



Credit Rating Announcement

GCR affirms LT and ST Namibian National Scale ratings of AA+_(NA), A1+_(NA) on First National Bank of Namibia Limited

Rating Action

Johannesburg, 14 October 2019 - GCR Ratings ('GCR') has affirmed First National Bank of Namibia Limited's unsolicited long and short-term Namibian national scale ratings at AA+_(NA)/A1+_(NA). The outlook is stable. At the same time, the long and short-term South African national scale ratings were withdrawn, without review.

Rated Entity / Issue	Rating class	Rating scale	Rating	Outlook / Watch
First National Bank of Namibia Limited	Issuer Long Term	National	AA+ _(NA)	Stable Outlook
	Issuer Short Term	National	A1+ _(NA)	-

On May 22, 2019 GCR announced that it had released new criteria for all banks and bank-like entities. This methodology is titled Criteria for Rating Financial Institutions. As a result, the ratings were placed "Under Criteria Observation". Subsequently, GCR has finalised the review under the new methodology, and the ratings have been removed from 'Under Criteria Observation'.

Rating Rationale

Republic of Namibia, Country Risk Score: 5.75, Mapping table 5.5 to 6

The Namibian country risk score of '5.75', is supported by above average wealth levels and institutional strengths of the country in comparison to regional peers. The scores are restrained by the weak economic performance, limited monetary policy flexibility and mounting government fiscal pressures (government debt, as a percentage of GDP, is expected to double between 2015 and 2022). In July 2019, the Namibian Central Bank reduced its expectations of economic growth for the year, now expecting the economy to contract by 1.7% in 2019. Primary industries and construction, in particular, are facing severe headwinds.

Namibian financial Institutions Sector Risk Score: 6.5

The Namibian financial institutions sector risk score of '6.5' is supported by the oligopolistic structure of the banks, with the top four banks controlling around 90% of total assets. Furthermore, the banks are generally considered to be well managed, transparent and have consistently demonstrated adequate levels of capitalisation, low foreign currency exposure and good levels of profitability. Nevertheless, there are clear weaknesses in the sector including rising non-performing loans (up to 3.6% at Dec, 2018 from 2.5% a year earlier), caused by the currently weak economy and high amounts of private sector indebtedness. We also see some structural weaknesses in the funding base of the system, due to the significant concentrations from the large institutional investors.

First National Bank Namibia Limited

The unsolicited Namibia national scale ratings on First National Bank limited ('FNB Namibia') reflect the strengths and weaknesses of FirstRand Namibia Limited ("the group"), the largest financial services groups in Namibia. The ratings

balance the group's strong competitive position, good business lines diversification, relatively good levels of capitalisation supported by stable earnings, a strong risk position, and a funding and liquidity profile that is in line with peers.

As a member of the FirstRand group, the bank has a strong franchise within the Southern Africa region and is the largest banking group operating in Namibia, in terms of assets and deposits. The Namibian group is also well diversified, in terms of its product offering, with franchises operating in retail and commercial banking (FNB), corporate and investment banking (RMB), vehicle instalment finance (WesBank) and investment management (Ashburton Investments). Group's revenues have been stable over the years with the return on assets being in the 2.6%-3.0% over the past 5 years and expected to remain in that range.

The group's capitalisation is a positive ratings factor, supported by a GCR capital ratio of 17% at FY19. We expect the GCR capital ratio to remain in the 17-18% range in the next 12 months supported by strong earnings with return on assets expected to range between 2.6%- 3.0% over the same period.

FNB Namibia's risk position is also a ratings strength. The bank's cost of risk has compared very well to regional peers, especially considering the economic risks facing the country, averaging around 0.33% over the past 3 years. We do however expect more pressure on asset quality going forward, due to the severe economic headwinds. Positively, loan loss reserves are also good at 83% of non-performing loans. Loan book concentrations have historically been modest and foreign currency lending is low.

The group's funding structure remains stable and in line with peers, reflecting the dominance of institutional depositors in the funding base. Of the customer deposits, retail deposits constitute 29%, while large corporates contributed 27%, 11% for public sector deposits and 23.4% for commercial deposits. Liquidity within the market improved in 2019. The group's liquidity position is adequate with a liquid asset to total wholesale funding ratio of 1.35x, which we expect to remain at the same level in the next 12 months.

We consider FirstRand Namibia Ltd to be of limited importance to the wider FirstRand Group (GCR risk score of 18.5), due to the relatively small contribution to group revenues. As a result, at the currently high national scale rating levels, we haven't factored in support. First National Bank Namibia Limited is equalised to the Namibia group risk score, reflecting its significant contribution to and integration within the group.

The South African national scale ratings were withdrawn, without review.

Rating Outlook

The outlook is Stable, balancing the weak operating environment which could pressurise growth and asset quality with the currently strong levels of earnings and credit losses.

Rating Triggers

The Namibia national scale ratings could come down if asset quality deteriorates or the profitability suffers, if we don't consider group support to be relevant at the time. We see limited upside to the Namibian national scale ratings over the outlook horizon.

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Related Criteria and Research

Criteria for the GCR Ratings Framework, May 2019
Criteria for Rating Financial Institutions, May 2019
GCR Ratings Scale, Symbols & Definitions, May 2019
GCR Country Risk Scores, June 2019
GCR Financial Institutions Sector Risk Score, July 2019

Ratings History

First National Bank Limited (Namibian Scale)

Rating class	Review	Rating scale	Rating class	Outlook	Date
Issuer Long Term	Initial	National	AA+(NA)	Stable	February 2007
	Last	National	AA+(NA)	Stable	November 2018
Issuer Short Term	Initial	National	A1+(NA)	Stable	February 2007
	Last	National	A1+(NA)	Stable	November 2018

First National Bank Limited (South African Scale)

Rating class	Review	Rating scale	Rating class	Outlook	Date
Issuer Long Term	Initial	National	AA-(ZA)	Stable	February 2007
	Last	National	AA-(ZA)	Stable	November 2018

Risk Score Summary

Risk score

Operating environment	12.25
Country risk score	5.75
Sector risk score	6.5
Business profile	1
Competitive position	1.0
Management and governance	0
Financial profile	1.5
Capital and Leverage	0.5
Risk	1
Funding structure and Liquidity	0
Comparative profile	0
Group support	0
Government support	0
Peer analysis	0
Total Score	14.75

Glossary

Capital	The sum of money that is invested to generate proceeds.
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.
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.
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.
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.

Salient Points 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 rating was an independent evaluation of the risks and merits of the rated entity, security or financial instrument.

First National Bank Namibia Limited did not participate in the rating process. The ratings above were unsolicited and accorded based on publicly available information. GCR is satisfied that the public information available was sufficient, which included:

- Audited financial results as at 30 June 2019
- Banking sector information
- Industry comparative data; and
- Other publicly available information.

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