



RATING ACTION COMMENTARY

Fitch Downgrades Development Bank of Namibia to 'BB-'; Outlook Stable

Fri 01 Jul, 2022 - 7:59 AM ET

Fitch Ratings - London - 01 Jul 2022: Fitch Ratings has downgraded Development Bank of Namibia Limited's (DBN) Long-Term Issuer Default Rating (IDR) to 'BB-' from 'BB' and National Long-Term Rating to 'AA+(zaf)' from 'AAA(zaf)'. The Outlooks are Stable. This follows similar rating action on the Namibian sovereign. A full list of rating actions is below.

On 24 June 2022, Fitch downgraded Namibia's Long-Term IDR to 'BB-' from 'BB' (see "Fitch Downgrades Namibia to 'BB-'; Outlook Stable" on www.fitchratings.com).

KEY RATING DRIVERS

DBN's 'BB-' Long-Term IDR is equalised with that of Namibia, reflecting a moderate probability of support from the Namibian authorities. The Stable Outlook on DBN's Long-Term IDR mirrors that on the sovereign rating.

DBN's 'AA+(zaf)' Long-Term National Rating is aligned with Namibia's National Rating based on potential support, and reflects the bank's creditworthiness relative to that of issuers in South Africa and Namibia. The Stable Outlook reflects that on the sovereign's National Rating.

Government Support: The Namibian government has a high propensity to support DBN in our view, reflecting the bank's important policy role, 100% state ownership and significant share of government-guaranteed funding. However, the sovereign's ability to provide support is moderate as reflected in its 'BB-' Long-Term IDR.

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 Namibian government policy, with oversight from its shareholder representative, the Ministry of Finance (MoF). DBN focuses on financing infrastructure, developmental and large industrial projects in strategically important sectors, and, to a lesser degree, financing to small and medium-sized enterprises (SMEs).

Fully Government-Owned: The MoF's 100% stake in DBN is strategic and long-term. While a minority share could be sold under DBN's Incorporation Act, most likely to a foreign development finance institution, we believe this option will not be exercised.

Significant State Funding Guarantees: Government-guaranteed funding was a material 95% of DBN's total liabilities at financial year ended March 2021 (FYE21). A 17-year credit line from African Development Bank (with a final capital repayment in 2033) represented 75% of DBN's liabilities at FYE21, and is fully guaranteed by the government.

No Viability Rating: As is usual for development banks, Fitch does not assign a Viability Rating to DBN. This is because its business model depends on government support and, in our view, its unique policy role cannot be carried out on a commercial basis.

RATING SENSITIVITIES

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

DBN's IDRs would be downgraded if Namibia's sovereign ratings are downgraded. DBN's IDRs 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 if its proportion of non-guaranteed funding increases materially (particularly if Fitch believes this to be indicative of a weakening in its policy role), or a material reduction in government ownership, which Fitch views as unlikely.

DBN's National Long-Term Rating is sensitive to a negative change in Fitch's opinion of the bank's creditworthiness relative to other South African and Namibian issuers'.

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

DBN's ratings could be upgraded if Namibia's sovereign ratings are upgraded.

BEST/WORST CASE RATING SCENARIO

International scale credit ratings of Financial Institutions and Covered Bond 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

DBN's ratings are equalised with Namibia's ratings.

ESG CONSIDERATIONS

DBN has an ESG Relevance Score of '4[+]' for human rights, community relations, access & affordability due to its policy role, which promotes financing to under-banked and under-served communities, and SMEs. This has a positive 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.

RATING ACTIONS

ENTITY / DEBT ◆

RATING ◆

PRIOR ◆

Development Bank of Namibia Limited	LT IDR	BB- Rating Outlook Stable		BB Rating Outlook Negative		
	Downgrade					
	ST IDR	B	Affirmed	B		
	LC LT IDR	BB- Rating Outlook Stable		BB Rating Outlook Negative		
	Downgrade					
	LC ST IDR	B	Affirmed	B		
	Natl LT	AAA(zaf) Rating Outlook Stable				
	AA+(zaf) Rating Outlook Stable					
	Downgrade					
	Natl ST	F1+(zaf)	Affirmed	F1+(zaf)		
	Government Support	bb-		bb		
	Downgrade					

[VIEW ADDITIONAL RATING DETAILS](#)

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APPLICABLE CRITERIA[National Scale Rating Criteria \(pub. 22 Dec 2020\)](#)[Bank Rating Criteria \(pub. 12 Nov 2021\) \(including rating assumption sensitivity\)](#)**ADDITIONAL DISCLOSURES**[Dodd-Frank Rating Information Disclosure Form](#)[Solicitation Status](#)[Endorsement Policy](#)**ENDORSEMENT STATUS**

Development Bank of Namibia Limited

UK Issued, EU Endorsed

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Banks Africa Namibia
