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First National Bank of Namibia Limited

Namibia Bank Analysis **January 2018**

Rated class	Rating scale	Rating	Rating outlook	Expiry date
Long-term	National	AA+(NA)	Stable	January 2019
Short-term	National	A1+(NA)		
Long-term	National	AA-(ZA)	Stable	January 2019

Financial data:

(USDm comparative)

	30/06/16	30/06/17
NAD/USD (avg.)	12.75	13.61
NAD/USD (close)	14.69	13.05
Total assets†	2 738	2 861
Total capital°	285	348
Total borrowings	55	91
Net advances	1 762	2 171
Liquid assets	472	598
Operating income	235	235
Profit after tax	86	78
Market cap.^	NAD12.5bn/USD916.8m	
Market share⁺		32.6%

† Including off-balance sheet items but excluding goodwill.

° Excluding goodwill.

^ FNB Namibia Holdings' Namibian Stock Exchange ("NSX") listing at 10/01/2018.

⁺ Calculated as a % of total estimated banking industry assets at 30/06/17.

Rating history:

Initial/last rating (February 2017)
Long-term: AA+(NA)
Short-term: A1+(NA)
Rating outlook: Stable

Long-term: AA-(ZA)
Rating outlook: Stable

Related methodologies/research:

Global Criteria for Rating Banks and Other Financial Institutions, updated March 2017
FNB Namibia rating report (2017)

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Summary rating rationale

- The ratings assigned to First National Bank of Namibia Limited ("FNB Namibia", "the bank") reflect its leading market position in the Namibian banking industry, strong overall credit/financial profile, and high probability of government/shareholder support (if required). The bank's South African national scale rating reflects its scale and credit quality relative to peers in the South African banking industry.
- FNB Namibia is the largest commercial bank in Namibia with total assets of NAD37.3bn at FY17. GCR expects the bank to maintain its significant market share, given its ability to leverage its size, scope and brand to compete for opportunities, together with high barriers to entry which provide some protection from competitors.
- FNB Namibia is 100% owned by FNB Namibia Holdings Limited ("FNB Namibia Holdings"), the ultimate parent of which is FirstRand Limited ("FirstRand"), which is listed on the Johannesburg Stock Exchange ("JSE") and NSX, and is one of the largest financial institutions in South Africa, providing banking, insurance and investment products/services. The bank's key status within FNB Namibia Holdings, implies a strong likelihood of support from FirstRand. Furthermore, the bank's market share of 32.6% and 34.2% in terms of total industry assets and customer deposits respectively, indicates very high systemic importance, and therefore a high probability of support from the Namibian authorities.
- FNB Namibia's asset quality metrics have remained relatively strong over the review period, demonstrated by a well collateralised lending book and a very low volume of defaults. However, the gross impaired loans ratio increased to 1.2% in FY17(FY16: 1.0%). Provision coverage of defaults was 27.5%, while provisions plus collateral fully covered arrears. The bank's unreserved arrears (excl. collateral) relative to regulatory capital remained very low (5.2%) at FY17. The weaker economic environment is likely to place further upward pressure on arrears in the medium term.
- Capitalisation metrics slightly decreased but remained well above the regulatory minima. The bank's Tier 1 capital adequacy ratio declined to 14.7% (FY16: 15.1%) at FY17, but was still above the regulatory minimum of 7%. The total capital adequacy ratio at 16.8% (FY16: 17.8%) was well above the regulatory minimum of 10%.
- Profitability declined due to the weaker economic environment resulting in a lower ROE of 25.6% at FY17 (FY16: 30.2%), while ROaA was 3.0% at FY17 (FY16: 3.5%). The bank's traditional, albeit adaptable, business model has proved effective in generating a track record of very strong and sustainable profitability, while preserving a generally conservative risk appetite.

Factors that could trigger a rating action may include

Positive change: An upward adjustment of the bank's very strong rating (which constitutes the highest rating for a bank in Namibia accorded by GCR) is considered unlikely over the short to medium term.

Negative change: A material deterioration in the bank's competitive position, capital adequacy, liquidity, earnings and asset quality, could see the ratings come under pressure.

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Organisational profile

Business overview

FNB Namibia provides banking and investment services to retail and corporate clients across Namibia through 67 staffed outlets, 338 ATMs, and online mobile platforms. The bank had a staff complement of 2,350 at 30 June 2017.

Organisational structure

Ownership and group structure

The holding company of FNB Namibia is FNB Namibia Holdings, a NSX listed company. FNB Namibia Holdings acts as a non-operating holding company, with franchises operating in retail and commercial banking (FNB), corporate and investment banking (RMB), instalment finance (WesBank) and investment management (Ashburton Investments). The balance sheet of FNB Namibia (the rated entity and deposit taking institution) houses all the banking business of FNB, RMB, Ashburton Investments and WesBank. FNB Namibia Holdings is majority owned by FirstRand Emerging Markets Proprietary Limited ("FirstRand Emerging Markets"). The ultimate holding company is FirstRand, which is incorporated in South Africa.

Governance structure

FNB Namibia is regulated by the Bank of Namibia ("BoN") – the national banking regulator. FNB Namibia follows the recommended rules on sound corporate governance as set out in the Corporate Governance Code for Namibia ("NamCode") and a comprehensive board charter is in place to guide the conduct of the bank's board of directors ("the board"). At FY17, the board comprised two executive directors, four non-executive directors and five independent non-executive directors (including the chairperson). The board has sufficient independence to ensure the necessary objectivity for its effective functioning.

Reporting structure

FNB Namibia's financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS") and the requirements of the Companies Act of Namibia. The bank's external auditor, Deloitte & Touche, issued an unqualified opinion for FY17.

Operating environment

Economic environment[1]

Over the past decade, Namibia's economy has experienced robust growth and economic progress, supported by strong policy frameworks and expansionary domestic policies, which has contributed to macroeconomic stability and rising living standards. However, growth slowed significantly in 2016 and 2017 amid contractions in the mining, agriculture and construction sectors, and the knock-on effect of the political and economic challenges in South Africa.

The domestic economy is projected to grow by 2.5% during 2018, an improvement from the 0.8% forecasted in 2017 (2016: 1.1%). Risks to domestic growth include meagre recoveries in the country's trading partners, slow recovery in international commodity prices, undue appreciation of the Namibia Dollar and uncertainty about weather conditions. The sluggish economic growth in South Africa (Namibia's main trading partner), Angola and other emerging markets coupled with the slow recovery in prices for commodities of export interest to Namibia poses main risks to projected growth for 2018.

In addition, a slowdown in the demand for minerals from China will also pose a challenge to projected growth rates for the primary industries. Similarly, political uncertainty in advanced economies (e.g. the European Union), has the potential to reduce Namibia's exports.

Table 1: Macroeconomic indicators (%)

	2015	2016	2017f	2018f
Real GDP growth	6.0	1.1	0.8	2.5
Inflation (annual avg. % change)	3.4	6.7	6.0	5.8
Government gross debt % GDP	39.5	40.7	37.7	43.6
Current account % GDP	(12.6)	(14.0)	(7.3)	(6.6)

f – forecast.
Source: IMF World Economic Outlook, October 2017.

Annual inflation averaged 6.5% for the nine months to 30 September 2017 (the same over the corresponding period in 2016). On a monthly basis, however, inflation slowed down from its peak of 8.2% in January 2017 to reach 5.6% in September 2017, with a large portion attributable to lower food inflation.

The Monetary Policy Committee ("MPC") increased the repo rate by 25 basis points to 7.0% in April 2016. In August 2017, the MPC reduced the repo rate by 25 basis points to 6.75% to support economic domestic activity. The MPC maintained the repo rate at 6.75% in October 2017.

Financial sector overview[2]

At 31 December 2016, Namibia's financial sector comprised nine banks[3] and 460 Non-Bank Financial Institutions ("NBFIs"). NBFIs (mainly consisting of long term insurance, pension funds, investment managers and unit trusts) dominate the financial system, in terms of asset size (approximately 78%). The banking sector is comparatively small and highly concentrated, with the four largest banks[4] (of which three are subsidiaries of South African banks) controlling close to 70% of total sector assets. Namibia's financial sector is supervised and regulated by BoN and Namfisa.

1 Source: International Monetary Fund ("IMF") World Economic Outlook, October 2017; BoN Economic Outlook, July 2017; BoN Monetary Policy Statement, October 2017.

2 Source: BoN Financial Stability Report, April 2017.

3 Two new banks, Bank BIC Namibia Limited and Letshego Bank Namibia Limited were licensed in 2016.

4 FNB Namibia, Standard Bank Namibia Limited ("SB"), Nedbank Namibia Limited ("Nedbank") and Bank Windhoek Limited ("BW").

Table 2: Bank and NBFI assets	No.	2015 NADm	2016 NADm
Banks	9	99 933	110 060
NBFIs	453	384 500	395 540
Insurance			
Long term insurance	*16*	*44 746*	*47 554*
Short term insurance	*14*	*5 587*	*5 769*
Medical aid Funds	*10*	*1 360*	*1 445*
Pension funds	*93*	*133 089*	*137 462*
Investments			
Unit trusts	*16*	*47 772*	*48 313*
Investment mgmt.	*23*	*147 689*	*150 775*
Lending			
Micro-lending	*281*	*4 257*	*4 222*
Total	**462**	**484 433**	**505 600**

Source: BoN Financial Stability Report, April 2017; Namfisa Quarterly Report, 1Q 2017; BoN Annual Report, 2016.

Table 3 provides the banking sector's key performance metrics. The banking sector remains profitable and adequately capitalised, with low levels of NPLs despite some adverse developments in the domestic and global economy.

Table 3: Key banking industry indicators (%)	Dec 2015	Dec 2016
Capital adequacy		
Total regulatory capital/Risk weighted assets	14.3	15.5
Regulatory Tier 1 capital/Risk weighted assets	11.8	12.7
Tier 1 leverage ratio	9.4	9.3
Asset quality		
Gross NPLs/Gross loans	1.6	1.5
Overdue loans/Total loans	3.6	2.5
Total provisions/Total loans	1.1	1.0
Specific provisions/NPLs	29.3	20.7
Profitability		
ROaA (before tax)	2.5	2.3
ROaE (before tax)	24.5	24.1
Net interest margin	6.1	5.9
Cost-to-income ratio	51.6	51.0
Liquidity		
Liquid assets to total assets	11.3	11.4
Gross loans/Total deposits	100.5	97.6
Gross loans/Gross assets	77.4	76.5
Liquidity ratio	11.3	11.4

Source: BoN Annual Report, 2016.

The total banking sector assets grew by a slower 10.1% to NAD110.1bn at end-2016 (2015: 14.6%). Net loans and advances increased from NAD77.1bn to NAD84.0bn but accounted for a lower 76.3% of banking sector assets in 2016 (2015: 78.2%). Mortgage loans constituted the largest part of the total loan book at 51.4%, which is a slight increase from 51.3% reported in 2015.

Asset quality remained sound during 2016, despite an increase in NPLs, due to economic slowdown. The increase was prominently driven by the mortgage loans category. The key indicator of credit quality, namely the gross NPL ratio (gross NPLs/gross loans), improved slightly to 1.5% in 2016 (2015: 1.6%), although the economic environment continues to be challenging. The gross NPL ratio remains low and within the BoN's acceptable threshold of 4.0%. The positive result seen in the level of NPLs is partly due to more stringent credit administration practices. The banking industry maintained liquid assets above the prudential minimum of 10% at 11.4% (2015: 11.3%).

NBFIs' balance sheets remain well capitalised, with funding/solvency levels in excess of those required in terms of the law at end-2016. NBFIs' deposits are the most significant source of funding for banks. Banks rely largely on wholesale funding, mainly in the form of short term wholesale deposits (70-80% of total bank funding).

The short funding maturities versus the long maturities of bank assets expose banking institutions to liquidity and refinancing risks. These funding linkages create the potential for system-wide contagion, which calls for close monitoring. Furthermore, cross-border linkages, especially with South Africa, through investments and ownership, could expose the country to systemic shocks.

Competitive position

Table 4 provides a high level market share overview of FNB Namibia relative to its peers. The four largest banks dominate the market, while additional market entrants are unlikely to impact the competitive environment significantly in the medium term. The bank's substantial market size (being the largest bank in the country by assets) make it well positioned to take advantage of positive growth and infrastructure /other development within the domestic economy.

Table 4: Peer market share (%)†	BW	FNB Namibia	SB	Nedbank
Total assets	29.9	32.6	23.6	13.9
Total customer loans	32.8	32.6	21.7	12.9
Total customer deposits	28.4	34.2	23.5	13.9

† Based on publicly available financial results for the year ending 30 June 2017 for BW and FNB Namibia and 31 December 2016 for SB and Nedbank.

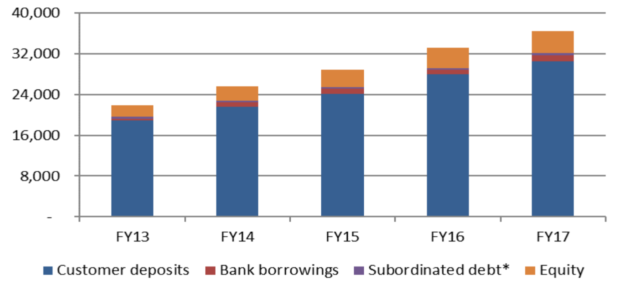
Financial profile

Likelihood of support

The likelihood of support from the government if needed is very high given the bank's significant market share of deposits and therefore very high systemic importance. Shareholder support, both financial and non-financial (ie, risk management oversight, technical expertise, knowledge sharing, training programmes and transaction execution) can also be relied upon to avoid reputational damage.

Funding structure

Figure 1: Funding profile (NADm)



* Qualifies as Tier 2 capital.

Non-equity funding grew by 10.1% year on year to NAD32.1bn at FY17, largely driven by growth in customer deposits. Subordinated debt of NAD400m enhanced the funding base at FY17.

The bank is largely funded by customer deposits, representing 83.8% (FY16: 84.6%) of total funding (including equity) at FY17. Customer deposits grew by 9.1% at FY17, underpinned by aggressive sales of new deposit products especially the "48 hour notice deposit" and the "FNB Money Maximiser", which had the effect of lessening dependence on wholesale funding.

Table 5: Funding profile (by counterparty/type)	FY16		FY17	
	NADm	%	NADm	%
Customer deposits	28 005	84.6	30 551	83.8
Banking institutions	801	2.4	1 193	3.3
Debt securities‡	393	1.2	403	1.1
Total non-equity funding	**29 199**	**88.2**	**32 147**	**88.2**
Equity	3 921	11.8	4 303	11.8
Total funding	**33 120**	**100.0**	**36 450**	**100.0**

‡ Notes issued on the NSX which qualify as Tier 2 capital.
Source: AFS.

The bank has a high reliance on institutional funding, which made up around 30% of total non-equity funding at FY17. Deposits from institutional banking clients tend to be confidence sensitive, and can be "flighty" in times of stress. However, Namibian asset managers/pension funds are required by law to invest a minimum of 45% (effective October 2018) (2016: 35%) locally, implying that wholesale deposits from this source are more stable than might be expected, as NBFIs investment opportunities (apart from bank offerings) are limited. Negotiable certificates of deposits ("NCDs"), which comprised 22.7% of customer deposits at FY17, are primarily issued to local asset managers, which favoured these highly liquid, floating-rate instruments, given the liquidity challenges in the local market.

Table 6: Customer deposits by counterparty	FY16		FY17	
	NADm	%	NADm	%
Individuals	7 238	25.8	7 613	24.9
Corporates	8 767	31.3	7 559	24.7
Public sector	2 402	8.6	2 981	9.8
Financial institutions	9 598	34.3	12 398	40.6
Total	**28 005**	**100.0**	**30 551**	**100.0**
By type				
Current accounts	10 053	35.9	9 520	31.2
Call deposits	5 141	18.4	5 191	17.1
Savings accounts	608	2.2	581	1.9
Term deposits	5 000	17.8	7 044	23.1
NCDs	7 203	25.7	6 945	22.7
Fixed and floating bonds	-	-	1 270	4.2
Total	**28 005**	**100.0**	**30 551**	**100.0**

Source: AFS, FNB Namibia.

In addition to wholesale funding dependence, the funding base is concentrated by geography, maturity and investor. The majority of funding counterparties are based in Namibia. The small size/concentration of Namibia's economy implies natural funding concentration risk. Due to the low density corporate sector and shallow financial system, a large proportion of deposits are sourced from government/parastatals, and large NBFIs (mainly asset managers).

The bank's average funding tenor remains relatively short, heightening the risk of structural mismatches, which could impact negatively on liquidity.

Table 7: Funding profile (by maturity, currency and concentration)	FY16	FY17
Current (≤ 12 months)	90.1%	87.2%
Non-current (> 12 months)	9.9%	12.8%
Amounts due in local currency	94.3%	94.3%
Amounts due in foreign currency	5.7%	5.7%
Single largest depositor : Total deposits	6.5%	7.1%
10-largest depositors : Total deposits	29.1%	26.9%

Source: AFS, FNB Namibia.

Liquidity

High depositor concentrations and the predominance of wholesale deposits increases the risk of deposit base instability, which is challenging from a long-term cash flow planning perspective, impacting liquidity risk. However, the bank maintains a portfolio of liquid assets, made up of cash, interbank placements, and available for sale instruments (namely government stock and treasury bills).

Capital structure

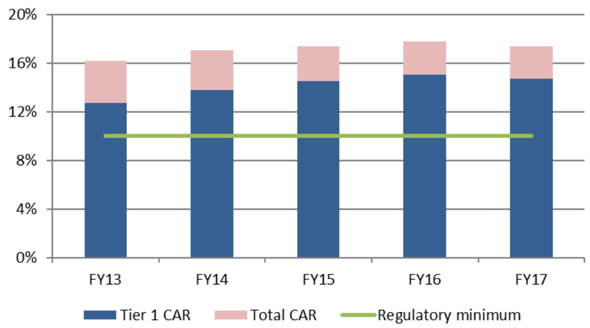
Despite a dividend payment of NAD1.1bn in FY17, the bank's total capital and reserves grew to NAD4.5bn at FY17 (FY16: NAD4.2bn) driven by very strong internal capital generation. The bank's capital base is underpinned by share capital/premium and retained earnings, supported by the inclusion of subordinated debt (which qualifies as Tier 2 capital under Basel II).

Table 8: Capitalisation	FY16 NADm	FY17 NADm
Tier 1 capital	3 659	4 023
Tier 2 capital	650	586
Total regulatory capital	**4 309**	**4 609**
Total risk weighted assets ("RWA")	**24 259**	**27 429**
Key capital adequacy ratios (%)		
Tier 1 capital : RWA	**15.1**	**14.7**
Statutory requirement @ 7%		
Total regulatory capital : RWA	**17.8**	**16.8**
Statutory requirement @ 10%		
Tier 1 capital : Total assets *(leverage ratio)*	**10.7**	**10.8**
Statutory requirement @ 6%		

Source: AFS.

Capitalisation metrics decreased in FY17 but remained well above the regulatory minima. The bank's Tier 1 capital adequacy ratio declined to 14.7% (FY16: 15.1%) at FY17, but was still above the regulatory minimum of 7%. Furthermore, the total capital adequacy ratio of 16.8% (FY16: 17.8%) remained well above the regulatory minimum of 10%. The bank's capital base remains adequate to support its current business structure, whilst providing a capital cushion for loss absorption.

Figure 2: Capital adequacy

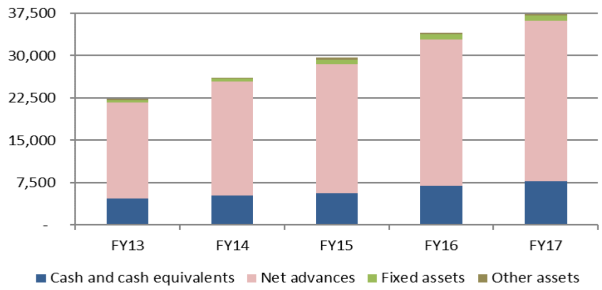


Operational profile

Asset composition

FNB Namibia's balance sheet grew 9.7% in FY17 (FY16: 15%) supported by equity and deposit funding growth. Total assets stood at NAD37.3bn at FY17 (FY16: NAD34.0bn).

Figure 3: Asset profile (NADm)



Credit risk principally arises from loans and advances (75.9% of total assets at FY17), as well as balances/placements with the BoN/other banks, government securities and other investments, which are mainly held for liquidity management purposes. Liquid assets (excluding financial instruments held for trading) contributed 14.4% of total assets at FY17 (FY16: 15.0%), supporting the bank's liquidity levels. Contingencies (being guarantees, letters of credit and irrevocable unutilised facilities) amounted to 14.4% (FY16: 15.4%) of total on- and off-balance sheet assets at FY17.

Loan portfolio

Table 9: Gross loans and advances	FY16 NADm	FY16 %	FY17 NADm	FY17 %
Overdrafts	2633	10.1	3 498	12.3
Term loans	4 073	15.6	7815	27.4
Mortgage loans	14 715	56.5	12 579	44.1
Residential	*11 747*	*45.1*	*10 516*	*36.8*
Commercial	*2 968*	*11.4*	*2 063*	*7.2*
Instalment sales	3 289	12.6	3 213	11.3
Other advances	1 359	5.2	1 441	5.0
Total	**26 069**	**100.0**	**28 545**	**100.0**

Source: AFS, FNB Namibia.

The bank's net loan book increased to NAD28.3bn at FY17 from NAD25.9bn at FY16. Gross loan growth in FY17 of 9.5% (FY16: 12.9%) was slower than historical rates, albeit still strong, given more challenging lending conditions.

Indicative of the bank's large mortgage component, the loan portfolio is long dated with 73% of loans maturing after one year, a consequence of which is short-term liquidity mismatches. The bank's loan portfolio is well diversified by single names and industries. Loans to individuals remain the largest component of total loans (61.5%), followed by manufacturing and commerce (9.7%) and building and property development (8.0%).

Table 10: Lending profile (by maturity, currency and concentration)	FY16	FY17
Current (≤ 12 months)	24.3%	27.3%
Non-current (> 12 months)	75.7%	72.7%
Amounts due in local currency	97.1%	98.1%
Amounts due in foreign currency	2.9%	1.9%
Single largest exposure : Gross loans	2.5%	1.9%
20-largest exposures : Gross loans	15.4%	14.8%

Source: AFS, FNB Namibia.

Asset quality

Table 11: Asset quality	FY16 NADm	FY17 NADm
Gross loans and advances	26 069	28 545
Neither past due nor impaired	*24 984*	*27 139*
Past due but not impaired	*834*	*1 067*
Impaired	*251*	*339*
Less: Provisions	(193)	(219)
Specific	*(67)*	*(93)*
Portfolio	*(126)*	*(126)*
Net loans and advances	**25 876**	**28 326**
Net impaired loans	184	246
Collateral on impaired loans	184	246
Write-offs	20	-
Key asset quality indicators (%)		
Gross impaired loans ratio	1.0	1.2
Past due loans ratio	4.2	4.9
Net impaired loans ratio	0.7	0.9
Net impaired loans/Total regulatory capital	4.3	5.2
Credit loss ratio^	0.2	0.2
Coverage ratio (specific provisions)	26.7	27.5
Coverage ratio (incl. collateral)†	100.0	100.0

^ Income statement impairment charge as a % of average gross loans and advances.
† Provisions are raised for under-collateralised NPLs, resulting in a net exposure of nil.
Source: AFS, FNB Namibia.

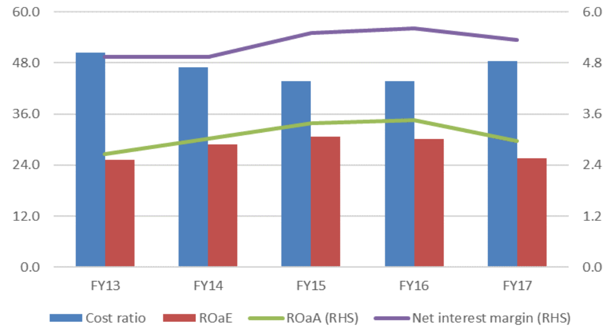
FNB Namibia's asset quality metrics have remained relatively strong over the review period, demonstrated by a well collateralised lending book and a very low volume of defaults. However, the gross impaired loans ratio and total past due loans ratio increased in FY17, driven by the weaker economic environment. Impaired loans increased from NAD251m to NAD339m in FY17 translating to a gross NPL ratio of 1.2% (FY16: 1.0%). Arrears coverage by specific provisions increased slightly to 27.5% (FY16: 26.7%). The bank's net impaired loans/capital ratio at FY17, pre-collateral, also increased to 0.9% from 0.7% but is still very low. Arrears are fully covered after taking into account collateral held. FNB Namibia's credit loss ratio was very low in FY16 and FY17 driven by conservative underwriting and a strong collections performance.

Financial performance and prospects

A five year financial synopsis of the bank's consolidated financial statements, which forms the basis of the financial performance analysis, is shown on page 7, supplemented by the commentary below.

FNB Namibia's strong competitive position has provided significant scale benefits across a number of areas and allowed the bank to post strong returns over the review period supported by high interest margins, diversified revenue streams, very low impairments, and controlled cost growth.

Figure 4: Profitability indicators (%)



FNB Namibia's performance is positively correlated to the macroeconomic environment and Namibia experienced challenges with commodity prices, weakening government finances and drought conditions. As a result, in FY17, profitability decreased and the bank posted a profit after tax of NAD1.1bn, which translated into a ROaE and ROaA of 25.6% (FY16: 30.2%) and 3.0% (FY16: 3.5%) respectively. The bank's net interest margin declined as a result of an increase in interest expenses. The bank's cost to income ratio increased from 43.7% in FY16 to 48.5% in FY17 due to a 17.0% increase in operating costs mainly relating to IT, staff costs, and rentals attributed to growth in points of presence.

The bank's number of active accounts increased by 4% to 908 349 in FY17, which boosted transactional revenue. FNB Namibia is focused on electronic banking channels which offer more convenient, cheaper alternative to transacting at branches, although it has resulted in a reduction in the growth rate of fee and commission income, (12% in FY17 vs 13.5% in FY16) and also carries additional operational risks, such as cybercrime and fraud, and cost implications.

Looking ahead, GCR expects FNB Namibia's growth to be slow due to the current economic slowdown and pressure on the sovereign rating. However, FNB Namibia is expected to sustain the effects of the economic environment given its demonstrated track record of resilience and growth, solid financial standing, and support available from its parent.

First National Bank of Namibia Limited

(Namibian Dollars in millions except as noted)^

Year end: 30 June	2013	2014	2015	2016	2017
Income Statement Analysis					
Interest income	1,634	1,909	2,412	2,870	3,283
Interest expense	(657)	(772)	(962)	(1,219)	(1,523)
Net interest income	**977**	**1,137**	**1,450**	**1,651**	**1,760**
Net fee and commission income	690	864	1,006	1,149	1,271
Investment income	34	48	60	53	54
Trading income	72	88	107	135	99
Other income	6	2	6	12	21
Total operating income	**1,780**	**2,140**	**2,628**	**3,000**	**3,204**
Impairment charge	(23)	(18)	(50)	(48)	(59)
Operating expenditure	(897)	(1,005)	(1,149)	(1,311)	(1,554)
Share of profit from associate	(0)	1	1	1	3
Net profit before tax	**859**	**1,117**	**1,430**	**1,643**	**1,594**
Tax	(303)	(386)	(489)	(545)	(534)
Net profit after tax	**556**	**731**	**941**	**1,098**	**1,060**
Balance Sheet Analysis					
Ordinary shareholders' equity and reserves	2,299	2,767	3,354	3,921	4,303
Subordinated debt	393	393	393	393	403
Less: Intangible assets	(176)	(157)	(141)	(127)	(161)
Total capital and reserves	**2,516**	**3,003**	**3,605**	**4,186**	**4,545**
Bank borrowings	124	161	394	186	715
Customer deposits	17,185	20,023	22,324	26,122	27,281
Short-term funding (< 1 year)	**17,309**	**20,184**	**22,718**	**26,308**	**27,996**
Bank borrowings	195	652	626	615	478
Customer deposits	1,737	1,580	1,735	1,883	3,270
Long-term funding (>1 year)	**1,932**	**2,233**	**2,362**	**2,497**	**3,747**
Derivatives and other trading liabilities	129	109	199	256	155
Payables/Deferred liabilities	455	543	725	795	898
Other liabilities	**584**	**652**	**924**	**1,051**	**1,053**
Total capital and liabilities	**22,341**	**26,072**	**29,609**	**34,043**	**37,341**
Cash on hand	340	396	481	570	623
Balances with central bank	318	434	289	1,524	780
Fixed assets	347	522	820	920	947
Other assets	147	103	151	104	166
Total non-earning assets	**1,153**	**1,456**	**1,741**	**3,117**	**2,515**
Net loans and advances	17,033	20,068	22,919	25,876	28,326
Bank placements/short-term loans	1,895	1,766	1,585	1,772	2,679
Marketable/Trading securities	2,163	2,687	3,202	3,063	3,718
Derivatives	95	92	159	209	95
Investments in associates	3	3	4	5	8
Total earning assets	**21,189**	**24,616**	**27,868**	**30,926**	**34,826**
Total assets	**22,341**	**26,072**	**29,609**	**34,043**	**37,341**
Contingencies	**4,378**	**4,710**	**5,993**	**6,182**	**6,292**
Ratio Analysis (%)					
Capitalisation					
Internal capital generation	24.2	26.4	28.1	28.0	24.6
Total capital / Total assets†	11.3	11.5	12.2	12.3	12.2
Liquidity					
Net advances / Customer deposits	90.2	93.0	95.4	92.5	92.9
Net advances / Total funding (excl. equity portion)	88.5	89.5	91.4	89.8	89.2
Liquid and trading assets / Total assets	19.7	18.6	17.8	15.9	18.8
Liquid and trading assets / Total short-term funding	25.4	24.0	23.2	20.5	25.1
Asset quality					
Impaired loans / Gross advances	0.9	0.7	0.6	1.0	1.2
Total loan loss reserves / Gross advances	0.9	0.7	0.7	0.7	0.8
Bad debt charge (income statement) / Gross advances (avg.)	0.1	0.1	0.2	0.2	0.2
Bad debt charge (income statement) / Total operating income	1.3	0.9	1.9	1.6	1.8
Profitability					
Net profit margin	48.3	52.2	54.4	54.7	49.7
Net interest margin	4.9	4.9	5.5	5.6	5.3
Non-interest income / Total operating income	45.1	46.9	44.8	45.0	45.1
Cost ratio	50.4	47.0	43.7	43.7	48.5
ROaE	25.2	28.8	30.7	30.2	25.6
ROaA	2.7	3.0	3.4	3.5	3.0
Nominal growth indicators					
Total assets	14.2	16.7	13.6	15.0	9.7
Net advances	20.3	17.8	14.2	12.9	9.5
Shareholders funds	9.1	20.4	21.2	16.9	9.7
Total capital and reserves	8.6	19.4	20.0	16.1	8.6
Customer deposits	13.4	14.2	11.4	16.4	9.1
Total funding (excl. equity portion)	15.1	16.5	11.9	14.9	10.2
Net profit after tax	9.4	31.3	28.8	16.7	(3.5)

^ Differences may occur due to rounding.

† Utilising balance sheet (not regulatory) total capital and reserves.

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GLOSSARY OF TERMS/ACRONYMS USED IN THIS DOCUMENT AS PER GCR'S FINANCIAL INSTITUTIONS GLOSSARY

Arrears	An overdue debt, liability or obligation. An account is said to be 'in arrears' if one or more payments have been missed in transactions where regular payments are contractually required.
Asset	A resource with economic value that a company owns or controls with the expectation that it will provide future benefit.
Asset Quality	Refers primarily to the credit quality of a bank's earning assets, the bulk of which comprises its loan portfolio, but will also include its investment portfolio as well as off balance sheet items. Quality in this context means the degree to which the loans that the bank has extended are performing (ie, being paid back in accordance with their terms) and the likelihood that they will continue to perform.
Audit Report	A written opinion of an auditor (attesting to the financial statements' fairness and compliance with generally accepted accounting principles).
Balance Sheet	Also known as a Statement of Financial Position. A statement of a company's assets and liabilities provided for the benefit of shareholders and regulators. It gives a snapshot at a specific point in time of the assets the company holds and how they have been financed.
Basel	Basel Committee on Banking Supervision housed at the Bank for International Settlements.
Basis Point	1/100th of a percentage point.
Bond	A long-term debt instrument issued by either: a company, institution or the government to raise funds.
Budget	Financial plan that serves as an estimate of future cost, revenues or both.
Capital	The sum of money that is invested to generate proceeds.
Capital Adequacy	A measure of the adequacy of an entity's capital resources in relation to its current liabilities and also in relation to the risks associated with its assets. An appropriate level of capital adequacy ensures that the entity has sufficient capital to support its activities and that its net worth is sufficient to absorb adverse changes in the value of its assets without becoming insolvent.
Capital Base	The issued capital of a company, plus reserves and retained profits.
Cash	Funds that can be readily spent or used to meet current obligations.
Cash Flow	The inflow and outflow of cash and cash equivalents. Such flows arise from operating, investing and financing activities.
Collateral	Asset provided to a creditor as security for a loan.
Consolidated Financial Statements	Financial statements in which the assets and liabilities of a parent company and its subsidiaries are presented as a single entity.
Corporate Governance	Refers to the mechanisms, processes and relations by which corporations are controlled and directed, and is used to ensure the effectiveness, accountability and transparency of an entity to its stakeholders.
Credit Rating	An opinion regarding the creditworthiness of an entity, a security or financial instrument, or an issuer of securities or financial instruments, using an established and defined ranking system of rating categories.
Credit Rating Agency	An entity that provides credit rating services.
Credit Risk	The possibility that a bond issuer or any other borrowers (including debtors/creditors) will default and fail to pay the principal and/or interest when due.
Creditworthiness	An assessment of a debtor's ability to meet debt obligations.
Customer Deposit	Cash received in exchange for a service, including safekeeping, savings, investment, etc. Customer deposits are a liability in a bank's books.
Debt	An obligation to repay a sum of money. More specifically, it is funds passed from a creditor to a debtor in exchange for interest and a commitment to repay the principal in full on a specified date or over a specified period.
Default	Failure to meet the payment obligation of either interest or principal on a debt or bond. Technically, a borrower does not default, the initiative comes from the lender who declares that the borrower is in default.
Demand Deposit	A deposit of funds that can be withdrawn without any advance notice, or "on demand".
Diversification	Spreading risk by constructing a portfolio that contains different investments, whose returns are relatively uncorrelated. The term also refers to companies which move into markets or products that bear little relation to ones they already operate in.
Dividend	The portion of a company's after-tax earnings that is distributed to shareholders.
Downgrade	The assignment of a lower credit rating to a company or sovereign borrower's debt by a credit rating agency. Opposite of upgrade.
Equity	Equity (or shareholders' funds) is the holding or stake that shareholders have in a company. Equity capital is raised by the issue of new shares or by retaining profit.
Exchange Rate	The value of one country's currency expressed in terms of another.
Exposure	Exposure is the amount of risk the holder of an asset or security is faced with as a consequence of holding the security or asset. For a company, its exposure may relate to a particular product class or customer grouping. Exposure may also arise from an overreliance on one source of funding.
Fair Value	The fair value of a security, an asset or a company is the rational view of its worth. It may be different from cost or market value.
Financial Statements	Presentation of financial data including balance sheets, income statements and statements of cash flow, or any supporting statement that is intended to communicate an entity's financial position at a point in time.
Fixed Deposit	Where funds are deposited in a savings account for a pre-determined period of time.
Forecast	A calculation or estimate of future financial events.
Gearing	With regard to corporate analysis, gearing (or leverage) refers to the extent to which a company is funded by debt.
Goodwill	Arises upon the sale/acquisition of a business and is defined as an established entity's reputation, which may be regarded as a quantifiable asset and calculated as the price paid for a company over and above the net value of its assets. Negative goodwill refers to a situation when the price paid for a company is lower than the value of its assets.
Guarantee	An undertaking in writing by one person (the guarantor) given to another, usually a bank (the creditor) to be answerable for the debt of a third person (the debtor) to the creditor, upon default of the debtor.
Haircut	The percentage by which the market value of a security used as collateral for a loan is reduced. The size of the haircut reflects the expected ease of selling the security and the likely reduction necessary to realised value relative to the fair value.
Impairment	Reduction in the value of an asset because the asset is no longer expected to generate the same benefits, as determined by the company through periodic assessments.
Income Statement	A summary of all the expenditure and income of a company over a set period.
Insolvent	When an entity's liabilities exceed its assets.
Interest	Scheduled payments made to a creditor in return for the use of borrowed money. The size of the payments will be determined by the interest rate, the amount borrowed or principal and the duration of the loan.

Interest Rate	The charge or the return on an asset or debt expressed as a percentage of the price or size of the asset or debt. It is usually expressed on an annual basis.
International Financial Reporting Standards	IFRS is designed as a common global language for business affairs so that company accounts are understandable and comparable across international boundaries.
International Scale Rating LC	International local currency (International LC) ratings measure the likelihood of repayment in the currency of the jurisdiction in which the issuer is domiciled. Therefore, the rating does not take into account the possibility that it will not be able to convert local currency into foreign currency or make transfers between sovereign jurisdictions.
JSE	Johannesburg Stock Exchange.
Leverage	With regard to corporate analysis, leverage (or gearing) refers to the extent to which a company is funded by debt.
Liabilities	All financial claims, debts or potential losses incurred by an individual or an organisation.
Liquid Assets	Assets, generally of a short term, that can be converted into cash.
Liquidity	The speed at which assets can be converted to cash. It can also refer to the ability of a company to service its debt obligations due to the presence of liquid assets such as cash and its equivalents. Market liquidity refers to the ease with which a security can be bought or sold quickly and in large volumes without substantially affecting the market price.
Liquidity Risk	The risk that a company may not be able to meet its financial obligations or other operational cash requirements due to an inability to timeously realise cash from its assets. Regarding securities, the risk that a financial instrument cannot be traded at its market price due to the size, structure or efficiency of the market.
Long-Term	Not current; ordinarily more than one year.
Long-Term Rating	Reflects an issuer’s ability to meet its financial obligations over the following three to five year period, including interest payments and debt redemptions. This encompasses an evaluation of the organisation’s current financial position, as well as how the position may change in the future with regard to meeting longer term financial obligations.
Margin	The rate taken by the lender over the cost of funds, which effectively represents the entity’s profit and remuneration for taking the risk of the loan; also known as spread.
Maturity	The length of time between the issue of a bond or other security and the date on which it becomes payable in full.
Mortgage Loan	A debt instrument where immovable property is the collateral for the loan. A mortgage gives the lender a right to take possession of the property if the borrower fails to repay the loan.
National Scale Rating	Provides a relative measure of creditworthiness for rated entities only within the country concerned. Under this rating scale, a ‘AAA’ long term national scale rating will typically be assigned to the lowest relative risk within that country, which in most cases will be the sovereign state.
Net Interest Margin	Net interest income divided by average interest earning assets. Measures a bank’s margin after paying funding sources and how successful a bank’s interest-related operations are.
Off Balance Sheet	Off balance sheet items are assets or liabilities that are not shown on a company's balance sheet. They are usually referred to in the notes to a company's accounts.
Operational Risk	The risk of loss resulting from inadequate or failed internal processes, people or systems or from external events. This includes legal risk, but excludes strategic risk and reputational risk.
Overdraft	When the amount of money withdrawn from a bank account is greater than the amount actually available in the account, the excess is known as an overdraft, and the account is said to be overdrawn.
Past Due	Any note or other time instrument of indebtedness that has not been paid on the due date.
Performing Loan	A loan is said to be performing if the borrower is paying the interest on it on a timely basis.
Portfolio	A collection of investments held by an individual investor or financial institution. They may include stocks, bonds, futures contracts, options, real estate investments or any item that the holder believes will retain its value.
Principal	The total amount borrowed or lent, e.g. the face value of a bond, excluding interest.
Provision	The amount set aside or deducted from operating income to cover expected or identified loan losses.
Rating Outlook	Indicates the potential direction of a rated entity’s rating over the medium term, typically one to two years. An outlook may be defined as: 'Stable' (nothing to suggest that the rating will change), 'Positive' (the rating symbol may be raised), 'Negative' (the rating symbol may be lowered) or 'Evolving' (the rating symbol may be raised or lowered).
Redemption	The repurchase of a bond at maturity by the issuer.
Regulatory Capital	The total of primary, secondary and tertiary capital.
Retained Earnings	Earnings not paid out as dividends by a company. Retained earnings are typically reinvested back into the business and are an important component of shareholders' equity.
Risk	The chance of future uncertainty (i.e. deviation from expected earnings or an expected outcome) that will have an impact on objectives.
Risk Management	Process of identifying and monitoring business risks in a manner that offers a risk/return relationship that is acceptable to an entity's operating philosophy.
Risk Management Process	The systematic application of management policies, procedures and practices to the tasks of risk identification, assessment and measurement, response and action, monitoring and review, and risk reporting.
Securities	Various instruments used in the capital market to raise funds.
Securitisation	A process of repackaging portfolios of cash-flow producing financial instruments into securities for sale to third parties.
Security	An asset deposited or pledged as a guarantee of the fulfilment of an undertaking or the repayment of a loan, to be forfeited in case of default.
Shareholder	An individual, entity or financial institution that holds shares or stock in an organisation or company.
Short-Term	Current; ordinarily less than one year.
Short-Term Rating	An opinion of an issuer’s ability to meet all financial obligations over the upcoming 12 month period, including interest payments and debt redemptions.
Stock Exchange	A market with a trading-floor or a screen-based system where members buy and sell securities.
Subordinated Debt	Debt that in the event of a default is repaid only after senior obligations have been repaid. It is higher risk than senior debt.
Systemic Risk	Risk associated with the general health or structure of the financial system which would have serious adverse effects on economic conditions or financial stability.
Tenor	The time from the value date until the expiry date of a financial instrument.
Tertiary Capital	Capital held by banks to cover certain classes of risk, including foreign currency exchange risk and commodities risk. To qualify as Tier 3 capital, assets must be limited to 250% of a bank’s Tier 1 capital, be unsecured, subordinated, and have a minimum maturity of two years.
Tier 1 Capital	Primary capital consists of issued ordinary share capital, hybrid debt capital, perpetual preference share capital, retained earnings and reserves. This amount is then reduced by the portion of capital that is allocated to trading activities and other regulatory deductions.

Tier 2 Capital	Secondary capital is mainly made up of subordinated debt, portfolio impairment and 50% of any revaluation reserves and other specified regulatory deductions.
Treasury Bill	Short-term obligation backed by the government that bears no interest and is sold at a discount.
Under Review	Failure to carry out a full review of a rated entity within the designated timeframe, either through lack of information or delays in finalisation, i.e. review is ongoing.
Wholesale Banking	A term used for banking services offered to other corporate entities, large institutions and other financial institutions.

For a detailed glossary of terms please click here

SALIENT FEATURES OF ACCORDED RATINGS

GCR affirms that a.) no part of the ratings were influenced by any other business activities of the credit rating agency; b.) the ratings were based solely on the merits of the rated entity, security or financial instrument being rated; c.) such ratings were an independent evaluation of the risks and merits of the rated entity, security or financial instrument; and d.) the validity of the ratings is for a maximum of 12 months, or earlier as indicated by the applicable credit rating document.

First National Bank of Namibia Limited participated in the rating process via face to face meetings, teleconferences and other written correspondence. Furthermore, the quality of information received was considered adequate and has been independently verified where possible.

The credit ratings have been disclosed to First National Bank of Namibia Limited with no contestation of the ratings.

Information received:

- Consolidated audited financial results of First National Bank of Namibia Limited at 30 June 2017 (plus four years of comparative figures);
- FNB Namibia Holdings Ltd – Integrated Group Report
- Reserving methodologies;
- A breakdown of facilities available and related counterparties; including Asset and Liability management data pertaining to advances, deposits and risk profiles
- Corporate governance and enterprise risk framework; and
- Industry comparative and regulatory framework.

The ratings above were solicited by, or on behalf of, First National Bank of Namibia Limited, and therefore, GCR has been compensated for the provision of the ratings.