

Futuregrowth lifts lending suspension on the Development Bank of South Africa (DBSA)

Cape Town, 21 November 2016: Following the announcement from the Development Bank of South Africa (DBSA) today, Futuregrowth Asset Management confirms that it will reopen lending to the DBSA with immediate effect. This is subject to mutual agreement of additional reporting recommendations, an additional legal clause to be added to new bi-lateral lending agreements, agreed changes to be made on governance policies and processes and Futuregrowth's continued monitoring of the robustness of the DBSA's governance processes and finances.

The objective of the engagement was to obtain a deeper understanding of the Board's independence, autonomy, decision making rights, and commitment to fiduciary responsibility as well as to confirm the shareholder's support of these goals. A further focus of the review was an assessment of the investment/lending process to establish the extent to which decisions are made in accord with the Bank's mandate, established processes and practices, and the requirements of applicable legislation. The governance review involved deep analysis and negotiations which led to recommendations for enhanced reporting and governance.

The due diligence revealed that the DBSA currently has an appropriately constituted board with a suitable balance of skills and experience; a positive and constructive relationship between the Board and Executive Authority; and evidenced application of policies and processes. Futuregrowth notes that the appointment of a new Chairman and Deputy Chairman in 2018, as well as the possible new Board appointments arising from seven current Board members' terms expiring during 2017, may have an impact on the continuity of the Board or organisational culture. We will monitor the Board member replacement process, and may amend our view as necessary at that time.

The 13 member Board is well balanced and largely independent, but Futuregrowth notes that there are some Board members who hold political positions. Further, one of the DBSA's business unit heads is related to a politically exposed person. Futuregrowth believe that currently the DBSA's governance frameworks, including the conflict of interest policy, and the additional disclosure and reporting that the DBSA have agreed to, can adequately mitigate potential risks if consistently and appropriately applied.

Directors

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The DBSA currently does not have a Politically Exposed Person (PEP) policy in place to govern the risks related to lending to PEPs. However, they are in the process of implementing a PEP policy. Futuregrowth will closely monitor the implementation, ongoing disclosure, appropriateness and execution of this proposed policy once implemented.

Futuregrowth identified certain areas for governance improvements, for example tightening board quorum and voting requirements, which were discussed with and well received by the Board. Further to this, the DBSA has agreed to regular independent governance reviews.

Further, it was agreed with the Board and management that they will improve reporting on key matters in a bid to facilitate future monitoring and transparency. The DBSA has committed to regular and prompt public reporting on significant changes to key policies, charters and terms of reference; changes to the composition of Board and Board sub-committees; key performance indicators and targets agreed between the DBSA and its shareholder; annual public disclosure of the number and quantum of deals approved by the management committees and board committees; and annual public disclosure of the number, quantum and performance of loans made to private companies where PEPs are involved.

Futuregrowth appreciates the DBSA's prompt and proactive engagement throughout this process, and their stated ongoing commitment to sound and rigorous governance processes and practices.

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Futuregrowth Asset Management has been a leader in transformational and developmental investments for over 20 years via our range of development funds which make a real difference to people's lives in South Africa while delivering sound investment returns to investors.