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Research Update:

Development Bank of Southern Africa FC And LC Ratings Lowered After Similar Sovereign Action; Outlook Neg

Primary Credit Analyst:
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Research Update:

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Overview

- On April 3, 2017, we lowered our foreign currency sovereign ratings on the Republic of South Africa to 'BB+/B' from 'BBB-/A-3' and our local currency sovereign ratings to 'BBB-/A-3' from 'BBB/A-2'.
- We equalize our ratings on the Development Bank of Southern Africa (DBSA) with those on the sovereign because we believe there is an almost certain likelihood that the South African government would provide timely and sufficient extraordinary support to DBSA if needed.
- We are therefore lowering our foreign currency ratings on DBSA to 'BB+/B' from 'BBB-/A-3' and our local currency ratings to 'BBB-/A-3' from 'BBB/A-2'.
- The negative outlook reflects that on South Africa, indicating that our ratings on DBSA will move in tandem with those on the sovereign, provided we continue to we assess the likelihood of government support as almost certain.

Rating Action

On April 6, 2017, S&P Global Ratings lowered its foreign currency issuer credit ratings on the Development Bank of Southern Africa Ltd. (DBSA) to 'BB+/B' from 'BBB-/A-3' and its local currency issuer credit ratings to 'BBB-/A-3' from 'BBB/A-2'. The outlook remains negative.

Rationale

The downgrade of DBSA follows a similar action on South Africa (see "South Africa Long-Term Foreign Currency Rating Cut To 'BB+' On Political And Institutional Uncertainty; Outlook Negative," published April 3, 2017, on RatingsDirect).

We equalize our ratings on DBSA with those on South Africa. This reflects our opinion that there is an almost certain likelihood that the South African government would provide timely and sufficient extraordinary support to DBSA in the event of financial distress.

Consistent with our criteria for government-related entities, including DBSA, we base our rating approach on our view of its:

- Critical role as one of the South African government's primary vehicles for promoting infrastructure development in the country's public and private sectors.
- Integral link with the South African government, through 100% ownership, ongoing government supervision, and capital injections when required.

Our assessment of the importance of DBSA's role for the government as critical is based on our view that DBSA remains one of the key vehicles of the government for

delivering infrastructure development. We understand that DBSA's mandate is to focus on infrastructure financing and development in municipalities, public institutions, and other projects in South Africa and the region.

Within South Africa, DBSA is making efforts to increase its support to municipalities and public-sector projects. For under-resourced municipalities, DBSA provides technical assistance grants, capacity-building initiatives, and overall support of projects from initiation to final financing of fully fledged projects.

We continue to assess DBSA's stand-alone credit profile at 'bb-'. For more detail about the bank's stand-alone credit quality, see "Development Bank of Southern Africa 'BBB-/A-3' Ratings Affirmed; Outlook Negative," published Oct. 26, 2016.

Outlook

The negative outlook on DBSA reflects that on South Africa, indicating that the ratings on DBSA will move in tandem with those on the sovereign, provided we continue to assess the likelihood of extraordinary support as almost certain. We expect that DBSA will maintain its critical role for and integral link with the South African government.

Downward pressure on the rating could result from a stronger extension than we currently expect of DBSA's activities to countries outside South Africa or to the private sector, if the expansion abroad prompted us to revise down our assessment of DBSA's role for the South African government.

Upside rating potential for DBSA is limited by our long-term rating on South Africa, because we do not expect to rate DBSA higher than the sovereign.

Related Criteria And Research

Related Criteria

- General Criteria: Rating Government-Related Entities: Methodology And Assumptions - March 25, 2015
- General Criteria: Methodology For Linking Short-Term And Long-Term Ratings For Corporate, Insurance, And Sovereign Issuers - May 07, 2013
- General Criteria: Use Of CreditWatch And Outlooks - September 14, 2009

Related Research

- South Africa Long-Term Foreign Currency Rating Cut To 'BB+' On Political And Institutional Uncertainty; Outlook Negative - April 3, 2017
- Development Bank of Southern Africa 'BBB-/A-3' Ratings Affirmed; Outlook Negative - October 26, 2016

Ratings List

	Rating	
	To	From
Development Bank of Southern Africa Ltd.		
Issuer Credit Rating		
Foreign Currency	BB+/Negative/B	BBB-/Negative/A-3
Local Currency	BBB-/Negative/A-3	BBB/Negative/A-2
Senior Unsecured		
Local Currency	BBB-	BBB

Regulatory Disclosures

- Primary Credit Analyst: Gardner Rusike, Associate Director
- Rating Committee Chairperson: Christian Esters
- Date initial rating assigned: Oct. 10, 2000
- Date of previous review: Dec. 5, 2016

Disclaimers

This rating has been determined by a rating committee based solely on the committee's independent evaluation of the credit risks and merits of the issuer or issue being rated in accordance with S&P Global Ratings published criteria and no part of this rating was influenced by any other business activities of S&P Global Ratings.

This credit rating is solicited. The rated entity did participate in the credit rating process. S&P Global Ratings did have access to the accounts, financial records and other relevant internal, non-public documents of the rated entity or a related third party. S&P Global Ratings has used information from sources believed to be reliable but does not guarantee the accuracy, adequacy, or completeness of any information used.

Glossary

- Anchor: The starting point for assigning a bank long-term rating, based on economic and industry risk.
- Asset quality: A key measure of the quality and performance of the assets of a bank.
- Business position: A measure of the strength of a bank's business operations.
- Capital and earnings: A measure of a bank's ability to absorb losses.
- Date initial rating assigned: The date S&P Global Ratings assigned the long-term foreign currency issuer credit rating on the entity.
- Date of previous review: The date S&P Global Ratings last reviewed the credit rating on the entity.
- Government-related entity (GRE) support: An assessment of the likelihood that the government would provide extraordinary support to a bank that is a government-related entity.

- Risk-adjusted capital (RAC) ratio before diversification: This is calculated according to S&P Global Ratings' methodology as total adjusted capital over risk-adjusted assets.
- Risk position: Our view of the specific risk characteristics of a particular bank.
- Stand-alone credit profile (SACP): An interim step in assessing a bank's overall creditworthiness. It includes government support, but not extraordinary government support.
- Total adjusted capital: adjusted common equity plus admissible preferred instruments and hybrids.

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.globalcreditportal.com and at spcapitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public Web site at www.standardandpoors.com. Use the Ratings search box located in the left column. Alternatively, call one of the following S&P Global Ratings numbers: Client Support Europe (44) 20-7176-7176; London Press Office (44) 20-7176-3605; Paris (33) 1-4420-6708; Frankfurt (49) 69-33-999-225; Stockholm (46) 8-440-5914; or Moscow 7 (495) 783-4009.

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