FitchRatings

Banks
Development Banks
Namibia

Development Bank of Namibia Limited

Key Rating Drivers

Sovereign Support Drives Ratings: Development Bank of Namibia Limited's (DBN) Issuer Default Ratings (IDRs) and National Long-Term Rating are driven by a moderate probability of support from the Namibian sovereign, if required, and are equalised with those of Namibia.

High Support Propensity: Fitch Ratings' view of the sovereign's high propensity to provide support considers DBN's clearly defined policy role, 100% state ownership and significant share of state and state-guaranteed funding.

Moderate Support Ability: Our assessment of the sovereign's moderate ability to provide support considers Namibia's weaker public finances and the significant impact of the coronavirus pandemic on the country's economy, but also DBN's relative size (about 5% of GDP), meaning that sovereign support, if required, would be manageable.

Negative Outlook: The Negative Outlook on DBN's Long-Term IDRs and National Long-Term Rating mirror the Negative Outlooks on the sovereign's ratings.

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

Significant State Funding Guarantees: State-guaranteed funding accounted for 78% of DBN's total liabilities at end-March 2020 (FYE20), largely comprising a 17-year term loan from African Development Bank (AfDB, AAA/Stable). DBN continues to diversify its funding, having previously been wholly government funded. Our base case is that Namibia will continue to honour DBN's funding guarantees despite the sovereign's weaker credit profile.

Strong Capitalisation: 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 FYE20, which we consider prudent given high credit concentrations and a high risk appetite.

No Viability Rating Assigned: 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 state support and in our view its unique policy role cannot be carried out on a commercial basis.

National Ratings: DBN's National Ratings reflect Fitch's opinion of the bank's creditworthiness relative to other issuers in Namibia and South Africa. Namibian issuers are rated on the South African national rating scale.

Rating Sensitivities

Downside Potential: DBN's Long-Term IDRs 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 or a material reduction in government ownership or in funding guarantees.

Upside Potential: Rating upside is limited given the Negative Outlook.

Ratings

Foreign Currency	
Long-Term IDR	BB
Short-Term IDR	B
Local Currency	
Long-Term IDR	BB
Short-Term IDR	B
Support	
Support Rating	3
Support Rating Floor	BB
National	
Long-Term Rating	AAA(zaf)
Short-Term Rating	F1+(zaf)
Sovereign Risk	
Long-Term Foreign-Currency IDR	BB
Long-Term Local-Currency IDR	BB
National Long-Term Rating	AAA(zaf)
Country Ceiling	BB+
Outlooks	
Long-Term Foreign-Currency IDR	Negative
Long-Term Local-Currency IDR	Negative
National Long-Term Rating	Negative
Sovereign Long-Term Foreign-Currency IDR	Negative
Sovereign Long-Term Local-Currency IDR	Negative
Sovereign National Long-Term Rating	Negative

Applicable Criteria

Bank Rating Criteria (February 2020)
National Scale Ratings Criteria (June 2020)

Related Research

Fitch Revises DBN's Outlook to Negative; Affirms at 'BB' (June 2020)
Fitch Revises Outlook on Namibia to Negative; Affirms at 'BB' (June 2020)
Namibia (June 2020)

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Sovereign Support Assessment

Moderate Probability of Support

As a policy bank, DBN's ratings are equalised with Namibia's ratings due to the authorities' strong propensity to support the bank, given DBN's important and unique policy role, 100% state ownership and significant state funding guarantees. However, the sovereign's ability to provide support is moderate given its own rating.

Support Rating Floor			Value
Typical D-SIB SRF for sovereign's rating level (assuming high propensity)			BB or BB-
Actual country D-SIB SRF			BB
Support Rating Floor:			**BB**
Support Factors	**Positive**	**Neutral**	**Negative**
Sovereign ability to support system			
Size of banking system relative to economy		✓	
Size of potential problem			✓
Structure of banking system		✓	
Liability structure of banking system		✓	
Sovereign financial flexibility (for rating level)		✓	
Sovereign propensity to support system			
Resolution legislation with senior debt bail-in		✓	
Track record of banking sector support		✓	
Government statements of support		✓	
Policy banks			
Policy role	✓		
Funding guarantees and legal status	✓		
Government ownership	✓		

Bar Chart Legend

- Higher influence
- Moderate influence
- Lower influence

Significant Changes

Outlook Revised to Negative

In June 2020 Fitch revised the Outlooks on DBN's Long-Term IDRs and National Long-Term Rating to Negative from Stable. This followed a similar rating action on the Namibian sovereign. The action on the sovereign reflected the significant impact of the coronavirus pandemic on Namibia's economy and public finances. The shock increases downward pressure on the sovereign's creditworthiness after four years of poor economic performance which have driven a substantial rise in general government debt. Fitch believes a subdued growth outlook and particularly high inequality present a challenging environment for resumption of fiscal reforms.

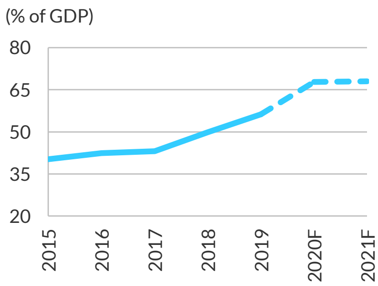
We project the economy will contract by a record 5% in 2020 despite the easing of temporary disruptions to the mining sector and of an acute drought that led to a 1.1% decline in 2019. Domestic containment measures and reprioritisation of public spending are hitting activity in construction and other domestic sectors, while border closures with neighbouring countries are also affecting trade and tourism.

The temporary easing in monetary and fiscal policies will partly cushion the hit from the shock. The government has rolled out a support package consisting mostly of wage subsidies and acceleration of tax refunds of 3.3% of the forecast 2020 GDP, in addition to loan guarantees of around 1.3% of GDP. Meanwhile, the Bank of Namibia has cut its policy rate by a cumulative 250bp so far in 2020.

The government has fully guaranteed a NAD500 million loan scheme for non-agricultural small businesses provided by DBN as part of the initial economic relief and stimulus package totalling NAD8.1 billion. The loans are being extended to SMEs that are experiencing financial difficulties due to a sudden and significant loss of revenue.

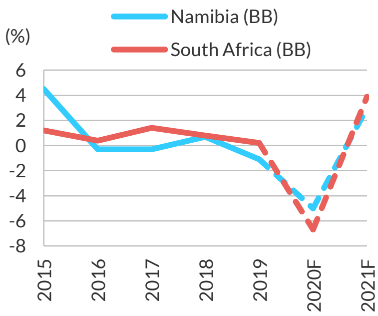
General Government Debt

(Namibia)



Source: Fitch Ratings

Real GDP Growth



Source: Fitch Ratings

Company Summary and Key Qualitative Assessment Factors

Namibia's Primary Development Bank

DBN is Namibia's flagship policy bank, contributing to the country's economic growth and social development in a sustainable manner. DBN was incorporated under the Development Bank of Namibia Act, and benefits from a certain amount of protection in the event of liquidation.

Established in 2004, DBN is larger than Namibia's other development finance institutions (DFIs) and has taken on increased importance following the failure of SME Bank (another state-owned Namibian development bank) in 2017. Existing domestic DFIs (Agri Bank and National Housing Enterprise) have their own specific focus and are unable to replace or compete with DBN, in our view. DBN partners with regional DFIs to finance large projects and share technical expertise.

DBN provides development financing to private and public businesses, focusing on financing infrastructure and large industrial projects. The bank is prohibited from funding projects outside Namibia. DBN is not profit oriented but remains profitable. Financial sustainability is a core objective of both management and shareholders.

DBN is relatively small and more efficiently run than other regional development banks, with around 100 staff. It operates from a head office in Namibia's capital, Windhoek, and three branches.

Independent Board of Directors

The MoF appoints DBN's board entirely from the private sector and there is no government representation, ensuring independence. DBN's management team is highly experienced in development banking and has a good degree of depth and stability. Senior managers are appointed internally and many have prior commercial banking experience.

Government-Led Strategy

DBN's strategy remains aligned with national development objectives. Strategic direction is highly influenced by the government, in line with DBN's mandate, despite board and management independence. DBN holds quarterly technical meetings with the MoF, and other ad hoc meetings, to ensure strategic oversight.

Risk Appetite Commensurate with Policy Role

As a development bank, DBN has a higher risk appetite than local commercial banks. Lending is longer term, collateral is typically not required and grace periods are frequently granted. The bank is also exposed to sectoral concentrations due to the nature of its business. DBN ensures that loans are priced with consideration to a customer's risk profile, but also to the bank's low cost of funding and development objective.

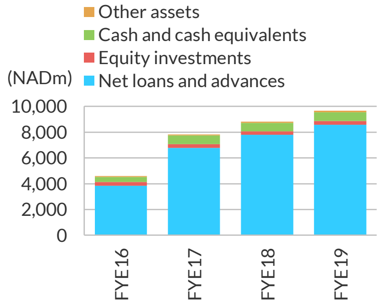
DBN reinstated its SME lending function following the failure of SME Bank in 2017. DBN defines SMEs as customers with a turnover below NAD10 million. Fitch does not expect SME lending to exceed 20% of DBN's loan book. The MoF has made separate capital contributions to cover typically high loan impairment charges relating to SME finance.

Strong Balance-Sheet Growth

DBN's loan book has grown noticeably in recent years, with the bank expanding its development impact. Gross loans grew 75% in FY17 due to a single loan to the National Energy Fund (NEF), which was directed by the government. The loan was extended to fund the construction of Namibia's largest fuel storage facility, which is considered a project of national importance as it allows for a significant increase in fuel reserves.

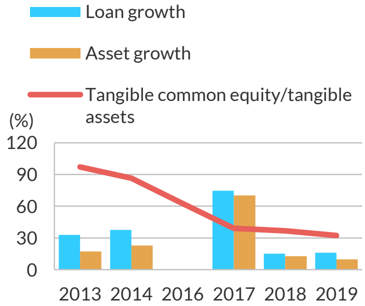
The NEF exposure was NAD4.3 billion at FYE20 and accounted for 46% of gross loans. It was funded by a government-guaranteed loan facility of NAD4.5 billion obtained from the AfDB. The NEF will make principal and interest repayments through a government-imposed fuel levy on consumers introduced in March 2017. Under a formal framework, the fuel levy provides sufficient cash flow to service the AfDB loan facility.

Total Assets



Source: Fitch Ratings, DBN

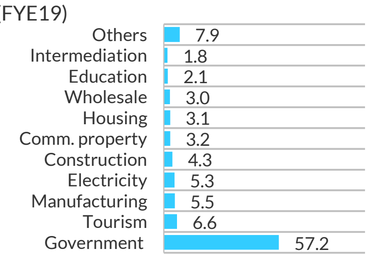
Asset Growth



Source: Fitch Ratings, DBN

Gross Loans by Sector (%)

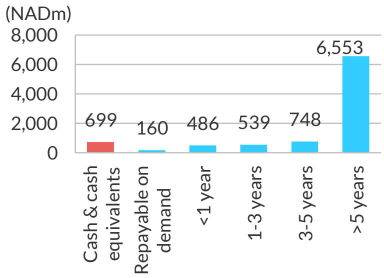
(FYE19)



[a] NEF transaction included within 'Government'
Source: Fitch Ratings, DBN

Loans Maturity Profile

(FYE19)



Source: Fitch Ratings, DBN

Summary Financials and Key Ratios

	31 Mar 19		31 Mar 18	31 Mar 17	31 Mar 16
	Year end	Year end	Year end	Year end	Year end
	(USDm)	(NADm)	(NADm)	(NADm)	(NADm)
	Audited - unqualified	Audited - unqualified	Audited - unqualified	Audited - unqualified	Audited - unqualified
Summary income statement					
Net interest and dividend income	28	402.2	415.7	339.6	340.1
Net fees and commissions	2	28.2	23.6	37.1	25.1
Other operating income	6	91.7	18.1	-7.2	31.0
Total operating income	36	522.1	457.4	369.5	396.2
Operating costs	9	136.5	116.7	103.7	106.4
Pre-impairment operating profit	26	385.6	340.7	265.8	289.8
Loan and other impairment charges	12	173.9	121.2	93.8	81.0
Operating profit	15	211.7	219.5	172.0	208.8
Other non-operating items (net)	0	0.0	n.a.	n.a.	n.a.
Tax	n.a.	n.a.	0.0	0.0	0.0
Net income	15	211.7	219.5	172.0	208.8
Other comprehensive income	2	27.2	-7.9	29.3	-2.1
Fitch comprehensive income	16	238.9	211.6	201.3	206.7
Summary balance sheet					
Assets					
Gross loans	641	9,355.2	8,060.0	6,996.0	4,007.2
- Of which impaired	61	894.5	634.7	482.7	395.4
Loan loss allowances	54	783.9	267.0	215.0	161.5
Net loans	587	8,571.3	7,793.0	6,781.0	3,845.7
Interbank	n.a.	n.a.	n.a.	n.a.	n.a.
Derivatives	n.a.	n.a.	n.a.	n.a.	n.a.
Other securities and earning assets	19	281.7	265.2	296.6	287.9
Total earning assets	607	8,853.0	8,058.2	7,077.6	4,133.6
Cash and due from banks	48	699.0	661.9	661.6	387.1
Other assets	8	118.7	98.6	79.8	73.1
Total assets	663	9,670.7	8,818.7	7,819.0	4,593.8
Liabilities					
Customer deposits	2	33.0	33.0	33.0	33.0
Interbank and other short-term funding	n.a.	n.a.	676.9	867.5	873.1
Other long-term funding	442	6,457.4	4,755.9	3,738.8	650.6
Trading liabilities and derivatives	n.a.	n.a.	35.7	75.9	126.9
Total funding	442	6,457.4	5,501.5	4,715.2	1,683.6
Other liabilities	6	83.2	67.6	48.6	35.4
Preference shares and hybrid capital	n.a.	n.a.	n.a.	n.a.	n.a.
Total equity	214	3,130.1	3,249.6	3,055.2	2,874.8
Total liabilities and equity	663	9,670.7	8,818.7	7,819.0	4,593.8
Exchange rate		USD1 = NAD14.5947	USD1 = NAD13.52255	USD1 = NAD13.2736	USD1 = NAD14.7321

Source: Fitch Ratings, Fitch Solutions, DBN

Summary Financials and Key Ratios

	31 Mar 19	31 Mar 18	31 Mar 17	31 Mar 16
Ratios (annualised as appropriate)				
Profitability				
Operating profit/risk-weighted assets	n.a.	n.a.	n.a.	n.a.
Net interest income/average earning assets	4.8	5.5	5.6	8.2
Non-interest expense/gross revenue	26.1	25.5	28.1	26.9
Net income/average equity	6.6	7.0	5.8	6.2
Asset quality				
Impaired loans ratio	9.6	7.9	6.9	9.9
Growth in gross loans	16.1	15.2	74.6	n.a.
Loan loss allowances/impaired loans	87.6	42.1	44.5	40.8
Loan impairment charges/average gross loans	2.0	1.6	1.6	2.0
Capitalisation				
Common equity Tier 1 ratio	n.a.	n.a.	n.a.	n.a.
Fully loaded common equity Tier 1 ratio	n.a.	n.a.	n.a.	n.a.
Fitch Core Capital ratio	n.a.	n.a.	n.a.	n.a.
Tangible common equity/tangible assets	32.3	36.8	39.1	62.6
Basel leverage ratio	n.a.	n.a.	n.a.	n.a.
Net impaired loans/common equity Tier 1	n.a.	n.a.	n.a.	n.a.
Net impaired loans/Fitch Core Capital	3.5	11.3	8.8	8.1
Funding and liquidity				
Loans/customer deposits	28,349.1	24,424.2	21,200.0	12,143.0
Liquidity coverage ratio	n.a.	n.a.	n.a.	n.a.
Customer deposits/funding	0.5	0.6	0.7	2.1
Net stable funding ratio	n.a.	n.a.	n.a.	n.a.

Source: Fitch Ratings, Fitch Solutions, DBN

Key Financial Metrics

Weak Asset Quality

DBN's impaired loans (Stage 3 loans under IFRS 9) ratio (9.6% at FYE19) is higher than the Namibian banking sector's impaired loans ratio (4.5% at end-2019), reflecting a higher risk appetite compared to local commercial banks. We expect DBN's asset quality to weaken in FY20/21 because of heightened pressure on borrowers due to the very weak economic environment.

Loan-loss coverage of impaired loans (88% at FYE19) is comfortable. Credit concentrations are high in terms of single obligor and sector, exposing DBN to event risk in isolated industries and borrowers.

Healthy Profitability

DBN's profitability is sound, with operating return on average assets at 2.3% in FYE19. Profit maximisation is not an objective, but DBN is focused on financial sustainability.

Net interest income drives DBN's earnings, providing the 77% of total operating income in FY19. DBN prices its loans based on the risk of the borrower but is able to expand its development contribution by providing loans at concessional rates given its low cost of funding through equity funding and government guarantees. Loan impairment charges are high given asset-quality pressures and consumed 45% of pre-impairment operating profit in FY19.

We do not expect DBN's loan impairment charges in FY20 to reflect the full impact of the pandemic, and large credit impairments will probably weigh on the bank's profits in FY21.

Robust Capitalisation

The MoF no longer injects capital into DBN due to budget restrictions, but DBN is well capitalised, with a tangible leverage ratio of 35% at FYE20. Fitch views DBN's strong solvency position as prudent in view of the bank's high credit concentrations and risk appetite. We expect DBN's capitalisation to remain strong but face pressures from loan growth and lower internal capital generation.

DBN's tangible leverage ratio has declined significantly in recent years (from 86% at end-December 2014 to 32% at FYE19) as a result of increased borrowings to fund fast loan growth. The day-one impact of the transition to IFRS 9 on 1 April 2018 has largely been offset by retained earnings in FY19 (and expected in FY20). DBN's declared dividends are not paid to shareholders, but rather redeployed towards priority sectors.

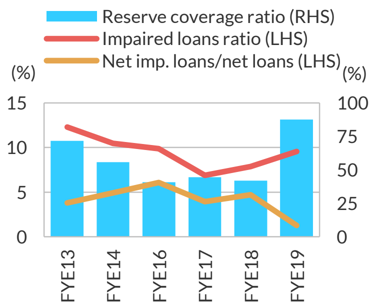
Significant Government-Guaranteed Funding

Government-guaranteed funding represented 78% of total funding at FYE20, underpinning state support for the bank. Fitch considers that government guarantees will continue to be forthcoming for DBN as the bank pursues its development objectives. Furthermore, our base case assumes that Namibia will continue to honour DBN's funding guarantees for specific borrowings despite the sovereign's weaker credit profile.

DBN has diversified its funding base in recent years after the reduction in capital contributions from the MoF. The largest source of funding is a 17-year term loan facility from the AfDB received in 2016, which represented 66% of total non-equity funding at FYE20 (NAD4.1 billion drawn out of a NAD4.5 billion facility). The facility has a five-year grace period on principal payments, is fully guaranteed by the government and is deployed entirely in the NEF transaction. DBN also has NAD1.5 billion of term funding from Standard Bank Namibia (also used for the NEF project), of which NAD670 million is government guaranteed.

At FYE20, DBN had NAD624 million of senior unsecured notes issued under its NAD2.5 billion medium-term note programme and a three-year NAD200 million term loan from RMB Namibia. Neither of these liabilities carries a government guarantee. DBN is permitted to collect wholesale deposits, but considers this an expensive funding option. DBN holds limited liquid assets in the form of cash and cash equivalents but is able to draw on existing credit lines for liquidity.

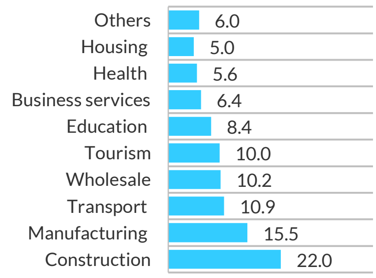
Asset Quality



Source: Fitch Ratings, DBN

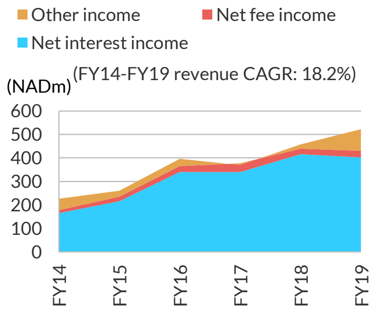
Impaired Loans (%)

(FYE19)



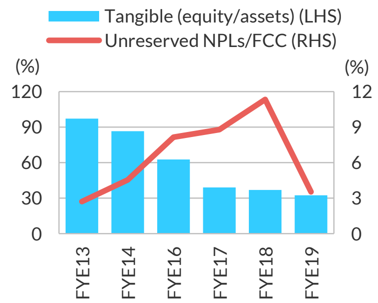
Source: Fitch Ratings, DBN

Revenue Breakdown



Source: Fitch Ratings, DBN

Capitalisation & Leverage



Source: Fitch Ratings, DBN

The ratings above were solicited and assigned or maintained at the request of the rated entity/issuer or a related third party. Any exceptions follow below.