MOODY'S
INVESTORS SERVICE

Rating Action: Moody's confirms the Baa3 issuer ratings of DBSA, IDC and Land Bank; stable outlook

Global Credit Research - 27 Mar 2018

Rating action follows the sovereign rating Baa3 confirmation

Limassol, March 27, 2018 -- Moody's Investors Service, ("Moody's") has today confirmed the Baa3 long-term foreign-currency issuer ratings of the Development Bank of Southern Africa ("DBSA"), the Industrial Development Corporation of South Africa ("IDC") and the long term local-and foreign-currency issuer ratings of the Land and Agricultural Development Bank of South Africa ("Land Bank"). Land Bank's local- and foreign-currency and DBSA's foreign-currency short-term issuer ratings were also confirmed at Prime-3. The outlook on all long-term global scale issuer ratings has changed to stable from rating under review. At the same time, the rating agency confirmed the Aa1.za long-term national-scale issuer ratings (NSRs) of DBSA, IDC and Land Bank; DBSA's and Land Bank's P-1.za short-term NSRs were affirmed. The full list of ratings is provided at the end of this press release.

Today's rating actions on these three government-related issuers (GRIs) follows the confirmation of the South African government's rating at Baa3 with a stable outlook. For further information, please refer to the sovereign press release titled "Moody's confirms South Africa's Baa3 rating and changes the outlook to stable" (https://www.moodys.com/research/--PR_381164). The rating action concludes the review for downgrade that began on 28 November 2017.

RATINGS RATIONALE

ISSUER RATINGS CONFIRMED

Today's rating action is driven primarily by Moody's expectations that the previous weakening of South Africa's institutions will gradually reverse under a more transparent and predictable policy framework, which will support a corresponding recovery in its economy, along with a stabilization of fiscal strength. Moody's expects these improvements to ease the three GRIs' asset quality pressures, while the stabilization of the South African government's credit profile, as captured by Moody's decision to confirm South Africa's Baa3 government bond ratings with a stable outlook, also results in the stabilization of the capacity of the government to support these institutions in case of need.

The issuer ratings of all three entities continue to benefit from a rating uplift from their stand-alone credit profiles, owing to their full government ownership, the developmental and policy role that they play in the market and the government's past record in providing support and injecting fresh capital to these GRIs.

STABLE OUTLOOK

The outlook on all three GRIs' issuer ratings was changed to stable from rating under review, predominantly driven by the change in the sovereign rating outlook to stable. The stable outlook balances their relatively high capital levels and assumptions that government support will be forthcoming in case of need, against their high asset risks and projections for strong balance sheet growth that will require them to raise significant new funding.

CONFIRMATION OF NATIONAL SCALE RATINGS

According to Moody's, the decision to confirm DBSA's, IDC's and Land Bank's long-term national scale ratings (NSRs) follows the confirmation of their issuer ratings and of South Africa's government bond ratings. As a result of these rating confirmations, 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 NSR ratings demonstrate that all three institutions remain among the strongest credits in the country, primarily reflecting their close links with the government and our assessment that, in case of need, support will be forthcoming.

ISSUER SPECIFIC FACTORS

-- DBSA CREDIT PROFILE

DBSA's Baa3 long-term issuer rating incorporates two notches of rating uplift based on its government support assumptions, from DBSA's stand-alone credit profile of ba2, which aligns its issuer rating with South Africa's rating of Baa3. Moody's government support is based on DBSA's development mandate and strategic importance in terms of policy implementation, and the 100% government ownership with no medium-term plans to divest its stake.

DBSA's ba2 stand-alone profile reflects two contrasting factors: (1) the high capital buffers, with an equity-to-assets ratio of 38% as of September 2017; and (2) high credit concentrations, which, combined with DBSA's countercyclical/development mandate, translates into high asset risks that could potentially lead to an increase in nonperforming loans (NPLs). DBSA has historically displayed a stable funding profile and was able to roll over maturing debt and raise necessary new funding. However, DBSA, as a development finance institution, 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.

-- IDC CREDIT PROFILE

IDC's long-term issuer rating of Baa3 takes into account its full government ownership, and its important strategic role in carrying out the government's industrial development policies and, by extension, its social transformation policies. Accordingly, Moody's incorporates two notches of rating uplift based on its government support assumptions from IDC's stand-alone credit profile of ba2, which results in a Baa3 issuer rating.

IDC's stand-alone credit profile of ba2 primarily reflects its strong capital buffers, with an equity-to-assets ratio of 68% as of March 2017, which shows that the company has significant buffers to absorb unexpected losses. However, the company's strong capital buffers are set against its high asset risks, as illustrated by (1) the still challenging operating conditions; (2) the high level of NPLs, which was 34% of March 2017 gross loans; and (3) its substantial equity portfolio. As of March 2017, the company maintained a portfolio of listed and unlisted equities of ZAR50.6 billion (accounting for 39% of total assets), exposing it to significant market volatility.

-- LAND BANK CREDIT PROFILE

Land Bank's Baa3 long-term issuer ratings incorporates three notches of rating uplift from its ba3 stand-alone credit profile. Moody's very high support assumptions reflect its full government ownership, a track record of supporting Land Bank's capital and funding position, and its role in the development of South Africa's agricultural sector, which is considered as one of the cornerstones of South Africa's economy.

Land Bank's stand-alone credit profile of ba3 reflects its elevated credit risks and high agricultural sector exposures, despite NPLs declining slightly to 5.8% of gross loans as of September 2017. These risks are balanced against the bank's capital buffers, with an equity-to-assets ratio of 14.3% as of September 2017, which can absorb some unexpected losses. Over recent years, Land Bank has taken steps to improve its funding structure by extending maturities and diversifying its funding sources. Nonetheless, the bank's reliance on short-term funding, with around 49% of total funding maturing within 12 months, remains relatively high, albeit on a declining trend. At the same time, plans for strong balance sheet growth will require Land Bank to find new funding sources in an environment where the capital and debt markets remain volatile.

WHAT COULD MOVE THE RATINGS UP/DOWN

Positive rating actions will require a significant improvement in macro-economic conditions, also leading to an improvement in the sovereign credit profile, and combined with a strengthening of the three GRIs' asset quality metrics and funding profiles.

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

LIST OF AFFECTED RATINGS

Issuer: Development Bank of Southern Africa

Confirmations:

....LT Issuer Rating, Confirmed at Baa3, Outlook changed To Stable From Rating Under Review

....ST Issuer Rating, Confirmed at P-3

....NSR LT Issuer Rating, Confirmed at Aa1.za

Affirmations:

....NSR ST Issuer Rating, Affirmed P-1.za

Outlook Actions:

....Outlook, Changed To Stable From Rating Under Review

Issuer: Industrial Development Corp. of South Africa

Confirmations:

....LT Issuer Rating, Confirmed at Baa3, Outlook changed To Stable From Rating Under Review

....NSR LT Issuer Rating, Confirmed at Aa1.za

Outlook Actions:

....Outlook, Changed To Stable From Rating Under Review

Issuer: Land and Agricultural Development Bank

Confirmations:

....LT Issuer Ratings, Confirmed at Baa3,Outlook changed To Stable From Rating Under Review

....ST Issuer Ratings, Confirmed at P-3

....NSR LT Issuer Rating, Confirmed at Aa1.za

Affirmations:

....NSR ST Issuer Rating, Affirmed P-1.za

Outlook Actions:

....Outlook, Changed To Stable From Rating Under Review

PRINCIPAL METHODOLOGIES

The methodologies used in these ratings were Finance Companies published in December 2016, and Government-Related Issuers published in August 2017. 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.

Constantinos Kypreos
Senior Vice President
Financial Institutions Group
Moody's Investors Service Cyprus Ltd.
Porto Bello Building
1, Siafi Street, 3042 Limassol
PO Box 53205
Limassol CY 3301
Cyprus
JOURNALISTS: 44 20 7772 5456
Client Service: 44 20 7772 5454

Carola Schuler
MD - Banking
Financial Institutions Group
JOURNALISTS: 44 20 7772 5456
Client Service: 44 20 7772 5454

Releasing Office:
Moody's Investors Service Cyprus Ltd.
Porto Bello Building
1, Siafi Street, 3042 Limassol
PO Box 53205
Limassol CY 3301
Cyprus
JOURNALISTS: 44 20 7772 5456
Client Service: 44 20 7772 5454

MOODY'S
INVESTORS SERVICE