CREDIT OPINION

12 February 2025

Update

RATINGS

Development Bank of Southern Africa	
Domicile	Johannesburg, South Africa
Long Term Rating	Ba3
Type	LT Corporate Family Ratings
Outlook	Stable

Please see the ratings section at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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Development Bank of Southern Africa

Update to credit analysis

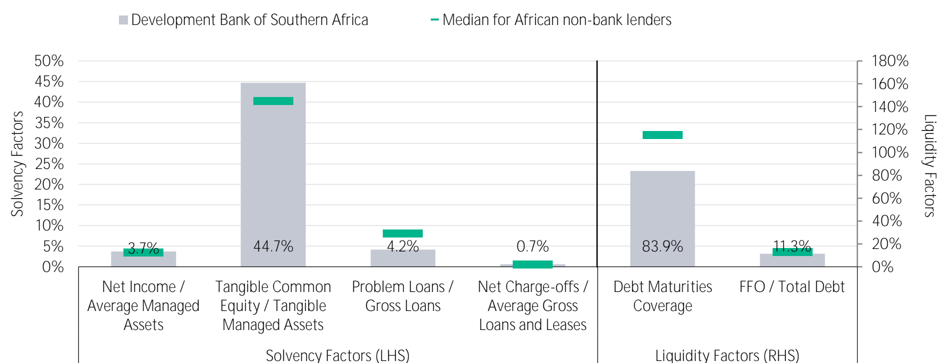
Summary

Development Bank of Southern Africa's (DBSA) Ba3 corporate family rating (CFR) reflects its standalone assessment of b1 and one notch rating uplift, incorporating our assumption of a "high" probability of support from the Government of South Africa (Ba2 stable). The support assumption reflects DBSA's 100% government ownership and its developmental mandate. We also assign a Ba3 issuer rating, based on the Ba3 CFR and the application of our Loss Given Default (LGD) analysis for speculative-grade companies. DBSA's national scale ratings are Aa3.za/P-1.za. The issuer outlook is stable.

DBSA's standalone assessment of b1 reflects its high capital buffers, with a tangible common equity (TCE)-to-tangible managed assets ratio of around 45% as of September 2024. On the other hand, asset risks remain elevated driven by modest economic growth, high industry risks and DBSA's high sector and single-name concentrations. As of September 2024, Stage 3 (including POCI) loans accounted for 4.2% of gross loans, but with Stage 2 (underperforming/ higher-risk) loans accounting for an additional 45.2%.

Capital markets conditions in South Africa remain resilient, with DBSA retaining regular access to domestic investors. In addition, management has employed a more conservative liquidity approach, increasing its cash buffers and more closely monitoring its assets and liabilities maturity mismatches. Challenges remain, however, as DBSA retains its reliance on more confidence-sensitive market funding and has committed to sizeable new loan disbursements as part of its mandate.

Exhibit 1
Rating scorecard - Key financial ratios



Source: Moody's Ratings

Credit strengths

» Solid capital buffers, sufficient to absorb unexpected credit losses

» Good profitability metrics

» “High” probability of government support

Credit challenges

» High industry risks and still challenging macro conditions

» High asset risks, partly reflecting single-name and industry credit concentrations

Outlook

The stable issuer outlook is partly driven by the stable outlook on the sovereign rating, which informs our government support assumptions. The stable outlook further recognises that the strong capital buffers help cushion asset risks and pressures from a low growth environment.

Factors that could lead to an upgrade

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

Factors that could lead to a downgrade

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

Key indicators

Exhibit 2

Development Bank of Southern Africa (Consolidated Financials) [1]

	09-24[2]	03-24[2]	03-23[2]	03-22[2]	03-21[2]	CAGR/Avg.[3]
Total managed assets (ZAR Million)	116,859.9	118,314.9	108,564.6	100,028.0	100,047.7	4.5[4]
Total managed assets (USD Million)	6,781.4	6,248.1	6,118.9	6,845.4	6,775.4	0.0[4]
Net Income / Average Managed Assets (%)	3.7	4.1	4.9	3.8	1.4	3.6[5]
Tangible Common Equity (Finance) / Tangible Managed Assets (%)	44.7	42.0	41.5	40.7	36.2	41.0[5]
Problem Loans / Gross Loans (Finance) (%)	4.2	4.5	3.8	5.8	7.7	5.2[5]
Net Charge-offs / Average Gross Loans and Leases (%)	0.7	0.0	0.6	0.6	0.1	0.4[5]
Debt Maturities Coverage (%)	83.9	89.0	54.4	53.8	90.9	74.4[5]
Secured Debt / Gross Tangible Assets (%)	0.0	0.9	0.0	0.0	0.8	0.3[5]

[1] All figures and ratios are adjusted using Moody's standard adjustments. [2] IFRS [3] May include rounding differences because of the scale of reported amounts. [4] Compound annual growth rate (%) based on the periods for the latest accounting regime. [5] Simple average of periods for the latest accounting regime.
Sources: Moody's Ratings and company filings

Profile

Development Bank of Southern Africa (DBSA) is a government-owned development finance institution that delivers developmental infrastructure in South Africa and the rest of the African continent. As of September 2024, the company reported total assets of ZAR117 billion, with over 70% of its gross loans extended to South African borrowers and the balance disbursed in the wider sub-Saharan Africa region, including Zambia, Angola, Ghana, Cote d'Ivoire and Tanzania. Management focus has also shifted towards collaboration and co-funding of projects with other parties; an example of this is the set up of the Infrastructure Fund, aimed at bringing together public and private stakeholders and creating blended finance products and solutions.

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the issuer/deal page on https://ratings.moodys.com for the most updated credit rating action information and rating history.

Detailed credit considerations

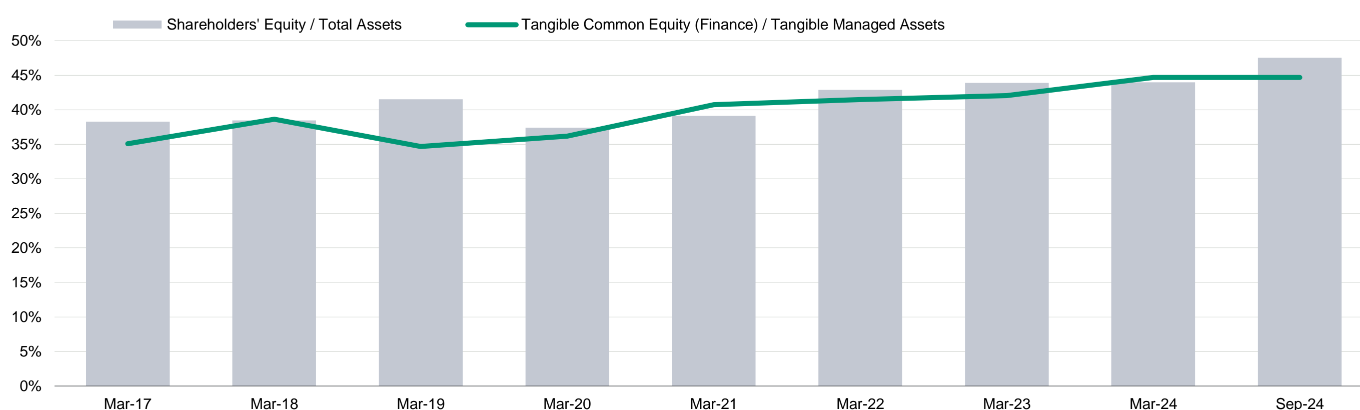
DBSA's high capital buffers provide significant loss absorption capacity

We assign a capital score of A1, two notches below the initial score. The assigned score captures DBSA's high capital levels, but also the still-difficult operating environment, which is likely to exert some negative pressure on borrowers' repayment capacity and in turn on the bank's current capital buffers.

DBSA reported a TCE-to-tangible managed assets ratio of 42% as of March 2024 (around 45% as of September 2024). These capital levels provide both substantial loss absorption capacity, as well as the potential for asset growth. The bank is obliged by the DBSA Act to maintain a maximum debt-to-equity ratio of 250%. As of September 2024, this ratio was approximately 106%, without incorporating the ZAR20 billion callable capital, which requires parliamentary approval for release.

Exhibit 3

High capital buffers, a key strength



Sources: DBSA's financials and Moody's Ratings

DBSA has historically benefitted from capital support from the government, including disbursements of around ZAR7.9 billion between 2013-16, and does not pay dividends, thereby retaining capital. DBSA's management is also monitoring economic capital requirements and plans to more formally apply the Basel principles, even though it is not a regulated bank. This will provide a more accurate estimate of the bank's risk-adjusted capital and will improve disclosures.

Still tight credit conditions and high credit concentrations pose risks to asset quality

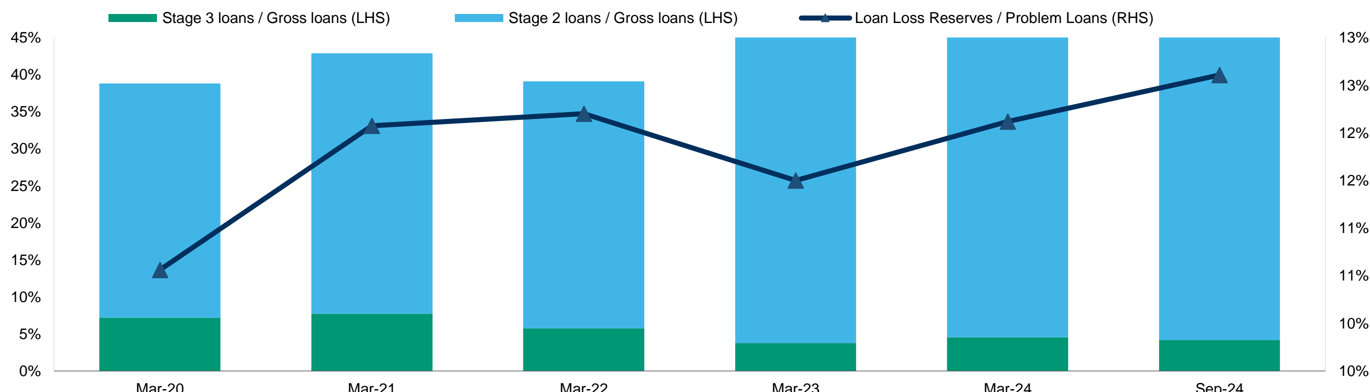
We assign a weighted average asset risk score of B3, capturing DBSA's high single-name and sectoral concentrations, the difficult operating environment, problematic foreign projects and a high proportion of (under-performing) Stage 2 loans.

DBSA reported a nonperforming loans (NPLs)-to-gross loans ratio of 4.5% as of March 2024 – mainly driven by defaults in Ghana and Ethiopia – but dropped below 4% in September 2024 according to its interim financial statements announcement. However, Stage 2 loans account for an additional 45% of gross loans.

We expect DBSA's asset-quality metrics to remain under pressure as a result of the difficult operating environment – South Africa's real GDP growth rate is expected to settle at around 1.6% in 2025, well below the country's potential and economic growth rate required to create a reasonable amount of new jobs — and the high credit concentrations that exposes the company to a significant increase NPLs in case of a default by one or two large borrowers. Loan Loss Reserves accounted for around 12.6% of gross loans as of September 2024.

DBSA continues to maintain high credit concentrations, with the bank's 10 largest exposures constituting around 58% of total assets. We view such high credit concentrations as a vulnerability to DBSA's asset risk profile because a default by any of these large borrowers could weaken the bank's solvency. Given its mandate, DBSA holds significant exposure to state-owned enterprises and to local municipalities, with the latter accounting for approximately one-third of its loan book as of September 2024. Although DBSA's non-South African portfolio accounts for 29% of total gross loans, it is substantially riskier and constitutes 80% of total NPLs.

Exhibit 4
High asset risks, as indicated by the high proportion of Stage 2 loans



Sources: DBSA's financials and Moody's Ratings

Against these risks, we understand that management continues to tighten its lending criteria and will likely reduce some of the riskier foreign exposures, while the larger of its exposures to the South African municipal sector are in the more resilient Metro segment. Historically low write-offs also indicate that most borrowers eventually repay their obligations to the DBSA, through either restructuring, realisation of securities or other recovery methods. According to management, Stage 3 recoveries amounted to ZAR3.1 billion over the last two years.

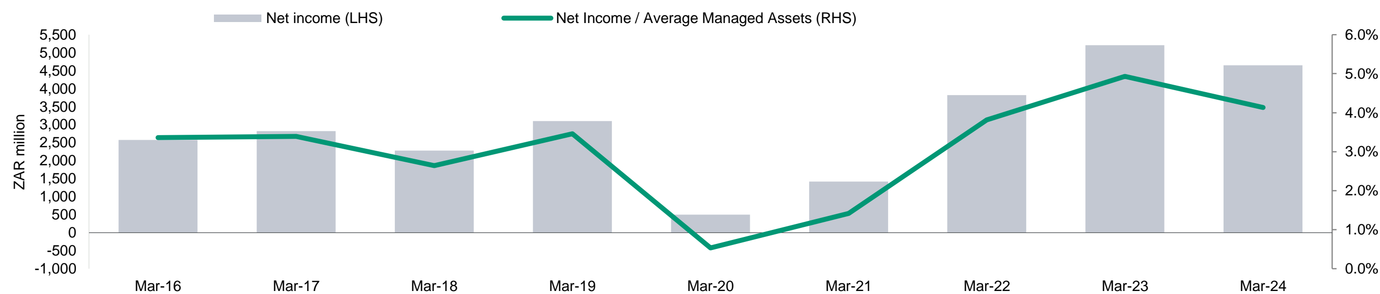
Profitability is trending upwards but remains subject to volatility

We assign a Ba3 profitability score, six notches below the initial score, reflecting historical and potential earnings volatility given DBSA's development mandate and related investments in riskier assets, and the still challenging credit conditions.

As of March 2024, DBSA reported net profit of ZAR4.6 billion (ZAR5.2 billion as of March 2023), with the net income to average managed assets ratio falling to 4.1% from 4.9% a year prior. This ratio reduction was further exacerbated by the 9% increase in assets. Although, net interest income increased 18% year-on-year to ZAR7.7 billion, the profitability has been lower due to an 85% decrease in foreign-exchange gains amounting to ZAR129 million (March 2023: ZAR860 million). As of March 2024, DBSA made a ZAR510 million loss on financial assets and liabilities, driven by a downward fair value adjustment on equity instruments. Defaults in Ghana and Ethiopia have also contributed to an increase in impairment losses, but DBSA's cost-to-income ratio remained low at 22%. For the six months to September 2024, net profits increased marginally to ZAR2.2 billion.

Going forward, we expect DBSA's earnings-generating capacity to remain somewhat volatile, in view of the still fragile operating conditions, and its limited revenue diversification (beyond interest income). While higher loan disbursements will help to increase interest income and grow revenue, management will also be focused on ensuring that it maintains adequate liquidity, which will allow it to meet its own liabilities. At the same time, currency movements and revaluations of financial instruments will further add to earnings volatility.

Exhibit 5
Profitability has recovered but will likely remain volatile



Sources: DBSA's financials and Moody's Ratings

Improving funding and liquidity conditions, with management maintaining its conservative policies amid the bank's dependence on confidence-sensitive market funding

We assign weighted average cash flow and liquidity scores of B2, primarily to reflect the limited benefits derived from DBSA's very low secured debt (given the limited size and depth of the South African securitisation market) and the still fragile local debt capital market conditions.

DBSA has historically displayed a stable funding profile, and has been able to roll over maturing debt and raise new funding. The bank's total borrowings increased to ZAR59.1 billion as of September 2024 from ZAR42.8 billion in March 2014. The bank also maintains a relatively diversified funding profile by tapping the local debt capital markets via an ZAR80 billion domestic medium-term note programme; gaining access to money-market funds and maintaining numerous lines of credits with local banks and financial institutions; and raising funds from international development finance institutions. DBSA has a projected funding pipeline in excess of ZAR16bn, which includes development finance institutions and commercial banks, of which most facilities have a tenor greater than 10 years.

However, DBSA's dependence on market funding leave it vulnerable to increased risk aversion by institutional investors, especially in the still-tight local capital market conditions, and given the short-term maturity profile for some of its liabilities (which the company is trying to extend). DBSA has tapped local investors via private placements, but has also diversified its funding sources while lengthening the tenor of its liabilities by securing new funding from international developmental institutions. Management has also set an internal requirement to hold minimum liquidity of at least 10% of DBSA's liabilities, while continuing to focus on the diversification of its funding base through bilateral funding with DFIs and the management of funding spreads on new bond issuances.

Operating environment

We assign a B1 score to DBSA's Operating Environment (at the upper end of the allowable range). The score is based wholly on our assessment of the (B) Industry Risk of South African industrial and infrastructure lenders, to reflect our expectations of high industry risks, with DBSA focused on higher-risk segments and clients — in response to its development mandate — and the ongoing macroeconomic challenges.

Macro-level indicator

The Macro-Level Indicator does not have any weight in the scorecard because the Macro-Level Indicator score (Baa2) is higher than the B Industry Risk score. We nonetheless note that macroeconomic conditions remain challenging, with persistently low growth and fiscal pressures, particularly in light of nationwide load shedding. Progress on structural economic reforms has been limited amid social and political obstacles, while interest payments are consuming an increasing share of the budget, reducing fiscal space.

Industry risk

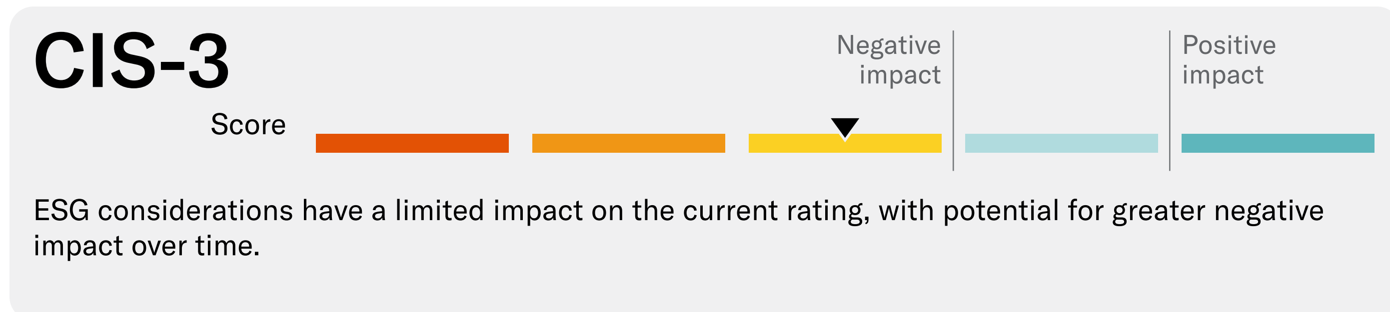
The B Industry Risk score reflects finance companies' high market share in South Africa's industrial and infrastructure lending market; the current high demand, given the country's needs for infrastructure, energy and industrial projects; and a product base that faces a low risk of obsolescence. Barriers to entry are moderate, with both banks and the capital markets in a position to provide lending for industrial and infrastructure projects, but to compete effectively, market participants need both access to long-term funding and sizeable initial capital.

These strengths are, however, balanced against strong competition from the country's leading banks (which also translates into limited pricing power for finance companies) and relatively high regulatory/legal risks relating, for example, to upcoming land reforms. Industry risks have also been rising as government-owned finance companies are increasingly focused on high-risk segments, in line with their development mandate, and because of ongoing difficult macroeconomic conditions. These factors expose finance companies to increased event risk and to rising NPLs. Non-bank financial entities are also disadvantaged – relative to banks – in terms of their product suite, which remains narrower and primarily dependent on interest income.

ESG considerations

Development Bank of Southern Africa's ESG credit impact score is CIS-3

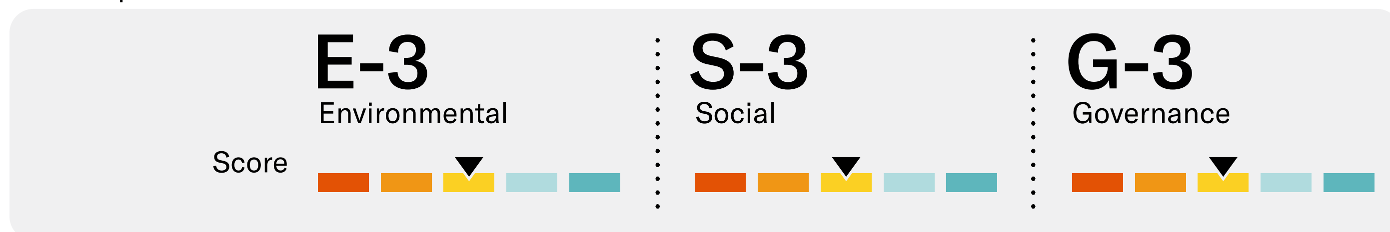
Exhibit 6
ESG credit impact score



Source: Moody's Ratings

DBSA's **CIS-3** indicates limited impact of ESG considerations on the ratings to date, with a potential for greater negative impact over time. Government support and sizeable capital buffers currently mitigate the exposure to ESG risks, which stem from DBSA's counter-cyclical role and the influence of the government over its strategy that translate to high asset risks.

Exhibit 7
ESG issuer profile scores



Source: Moody's Ratings

Environmental

DBSA faces moderate environmental risks primarily because of its portfolio exposure to carbon transition and water management risks. In line with peers, it is facing mounting business risks and stakeholder pressure to meet broader carbon transition goals. In response, DBSA is developing its climate risk and portfolio management capabilities.

Social

DBSA faces moderate social risks, partly reflecting its social and policy mandate linked to the company's government ownership. DBSA is also heavily exposed to local governments that are themselves exposed to social unrest, income inequalities and related social risks. DBSA has limited direct exposure to retail clients, which reduces the exposure to customer relations risk.

Governance

DBSA's governance risks are moderate, reflecting its public ownership. Financial strategy and risk management is constrained by the bank's very high single-name and sector concentrations, partly reflecting the government's influence over its mandate and decision-making process. Governance risks are partly mitigated by DBSA's increased focus on risk management and improved management capabilities.

ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on Moodys.com. In order to view the latest scores, please click here to go to the landing page for the entity/transaction on MDC and view the ESG Scores section.

Support and structural considerations

High probability of government support, balancing the 100% government ownership against rising fiscal challenges

DBSA's Ba3 CFR benefits from a one-notch uplift from the bank's standalone assessment of b1 because of a "high" probability of support from the South African government. Our assumption of a high probability of government support reflects DBSA's 100% government ownership, development mandate and history of receiving support. However, these parameters are moderated by fiscal pressures that compromise the South African government's ability to provide timely and adequate support to state-owned enterprises. Fiscal pressures reduce the capacity the government has available to provide further support to state-owned enterprises. Recent developments, such as the Land and Agricultural Development Bank's failure to make payments of maturing credit facilities that has triggered an event of default, have further informed our assessment.

The Minister of Finance, in his capacity as the bank's governor, determines the bank's mandate and holds the board of directors accountable for managing the organisation to deliver on its mandate. DBSA is regulated under the Public Finance Management Act and the DBSA Act, and submits a corporate plan to the National Treasury, which also documents the key performance measures and targets against which organisational performance is assessed.

Notching considerations

DBSA's Ba3 issuer rating is based on our LGD analysis for speculative-grade companies, reflecting the priority of claims and coverage in the company's capital stock. In the case of DBSA, the issuer ratings are aligned with the CFR, reflecting the absence of structural subordination of unsecured obligations under our LGD model.

National scale ratings

DBSA's Aa3.za long-term and P-1.za short-term South African national scale ratings are derived from the bank's global scale issuer rating. These ratings reflect the fact that DBSA is still one of the stronger credits in the country, primarily reflecting its high capital buffers and our assumption of a high probability of government support in case of need.

Source of facts and figures in this report

Unless noted otherwise, we have sourced data relating to systemwide trends and market shares from the central bank. Company-specific figures originate from DBSA's financial statements and Moody's Banking Financial Metrics. All figures are based on our own chart of accounts and may be adjusted for analytical purposes. Please refer to the document Financial Statement Adjustments in the Analysis of Financial Institutions, published on 8 April 2024.

Rating methodology and scorecard factors

The principal methodologies used in rating DBSA were Finance Companies, published in July 2024.

Exhibit 8
Rating Factors

Development Bank of Southern Africa						
Financial Profile	Factor Weights	Historic Ratio	Initial Score	Assigned Score	Key driver #1	Key driver #2
Profitability						
Net Income / Average Managed Assets (%)	10%	4.13%	A2	Ba3	Earnings volatility	Expected trend
Capital Adequacy and Leverage						
Tangible Common Equity / Tangible Managed Assets (%)	25%	44.68%	Aa1	A1	Expected trend	
Asset Quality						
Problem Loans / Gross Loans (%)	10%	4.71%	B1	B3	Expected trend	Portfolio composition
Net Charge-Offs / Average Gross Loans (%)	10%	0.40%	Aaa	B2	Expected trend	Portfolio composition
Weighted Average Asset Risk Score			**Baa1**	**B3**		
Cash Flow and Liquidity						
Debt Maturities Coverage (%)	10%	89.04%	Ba2	Caa1	Pro-forma adjustments	Other adjustments
FFO / Total Debt (%)	15%	8.66%	B2	B3	Expected trend	
Secured Debt / Gross Tangible Assets (%)	20%	0.91%	Aa1	B1	Other adjustments	
Weighted Average Cash Flow and Liquidity Score			**Baa2**	**B2**		
Financial Profile Score	**35%**		**A2**	**Ba3**		
Operating Environment						
Home Country	Factor Weights	Sub-factor Score	Score			
Macro Level Indicator	0%		Baa2			
Economic Strength	25%	baa3				
Institutions and Governance Strength	50%	baa2				
Susceptibility to Event Risk	25%	baa				
Industry Risk	100%		B			
Home Country Operating Environment Score			B2			
	Factor Weights			Score	Comment	
Operating Environment Score	**65%**			**B1**		
ADJUSTED FINANCIAL PROFILE				Score		
Adjusted Financial Profile Score				**B1**		
Financial Profile Weight	35%					
Operating Environment Weight	65%					
Business Profile and Financial Policy				Adjustment	Comment	
Business Diversification, Concentration and Franchise Positioning				0		
Opacity and Complexity				0		
Corporate Behavior / Risk Management				0		
Liquidity Management				0		
Total Business Profile and Financial Policy Adjustments				**B1**		
					Comment	
Sovereign or parent constraint				**Ba2**		
Standalone Assessment Scorecard-indicated Range				ba3 - b2		
Assigned Standalone Assessment				b1		

Source: Moody's Ratings

Exhibit 9
Rating Factors JDA

Instrument Class	Assigned Standalone Assessment	Affiliate Support Notching	Government Support Notching	Individual Debt Class Notching	Assigned Rating
Issuer Rating	b1	0	1		Ba3
LT Corporate Family Ratings	b1	0	1		Ba3

Source: Moody's Ratings

Ratings

Exhibit 10

Category	Moody's Rating
DEVELOPMENT BANK OF SOUTHERN AFRICA	
Outlook	Stable
Corporate Family Rating	Ba3
Issuer Rating	Ba3
NSR Issuer Rating	Aa3.za
ST Issuer Rating	NP
NSR ST Issuer Rating	P-1.za

Source: Moody's Ratings

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