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CREDIT RATING ANNOUNCEMENT

GCR affirms First National Bank of Namibia Limited's rating of AA+(NA); Outlook Stable

Johannesburg, 30 November 2018 - Global Credit Ratings has affirmed the national scale ratings assigned to First National Bank of Namibia Limited of AA+(NA) and A1+(NA) in the long term and short term respectively; with the outlook accorded as Stable. Furthermore, Global Credit Ratings has affirmed the long-term South African national scale (Rand) issuer rating of AA-(ZA) assigned to First National Bank of Namibia Limited; with the outlook accorded as Stable.

SUMMARY RATING RATIONALE

Global Credit Ratings ("GCR") has accorded the above credit ratings to First National Bank of Namibia Limited ("FNB Namibia", "the bank") based on its strong competitive position, sound capitalisation, adequate risk position, and adequate funding and liquidity. The weak economic environment has however negatively affected the banks' earnings and asset quality. 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's performance is correlated to the macroeconomic environment. The stable outlook reflects our assumption that the economic environment will steadily improve thus also supporting the bank's performance. The economic climate is forecast to improve with the GDP growth expected to be around 1.9% in 2019. The ratings could be negatively affected by deterioration in asset quality, decline in earnings, and liquidity. FNB Namibia is the largest commercial bank in Namibia with total assets of NAD39.2bn at FY18. 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 due to the oligopolistic nature of the market, which provides some protection from competitors.

The bank's capitalisation is sound with a Tier 1 ratio improving to 16.2% (FY17:14.7%) which is above the regulatory minimum of 7%. The growth in Tier 1 capital was mainly supported by earnings net of dividends, despite a reduction in earnings growth during the period. The bank intends to maintain the existing levels of capital as it also aims to meet new higher proposed measures and limits. The negative macroeconomic environment had an impact on the bank's earnings with a reduction of 4.3% in profit before tax. ROaE and ROaA decreased to 22.1% (FY17: 25.6%) and 2.7% (FY17: 3.0%) respectively. This was driven by a decrease in interest income growth, an increase in impairment losses and an increase in costs.

The banks risk position is considered adequate in the market and comparable to peers. Asset quality suffered as result of the negative economic environment. The ratio of non-performing loans ("NPLs") to gross advances increased to 1.7% (FY17: 1.2%). Growth in NPLs was mostly driven by mortgages, increasing by 43.8% due to a slowdown in the property sector. The bank's impairment levels however remain within acceptable levels. The level of provisioning on the performing book is at adequate levels. We expect asset quality to peak in the next 12 months and then improve in the long term as the economy stabilises, while government has resumed paying its debts timeously.

The bank's funding structure is considered stable with 83.3% of total funding coming from customer deposits. Deposit concentration is moderate with the largest and top 20 depositors constituting 5.7% and 34.8% of total deposits respectively. The bank's liquidity position is strong with the liquid asset coverage of wholesale debt ratio of 87% and a liquid asset to customer deposits ratio of 18%.

With an asset and revenue contribution of 3.1% and 4.6% to FirstRand South Africa, the bank's moderate strategic importance within FirstRand Namibia Limited Group, implies likelihood of support from FirstRand Group South Africa, 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.

An upward adjustment of the bank's strong rating is considered unlikely over the short to medium term. A decline in the bank's capital adequacy, further decline in asset quality and reserving could see the ratings come under pressure. The South African national scale rating may also be influenced by the relative sovereign ratings of South Africa and Namibia.

NATIONAL SCALE RATINGS HISTORY

Initial rating: (February 2007)
Long term: AA+(NA); Short term: A1+(NA)
Outlook: Stable

Last rating:(January 2018)
Long term: AA+(NA); Short term: A1+(NA)
Outlook: Stable

SOUTH AFRICAN NATIONAL SCALE RATING HISTORY

Initial rating: (February 2007)
Long term: AA-(ZA)
Outlook: Stable

Last rating: (January 2018)
Long term: AA-(ZA)
Outlook: Stable

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APPLICABLE METHODOLOGIES AND RELATED RESEARCH

Global Criteria for Rating Banks and Other Financial Institutions, updated March 2017
FNB Namibia rating report, 2007-2018

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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 and c.) such ratings were an independent evaluation of the risks and merits of the rated entity, security or financial instrument.

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 rating has been disclosed to First National Bank of Namibia Limited.

Information received:

- Consolidated audited financial results of First National Bank of Namibia Limited at 30 June 2018 (plus four years of comparative figures);
- Reserving methodologies;
- 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.

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.
Basel	Basel Committee on Banking Supervision housed at the Bank for International Settlements.
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.
Collateral	Asset provided to a creditor as security for a loan.
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.
Cost Ratio	The ratio of operating expenses to operating income. Used to measure a bank's efficiency.
Credit Rating Agency	An entity that provides credit rating services.
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.
Financial Institution	An entity that focuses on dealing with financial transactions, such as investments, loans and deposits.
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.
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.
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.
Leverage	With regard to corporate analysis, leverage (or gearing) refers to the extent to which a company is funded by debt.
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.
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.
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.
Performing Loan	A loan is said to be performing if the borrower is paying the interest on it on a timely basis.
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).
Regulatory Capital	The total of primary, secondary and tertiary capital.
Risk	The chance of future uncertainty (i.e. deviation from expected earnings or an expected outcome) that will have an impact on objectives.
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.

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