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CREDIT OPINION
17 December 2020

Update

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RATINGS

First National Bank of Namibia Limited

Domicile	WINDHOEK, Namibia
Long Term CRR	Ba2
Type	LT Counterparty Risk Rating - Fgn Curr
Outlook	Not Assigned
Long Term Debt	Not Assigned
Long Term Deposit	Ba3
Type	LT Bank Deposits - Fgn Curr
Outlook	Negative

Please see the ratings section at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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First National Bank of Namibia Limited

Update following sovereign action and change to sovereign ceiling

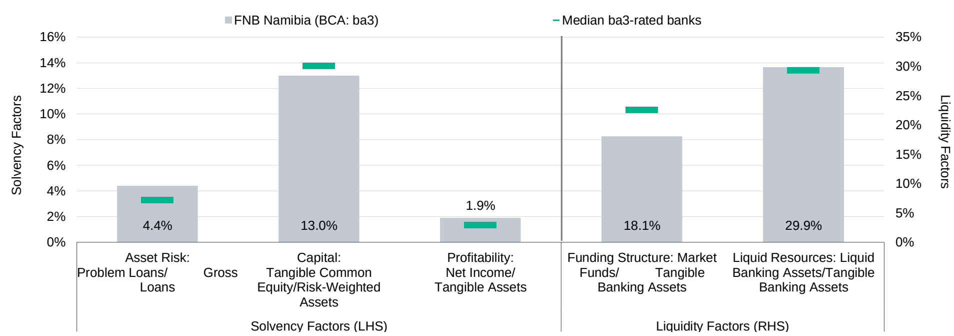
Summary

First National Bank of Namibia Limited's (FNB Namibia) Ba3 local and foreign currency deposit ratings are in line with the bank's ba3 Baseline Credit Assessment (BCA). The outlook on the deposit ratings is negative in line with the negative outlook on the issuer rating of the Government of Namibia (Ba3 negative).

FNB Namibia's ba3 BCA reflects its solid capitalisation and strong domestic franchise, which support earnings generation. However, these strengths are moderated by (i) the expected asset quality deterioration amid weak economic conditions worsened by the coronavirus pandemic, and (ii) the bank's reliance on short-term institutional deposit funding, a structural issue for all large Namibian banks.

Exhibit 1

Rating scorecard - Key financial ratios



Note: The problem loan and profitability ratios are the weaker of the average of three-year ratios and the latest reported quarterly ratios. The capital ratio is the latest reported figure. The funding and liquid assets ratio are the latest year-end figures.
Source: Moody's Financial Metrics

Credit strengths

» Solid capital and resilient profitability.

» Improving risk management capabilities.

Credit challenges

» Deteriorating asset quality amid Namibia's difficult operating environment; high concentration to the mortgage sector also poses risk

» Reliance on short-term institutional deposits

Rating outlook

The negative outlook on FNB Namibia's long-term deposit ratings is aligned with the negative outlook on the Namibian sovereign's issuer rating. FNB Namibia's direct exposure to government securities is high at of 169% its total shareholders' equity as of June 2020.

Factors that could lead to an upgrade

Upwards pressure on FNB Namibia's ratings is limited given the negative outlook. Nonetheless, a higher sovereign rating could lead to upwards pressure on the banks' ratings.

Factors that could lead to a downgrade

Downward pressure on FNB Namibia's ratings could develop through a deterioration in the Namibian sovereign's credit profile, or a material deterioration in the bank's solvency and liquidity.

Key Indicators

Exhibit 2

First National Bank of Namibia Limited (Consolidated Financials) [1]

	06-20[2]	06-19[2]	06-18[2]	06-17[2]	06-16[2]	CAGR/Avg.[3]
Problem Loans / Gross Loans (%)	4.4	2.7	1.7	1.2	1.0	2.2[4]
Tangible Common Equity / Risk Weighted Assets (%)	13.0	14.5	14.9	14.0	14.5	14.2[5]
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	23.0	14.6	9.6	7.7	6.3	12.2[4]
Net Interest Margin (%)	4.5	4.9	4.9	5.1	5.0	4.9[4]
PPI / Average RWA (%)	5.1	5.4	5.4	5.8	6.3	5.6[5]
Net Income / Tangible Assets (%)	1.9	2.4	2.7	2.8	3.2	2.6[4]
Cost / Income Ratio (%)	52.6	52.5	52.4	49.7	44.7	50.4[4]
Market Funds / Tangible Banking Assets (%)	18.1	24.5	21.4	25.6	24.3	22.8[4]
Liquid Banking Assets / Tangible Banking Assets (%)	29.9	26.2	22.7	20.3	19.8	23.8[4]
Gross Loans / Due to Customers (%)	101.2	118.9	119.4	128.0	125.5	118.6[4]

[1] All figures and ratios are adjusted using Moody's standard adjustments. [2] Basel III - fully loaded or transitional phase-in; IFRS. [3] May include rounding differences because of the scale of reported amounts. [4] Simple average of periods for the latest accounting regime. [5] Simple average of Basel III periods.

Sources: Moody's Investors Service and company filings

Profile

FNB Namibia is Namibia's largest commercial bank. It is one of the eleven commercial banks licensed to operate in the country by the Bank of Namibia, the central bank and national banking regulator.

FNB Namibia was founded as Deutsche Afrika Bank (DAB) in 1907, and in 1915 the National Bank of South Africa took over the assets of DAB which was then integrated with Barclays Bank in 1926. Barclays Bank changed the name of the South African operation to Barclays National Bank Limited in 1971, and later to First National Bank of Southern Africa. After the shareholding changed in December 1987, First National Bank of SWA/Namibia Limited was incorporated in February 1988. FNB Namibia listed on the Namibia Stock Exchange in 1997 and is currently the largest locally listed company with market capitalisation of NAD8.9 billion, 39% of the Namibian Stock Exchange's total market capitalisation.

Recent developments

We have revised our global economic growth forecasts downward for 2020 as the coronavirus outbreak will cause an unprecedented shock to global economy. Business activity will likely fall sharply across economies in the first half of 2020, and we project cumulative contractions over the first and second quarters of 2020 for a substantial number of countries. We now expect real GDP in the global economy to contract in 2020, followed by a recovery in 2021. For Namibia, we expect real GDP to contract by 6.9% in 2020, compared with contraction of 1.6% 2019.

Detailed credit considerations

Asset quality will likely continue to deteriorate due a difficult operating environment

We expect FNB Namibia's asset quality to continue to deteriorate due to the difficult operating environment that has been worsened by coronavirus pandemic. We expect Namibia's economy to contract by 6.9% this year, which will strain borrowers' repayment capacity.

FNB Namibia's Moody's adjusted NPLs increased to 4.4%, as of June 2020, from 2.7%, as of June 2019, and compared to 5.7% industry average at end of June 2020. We expect the deteriorating trend to continue, given the negative pressures on the operating environment on account of the coronavirus and a deep economic contraction.

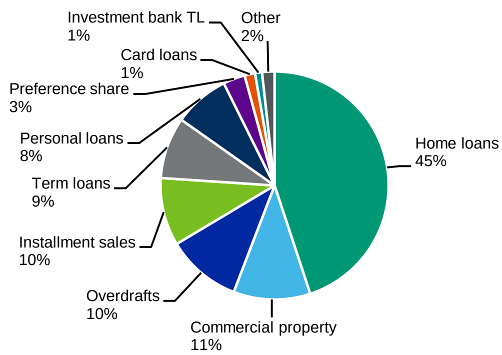
The bank's NPLs stem from its retail and commercial loan portfolio, while the bank's corporate loan book (which falls under its RMB brand) continues to perform strongly. RMB makes up 13.0% of FNB Namibia's total loan portfolio. As these large Namibian corporates are generally more flexible due to their stronger balance sheets, we expect these exposures to be more resilient to the deteriorating operating environment. Additionally, these corporates hold sound capital, which is positive for their medium-term repayment capacity.

FNB Namibia's loan portfolio exhibits some concentration risk with its top 20 largest borrowers making up 111% of the bank's capital and 16% of total loans. However, the fact that several of the Top 20 borrowers have diversified operations across industries moderates the concentration risk.

FNB Namibia's high exposure to mortgages is another source of asset risk for the bank. As of June 2020, FNB Namibia's mortgage and commercial property loan portfolio contributed 56% of total loans (Exhibit 3). House prices contracted 2.7% between June 2020 and June 2019 and, as a result, the equity held by borrowers in their properties has fallen.

However, falling homeowner equity is mitigated by (1) the significant portion of FNB Namibia's mortgage book that is first-lien mortgages, and thus hold first priority interest on the property asset, and (2) the principal repayment terms of all mortgages as FNB Namibia does not offer interest only mortgages. in addition, the bank's commercial property book, which is skewed towards shopping mall, exhibits a different risk profile than the home loans book.

Exhibit 3
FNB Namibia's loan book has high concentration to mortgages
Loan book breakdown, June 2020



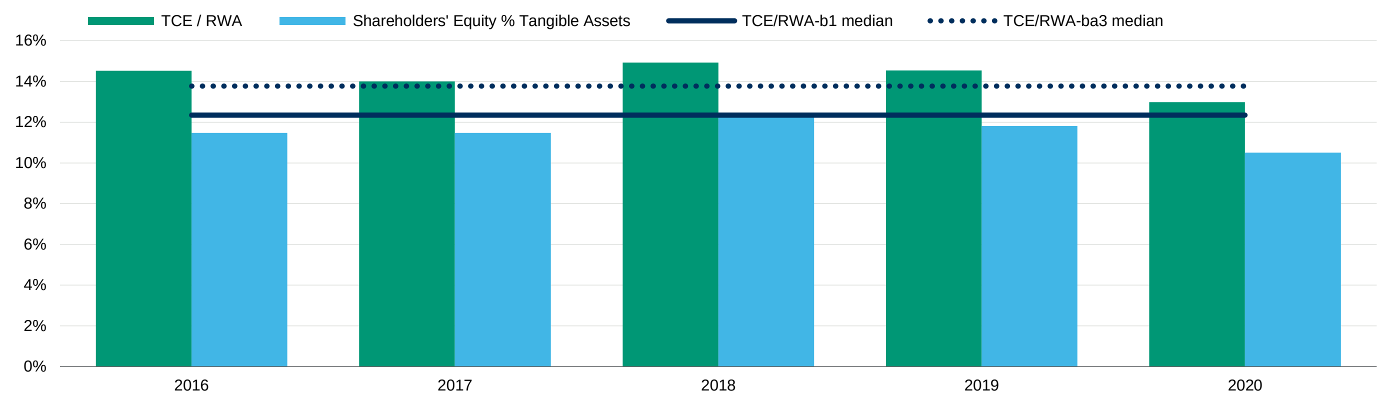
Source: The bank, Moody's Investors Service

Additionally, over the last 3 years, FNB Namibia has built up its risk management team and has been ramping up investments in its Namibia-based risk management infrastructure. As such, we expect the deterioration in FNB Namibia's NPLs to be manageable.

Solid capital and robust profitability provide loss absorbance amid economic recession

FNB Namibia's credit profile is underpinned by its solid buffers. As of June 2020, Moody's adjusted tangible common equity (TCE) as a percentage of risk-weighted assets (RWA) was 13.0%, despite being slightly lower to global ba3 BCA peer median of 13.8% (Exhibit 4).

Exhibit 4
FNB Namibia's tangible capital is higher than the average of its global peers



Source: The bank, Moody's Investors Service

We expect the bank's capitalisation to remain resilient, primarily because of FNB Namibia's solid profitability metrics, with a net income to tangible assets ratio of 1.9% for the fiscal year (FY) ended June 2020. FNB Namibia's profitability is supported by its solid pre-provision income, which was 4.9% of RWAs for the FY ended June 2020, giving buffer to absorb expected rising loan losses.

We expect the bank's loan losses to remain elevated over the coming quarters due to the economic recession, but the bank's proactive reserve build (loan loss provisions to gross loans ratio of 1.79% during the 12 months ending June 2020) reflects its prudent risk management and will contribute to the absorption of potential future losses.

Interest income slightly declined by 0.2% year-on-year for FY ended June 2020, due to an almost flat 0.6% growth in loans. Resilience in FNB Namibia's profitability, despite increased provisioning, reflects the banks strong banking franchise in Namibia being the country's largest bank, with a 32% market share in total assets. The high market share allows it to attract cheap deposits and service good quality borrowers. FNB Namibia's net interest margin was good at 4.6% for the FY ended June 2020.

In the long-term, we expect the bank's recent investments in digitilisation to enhance its efficiency. FNB Namibia's cost-to-income ratio was 53% for FY ended June 2020 which is better than the 66% average for Namibian banks. However, in the next 12 months we expect cost-to-income to deteriorate as revenue growth lags cost growth, pressuring profitability. We expect the bank's net income ratio to reduce to lower than 2% this year from 1.9% for FY ended June 2020.

FNB Namibia will continue to rely on short-term institutional deposit funding, straining its funding profile

FNB Namibia's credit profile also reflects the bank's reliance on short-term corporate and commercial deposit funding, a structural issue for all major Namibian banks. As of June 2020, professional funding such as negotiable certificates of deposits, senior notes and interbank deposits contributed almost 19% of the bank's liabilities. Customer deposits made up about 76% of the bank's liabilities (Exhibit 5).

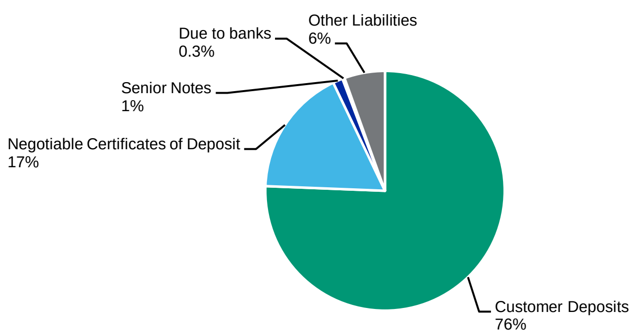
The bank's gross Loans to due to customers ratio was 101.2% as of June 2020. However this ratio declines materially when including in "due to customers" the negotiable certificates of deposits raised from institutional investors. Such deposits have historically been stable in the Namibian market.

Liquidity risks are further mitigated by regulation that requires pension funds and other institutional investors to invest at least 45% of their funds domestically and capital controls that restrict the transfer of liquidity out of Namibia. FNB Namibia's ratio of liquid banking assets to tangible banking assets has gradually increased over time to 30%, as of June 2020, from 20%, as of June 2016, but remains lower than comparable international peers.

Exhibit 5

FNB Namibia's reliance on professional funding is substantial

Liability profile as of June 2020



Source: The bank, Moody's Investors Service

About 29% of FNB Namibia's deposits are retail, while the rest are sourced from corporate and commercial depositors. Corporate deposit contributed 57%, while government deposits contributed 12%. Deposits from non-bank financial depositors (e.g. pension funds and asset managers) and corporates are less granular and more confidence-sensitive than retail deposits, leaving the bank vulnerable to deposit volatility. Contractually, about 66% of deposits are due within 3 months whereas about the majority of loans mature after 1 year (the standard term of an FNB Namibia mortgage is 20 years). This asset-liability mismatch leaves FNB Namibia with a large negative net liquidity gap.

Environmental, social and governance considerations

In line with our general view for the banking sector, FNB Namibia has a low to moderate exposure to **environmental risks**. Namibia, as a country, is exposed to environmental risk as exemplified by the impact of drought which has affected both livestock and crops in recent years. 4.8% of FNB Namibia's loans are to the agriculture sector. The lack of sustained rains has also impacted the availability of potable water as well as water to generate power in hydroelectric plants. See our Environmental risk heatmaps for further information.

We consider banks to face moderate **social risks**. See our Social risk heatmap for further information. The most relevant social risks for banks arise from the way they interact with their customers. Social risks are particularly high in the area of data security and customer privacy which is partly mitigated by sizeable technology investments and banks' long track record of handling sensitive client data. Fines and reputational damage due to product misselling or other types of misconduct is a further social risk. Societal trends are also relevant in a number of areas, such as shifting customer preferences towards digital banking services or socially driven policy agendas that may translate into regulation that affects banks' revenue base. Additionally, Namibia has a high level of income inequality which hampers the effectiveness of economic reform with indirect negative implications for banks. We also regard the coronavirus outbreak as a social risk under our ESG framework, given the substantial implications for public health and safety.

Governance is highly relevant for FNB Namibia, as it is to all entities in the banking industry. Corporate governance weaknesses can lead to a deterioration in a company's credit quality, while governance strengths can benefit its credit profile. Governance risks are largely internal rather than externally driven, and for FNB Namibia, we do not highlight any particular governance or risk framework issues. Nonetheless, corporate governance remains a key credit consideration and requires ongoing monitoring.

Support and structural considerations

Affiliate support

While FNB Namibia's ratings benefit from a very high expectation of support by its ultimate parent, FirstRand Limited, we do not incorporate any notch of support to FNB Namibia's ratings. The very high expectation is based on FirstRand Limited's 58% indirect ownership of the bank and FNB Namibia's association with the FirstRand Limited's brand (including the use of its logos).

Government support considerations

While FNB Namibia's deposit ratings benefit from a 'High' probability of government support in case of need, we do not incorporate any uplift on FNB Namibia's ratings as its bca of ba3 is in line with Namibia's sovereign issuer rating of Ba3.

Our assessment of 'High' probability of government support reflects the bank's systemic importance (FNB Namibia is Namibia's largest bank with a 32% market share in terms of total assets).

Counterparty risk assessment

We assign a Counterparty risk assessment of Ba2(cr)/NP(cr) to FNB Namibia. The Counterparty risk Assessment is positioned one notch above the adjusted baseline credit assessment of ba3. We believe senior obligations represented by the CRA will be more likely preserved in order to limit contagion, minimize losses and avoid disruption of critical functions. The CR Assessment does not benefit from systemic support, as the government's capacity to provide support is limited at its Ba2 rating.

Counterparty Risk Ratings (CRRs)

Our CRRs are opinions of the ability of entities to honour the uncollateralised portion of non-debt counterparty financial liabilities (CRR liabilities) and also reflect the expected financial losses in the event such liabilities are not honoured. CRR liabilities typically relate to transactions with unrelated parties. Examples of CRR liabilities include the uncollateralised portion of payables arising from derivatives transactions and the uncollateralised portion of liabilities under sale and repurchase agreements. We believe that CRR liabilities have a lower probability of default than the bank's deposit and senior unsecured debt as they will more likely be preserved to minimise banking system contagion, minimise losses and avoid disruption of critical functions. For this reason, we assign CRRs, prior to government support, one notch above the Adjusted BCA.

FNB Namibia's CRR is positioned at Ba2/NP

CRRs do not benefit from systemic support, as the government's capacity to provide support is limited at its Ba3 rating.

About Moody's bank scorecard

Our Scorecard is designed to capture, express and explain in summary form our Rating Committee's judgment. When read in conjunction with our research, a fulsome presentation of our judgment is expressed. As a result, the output of our Scorecard may materially differ from that suggested by raw data alone (though it has been calibrated to avoid the frequent need for strong divergence). The Scorecard output and the individual scores are discussed in rating committees and may be adjusted up or down to reflect conditions specific to each rated entity

Sources of facts and figures in this report

Unless noted otherwise, we have sourced data relating to systemwide trends and market shares from the central bank. Bank specific figures originate from banks' reports and Moody's Banking Financial Metrics. Unless noted otherwise, all figures are based on our own chart of account and may be adjusted for analytical purposes. Please refer to the document Financial Statement Adjustments in the Analysis of Financial Institutions, published on 9 August 2018.

Rating methodology and scorecard factors

Exhibit 6

First National Bank of Namibia Limited

Macro Factors							
Weighted Macro Profile	**Weak**	**100%**					

Factor	Historic Ratio	Initial Score	Expected Trend	Assigned Score	Key driver #1	Key driver #2
Solvency						
Asset Risk						
Problem Loans / Gross Loans	4.4%	b1	↓	b2	Expected trend	
Capital						
Tangible Common Equity / Risk Weighted Assets (Basel III - transitional phase-in)	13.0%	ba3	↓	b1	Expected trend	
Profitability						
Net Income / Tangible Assets	1.9%	ba1	↔	ba1	Return on assets	
Combined Solvency Score		ba3		b1		
Liquidity						
Funding Structure						
Market Funds / Tangible Banking Assets	18.1%	ba3	↔	ba3	Extent of market funding reliance	
Liquid Resources						
Liquid Banking Assets / Tangible Banking Assets	29.9%	ba3	↔	ba3	Stock of liquid assets	
Combined Liquidity Score		ba3		ba3		
Financial Profile				b1		
Qualitative Adjustments				Adjustment		
Business Diversification				0		
Opacity and Complexity				0		
Corporate Behavior				0		
Total Qualitative Adjustments				0		
Sovereign or Affiliate constraint				Ba3		
BCA Scorecard-indicated Outcome - Range				ba3 - b2		
Assigned BCA				ba3		
Affiliate Support notching				-		
Adjusted BCA				ba3		

Instrument Class	Loss Given Failure notching	Additional notching	Preliminary Rating Assessment	Government Support notching	Local Currency Rating	Foreign Currency Rating
Counterparty Risk Rating	1	0	ba2	0	Ba2	Ba2
Counterparty Risk Assessment	1	0	ba2 (cr)	0	Ba2(cr)	
Deposits	0	0	ba3	0	Ba3	Ba3

[1] Where dashes are shown for a particular factor (or sub-factor), the score is based on non-public information.

Source: Moody's Investors Service

Ratings

Exhibit 7

Category	Moody's Rating
FIRST NATIONAL BANK OF NAMIBIA LIMITED	
Outlook	Negative
Counterparty Risk Rating	Ba2/NP
Bank Deposits	Ba3/NP
Baseline Credit Assessment	ba3
Adjusted Baseline Credit Assessment	ba3
Counterparty Risk Assessment	Ba2(cr)/NP(cr)

Source: Moody's Investors Service

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CLIENT SERVICES

Americas	1-212-553-1653
Asia Pacific	852-3551-3077
Japan	81-3-5408-4100
EMEA	44-20-7772-5454