

Development Bank of Namibia Limited

Update

Key Rating Drivers

Development Bank of Namibia Limited's (DBN) 'BB-' Long-Term Issuer Default Rating (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 government 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.

As is usual for development banks, Fitch Ratings 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.

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 significant 94% of DBN's total liabilities at FYE22 (end of financial year ending March 2022). A 17-year credit line from African Development Bank (with a final capital repayment in 2033) represented 80% of DBN's liabilities at FYE22 and is fully guaranteed by the government.

Weak Asset Quality: DBN's impaired loans (Stage 3 loans under IFRS 9) ratio increased to a high 25% at FYE22 (FYE21: 18%) and is materially higher than domestic commercial banks'. This reflects DBN's weaker risk profile, mainly due to its development lending focus, as well as significant pressure on the bank's asset quality from weak economic growth and delays in the execution of impaired loan resolutions through the courts.

Structurally Unprofitable: DBN reported an operating loss of NAD185 million in FY22, compared to an operating profit of NAD118 million in FY21, due to a 2.9x surge in loan impairment charges caused by weakening asset-quality and reflecting historically moderate provisions (total loan loss allowances/impaired loans of 72% at FYE22; four-year average: 75%).

Strong Capitalisation: DBN remains well-capitalised despite weak internal capital generation. DBN's high Fitch Core Capital (FCC) ratio of 77% at FYE22 is supported by a low-risk-weight density (49%), mainly reflecting high government-related lending. DBN's tangible leverage ratio (FYE22: 38%) provides a large buffer to absorb potential further losses.

Ratings

Foreign Currency

Long-Term IDR	BB-
Short-Term IDR	B

Local Currency

Long-Term IDR	BB-
Short-Term IDR	B

Government Support Rating	bb-
---------------------------	-----

National Ratings

Long-Term Rating	AA+(zaf)
Short-Term Rating	F1+(zaf)

Sovereign Risk (Namibia)

Long-Term Foreign-Currency IDR	BB-
Long-Term Local-Currency IDR	BB-
National Long-Term Rating	AA+(zaf)
Country Ceiling	BB

Outlooks

Long-Term Foreign-Currency IDR	Stable
Long-Term Local-Currency IDR	Stable
National Long-Term Rating	Stable
Sovereign Long-Term Foreign-Currency IDR	Stable
Sovereign Long-Term Local-Currency IDR	Stable
Sovereign National Long-Term Rating	Stable

Applicable Criteria

[Bank Rating Criteria \(November 2021\)](#)

[National Scale Rating Criteria \(December 2020\)](#)

Related Research

[Fitch Downgrades Development Bank of Namibia to 'BB-'; Outlook Stable \(July 2022\)](#)

[Fitch Downgrades Namibia to 'BB-'; Outlook Stable \(June 2022\)](#)

[Fitch Affirms Development Bank of Namibia at 'BB-'; Outlook Negative \(April 2022\)](#)

Analysts

Kurt Boere
+44 20 3530 2707
kurt.boere@fitchratings.com

Elie Maalouf
+44 20 3530 1304
elie.maalouf@fitchratings.com

Ratings Sensitivities

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade

DBN's IDRs would be downgraded if Namibia's sovereign ratings were 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.

Significant Changes from Last Review

Issuer Level

Ratings Downgraded in July

Fitch downgraded DBN's Long-Term IDRs to 'BB-' from 'BB' and National Long-Term Rating to 'AA+(zaf)' from 'AAA(zaf)' on 1 July 2022. The Outlooks are Stable. This followed similar rating action on the Namibian sovereign on 24 June to reflect Namibia's elevated fiscal deficits, high and rising debt, and weak growth prospects.

Operating Loss in FY22

DBN's material loss in FY22 was driven by soaring loan impairment charges, which consumed 175% of pre-impairment operating profit (FY21: 56%). A return to break-even in FY23 or sustainable profitability is highly uncertain. This reflects our view that loan impairment charges will remain exceptionally high given the upcoming challenges for the economy and renewed asset quality pressures on borrowers from rising domestic inflation (6.8% in July) and higher interest rates.

Financials

Financial Statements

	31 Mar 22		31 Mar 21	31 Mar 20	31 Mar 19
	Year end (USDm)	Year end (NADm)	Year end (NADm)	Year end (NADm)	Year end (NADm)
	Audited - unqualified	Audited - unqualified	Audited - Unqualified	Audited - unqualified	Audited - unqualified
Summary income statement					
Net interest and dividend income	23	340.3	342.7	470.1	402.2
Net fees and commissions	1	19.5	19.3	23.4	28.2
Other operating income	1	19.7	36.2	-4.8	91.7
Total operating income	26	379.5	398.2	488.7	522.1
Operating costs	9	131.9	131.4	140.4	136.5
Pre-impairment operating profit	17	247.6	266.8	348.3	385.6
Loan and other impairment charges	30	432.1	148.7	119.3	173.9
Operating profit/loss	-13	-184.5	118.1	229.0	211.7
Other non-operating items (net)	0	0.0	-1.6	0.1	0.0
Tax	n.a.	n.a.	n.a.	n.a.	n.a.
Net income/loss	-13	-184.5	116.5	229.1	211.7
Other comprehensive income	0	-6.6	-16.3	-10.9	27.2
Fitch comprehensive income	-13	-191.1	100.2	218.2	238.9
Summary balance sheet					
Assets					
Gross loans	597	8,668.4	9,121.5	9,455.3	9,355.2
- Of which impaired	152	2,200.8	1,610.2	1,219.7	894.5
Loan loss allowances	109	1,576.5	1,080.8	890.3	783.9
Net loans	489	7,091.9	8,040.7	8,565.0	8,571.3
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	18	257.7	267.7	272.8	281.7
Total earning assets	506	7,349.6	8,308.4	8,837.8	8,853.0
Cash and due from banks	78	1,127.3	1,066.7	601.4	699.0
Other assets	7	97.8	91.4	96.2	118.7
Total assets	591	8,574.7	9,466.5	9,535.4	9,670.7
Liabilities					
Customer deposits	n.a.	n.a.	n.a.	33.0	33.0
Interbank and other short-term funding	n.a.	n.a.	n.a.	n.a.	n.a.
Other long-term funding	363	5,266.8	5,971.2	6,040.2	6,424.4
Trading liabilities and derivatives	n.a.	n.a.	n.a.	n.a.	n.a.
Total funding and derivatives	363	5,266.8	5,971.2	6,073.2	6,457.4
Other liabilities	5	71.6	68.0	135.1	83.2
Preference shares and hybrid capital	n.a.	n.a.	n.a.	n.a.	n.a.
Total equity	223	3,236.3	3,427.3	3,327.1	3,130.1
Total liabilities and equity	591	8,574.7	9,466.5	9,535.4	9,670.7
Exchange rate		USD1 = NAD14.5144	USD1 = NAD14.9276	USD1 = NAD17.9622	USD1 = NAD14.5947

Source: Fitch Ratings, Fitch Solutions, DBN

Key Ratios

	31 Mar 22	31 Mar 21	31 Mar 20	31 Mar 19
Ratios (annualised as appropriate)				
Profitability				
Operating profit/risk-weighted assets	-4.4	2.6	5.0	5.0
Net interest income/average earning assets	4.3	4.0	5.3	4.8
Non-interest expense/gross revenue	34.8	33.0	28.7	26.1
Net income/average equity	-5.4	3.5	7.1	6.6
Asset quality				
Impaired loans ratio	25.4	17.7	12.9	9.6
Growth in gross loans	-5.0	-3.5	1.1	16.1
Loan loss allowances/impaired loans	71.6	67.1	73.0	87.6
Loan impairment charges/average gross loans	4.9	1.6	1.3	2.0
Capitalisation				
Common equity Tier 1 ratio	77.0	75.0	72.0	72.0
Fully loaded common equity Tier 1 ratio	n.a.	n.a.	n.a.	n.a.
Fitch Core Capital ratio	77.2	75.5	72.7	73.5
Tangible common equity/tangible assets	37.7	36.2	34.9	32.3
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	19.3	15.5	9.9	3.5
Funding and liquidity				
Gross loans/customer deposits	n.a.	n.a.	28,652.4	28,349.1
Liquidity coverage ratio	n.a.	n.a.	n.a.	n.a.
Customer deposits/total non-equity funding	n.a.	n.a.	0.5	0.5
Net stable funding ratio	n.a.	n.a.	n.a.	n.a.

Source: Fitch Ratings, Fitch Solutions, DBN

Support Assessment

Policy Banks: Government Support	
Typical D-SIB GSR for sovereign's rating level (assuming high propensity)	BB- or B+
Actual jurisdiction D-SIB GSR	
Government Support Rating	bb-
Government ability to support D-SIBs	
Sovereign Rating	BB-/Stable
Sovereign financial flexibility (for rating level)	Neutral
Government propensity to support D-SIBs	
Resolution legislation	Neutral
Support stance	Neutral
Government propensity to support bank	
Systemic importance	
Liability structure	
Ownership	
Policy role and status	
Ownership	Equalised
Policy role	Equalised
Guarantees and legal status	Equalised

The colours indicate the weighting of each KRD in the assessment.

Higher influence Moderate influence Lower influence

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.

Environmental, Social and Governance Considerations

Credit-Relevant ESG Derivation

Development Bank of Namibia Limited has 1 ESG rating driver and 5 ESG potential rating drivers.

- Development Bank of Namibia Limited has exposure to services for underbanked and underserved communities: SME and community development programs; financial literacy programs 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.
- Governance is minimally relevant to the rating and is not currently a driver.

	key driver	0	issues	5	
	driver	1	issues	4	
	potential driver	5	issues	3	
	not a rating driver	3	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	Business Profile (incl. Management & governance); Risk Profile; Asset Quality	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.

Social (S)

General Issues	S Score	Sector-Specific Issues	Reference	S Scale
Human Rights, Community Relations, Access & Affordability	4	Services for underbanked and underserved communities: SME and community development programs; financial literacy programs	Business Profile (incl. Management & governance); Risk Profile	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; Business Profile (incl. Management & governance); Risk Profile	4
Labor Relations & Practices	2	Impact of labor negotiations, including board/employee compensation and composition	Business Profile (incl. Management & governance)	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	Business Profile (incl. Management & governance); Financial Profile	1

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.

Governance (G)

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

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 or an individual bank. Equivalent to "high" 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 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.

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.

DISCLAIMER & DISCLOSURES

All Fitch Ratings (Fitch) credit ratings are subject to certain limitations and disclaimers. Please read these limitations and disclaimers by following this link: <https://www.fitchratings.com/understandingcreditratings>. In addition, the following <https://www.fitchratings.com/rating-definitions-document> details Fitch's rating definitions for each rating scale and rating categories, including definitions relating to default. Published ratings, criteria, and methodologies are available from this site at all times. Fitch's code of conduct, confidentiality, conflicts of interest, affiliate firewall, compliance, and other relevant policies and procedures are also available from the Code of Conduct section of this site. Directors and shareholders' relevant interests are available at <https://www.fitchratings.com/site/regulatory>. Fitch may have provided another permissible or ancillary service to the rated entity or its related third parties. Details of permissible or ancillary service(s) for which the lead analyst is based in an ESMA- or FCA-registered Fitch Ratings company (or branch of such a company) can be found on the entity summary page for this issuer on the Fitch Ratings website.

In issuing and maintaining its ratings and in making other reports (including forecast information), Fitch relies on factual information it receives from issuers and underwriters and from other sources Fitch believes to be credible. Fitch conducts a reasonable investigation of the factual information relied upon by it in accordance with its ratings methodology, and obtains reasonable verification of that information from independent sources, to the extent such sources are available for a given security or in a given jurisdiction. The manner of Fitch's factual investigation and the scope of the third-party verification it obtains will vary depending on the nature of the rated security and its issuer, the requirements and practices in the jurisdiction in which the rated security is offered and sold and/or the issuer is located, the availability and nature of relevant public information, access to the management of the issuer and its advisers, the availability of pre-existing third-party verifications such as audit reports, agreed-upon procedures letters, appraisals, actuarial reports, engineering reports, legal opinions and other reports provided by third parties, the availability of independent and competent third-party verification sources with respect to the particular security or in the particular jurisdiction of the issuer, and a variety of other factors. Users of Fitch's ratings and reports should understand that neither an enhanced factual investigation nor any third-party verification can ensure that all of the information Fitch relies on in connection with a rating or a report will be accurate and complete. Ultimately, the issuer and its advisers are responsible for the accuracy of the information they provide to Fitch and to the market in offering documents and other reports. In issuing its ratings and its reports, Fitch must rely on the work of experts, including independent auditors with respect to financial statements and attorneys with respect to legal and tax matters. Further, ratings and forecasts of financial and other information are inherently forward-looking and embody assumptions and predictions about future events that by their nature cannot be verified as facts. As a result, despite any verification of current facts, ratings and forecasts can be affected by future events or conditions that were not anticipated at the time a rating or forecast was issued or affirmed.

The information in this report is provided "as is" without any representation or warranty of any kind, and Fitch does not represent or warrant that the report or any of its contents will meet any of the requirements of a recipient of the report. A Fitch rating is an opinion as to the creditworthiness of a security. This opinion and reports made by Fitch are based on established criteria and methodologies that Fitch is continuously evaluating and updating. Therefore, ratings and reports are the collective work product of Fitch and no individual, or group of individuals, is solely responsible for a rating or a report. The rating does not address the risk of loss due to risks other than credit risk, unless such risk is specifically mentioned. Fitch is not engaged in the offer or sale of any security. All Fitch reports have shared authorship. Individuals identified in a Fitch report were involved in, but are not solely responsible for, the opinions stated therein. The individuals are named for contact purposes only. A report providing a Fitch rating is neither a prospectus nor a substitute for the information assembled, verified and presented to investors by the issuer and its agents in connection with the sale of the securities. Ratings may be changed or withdrawn at any time for any reason in the sole discretion of Fitch. Fitch does not provide investment advice of any sort. Ratings are not a recommendation to buy, sell, or hold any security. Ratings do not comment on the adequacy of market price, the suitability of any security for a particular investor, or the tax-exempt nature or taxability of payments made in respect to any security. Fitch receives fees from issuers, insurers, guarantors, other obligors, and underwriters for rating securities. Such fees generally vary from US\$1,000 to US\$750,000 (or the applicable currency equivalent) per issue. In certain cases, Fitch will rate all or a number of issues issued by a particular issuer, or insured or guaranteed by a particular insurer or guarantor, for a single annual fee. Such fees are expected to vary from US\$10,000 to US\$1,500,000 (or the applicable currency equivalent). The assignment, publication, or dissemination of a rating by Fitch shall not constitute a consent by Fitch to use its name as an expert in connection with any registration statement filed under the United States securities laws, the Financial Services and Markets Act of 2000 of the United Kingdom, or the securities laws of any particular jurisdiction. Due to the relative efficiency of electronic publishing and distribution, Fitch research may be available to electronic subscribers up to three days earlier than to print subscribers.

For Australia, New Zealand, Taiwan and South Korea only: Fitch Australia Pty Ltd holds an Australian financial services license (AFS license no. 337123) which authorizes it to provide credit ratings to wholesale clients only. Credit ratings information published by Fitch is not intended to be used by persons who are retail clients within the meaning of the Corporations Act 2001.

Fitch Ratings, Inc. is registered with the U.S. Securities and Exchange Commission as a Nationally Recognized Statistical Rating Organization (the "NRSRO"). While certain of the NRSRO's credit rating subsidiaries are listed on Item 3 of Form NRSRO and as such are authorized to issue credit ratings on behalf of the NRSRO (see <https://www.fitchratings.com/site/regulatory>), other credit rating subsidiaries are not listed on Form NRSRO (the "non-NRSROs") and therefore credit ratings issued by those subsidiaries are not issued on behalf of the NRSRO. However, non-NRSRO personnel may participate in determining credit ratings issued by or on behalf of the NRSRO.

Copyright © 2022 by Fitch Ratings, Inc., Fitch Ratings Ltd. and its subsidiaries. 33 Whitehall Street, NY, NY 10004. Telephone: 1-800-753-4824, (212) 908-0500. Fax: (212) 480-4435. Reproduction or retransmission in whole or in part is prohibited except by permission. All rights reserved.