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Development Bank of Southern Africa Ltd.

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Development Bank of Southern Africa Ltd.

Credit Highlights

Issuer Credit Rating
Foreign Currency
BB-/Stable/B
Local Currency
BB/Stable/B

Overview

Key Strengths	Key Risks
Almost certain likelihood of support from the South African government.	High single-obligor concentrations.
Strong capitalization that supports the bank's financial position.	Loan concentration on state-owned enterprises and local municipalities.
	Muted growth prospects despite the bank's countercyclical nature and developmental mandate.

Outlook

The stable outlook on Development Bank of Southern Africa Ltd. (DBSA) mirrors that on South Africa. Our ratings on DBSA will move in tandem with those on the sovereign as long as we assess the likelihood of extraordinary support as almost certain.

Downside scenario

We could downgrade DBSA following a similar rating action on South Africa. Pressure on the rating could also build if the bank's public policy role or its link with the government were to weaken over the next 12 months.

Upside scenario

We could raise the ratings on DBSA if we were to upgrade South Africa, all else being equal. We do not expect to rate DBSA higher than the sovereign.

Rationale

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 (foreign currency BB-/Stable/B, local currency BB/Stable/B) would provide timely and sufficient extraordinary support to DBSA in the event of financial distress. Consistent with our criteria for government-related entities, our view of the likelihood of extraordinary government support stems from

DBSA's:

- Critical role as one of the South African government's primary vehicles to promote public and private infrastructure projects and drive sustainable development and regional integration; and
- Integral link with the South African government through its 100% ownership of the bank, ongoing government supervision, and capital injections when required.

The Development Bank of Southern Africa Act of 1997 (DBSA Act) enacted by South Africa's parliament set outs DBSA's mandate, as well as the constitution and conduct of DBSA's board of directors. The board nominations committee nominates the board members, with their appointments being at the minister of finance's discretion.

Between 2012 and 2015, the government injected South African rand (ZAR) 7.9 billion (about $0.5 billion) into DBSA, amounting to roughly 7% of the asset base, reinforcing the government's support for DBSA as the bank's full owner. DBSA has a callable capital facility of ZAR20 billion that can boost its capital base. In addition, section 19 of the DBSA Act states that the bank cannot be wound up except through an act of parliament.

DBSA continues to be one of the government's key vehicles for delivering infrastructure development and meeting strategic policy goals intended to support sustainable economic growth. DBSA has a mandate to promote sustainable economic growth, develop human resources, build institutional capacity, and support development projects and programs in South Africa and Africa. The bank finances infrastructure in both the public and private sectors.

The integral link between the government and DBSA is further underpinned by an agreement between DBSA, the National Treasury, and the Department of Public Works in 2021 to set up the Infrastructure Fund. The intention is for the fund be key to structuring blended-finance solutions.

DBSA plans to increase lending to under-resourced municipalities and the water sector to help close infrastructure gaps. However, it is limited by the availability of viable, financeable projects in the municipalities. Consequently, DBSA's support to such municipalities often takes the form of technical-assistance grants, capacity-building initiatives, and overall project support.

DBSA will play a key role in South Africa's goal to reach net-zero emissions by 2050 by providing green financing. The bank issued two green bonds of €200 million and ZAR3 billion in 2021, both through private placements. The bank is utilizing the proceeds to finance its renewable energy generation and transmission projects. DBSA intends to play a catalyst role as an investor in green and energy-transition projects across Africa, including embedded generation of renewable energy.

In 2015, the government of South Africa gave DBSA a broader mandate to provide lending and support to the whole of Africa, rather than just the Southern African Development Community, where DBSA focused on infrastructure finance projects that linked the region economically. Despite this wider mandate, we expect DBSA to continue to concentrate on South Africa, which makes up about 70% of its loan book. DBSA also has active exposure to 20 countries across Africa. Its loan portfolio is mostly exposed to the energy sector.

Because we equalize our long-term ratings on DBSA with those on the sovereign, we do not consider the bank's stand-alone credit profile to be a key rating driver. This is because, in our view, DBSA executes strategic government policies, the likelihood of extraordinary government support is almost certain, and we do not believe that such support is likely to diminish.

Nevertheless, while fulfilling government policy initiatives, DBSA also tries to achieve financial sustainability, as its structure and sole shareholder, the South African government, require. It tries to blend its financial sustainability goal with the wider goals of enhancing economic growth and regional integration.

We view DBSA's strong capital base as supportive of its financial position. On March 31, 2024, our risk-adjusted capital (RAC) ratio stood at 22.2%, up from 20.0% a year ago. We expect the RAC ratio to remain very strong, ranging between 22% and 23% over the next 12-18 months. We view the bank's earnings capacity to expand its loan book to be volatile due to its counter-cyclical nature and developmental mandate. DBSA is contemplating issuing a small dividend in the next financial year that will not affect its robust capital base.

DBSA is not regulated by the South African Reserve Bank (SARB) and has no formal obligation to comply with Basel requirements. However, it has adopted Basel standards in its capital management framework in order to maintain adequate capital adequacy.

We believe that DBSA's risk position remains under pressure due to the challenging macroeconomic environment in South Africa and the rest of Africa. The nonperforming loan (NPL) ratio had increased by around 80 basis points to 4.6% as of end-March 2024 from the end of March 2023. NPLs outside South Africa remain high and make up the majority of DBSA's NPLs. We expect NPLs to weaken marginally to around 5.0% in 2025, broadly in line with other banks in the region.

At the same time, we forecast that DBSA's credit losses will increase to about 1.6% in 2025 from 1.3% in 2024, leading to a strong coverage ratio of 250% of NPLs. We also note the high single-obligor concentration within the loan portfolio and believe that pressures on municipalities could have a knock-on effect on asset quality. The 20 largest loans accounted for nearly 73% of total loans and more than 150% of total adjusted capital on March 31, 2024, while exposures to municipalities accounted for around one-third of total loans.

DBSA is not a deposit-taking entity and does not have access to the SARB's funding window. It is purely wholesale funded. Over the years, DBSA has diversified its funding sources across banks, development finance institutions, and the debt capital markets. The bank's liquid assets comprise call deposits, money market investments, and government bonds.

Key Statistics

Table 1

Development Bank of Southern Africa Ltd.--Key figures

	--Year ended March 31--				
(Mil. ZAR)	**2024**	**2023**	**2022**	**2021**	**2020**
Adjusted assets	118,263.8	108,505.0	99,964.6	99,966.2	100,384.9
Customer loans (gross)	113,050.9	105,902.3	95,895.4	94,115.0	96,448.0
Adjusted common equity	52,569.3	47,920.8	42,745.4	38,936.8	37,521.6

Table 1

Development Bank of Southern Africa Ltd.--Key figures (cont.)

	--Year ended March 31--				
(Mil. ZAR)	**2024**	**2023**	**2022**	**2021**	**2020**
Operating revenues	7,794.1	7,861.2	6,281.5	3,863.1	5,381.2
Noninterest expenses	1,489.1	1,312.3	1,307.0	1,154.2	1,270.1
Core earnings	4,876.7	5,494.8	3,969.6	1,544.2	478.4

ZAR--South African rand.

Table 2

Development Bank of Southern Africa Ltd.--Risk position

	--Year ended March 31--				
(%)	**2024**	**2023**	**2022**	**2021**	**2020**
Growth in customer loans	6.8	10.4	1.9	(2.4)	17.6
New loan loss provisions/average customer loans	1.3	1.0	1.1	1.2	4.1
Net charge-offs/average customer loans	0.0	0.6	0.6	0.1	0.3
Gross nonperforming assets/customer loans + other real estate owned	4.6	3.8	5.8	7.7	7.2
Loan loss reserves/gross nonperforming assets	263.0	302.0	210.8	156.0	146.2

Table 3

Development Bank of Southern Africa Ltd.--Funding and liquidity

	--Year ended March 31--				
(%)	**2024**	**2023**	**2022**	**2021**	**2020**
Long-term funding ratio	89.5	89.3	84.7	88.4	80.3
Stable funding ratio	97.8	94.4	92.0	98.0	84.5
Broad liquid assets/short-term wholesale funding (x)	1.1	0.8	0.6	0.9	0.3

Related Criteria

- Criteria | Financial Institutions | General: Risk-Adjusted Capital Framework Methodology, April 30, 2024
- Criteria | Financial Institutions | General: Financial Institutions Rating Methodology, Dec. 9, 2021
- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Dec. 9, 2021
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- General Criteria: Rating Government-Related Entities: Methodology And Assumptions, March 25, 2015
- General Criteria: Ratings Above The Sovereign--Corporate And Government Ratings: Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Regulatory Disclosures

Regulatory disclosures applicable to the most recent credit rating action can be found in "Development Bank of Southern Africa Ltd. Outlook Revised To Stable From Positive After Similar Sovereign Action," published March 15, 2023, on RatingsDirect.

Related Research

- South Africa, May 20, 2024
- South Africa's New Coalition Government Points To Broad Policy Continuity, June 18, 2024

Glossary

- Adjusted assets: Total assets less nonservicing intangibles.
- Adjusted common equity: Common shareholders' equity plus minority interest, minus dividends (not yet distributed), minus revaluation reserves, minus nonservicing intangibles, minus interest only strips, minus tax-loss carry forward, minus postretirement benefit adjustments.
- Asset quality: A key measure of the quality and performance of the assets of a bank.
- Capital and earnings: A measure of a bank's ability to absorb losses.
- Core deposits: Total deposits minus noncore deposits (such as deposits due to banks and certificates of deposits).
- Credit losses: Losses arising from credit risk.
- Credit loss provisions (including specific loan provisions and general and other provisions) minus recoveries, over average gross customer loans of current period and last fiscal year.
- Customer loans (gross): Total customer loans before loan loss reserves.
- 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.
- Earning capacity: The capacity of a bank to generate sufficient earnings against losses and the primary way that a bank builds or maintains its capitalization.
- 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.
- Gross nonperforming assets over customer loans plus other real estate owned over customer loans: Nonaccrual loans, plus restructured loans, plus repossessed assets plus loans 90-days past due; over gross customer loans plus repossessed assets.
- Issuer credit rating: A forward-looking opinion about an obligor's overall creditworthiness, focusing on its capacity and willingness to meet its financial obligations in full as they come due.

- Loan loss reserves over gross nonperforming assets: General plus specific reserves, over adjusted nonperforming assets (nonaccrual loans plus restructured loans plus repossessed assets plus 90-day past due loans).
- 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.
- 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 (TAC): Adjusted common equity plus admissible preferred instruments and hybrids.

Ratings Detail (As Of October 15, 2024)*		
Development Bank of Southern Africa Ltd.		
Issuer Credit Rating		
Foreign Currency		BB-/Stable/B
Local Currency		BB/Stable/B
Issuer Credit Ratings History		
15-Mar-2023	*Foreign Currency*	BB-/Stable/B
01-Jun-2022		BB-/Positive/B
11-May-2020		BB-/Stable/B
26-Nov-2019		BB/Negative/B
15-Mar-2023	*Local Currency*	BB/Stable/B
01-Jun-2022		BB/Positive/B
11-May-2020		BB/Stable/B
26-Nov-2019		BB+/Negative/B
Sovereign Rating		
South Africa		
Foreign Currency		BB-/Stable/B
Local Currency		BB/Stable/B
South Africa National Scale		zaAAA/--/zaA-1+

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.