FitchRatings

Banks
Development Banks
Namibia

# Development Bank of Namibia Limited

## Key Rating Drivers

**Ratings Equalised with Sovereign:** Development Bank of Namibia Limited's (DBN) Issuer Default Ratings (IDRs) and National Ratings are driven by a moderate probability of support from the Namibian sovereign, if required, and are equalised with those of Namibia. The Outlooks on DBN's ratings mirror those on the sovereign.

Fitch Ratings believes Namibia has a high propensity to provide support considering DBN's clearly defined policy role, 100% state ownership and significant share of state-guaranteed funding. The sovereign's ability to support is viewed as moderate due to its large fiscal deficits and debt being counterbalanced by strong institutional features and the sovereign's financing flexibility supported by a developed domestic financial system.

**Important Policy Role:** DBN is Namibia's flagship policy bank and contributes to the country's economic growth and social development. Its strategy is aligned with national development objectives and is highly influenced by the Namibian government, with oversight from its shareholder representative, the Ministry of Finance (MoF). DBN focuses on financing infrastructure, developmental and large industrial projects, and, to a lesser degree, financing to small and medium-sized enterprises (SMEs).

**Significant State Funding Guarantees:** Government-guaranteed funding increased to 89% of DBN's total liabilities at end-December 2020 from 78% at end-March 2020 (FYE20). A 17-year line of credit from African Development Bank represented 75% of DBN's liabilities at end-December 2020. The facility is fully guaranteed by the government and was used for a project of national importance.

**Strong Capitalisation:** DBN remains well capitalised, with a tangible equity/assets ratio of 35% at FYE20, which we view as prudent given the bank's focus on policy lending and vulnerable asset quality. DBN reports high credit concentrations and has an inherently high risk appetite given its development focus. The bank's impaired loans ratio was 12.9% at FYE20.

**Financially Sustainable; Not Profit-Oriented:** DBN's net income/average equity ratio was 7.1% in FY20 but we expect profitability to fall sharply in FY21 due to margin compression and higher loan impairment charges.

**No Viability Rating Assigned:** Fitch has not assigned a Viability Rating to DBN, as is usual for policy banks. This is because DBN's business model depends 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 ratings would be downgraded if Namibia's sovereign rating is downgraded. DBN's ratings are also sensitive to a reduced propensity of the authorities to support the bank. This could be indicated by an adverse change in DBN's policy role or a material reduction in government ownership, which Fitch views as unlikely.

**Limited Upside Potential:** Upside is limited given the Negative Outlook on DBN's Long-Term Foreign-Currency IDR.

### 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 | Stable |
| Sovereign Long-Term Foreign-Currency IDR | Negative |
| Sovereign Long-Term Local-Currency IDR | Negative |
| Sovereign National Long-Term Rating | Stable |

### Applicable Criteria

Bank Rating Criteria (February 2020)

National Scale Rating Criteria (December 2020)

### Related Research

Fitch Affirms Development Bank of Namibia at 'BB'; Outlook Negative (May 2021)

The Revival of African National Development Banks (April 2021)

Fitch Affirms Namibia at 'BB'; Outlook Negative (December 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, long-term and strategic government 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 | | | NR |
| **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

## Failure of Air Namibia

Our assessment of the Namibian government's high propensity to support DBN was not adversely affected by its decision to liquidate another state-owned enterprise, Air Namibia, in March 2021. The national airline was reliant on state bailouts and was a clear burden on the sovereign. The liquidation of the state carrier was an indication of the government's intention to tackle the drain on the budget from transfers to financially weak state-owned enterprises through a combination of restructuring, divestment and, as a last resort, liquidation. This is not the case for DBN, which is financially sustainable and relies less on capital injections from the state. DBN's unique policy role also remains critical to Namibia's economic development.

The Act under which DBN was incorporated allows for a minority share to be sold to a strategic investor, most likely a foreign development finance institution (DFI). However, we believe there are no plans for the government to sell any shares in DBN.

## Growing Development Impact

In FY20, DBN committed NAD1.1 billion (FY19: NAD682 million) in loans, guarantees and co-financing to support the country's development needs. There was no finance that was directly channelled to the public sector in FY20. All the funds benefited the private sector, with 3.6%, or NAD41 million, of those funds benefiting public/private partnership arrangements.

In alignment with national development goals, DBN prioritises sectors that drive industrial expansion, inclusivity and job creation, deliver essential infrastructure, address persistent inequalities, and foster economic transformation and growth. These sectors include manufacturing, tourism, transportation, energy, fisheries and agriculture. DBN increased the number of start-up approvals to 36 in FY20 (FY19: 21). The largest approvals by sector were to land servicing (NAD443 million), followed by SMEs (NAD279 million), business services (NAD177 million) and manufacturing (NAD131 million). Approvals are projected to create 1,693 temporary and 8,130 permanent jobs, a clear demonstration of the bank's active and positive development impact.

## Company Summary and Key Qualitative Assessment Factors

### Namibia's Primary Development Bank

DBN was established in 2004 and is wholly owned by the Namibian government. DBN is Namibia's largest DFI. Other domestic DFIs (Agri Bank and National Housing Enterprise) are smaller, have their own specific focus and are unable to replicate DBN's policy mandate, in our view.

DBN provides development financing to private and public businesses, focusing on financing infrastructure and large industrial projects in Namibia. DBN partners with regional DFIs to finance domestic projects with the objective of promoting socio-economic transformation. The bank is prohibited from funding projects outside the country.

DBN is smaller and more efficiently run than other regional DFIs, with about 115 staff. It operates from a head office in Namibia's capital, Windhoek, and three satellite offices.

### Government-led Strategy

DBN's strategy remains aligned with national development objectives. Its strategic direction is highly influenced by the government, in line with DBN's mandate, despite board and management independence. DBN holds regular meetings with the MoF to ensure strategic oversight. The bank's strategy promotes access to finance in all regions, particularly those areas with low economic activity, underused land and high social inequalities. DBN promotes finance for previously disadvantaged Namibians, including businesses owned by women and youth.

The bank has been directed by its shareholder to resume lending to SMEs following the failure of SME Bank (a liquidated state-owned Namibian development bank) in 2017. Fitch does not expect SME lending to exceed 20% of DBN's loan book. As part of its policy role, DBN increased its SME financing in the pandemic after the roll-out of government-guaranteed working-capital loans to non-agricultural SMEs hit by Covid-19. The SME relief loans are financed by a NAD450 million facility from KfW guaranteed by the government.

### Policy Role Drives High Risk Appetite

As a development bank, DBN has a higher risk appetite than local commercial banks. This is a consequence of the bank's role in financing emerging sectors and industries, as well as customer segments that are underserved by commercial banks. It also reflects the bank's counter-cyclical lending role.

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 of a customer's risk profile, but also of the bank's low cost of funding and development objective.

### Asset Growth Reduced by Loan Repayments

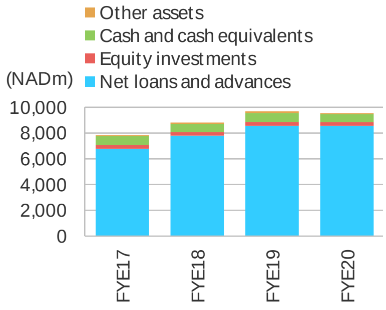
Gross loans grew 75% in FY17 mainly due to a single loan to the National Energy Fund (NEF), which was directed by the government. The loan was extended to fund the construction of Namibia's largest fuel storage facility in Walvis Bay, which was considered a strategic project by the government. It was funded by a government-guaranteed loan facility of NAD4.5 billion obtained from the African Development Bank (AfDB). The NEF makes principal and interest repayments through a government-imposed fuel levy on consumers introduced in 2017. Under this formal framework, the fuel levy provides sufficient cash flow to service the AfDB loan facility. In FY17, DBN also funded the development of Namibia's largest dam, Neckartal Dam, which accounted for 4% of gross loans at FYE20.

DBN's loan book grew by only 1% in FY20 mainly due to the part repayment of the NEF loan (NAD336 million). The NEF exposure was NAD3.8 billion and accounted for 40% of gross loans at FYE20 (FYE29: 44%). Excluding the NEF and Neckartal Dam loan repayments, DBN's gross loans grew by NAD391 million (or 6%) in FY20. We expect faster loan growth in FY21-FY22 as the economy recovers and SME loan disbursements increase.

### Moderate Market Risk Exposure

The bank's foreign-currency risk is limited given zero foreign-currency-denominated loans and borrowings, while interest rate and equity risks are considered moderate.

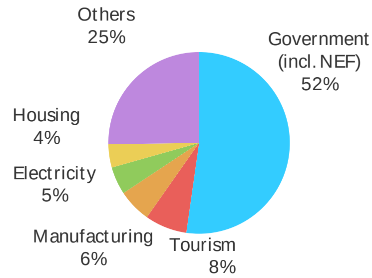
### Assets Structure




Source: Fitch Ratings, DBN

### Gross Loans by Sector

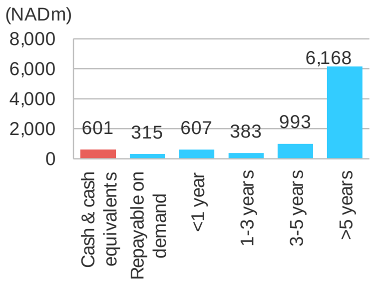
FYE20




Source: Fitch Ratings, DBN

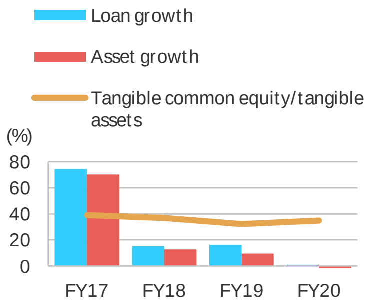
### Loans Maturity Profile

(FYE20)




Source: Fitch Ratings, DBN

### Asset Growth




Source: Fitch Ratings, DBN

## Summary Financials and Key Ratios

| | 31 Mar 20 | | 31 Mar 19 | 31 Mar 18 | 31 Mar 17 |
|---|---|---|---|---|---|
| | 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 | 26 | 470.1 | 402.2 | 415.7 | 339.6 |
| Net fees and commissions | 1 | 23.4 | 28.2 | 23.6 | 37.1 |
| Other operating income | 0 | -4.8 | 91.7 | 18.1 | -7.2 |
| Total operating income | 27 | 488.7 | 522.1 | 457.4 | 369.5 |
| Operating costs | 8 | 140.4 | 136.5 | 116.7 | 103.7 |
| Pre-impairment operating profit | 19 | 348.3 | 385.6 | 340.7 | 265.8 |
| Loan and other impairment charges | 7 | 119.3 | 173.9 | 121.2 | 93.8 |
| Operating profit | 13 | 229.0 | 211.7 | 219.5 | 172.0 |
| Other non-operating items (net) | 0 | 0.1 | 0.0 | n.a. | n.a. |
| Tax | n.a. | n.a. | n.a. | 0.0 | 0.0 |
| Net income | 13 | 229.1 | 211.7 | 219.5 | 172.0 |
| Other comprehensive income | -1 | -10.9 | 27.2 | -7.9 | 29.3 |
| Fitch comprehensive income | 12 | 218.2 | 238.9 | 211.6 | 201.3 |
| | | | | | |
| **Summary balance sheet** | | | | | |
| **Assets** | | | | | |
| Gross loans | 526 | 9,455.3 | 9,355.2 | 8,060.0 | 6,996.0 |
| - Of which impaired | 68 | 1,219.7 | 894.5 | 634.7 | 482.7 |
| Loan loss allowances | 50 | 890.3 | 783.9 | 267.0 | 215.0 |
| Net loans | 477 | 8,565.0 | 8,571.3 | 7,793.0 | 6,781.0 |
| 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 | 15 | 272.8 | 281.7 | 265.2 | 296.6 |
| Total earning assets | 492 | 8,837.8 | 8,853.0 | 8,058.2 | 7,077.6 |
| Cash and due from banks | 33 | 601.4 | 699.0 | 661.9 | 661.6 |
| Other assets | 5 | 96.2 | 118.7 | 98.6 | 79.8 |
| Total assets | 531 | 9,535.4 | 9,670.7 | 8,818.7 | 7,819.0 |
| | | | | | |
| **Liabilities** | | | | | |
| Customer deposits | 2 | 33.0 | 33.0 | 33.0 | 33.0 |
| Interbank and other short-term funding | n.a. | n.a. | n.a. | 676.9 | 867.5 |
| Other long-term funding | 336 | 6,040.2 | 6,424.4 | 4,755.9 | 3,738.8 |
| Trading liabilities and derivatives | n.a. | n.a. | n.a. | 35.7 | 75.9 |
| Total funding | 338 | 6,073.2 | 6,457.4 | 5,501.5 | 4,715.2 |
| Other liabilities | 8 | 135.1 | 83.2 | 67.6 | 48.6 |
| Preference shares and hybrid capital | n.a. | n.a. | n.a. | n.a. | n.a. |
| Total equity | 185 | 3,327.1 | 3,130.1 | 3,249.6 | 3,055.2 |
| Total liabilities and equity | 531 | 9,535.4 | 9,670.7 | 8,818.7 | 7,819.0 |
| Exchange rate | | USD1 = NAD17.9622 | USD1 = NAD14.5947 | USD1 = NAD13.52255 | USD1 = NAD13.2736 |

Source: Fitch Ratings, Fitch Solutions, Development Bank of Namibia Limited

## Summary Financials and Key Ratios

| | 31 Mar 20 | 31 Mar 19 | 31 Mar 18 | 31 Mar 17 |
|---|---|---|---|---|
| **Ratios (annualised as appropriate)** | | | | |
| | | | | |
| **Profitability** | | | | |
| Operating profit/risk-weighted assets | n.a. | n.a. | n.a. | n.a. |
| Net interest income/average earning assets | 5.3 | 4.8 | 5.5 | 5.6 |
| Non-interest expense/gross revenue | 28.7 | 26.1 | 25.5 | 28.1 |
| Net income/average equity | 7.1 | 6.6 | 7.0 | 5.8 |
| | | | | |
| **Asset quality** | | | | |
| Impaired loans ratio | 12.9 | 9.6 | 7.9 | 6.9 |
| Growth in gross loans | 1.1 | 16.1 | 15.2 | 74.6 |
| Loan loss allowances/impaired loans | 73.0 | 87.6 | 42.1 | 44.5 |
| Loan impairment charges/average gross loans | 1.3 | 2.0 | 1.6 | 1.6 |
| | | | | |
| **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 | 34.9 | 32.3 | 36.8 | 39.1 |
| 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 | n.a. | 3.5 | 11.3 | 8.8 |
| | | | | |
| **Funding and liquidity** | | | | |
| Loans/customer deposits | 28,652.4 | 28,349.1 | 24,424.2 | 21,200.0 |
| Liquidity coverage ratio | n.a. | n.a. | n.a. | n.a. |
| Customer deposits/funding | 0.5 | 0.5 | 0.6 | 0.7 |
| Net stable funding ratio | n.a. | n.a. | n.a. | n.a. |

Source: Fitch Ratings, Fitch Solutions, Development Bank of Namibia Limited

## Key Financial Metrics – Latest Developments

### Weak Asset Quality

The bank's impaired loans (Stage 3 loans under IFRS 9) ratio (12.9% at FYE20) is above the Namibian banking sector's impaired loans ratio (4.8% at end-2019), reflecting a higher risk appetite than local commercial banks. DBN's impaired loans ratio would be higher without its two largest loans, to NEF and Neckartal Dam, which are both performing. We expect DBN's asset quality to remain weak in FY21-FY22 mainly due to pressures on borrowers from the very weak economic environment and the expiry of debt relief measures.

DBN granted payment holidays (on interest and principal) for borrowers affected by the pandemic. Around 10% of the bank's loan book was under debt relief at end-December 2020, and mainly related to borrowers in the tourism sector. The loan moratorium is due to expire at end-June 2021.

Loan-loss coverage of impaired loans (73% at FYE20) is comfortable. Credit concentrations are high in terms of single obligor and sector, exposing DBN to event risk in isolated industries and borrowers. The bank's two largest exposures accounted for a very high 44% of gross loans at FYE20.

### Pressure on Profitability

DBN aims to be profitable and its operating return on average assets was a sound 2.4% in FY20. Due to a low cost of funding (as most liabilities are guaranteed by the state), DBN can lend at concessional rates, maintaining a reasonable net interest margin (5.3% in FY20). Net interest income drives DBN's operating income (96% in FY20).

We expect a significant drop in earnings in FY21 as lower interest rates will affect margins materially. Loan impairment charges will consume a higher share of pre-impairment operating profit in FY21 (34% in FY20), reflecting weaker asset quality and a subdued macro-economic outlook. This will put further pressure on DBN's profitability in FY21.

### Robust Capitalisation

DBN is well capitalised, with a tangible leverage ratio of 35% at FYE20. Fitch views DBN's strong capital position as prudent given the bank's high credit concentrations and risk appetite. We expect DBN's capitalisation to remain strong but reduce slowly given loan growth. DBN's declared dividends are not paid to shareholders, but rather redeployed towards priority sectors. We forecast no capital injections from the MoF in FY21-FY22.

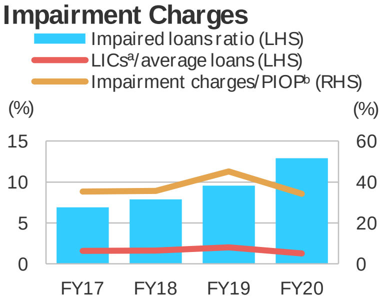
### Significant Government-Guaranteed Funding

Government-guaranteed funding was a higher 89% (FYE20: 78%) of the bank's total liabilities at end-December 2020, underpinning state support for DBN. The increase in FY21 was driven by additional borrowings of NAD120 million from KfW for climate adaptive infrastructure. This 12-year state-guaranteed line of credit will be used for financing such assets as solar farms, wind generation and water infrastructure. Fitch considers that government guarantees will continue to be forthcoming for DBN as the bank pursues state development objectives.

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 FY17, which represented 75% of total liabilities at end-December 2020. DBN drew down on the final NAD500 million out of a NAD4.5 billion facility in FY21. The facility has a five-year grace period on principal payments (the first capital repayment is in August 2021), is fully guaranteed by the government and is deployed entirely in the NEF transaction. DBN also has NAD742 million (initial: NAD1.5 billion) of term funding from Standard Bank Namibia (also used for the NEF project), of which NAD670 million is government guaranteed.

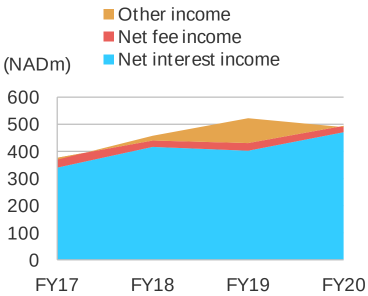
At end-December 2020, DBN had NAD287 million of senior unsecured notes (not government guaranteed) issued under its NAD2.5 billion medium-term note programme after repaying NAD341 million in FY21. DBN is permitted to collect wholesale deposits but considers this an expensive funding option. DBN holds limited liquid assets in the form of cash and cash equivalent but is able to draw on existing credit lines for liquidity.

### Impairment Charges



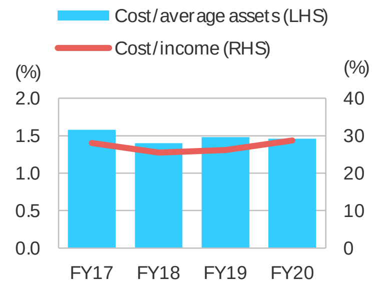

[a] Loan impairment charges
[b] Pre-impairment operating profit
Source: Fitch Ratings, DBN

### Revenue Breakdown




Source: Fitch Ratings, DBN

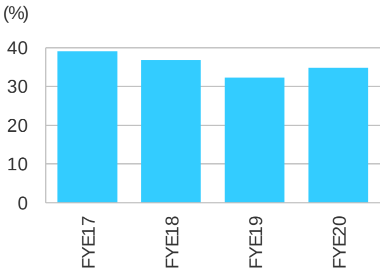
### Cost Efficiency




Source: Fitch Ratings, DBN

### Capitalisation & Leverage

Tangible (equity/assets)




Source: Fitch Ratings, DBN

## Environmental, Social and Governance Considerations

FitchRatings **Development Bank of Namibia Limited** Banks Ratings Navigator

**Credit-Relevant ESG Derivation**

Development Bank of Namibia Limited has 1 ESG rating driver and 4 ESG potential rating drivers

- Development Bank of Namibia Limited has exposure to board independence and effectiveness; ownership concentration; protection of creditor/stakeholder rights; legal /compliance risks; business continuity; key person risk; related party transactions which, in combination with other factors, impacts the rating.
- Development Bank of Namibia Limited has exposure to compliance risks including fair lending practices, mis-selling, repossession/foreclosure practices, consumer data protection (data security) but this has very low impact on the rating.
- Development Bank of Namibia Limited has exposure to operational implementation of strategy but this has very low impact on the rating.
- Development Bank of Namibia Limited has exposure to organizational structure; appropriateness relative to business model; opacity; intra-group dynamics; ownership but this has very low impact on the rating.
- Development Bank of Namibia Limited has exposure to quality and frequency of financial reporting and auditing processes but this has very low impact on the rating.

| | | | Overall ESG Scale |
|---|---|---|---|
| key driver | 0 | issues | 5 |
| driver | 1 | issues | 4 |
| potential driver | 4 | issues | 3 |
| not a rating driver | 4 | issues | 2 |
| | 5 | issues | 1 |

**Environmental (E)**

| General Issues | E Score | Sector-Specific Issues | Reference | E Scale |
|---|---|---|---|---|
| GHG Emissions & Air Quality | 1 | n.a. | n.a. | 5 |
| Energy Management | 1 | n.a. | n.a. | 4 |
| Water & Wastewater Management | 1 | n.a. | n.a. | 3 |
| Waste & Hazardous Materials Management; Ecological Impacts | 1 | n.a. | n.a. | 2 |
| Exposure to Environmental Impacts | 2 | Impact of extreme weather events on assets and/or operations and corresponding risk appetite & management; catastrophe risk; credit concentrations | Company Profile; Management & Strategy; Risk Appetite; Asset Quality | 1 |

**Social (S)**

| General Issues | S Score | Sector-Specific Issues | Reference | S Scale |
|---|---|---|---|---|
| Human Rights, Community Relations, Access & Affordability | 2 | Services for underbanked and underserved communities: SME and community development programs; financial literacy programs | Company Profile; Management & Strategy; Risk Appetite | 5 |
| Customer Welfare - Fair Messaging, Privacy & Data Security | 3 | Compliance risks including fair lending practices, mis-selling, repossession/foreclosure practices, consumer data protection (data security) | Operating Environment; Company Profile; Management & Strategy; Risk Appetite | 4 |
| Labor Relations & Practices | 2 | Impact of labor negotiations, including board/employee compensation and composition | Company Profile; Management & Strategy | 3 |
| Employee Wellbeing | 1 | n.a. | n.a. | 2 |
| Exposure to Social Impacts | 2 | Shift in social or consumer preferences as a result of an institution's social positions, or social and/or political disapproval of core banking practices | Company Profile; Financial Profile | 1 |

**Governance (G)**

| General Issues | G Score | Sector-Specific Issues | Reference | G Scale |
|---|---|---|---|---|
| Management Strategy | 3 | Operational implementation of strategy | Management & Strategy | 5 |
| Governance Structure | 4 | Board independence and effectiveness; ownership concentration; protection of creditor/stakeholder rights; legal /compliance risks; business continuity; key person risk; related party transactions | Management & Strategy; Earnings & Profitability; Capitalisation & Leverage | 4 |
| Group Structure | 3 | Organizational structure; appropriateness relative to business model; opacity; intra-group dynamics; ownership | Company Profile | 3 |
| Financial Transparency | 3 | Quality and frequency of financial reporting and auditing processes | Management & Strategy | 2 |
| | | | | 1 |

**How to Read This Page**
ESG scores range from 1 to 5 based on a 15-level color gradation. Red (5) is most relevant and green (1) is least relevant.

**The Environmental (E), Social (S) and Governance (G) tables** break out the individual components of the scale. The right-hand box shows the aggregate E, S, or G score. General Issues are relevant across all markets with Sector-Specific Issues unique to a particular industry group. Scores are assigned to each sector-specific issue. These scores signify the credit-relevance of the sector-specific issues to the issuing entity's overall credit rating. The Reference box highlights the factor(s) within which the corresponding ESG issues are captured in Fitch's credit analysis.

**The Credit-Relevant ESG Derivation table** shows the overall ESG score. This score signifies the credit relevance of combined E, S and G issues to the entity's credit rating. The three columns to the left of the overall ESG score summarize the issuing entity's sub-component ESG scores. The box on the far left identifies some of the main ESG issues that are drivers or potential drivers of the issuing entity's credit rating (corresponding with scores of 3, 4 or 5) and provides a brief explanation for the score.

**Classification** of ESG issues has been developed from Fitch's sector ratings criteria. The General Issues and Sector-Specific Issues draw on the classification standards published by the United Nations Principles for Responsible Investing (PRI) and the Sustainability Accounting Standards Board (SASB).

**Sector references** in the scale definitions below refer to Sector as displayed in the Sector Details box on page 1 of the navigator.

**CREDIT-RELEVANT ESG SCALE**

**How relevant are E, S and G issues to the overall credit rating?**

| | |
|---|---|
| 5 | Highly relevant, a key rating driver that has a significant impact on the rating on an individual basis. Equivalent to "higher" relative importance within Navigator. |
| 4 | Relevant to rating, not a key rating driver but has an impact on the rating in combination with other factors. Equivalent to "moderate" relative importance within Navigator. |
| 3 | Minimally relevant to rating, either very low impact or actively managed in a way that results in no impact on the entity rating. Equivalent to "lower" relative importance within Navigator. |
| 2 | Irrelevant to the entity rating but relevant to the sector. |
| 1 | Irrelevant to the entity rating and irrelevant to the sector. |

DBN has an ESG Relevance Score of '4' for 'Governance Structure'. The state, as the sole shareholder, exerts a strong influence on the bank's strategy and operations, despite an independent board of directors. This has a moderately negative impact on the credit profile, and is relevant to the ratings in conjunction with other factors.

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

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.