MOODY'S
INVESTORS SERVICE

# Rating Action: Moody's affirms Ba3 ratings of DBSA and IDC; changes outlook to stable from negative

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London, April 05, 2022 -- Moody's Investors Service ("Moody's") has today affirmed the Ba3 corporate family ratings (CFR) and issuer ratings of the Development Bank of Southern Africa ("DBSA") and the Industrial Development Corporation of South Africa ("IDC"), and changed the issuer outlooks to stable from negative. The action follows the rating agency's decision on 1 April to affirm the Ba2 rating for the Government of South Africa and change the outlook on the sovereign rating to stable from negative (please see "Moody's changes South Africa's outlook to stable; affirms Ba2 ratings", https://www.moodys.com/research/--PR_464348 ).

A full list of affected ratings is provided at the end of this press release.

RATINGS RATIONALE

RATIONALE FOR RATINGS AFFIRMATIONS AND STABLE OUTLOOKS

Moody's decision to affirm DBSA's and IDC's ratings reflects the rating agency's assumptions of a "strong" probability of support given their full government ownership and development and policy mandates. As a result, they continue to benefit from one notch of rating uplift from their b1 standalone credit profiles which, in turn, reflect their solid capital buffers that mitigate high asset risks that emanate from their developmental mandates.

The outlooks on both issuers were changed to stable from negative, mainly driven by the change in the sovereign rating outlook to stable, which partly captures the improvements in the country's fiscal outlook. This should sustain the government capacity to support these two institutions' development mandate, in case of need. The stable outlook further recognises that a more stable local operating environment will help ease funding conditions and defuse asset quality pressures for DBSA and IDC, while their strong capital buffers will continue to provide important shock absorption capacity.

AFFIRMATIONS OF NATIONAL SCALE RATINGS

According to Moody's, the decision to affirm the national scale ratings (NSRs) of DBSA and IDC follows the affirmation of their ratings and of South Africa's government bond ratings. As a result of these rating affirmations, there has been no change in South Africa's NSR mappings. Moody's NSRs are intended as relative measures of creditworthiness among debt issues and issuers within a country, enabling market participants to better differentiate relative risks. The current long-term NSRs for DBSA and IDC are Aa3.za.

BANK SPECIFIC CONSIDERATIONS

DBSA

DBSA's affirmed Ba3 CFR rating incorporates one notch of rating uplift based on the rating agency's "strong" government support assumption from DBSA's standalone credit profile of b1.

Moody's affirmation of DBSA's b1 standalone credit profile reflects its strong capital base and stable funding that are moderated by relatively high assets risks. DBSA's tangible common equity (TCE)-to-tangible managed assets ratio was 38% as of September 2021, providing good loss absorbance. However, DBSA's capital is vulnerable to high asset risks stemming from its sizeable exposures to both local governments and utility companies, as well as exposures in other African countries that are facing challenges. South Africa's still-tight debt capital markets remains a challenge, although DBSA has historically displayed a stable funding profile and the rating agency expect DBSA to be able to sufficiently source new funding and meet its maturing liabilities.

IDC

IDC's affirmed Ba3 CFR rating incorporates one notch of rating uplift based on the rating agency's "strong" government support assumption from IDC's standalone credit profile of b1.

The affirmation of IDC's b1 standalone credit profile reflects its high asset risks that are mitigated by its strong capital buffers. IDC's reported volume of problem loans was large (ZAR16.2 billion) at about 42% of its gross loans as of March 2021. In addition, IDC is exposed to substantial equity price risk, given its large equity portfolio which contributed about 40% of its total assets as of March 2021. However, these high asset risks are moderated by IDC's solid capital buffers, with an equity-to-assets ratio of 60% as of March 2021. While the local capital markets have been challenging in 2020 and 2021, IDC maintained strong cash balance of ZAR15.9 billion as of March 2021, providing a good buffer to meet its liabilities as they fall due.

FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

Upward pressure on DBSA's and IDC's ratings would require both a more robust operating and macro environment accompanied by a higher sovereign rating; and/or a significant strengthening of their asset quality and profitability metrics, and of their funding profile.

Any weakening of the South African government's credit profile and/or willingness to support either DBSA or IDC or any significant deterioration in its capacity to extend financial support, could negatively affect the ratings of DBSA or IDC. In addition, a weakening of their stand-alone credit profiles, driven by a deterioration in asset quality, earnings and capital buffers, would also exert downward ratings pressure.

LIST OF AFFECTED RATINGS

..Issuer: Development Bank of Southern Africa

Affirmations:

....Short-term Issuer Rating (Foreign Currency), Affirmed NP

....Long-term Issuer Rating (Foreign Currency), Affirmed Ba3

....NSR Short-term Issuer Rating (Local Currency), Affirmed P-1.za

....NSR Long-term Issuer Rating (Local Currency), Affirmed Aa3.za

....Long-term Corporate Family Rating, Affirmed Ba3

....Baseline Credit Assessment, Affirmed b1

Outlook Action:

....Outlook, Changed To Stable From Negative

..Issuer: Industrial Development Corp. of South Africa

Affirmations:

....Long-term Issuer Rating (Foreign Currency), Affirmed Ba3

....NSR Long-term Issuer Rating (Local Currency), Affirmed Aa3.za

....Long-term Corporate Family Rating, Affirmed Ba3

....Baseline Credit Assessment, Affirmed b1

Outlook Action:

....Outlook, Changed To Stable From Negative

PRINCIPAL METHODOLOGY

The methodologies used in these ratings were Government-Related Issuers Methodology published in February 2020 and available at https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1186207, and Finance Companies Methodology published in November 2019 and available at https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1187099 . Alternatively, 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_1280297 .

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found at: https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_79004.

For ratings issued on a program, series, category/class of debt or security this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series, category/class of debt, security 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.

The ratings have been disclosed to the rated entity or its designated agent(s) and issued with no amendment resulting from that disclosure.

These ratings are solicited. Please refer to Moody's Policy for Designating and Assigning Unsolicited Credit Ratings available on its website www.moodys.com.

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

Moody's general principles for assessing environmental, social and governance (ESG) risks in our credit analysis can be found at http://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1288235 .

The Global Scale Credit Rating on this Credit Rating Announcement was issued by one of Moody's affiliates outside the EU and is endorsed by Moody's Deutschland GmbH, An der Welle 5, Frankfurt am Main 60322, Germany, in accordance with Art.4 paragraph 3 of the Regulation (EC) No 1060/2009 on Credit Rating Agencies. Further information on the EU endorsement status and on the Moody's office that issued the credit rating is available on www.moodys.com.

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.

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