funding strategy premised on balancing the dual requirements of optimising the cost of funding whilst containing refinancing risk within acceptable boundaries. At the same time, continuous efforts are made to diversify funding sources. Over the course of the year, despite bouts of excessive volatility and uncertainty fed by lingering concerns over further sovereign credit downgrades, market conditions continued to improve, allowing the Bank to raise new funding at increasingly favourable spreads. Gross debt issued during the financial year amounted to R19 billion.

Total outstanding listed debt issuance in the domestic market as at end March 2018 amounted to R39.8 billion, leaving further issuance headroom under the Bank's existing JSE listed Domestic Medium Term Note programme, of R40.2 billion.

## LIQUIDITY

Liquidity risk management in the DBSA is self-regulated through a set of policy parameters closely aligned with key Basel III based prescribes applicable to commercial banks, specifically the 30-day Liquidity Cover and Net Stable Funding ratios. Liquidity levels and ratios were maintained well within the Board approved risk limits, with liquid assets held primarily in the form of near cash instruments such as call deposits, money market fund investments, and liquid government bonds.

Total liquidity as at 31 March 2018 amounted to R5.2 billion (March 2017: R3.4 billion) well within all applicable policy limits and had committed available facilities to various commercial lenders totalling R3.1 billion.

## CAPITAL ADEQUACY

The Bank's capital adequacy is prescribed by the DBSA Regulations through the maximum allowed gearing limit of 2.5 times capital and reserves, including callable capital. With total callable capital of R20 billion and total assets amounting to R89 billion, minimum capital required as at 31 March 2018 amounted to R11.1 billion, this against actual capital of R34 billion.

## CREDIT RATINGS

During the course of the year Standard & Poor's in two separate rating actions downgraded the South African sovereign foreign currency issuer rating by an aggregate two notches, from BBB- (outlook negative) at the time of its last ratings action in December 2016, to BB (outlook stable) in its November 2017 review, whilst Moody's ultimately ended up confirming the sovereign at Baa3, with outlook moved from negative to stable.

The DBSA credit ratings are aligned with that of the sovereign. The Bank's credit ratings as at financial year end are summarised in the table below:

Agency	Issuer rating type	Short term	Long term	Outlook
<b>Moody's</b>	Foreign currency	Prime-3	Baa3	Stable
	National Scale	P-1.za	Aa1.za	Stable
<b>Standard &amp; Poor's</b>	Foreign currency	B	BB	Stable
	Local currency	B	BB+	Stable



# CHIEF INVESTMENT OFFICER'S REPORT

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## OUR APPROACH TO VALUE CREATION

Our growth strategy is supported by a newly implemented operating model, which aims to enrich and enhance the way we do business. DBSA has an abundance of capital resources - financial, intellectual, social, relationship as well as human capital. (See our business model on page 20). Our new operating model enables DBSA to maximise the efficiency of value creation from our resources, and capitalise on relationships with our array stakeholders, which have been strengthened over decades. Likewise, refocusing our business to encompass the entire value chain, rather than a narrow focus on funding and financing, plays to our competitive advantages.

Historically, the Bank was geographically separated as two business units - South Africa Financing and International Financing, each with dedicated frontline teams. While this worked well from certain perspectives, we believed there are competitive advantages, specifically relating to our role as a DFI, as the market environment changes, the bank had to be repurpose itself to adapt to the market dynamics. Our capital resources needed to be redeployed to augment the financial system in South Africa. In addition, the efficient application of internal human resources is core to the effective implementation of the mandate.

In the last couple of years, demand from the traditional customer base has slowed. To some extent, this is the intended natural progression of our developmental role in the financial markets. A DFI should be at the front end of developing financial markets, as was the case with our role in the development of the municipal markets. Now many of the first and second level municipalities have progressed to a point where they use commercial financial services. As a DFI we have achieved our goal and should be stepping back while preserving the stability of the borrowing base.

Africa has material service backlogs, with a myriad of social challenges. The DBSA, within its mandate, needs

to focus on solving some of these challenges. There is no shortage of needs - investment targets - and South Africa has healthy capital markets providing potential for local and international investors. However, there is a gap between the project requirements and the funding available. This is where DBSA can play a vital role. We also are ideally positioned to create a bridge between the public and the private sector.

As an organisation our role is to look for innovative financing solutions, which are associated with high quality technical solutions aligned to the National Development Plan and the United Nations Sustainable Development Goals.

To maximise the strengths of our business and taking advantage of inherent synergies we restructured the investment business of the Bank into three divisions reporting to a Chief Investment Officer:

- Project Preparation
- Transacting
- Coverage

The three core divisions are headed by a Group Executive and their functions are described in detail later in the report.

The primary purpose of the operating model review was the extraction of value chain synergies from the business functions, the most effective application of human resources and co-ordination between the investment components of the DBSA business. The intention is to improve client co-ordination and responsiveness, speed up the decision making processes and develop skilled and dedicated implementation teams.

The principle of the Coverage Division is to provide a single point of client contact and ownership allowing for a full offering of the DBSA product suite. In all cases, skills were placed to leverage inherent capabilities to enhance the effectiveness of the investment function.

The Cluster Executive remain positive that further efficiencies will be extracted going forward with strong synergies already becoming evident.

In addition to the above divisions, the Office of the Chief Investment Officer now also houses the Sector Specialists and the Research Unit. The rationale is to align these resources with the strategic and business intent of the DBSA.

Two years ago the DBSA embarked on an Innovation Initiative with three principle goals.

The first of these was to leverage the DBSA's partnerships and relationships, which has now been formalised with the creation of the Coverage Division.

The second goal was to leverage internal innovation within the organisation and embed it in the operating culture of the Bank. Approximately 20% of the staff were put through an innovation programme, which will ultimately result in the implementation of an innovation platform for ideas management and implementation. Further to this is the establishment of a "Disruptor Den" facility which will provide an environment for creative thinking and engagement in problem solving. It is anticipated that ultimately the use of this facility, which

should take two years to complete, will extend beyond the DBSA.

Thirdly, a Product Development Unit was established to examine ways of using the balance sheet more effectively find solutions for existing and future infrastructure challenges on the continent. The DBSA is firmly of the view that effective use of emerging 4th industrial revolution technologies provide a basis for new and innovative solutions to Africa's infrastructure demands. These are likely to be both conventional and new.

The DBSA is of the belief that the tactical reorganisation of its Investment operations will position it to enhance its contribution to the implementation of the National Development Plan as well as the United Nations Sustainable Development Goals.



# PROJECT PREPARATION

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The purpose of the Project Preparation Division is to grow the DBSA project pipeline and deliver sizeable projects with significant economic and developmental impact. Project Preparation provides financial, strategic and technical support to ensure that a greater number of projects reach financial closure. This alleviates the risk by identifying and eliminating key risks at the earliest possible stage. As a result, the risk of non-completion of projects is reduced, costs are better contained and delivery is timely.

## PROJECT PREPARATION DIVISION REACH

Major services:

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

Geographic footprint:

- South Africa
- SADC region
- Rest of Africa, excluding SADC - Rwanda, Kenya, Ethiopia, Ghana and Nigeria

Sectors:

- Core sectors - transport and logistics, energy, water and sanitation and ICT
- Secondary sectors, which are only in South Africa - social, education and health.

## HIGHLIGHTS

- R21.2 million planning support provided to under-resourced municipalities
- 13 infrastructure master plans completed for 13 supported municipalities
- The division has unlocked municipal funds of projects to the value of R540 million through planning support

- R15.3 billion worth of project preparation funded by third-party funders ahead of target
- R7.6 billion worth of prepared projects approved
- Strong project pipeline.

## CHALLENGES

- Delays in concluding agreements by stakeholders as a result of unprecedented challenges in large economic infrastructure projects
- Project delays in regional and local projects.

## LOOKING AHEAD

The key bottleneck to delivering on the infrastructure development of in Africa is the development and preparations of bankable projects. The division structure is set up to address this challenge through project preparation, planning, climate finance and programme development units. The division also supports infrastructure planning to municipalities to develop a project pipeline which attracts both private and public sector funding for sustainable development.

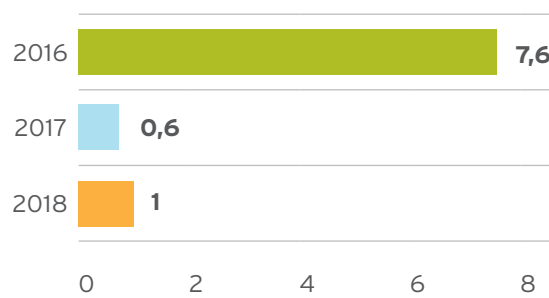
In the next year, the Climate Finance Unit will continue to focus on the three facilities that it manages namely the Green Fund, The Green Climate Fund (GCF) and the Global Environmental Facility (GEF). Projects in the pipeline, amongst others, include municipal waste treatment plants, electric mobility concept with the City of Johannesburg and the integrated cities program developed with eThekweni municipality.

The Programme Development Unit will continue to focus on managing third party funds, developing and programs and setting up project management offices. Currently the unit is managing the Infrastructure Investment Programme of South Africa (IIPSA), SADC Project Preparation and Development Fund (PPDF) and the AFD/DBSA Project Preparation and Feasibility Studies Fund (PPFS). Amongst the new programmes that will be developed in the new year is Project Management Office on behalf of the Department of Higher Education and Training as well as Access to Broadband Connectivity on behalf of the Department of Telecommunications and Postal services.

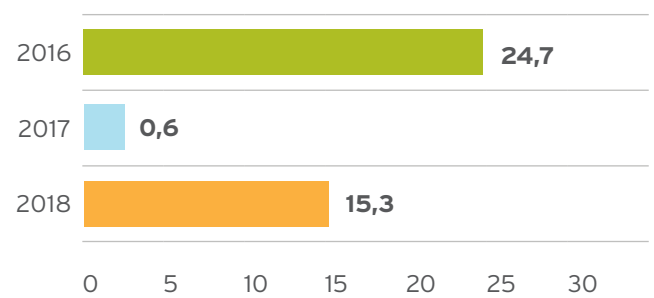
## KEY METRICS

Project Preparation Division

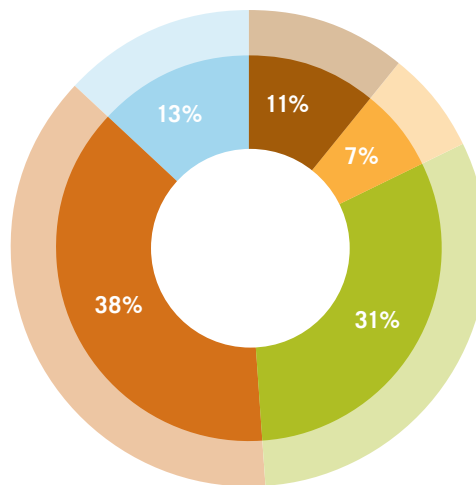
### Value of projects prepared and committed by DBSA (R'billion)



### Value of projects prepared but funded by other funders (R'billion)



### Preparation pipeline at year end (R'billion)



● South Africa ● Rest of Africa ● IIPSA ● PPDF ● PPFS

		2018	2017	2016
<b>Operational performance</b>				
Value of projects approved for funding by the DBSA	R billion	1.0	0.6	7.6
Value of projects unlocked for funding by third parties	R billion	15.3	0.6	24.7
Projects prepared for approval	R billion	7.6	-	-
<b>Financial performance</b>				
Operating income	R million	22	31	50
Net (loss)/profit	R million	(32)	(22)	16

# INFRASTRUCTURE FINANCING

The DBSA finances infrastructure projects for economic and social development in South Africa and the rest of the continent, targeting projects in the primary sectors of energy, water, transport and ICT. The DBSA directly and indirectly finances secondary sectors of education, health and housing. In addition, municipalities in South Africa

remain the key business focus, as they deliver essential services to the people and, as such, contribute to their wellbeing. To maximise effectiveness and efficiency in providing infrastructure financing, the Bank operates through two divisions: Coverage and Transacting.

## COVERAGE

Coverage has been established as part of the re-alignment of the Banks' operating model. This division serves to enhance the Banks' client-centric approach and creates a dynamic platform from which to deliver the Bank's developmental agenda.

Coverage serves as the single-point of contact to promote the full suite of services and expertise of DBSA. As the front-line of the Bank, it drives origination and project preparation by building strong relationships with its clients and all key stakeholders.

Coverage is strengthened by its arrangement into sectoral and geographical teams, with strong industry investment knowledge ensuring deep insight of its focus areas. These specialised sector teams continue to drive greater impact in delivering financial solutions for developmental infrastructure

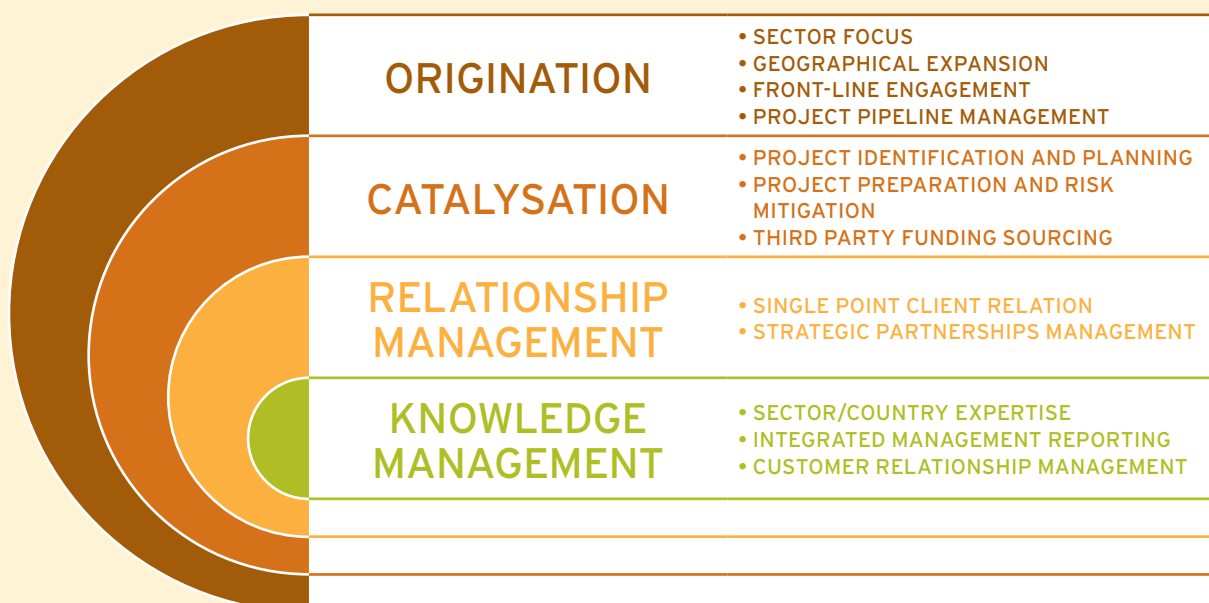
in Africa. A key role of Coverage includes the catalytic function which unlocks further value of potential infrastructure projects and seeks to deepen developmental impact. Coverage is likewise responsible for increasing third-party funding and continue to build a robust and diversified funding and project pipeline.

Focusses on the following sectors:

- Banks & Global DFI's
- Transport, Logistics & Bulk Water
- Health & Education
- Energy, Environment & ICT
- Metros & Intermediate Cities
- Local Government
- SADC

The Division is thus well-positioned to reinforce the DBSA mandate with the Coverage Value Proposition underscoring its value add.

### Coverage Value Proposition Graphic





## TRANSACTIONING

Transaction is responsible for converting bankable projects into the lending book of the Bank. This is achieved through performing due diligence, to ensure that the projects are not only financially viable, but have a robust socio-economic impact. The process of due diligence determines the kind of financial instrument that is appropriate in each project, which

may range from corporate debt or mezzanine finance to limited/non-recourse structures.

We take pride in the critical role the division plays in creating economic value and financial sustainability for the Bank. This is achieved through interest and fees generated on each deal, thus bolstering the size of the balance sheet. In pursuit of long-term sustainability, transactions are generated within acceptable levels of risk appetite and within the capital management framework.

## INFRASTRUCTURE FINANCING REACH

South Africa:

- Development of social and economic infrastructure in South Africa
- Projects in the primary sectors of energy, water, transport and information and communication technology (ICT)
- Discretionary funding of health
- Housing bulk infrastructure funded through local government
- Education sector, especially student accommodation

SADC region and rest of Africa:

- Energy, environmental and ICT
- Transport

Local government:

- Provide support for local government planning and execution of projects
- Assist with governance inefficiencies
- Equip municipalities to deal with increased demands for service delivery
- Revenue enhancement programmes

- Increasing competition in the highly resourced municipal sector
- Project delays in some large economic infrastructure projects
- Planned disbursements for social infrastructure materialise only after year-end
- Strong competition in SADC region
- Complexity of regional projects results in protracted finalisation processes
- Limited balance sheet financing opportunities in some sectors.

## LOOKING AHEAD

The DBSA has set in place various initiatives to facilitate the pipeline push for all sectors. These include concluding all pipeline projects already authorized by the Investment Committee, strengthening of the Investment Partnership through prioritizing regions and the development of annual engagement plans, which are already well underway.

Furthermore, the Bank seeks to ensure a proactive approach to knowledge management. As such, it has resolved to develop its "Go-to-market" strategy for each sector team. Priority sectors along with its accompanying working groups have already been identified, as it seeks to extend and strengthen DBSA's financial footprint across Africa.

In building DBSA's key relationships, round-tables are developed with key clients as a platform to understand and align to the needs of our clients. These will ensure well integrated and proactive sector teams further enhancing the catalytic agenda.

In order to achieve efficiency within the Bank, investments have recently been made in a newly launched customer relations management (CRM) system. In addition to strengthening stakeholder management, the CRM system seeks to ease administrative reporting burdens and synchronise knowledge management and reporting across the Bank. Finally, upskilling and increasing the financing business staff complement will add further impetus to these funding initiatives across the various sectors.

## HIGHLIGHTS

- R25.2 billion worth of third party funds catalysed against the annual target of R25.6 billion
- Infrastructure to the value of R540 million unlocked
- R6.4 billion approvals to municipalities
- R3.4 billion commitments to municipalities
- R2.4 billion to the rest of Africa
- R1.3 billion commitments to the rest of Africa

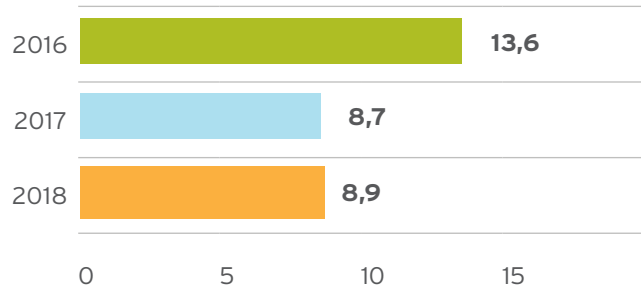
## CHALLENGES

- Secondary municipalities disbursed R238 million against a target of R1.1 billion
- Under-resourced municipalities' disbursements of R42 million (annual target: R200 million)
- Planned disbursement to some municipalities delayed as a result of internal municipal processes

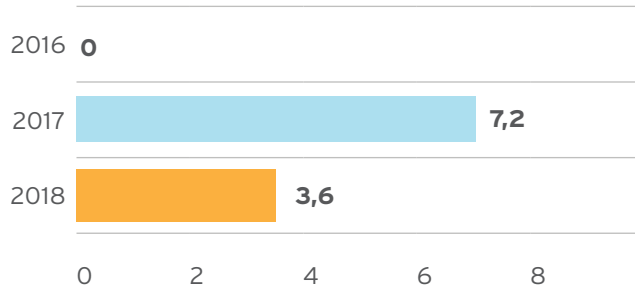
## KEY METRICS

### South Africa

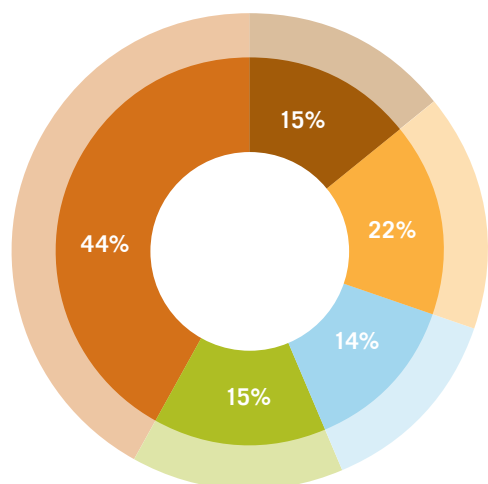
Total SA disbursements (R'billion)



Value of third-party funds catalysed in SA (R'billion)

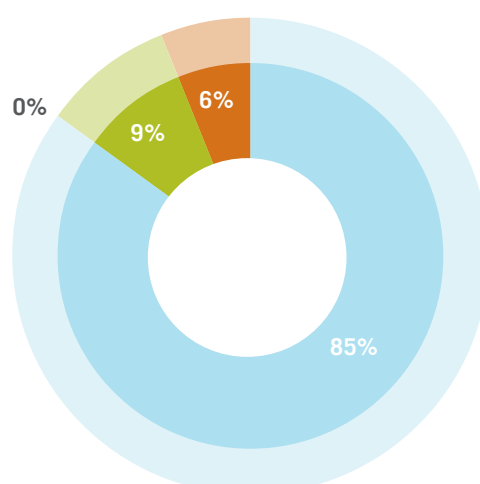


SA municipal disbursement per sector (%)



● Energy
 ● Transport
 ● Roads
 ● Water and sanitation
 ● Other

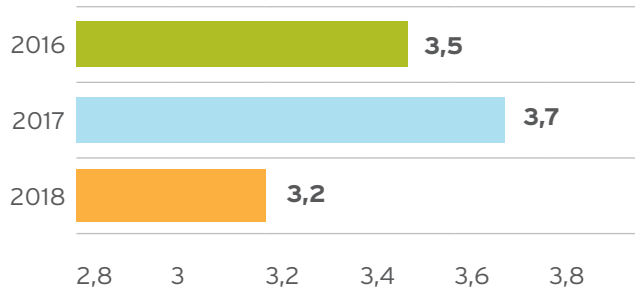
SA non-municipal disbursement per sector (%)



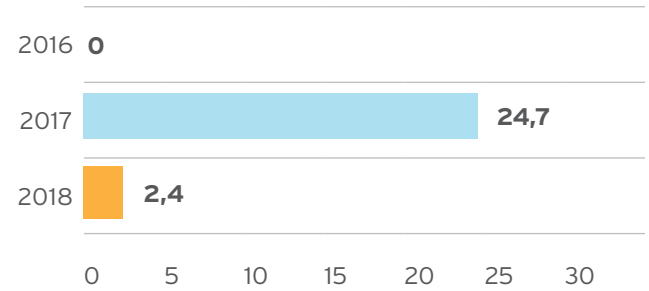
● Energy
 ● Communications
 ● Residential Facilities
 ● Other

## Rest of Africa

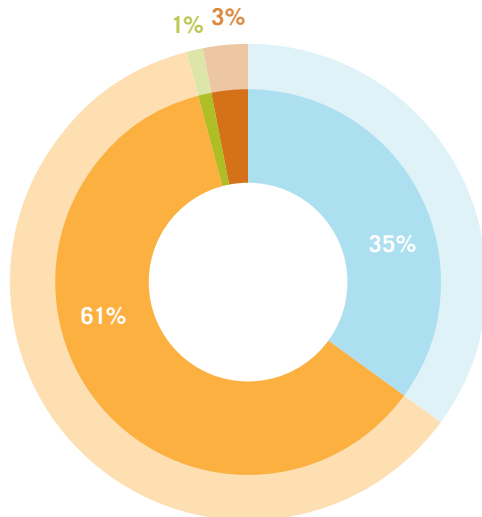
**Total disbursements for the rest of Africa (excl RSA) (R'billion)**



**Value of third-party funds catalysed in the rest of Africa (R'billion)**

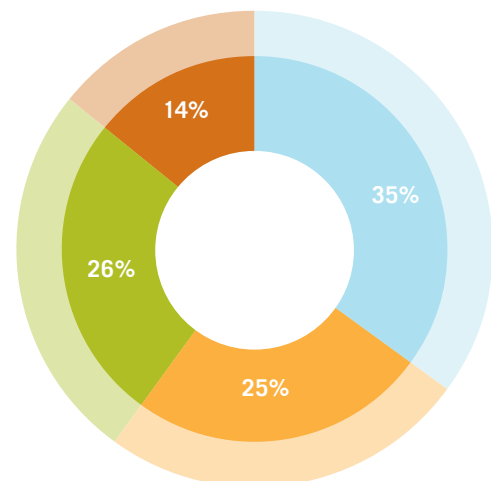


**Rest of Africa disbursements (excl RSA) per sector (%)**



● Energy
 ● Transport
 ● Roads
 ● Other

**Rest of Africa disbursements (excl RSA) per country (%)**



● Angola
 ● Ethiopia
 ● Ghana
 ● Other

		2018	2017	2016
<b>Operational performance</b>				
Approvals	R billion	14.5	13.4	15.1
Commitments	R billion	9.2	9.7	11.9
Disbursements	R billion	12.2	12.4	17.1
<b>Financial performance</b>				
Net interest income	R million	3 649	2 581	2 150
Net profit	R million	3 139	2 835	1 699
Total assets	R million	81 875	60 717	57 369
Net interest margin	%	4.9	4.9	4.6

# INFRASTRUCTURE DELIVERY DIVISION

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## OVERVIEW

The Infrastructure Delivery Division (IDD) of the DBSA was established in 2013 to support infrastructure projects across all spheres of government, with a particular view to accelerating planned infrastructure development and supporting job creation. IDD complements the capacity of the state to deliver social and economic infrastructure. The gradual growth of our project portfolio has been driven by the institutional gap in the market and the need to address backlogs, combined with our growing reputation as an efficient and effective implementing agent.

## INFRASTRUCTURE DEVELOPMENT DIVISION REACH

Major services:

- Implementing agent, including management, design, upgrades, refurbishments and maintenance of social infrastructure projects
- Programme management, including planning, design, budgeting, execution and maintenance of infrastructure projects and programmes
- Innovative infrastructure delivery learning solutions

Geographic footprint:

- South Africa
- SADC

Sectors:

- Education
- Health
- Human settlements
- Water and sanitation
- State infrastructure assets
- Roads and transport

## HIGHLIGHTS

- R4.3 billion worth of funds for programmes managed, to exceed the R3.9 billion target
- R3.3 billion infrastructure delivered on achieving R3.3 billion target
- 717 small, medium and micro enterprises (SMMEs) benefited from construction contracts to the value of R364 million
- 8 492 temporary job opportunities created
- 112 houses completed
- 8 new schools completed, with a further 21 schools under construction
- 114 schools and educational and accommodation facilities refurbished
- 25 health facilities refurbished
- 2 municipal waste depots completed
- One intermodal taxi rank completed.

## CHALLENGES

- Delays in executing certain projects due to non-performance by contractors or unplanned scope changes
- Budget constraints from line departments.

## LOOKING AHEAD

IDD will continue to serve the public sector (i.e. national, provincial and local government and their related entities) focusing on social sector projects in water, sanitation, human settlements, roads, health and education. In order to manage portfolio risk, IDD is seeking to diversify its client base through attracting more municipalities and increasing maintenance projects.

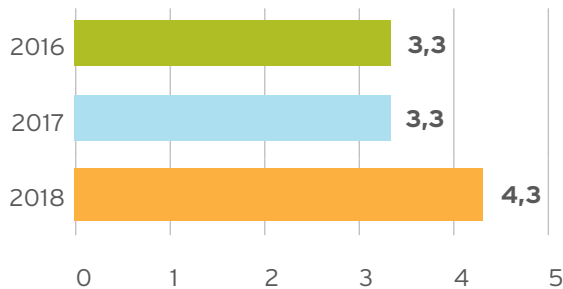
IDD will deepen development impact, prioritising employment creation and SMME development in support of governments' call for economic development in the country.

IDD will continuously improve our operational efficiencies through the value chain and service delivery model. Over the next three years, we will deliver projects valued at R13 billion and raise income of R718 million.

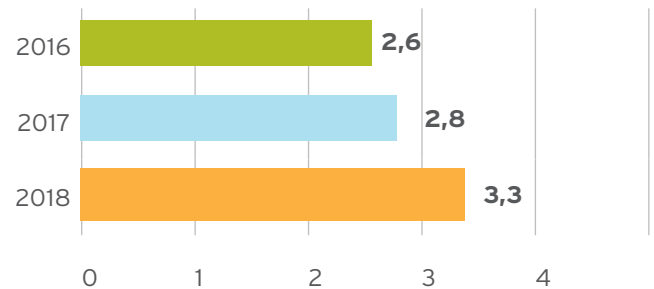
The division will increase the maintenance projects from a target of 45% to 50% of overall portfolio. In addition, there will be a drive to increase the number of municipalities supported by the division.

## KEY METRICS

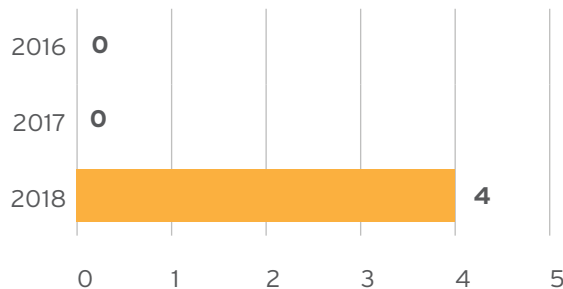
Value of funds under management (R'billion)



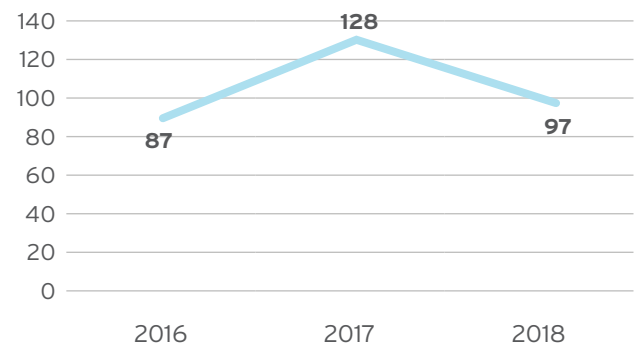
Value of infrastructure delivered (R'billion)



Value of funds catalysed by IDD (R'billion)



Cost-to-income ratio (%)



		2018	2017	2016
<b>Operational performance</b>				
Schools completed	Number	8	12	35
Houses completed	Number	112	198	1 382
Health facilities	Number	25	35	111
Jobs created	Number	8 492	9 077	6 464
SMMs benefited	Number	717	500	665
Value of spend allocated to SMMs	R million	364	449	710
<b>Financial performance</b>				
Operating income	R million	169	140	194
Net profit/loss	R million	5	(40)	27
Total assets	R million	137	107	123



## ACRONYMS AND ABBREVIATIONS

<b>Agenda 2063</b>	A vision and an action plan adopted by the heads of state and government of the African Union at their 24th Ordinary Assembly held in Addis Ababa in January 2015
<b>COMESA</b>	Common Market for Eastern and Southern Africa. A free trade area with twenty member states stretching from Libya to Swaziland.
<b>COP</b>	Conference of Parties. 'Parties' are countries that ratified the UN Framework Convention on Climate Change (UNFCCC) in 1992 at the Earth Summit in Rio de Janeiro
<b>CRM</b>	Customer Relations Management System
<b>DBSA</b>	Development Bank of Southern Africa
<b>DFI</b>	Development Finance Institution
<b>ECA</b>	Economic Commission for Africa
<b>ECOWAS</b>	Economic Community of West African States, a regional economic union of fifteen countries located in West Africa
<b>FDI</b>	Foreign Direct Investment
<b>GDFI</b>	Gross Domestic Fixed Investment
<b>IIPSA</b>	Infrastructure and Investment Programme for South Africa, a joint European Union and National Treasury initiative, administered by the DBSA that seeks to enhance sustainable economic growth and the delivery of key services affecting development in South Africa and in the SADC Region
<b>IMF</b>	International Monetary Fund
<b>ITMAP</b>	Integrated Transport Master Plan
<b>IUDF</b>	Integrated Urban Development Framework
<b>MOU</b>	Memorandum of understanding
<b>NATMAP</b>	The National Transport Master Plan
<b>PICC</b>	Presidential Infrastructure Coordinating Commission
<b>PSP</b>	Private Sector Participation - a framework used to govern the relationship between Schedule 2 state-owned companies (SOCs) and the private sector when jointly undertaking projects
<b>REIPPP</b>	Renewable Energy Independent Power Producer Programme
<b>RIDMP</b>	Regional Infrastructural Development Master Plan - a SADC initiative
<b>SADC</b>	Southern African Development Community
<b>SAPP</b>	The Southern African Power Pool - a cooperation of the national electricity companies in Southern Africa created in August 1995 in Kempton Park, South Africa, under the auspices of the Southern African Development Community (SADC)
<b>SDG</b>	Sustainable Development Goals - a set of 17 global developmental goals with 169 targets among them, spearheaded by the United Nations through a deliberative process with its 193 member states
<b>SIP 6</b>	Strategic Integrated Project 6
<b>SOC</b>	State-owned Company
<b>SOE</b>	State-owned Entity
<b>SSA</b>	Sub-Saharan Africa

## FINANCIAL DEFINITIONS

<b>Callable capital</b>	The authorised but unissued share capital of the DBSA
<b>Cost-to-income ratio</b>	Operating expenses, (including personnel, general and administration, depreciation and amortisation expenses), project preparation and development expenditure as a percentage of income from operations
<b>Income from operations</b>	Net interest income, net fee income and other operating income
<b>Interest cover</b>	Interest income divided by interest expense
<b>Long-term debt-to-equity ratio</b>	Total liabilities, excluding other payables, provisions and liabilities for funeral benefits, as a percentage of total equity
<b>Long-term debt-to-equity ratio (including callable capital)</b>	Total liabilities, excluding other payables, provisions and liabilities for funeral benefits as a percentage of total equity and callable capital
<b>Net interest margin</b>	Net interest income (interest income less interest expense) as a percentage of interest bearing assets
<b>Return on average assets</b>	Net profit or loss for the year expressed as a percentage of average total assets
<b>Return on average equity</b>	Net profit or loss for the year expressed as a percentage of average total equity
<b>Sustainable earnings</b>	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



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