MOODY'S
INVESTORS SERVICE

Rating Action: Moody's affirms Development Bank of Southern Africa's rating at Baa3

28 Feb 2019

Limassol, February 28, 2019 -- Moody's Investors Service ("Moody's") has today affirmed Development Bank of Southern Africa's (DBSA) foreign currency issuer ratings at Baa3/Prime-3 and its national-scale issuer ratings (NSRs) at Aa1.za/P-1.za. The issuer level outlook remains stable.

Moody's has also withdrawn the instrument level outlook for its own business reasons. This has no impact on the issuer level outlook for DBSA. Please refer to the Moody's Investors Service's Policy for Withdrawal of Credit Ratings, available on its website, www.moodys.com.

A full list of affected ratings can be found at the end of this press release.

RATINGS RATIONALE

According to the rating agency, DBSA's long-term Baa3 issuer rating incorporates a two notch uplift from its ba2 standalone assessment, reflecting (1) Moody's assumptions of a high probability of government support, underpinned by DBSA's 100% government ownership, its development mandate and the government's ongoing capital support; (2) South Africa's Baa3 government bond rating, which acts as an anchor for potential support to DBSA; and (3) the very high default dependence, which reflects the strong probability that, in the event of a sovereign credit default, the risk of a potential crisis affecting DBSA is very high.

The rating agency also noted that DBSA's standalone assessment of ba2 reflects two contrasting factors: its high capital buffers, with a tangible common equity (TCE)-to tangible managed assets ratio of 38.2% as of September 2018, which provide significant capacity to absorb unexpected losses; and the still challenging operating environment, which combined with DBSA's development mandate and high credit concentrations, translates into high asset risks. As of September 2018, DBSA's non-performing loans (NPLs)-to-gross loans ratio stood at 5.2%, while also maintaining a significant unsecured exposure (around 19% of gross loans) to Eskom Holdings SOC Limited (B2, negative).

DBSA has also displayed a historically stable funding profile and was able to roll over maturing debt and raise necessary new funding; however, as a development finance institution, it has an aggressive balance sheet growth strategy that will require it to find new funding sources in an environment where debt and capital markets remain volatile and confidence-sensitive.

DBSA's stable outlook is predominantly driven by the stable outlook of the sovereign rating, and also balances DBSA's high capital levels and assumptions that government support will be forthcoming in case of need, against its high asset risks and projections for strong balance sheet growth that will require it to raise significant new funding.

WHAT COULD CHANGE THE RATINGS UP/DOWN

Positive rating action will require a significant improvement in macro-economic conditions, also leading to an improvement in the sovereign credit profile. DBSA's standalone assessment could improve following a reduction in credit concentrations and better matching the maturity profile of its liabilities to that of its assets. However, a mildly stronger standalone credit profile would likely compress the currently applicable two-notch rating uplift, because DBSA's foreign-currency Baa3 issuer rating is already at the level of the sovereign rating.

Any weakening of the South African government's credit profile and/or willingness to support DBSA, or any significant deterioration in its capacity to extend financial support, could negatively affect its issuer ratings. In addition, a weakening of DBSA's standalone assessment, driven by a material deterioration in asset quality metrics, would also likely exert downward rating pressure.

LIST OF AFFECTED RATINGS

Issuer: Development Bank of Southern Africa

..Affirmations:

....Long-term Issuer Rating, affirmed Baa3, previously Stable debt level outlook withdrawn

....Short-term Issuer Rating, affirmed P-3

....NSR Long-term Issuer Rating, affirmed Aa1.za

....NSR Short-term Issuer Rating, affirmed P-1.za

..Outlook Action:

....Outlook remains Stable

PRINCIPAL METHODOLOGIES

The methodologies used in these ratings were Finance Companies published in December 2018, and Government-Related Issuers published in June 2018. Please see the Rating Methodologies page on www.moodys.com for a copy of these methodologies.

Moody's National Scale Credit Ratings (NSRs) are intended as relative measures of creditworthiness among debt issues and issuers within a country, enabling market participants to better differentiate relative risks. NSRs differ from Moody's global scale credit ratings in that they are not globally comparable with the full universe of Moody's rated entities, but only with NSRs for other rated debt issues and issuers within the same country. NSRs are designated by a ".nn" country modifier signifying the relevant country, as in ".za" for South Africa. For further information on Moody's approach to national scale credit ratings, please refer to Moody's Credit rating Methodology published in May 2016 entitled "Mapping National Scale Ratings from Global Scale Ratings". While NSRs have no inherent absolute meaning in terms of default risk or expected loss, a historical probability of default consistent with a given NSR can be inferred from the GSR to which it maps back at that particular point in time. For information on the historical default rates associated with different global scale rating categories over different investment horizons, please see https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1113601 .

REGULATORY DISCLOSURES

For ratings issued on a program, series or category/class of debt, this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series or category/class of debt or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the credit rating action on the support provider and in relation to each particular credit rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on www.moodys.com.

For any affected securities or rated entities receiving direct credit support from the primary entity(ies) of this credit rating action, and whose ratings may change as a result of this credit rating action, the associated regulatory disclosures will be those of the guarantor entity. Exceptions to this approach exist for the following disclosures, if applicable to jurisdiction: Ancillary Services, Disclosure to rated entity, Disclosure from rated entity.

Regulatory disclosures contained in this press release apply to the credit rating and, if applicable, the related rating outlook or rating review.

Please see www.moodys.com for any updates on changes to the lead rating analyst and to the Moody's legal entity that has issued the rating.

Please see the ratings tab on the issuer/entity page on www.moodys.com for additional regulatory disclosures for each credit rating.

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