

25 April 2017

The Managing Director
S&P Global South Africa
2nd Floor, 30 Jellicoe Avenue
Rosebank, 2196
Via Email: konrad.reuss@spglobal.com
Attention: Mr Konrad Reuss

Doc Ref: MARKB/#223522_V1
Your ref:
Direct ☎: +27 11 645 6712
E-✉: markb@banking.org.za

Dear Mr Reuss

The Banking Association South Africa is the mandated representative of the banking sector, and following the recent negative sovereign rating action, our members have expressed their concern that the S&P Global national rating scale calibration for South Africa needs your urgent attention.

Applying the S&P Global ratings' national and regional scale mapping tables for South Africa, published in June 2016, a long-term local-currency rating of BB+ maps to a national-scale long-term rating between zaA+ and zaA. However, with the negative outlook for the sovereign, we would assume a conservative interpretation of zaA.

The S&P Global publication General Criteria: National and Regional Scale Credit Ratings describes national scale ratings as providing "...a rank ordering of credit within the country." National scale ratings provide further granularity on credit quality, however there appears to be a build-up of national scale ratings around zaA amongst banks and corporates, what S&P Global refer to as a rating compression.

Our concern is that investors may breach their mandates in the short-term and this would introduce a distortion in the market, whereby exposures to our members' debt instruments may have to be reduced, whilst investors seek to change their mandates.

Although we believe the fundamentals have not changed as a result of the rating action, in the absence of a recalibration of South Africa's national scale ratings, we are further concerned that the normal functions of the debt capital markets may be unnecessarily impacted.

We believe that these concerns could be ameliorated by S&P Global announcing their intention to recalibrate South Africa's national rating scales. This action on its own should provide sufficient comfort to those parties forced to rebalance their portfolios. We would then also request S&P Global to recalibrate their national scale rating in respect of South Africa as soon as possible thereafter, and to provide clarity to the market regarding the likely timeframes that would be involved in completing this process.

We look forward to your urgent attention in this regard.

Yours faithfully



Mark Brits
Senior General Manager – Prudential