

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

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05 Apr 2022

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](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](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](https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1187099). Alternatively, please see

the Rating Methodologies page on [www.moodys.com](http://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](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](https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_79004).

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