



RATING ACTION COMMENTARY

Fitch Affirms State-owned Development Bank of Namibia at 'BB'; Outlook Stable

Tue 12 May, 2020 - 8:50 AM ET

Fitch Ratings - London - 12 May 2020: Fitch Ratings has affirmed Development Bank of Namibia's (DBN) Long-Term Issuer Default Ratings (IDR) at 'BB' and upgraded the bank's National Long-Term Rating to 'AAA(zaf)' from 'AA-(zaf)' following the recalibration of the South African National Rating scale. The Outlooks are Stable. A full list of rating actions is detailed below.

Fitch's upgrade of DBN's National Long-Term Rating follows the upgrade of Namibia's National Rating on the South African scale to 'AAA(zaf)'/Stable on 29 April 2020. National Ratings provide a relative measure of creditworthiness for rated entities only within the country. In this context, DBN's National Ratings denotes Fitch's expectations of the default risk relative to other issuers or obligations rated on the same scale.

KEY RATING DRIVERS

IDRs, SUPPORT RATING, SUPPORT RATING FLOOR AND NATIONAL RATINGS

DBN's Long- and Short-Term IDRs and National Ratings are equalised with those of the Namibian sovereign, reflecting potential support from the Namibian

sovereign, if required. DBN's Support Rating (SR) and Support Rating Floor (SRF) consider Namibia's high support propensity but moderate ability to provide support. The Stable Outlooks on DBN's Long-Term IDRs and National Long-Term Rating mirror that on the sovereign's ratings.

Fitch's view of the sovereign's high propensity to provide support considers DBN's clearly defined policy role, 100% state ownership and significant state funding guarantees. Our assessment of Namibia's ability to support considers the country's weaker public finances due to deterioration in economic growth and fiscal metrics, but also DBN's small size, meaning that sovereign support, if required, would be manageable.

DBN's strategy is aligned with national development objectives and is highly influenced by the Namibian government, with oversight from the Ministry of Finance. DBN primarily focuses on financing infrastructure, developmental and large industrial projects, and has recently resumed financing to small and medium-sized enterprises.

State-guaranteed funding accounted for 78% of total liabilities at end-March 2020, largely comprising a 17-year term loan from African Development Bank (AAA/Stable). This facility was utilised for a project of national importance. DBN continues to diversify its funding, having previously been wholly government-funded. The state no longer injects capital into the bank as part of budget allocations. However, DBN remains well-capitalised with a tangible leverage ratio of 35% at end-March 2020, which we consider prudent given high credit concentrations and a high risk appetite.

VIABILITY RATING

Fitch does not assign a Viability Rating to DBN, as is usual for policy banks. This is because DBN's business model is highly dependent on ordinary state support and, in our view, would not be viable on a commercial basis.

RATING SENSITIVITIES

Factors that could, individually or collectively, lead to positive rating action/upgrade:

Rating upside is currently limited. The most immediate upside rating sensitivity for DBN's IDRs and SRF would be an upgrade of Namibia's sovereign ratings.

An upgrade of the SR would require a multi-notch upgrade of Namibia's sovereign rating.

Factors that could, individually or collectively, lead to negative rating action/downgrade:

DBN's Foreign and Local Currency Long-Term IDRs, SRF and National Long-Term Rating will be downgraded if Namibia's ratings are downgraded. DBN's ratings are also sensitive to a reduced propensity of the authorities to support the bank. This could be indicated by a change in the bank's policy role, a material reduction in government ownership, or in funding guarantees.

A downgrade of DBN's Short-Term IDRs and National Short-Term Rating would require a multi-notch downgrade of DBN's respective Long-Term IDRs and National Long-Term Rating.

A downgrade of the SR would require a multi-notch downgrade of Namibia's sovereign rating.

BEST/WORST CASE RATING SCENARIO

International scale credit ratings of Financial Institutions issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of four notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit

<https://www.fitchratings.com/site/re/10111579>.

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

PUBLIC RATINGS WITH CREDIT LINKAGE TO OTHER RATINGS

As a policy bank, DNB's ratings are driven by Namibia's sovereign ratings.

ESG CONSIDERATIONS

The highest level of ESG credit relevance, if present, is a score of 3. This means ESG issues are credit-neutral or have only a minimal credit impact on the entity(ies), either due to their nature or to the way in which they are being managed by the entity(ies). For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg.

RATING ACTIONS

ENTITY/DEBT	RATING		
Development Bank of Namibia Limited	LT IDR	BB	Affirmed
	ST IDR	B	Affirmed
	LC LT IDR	BB	Affirmed
	LC ST IDR	B	Affirmed
	Natl LT	AAA(zaf)	Upgrade
	Natl ST	F1+(zaf)	Affirmed

[VIEW ADDITIONAL RATING DETAILS](#)

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Additional information is available on www.fitchratings.com**APPLICABLE CRITERIA**[National Scale Ratings Criteria \(pub. 18 Jul 2018\)](#)[Bank Rating Criteria \(pub. 28 Feb 2020\) \(including rating assumption sensitivity\)](#)**ADDITIONAL DISCLOSURES**[Dodd-Frank Rating Information Disclosure Form](#)[Solicitation Status](#)[Endorsement Policy](#)**ENDORSEMENT STATUS**

Development Bank of Namibia Limited

EU Issued

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Banks Africa Namibia

