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CREDIT OPINION
20 December 2021

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 to credit analysis post June 2021 results

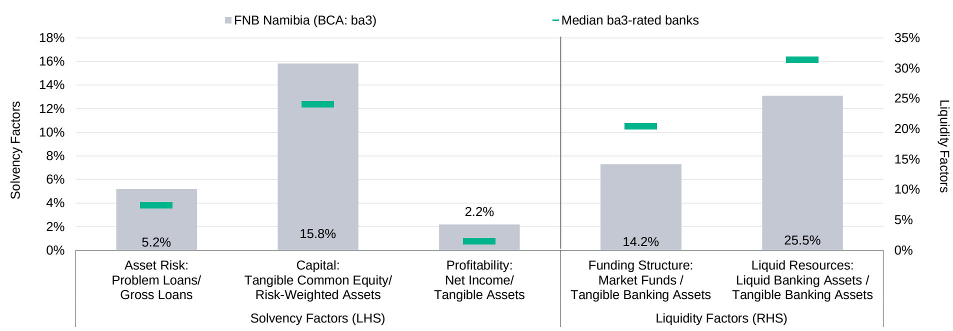
Summary

First National Bank of Namibia Limited's (FNB Namibia) Ba3 long-term deposit ratings are aligned with the bank's ba3 Baseline Credit Assessment (BCA), which is at the same level as the issuer rating of the Government of Namibia (Ba3 negative).

There is no government support uplift for the bank's deposit ratings despite our assessment of a high likelihood of government support in case of need, given the positioning of the bank's rating at the same level as the government rating.

FNB Namibia's ba3 BCA reflects its strong capitalisation, solid liquidity as well as strong profitability underpinned by a solid domestic franchise. These strengths are moderated by exposure to short-term institutional deposit funding (similar to other large Namibian banks), as well as weakened asset quality amid the coronavirus pandemic. Nonetheless, FNB Namibia's asset quality is stronger than local peers (the bank's non-performing loans ratio of 5.2% as of June 2021 is the lowest in the Namibian banking industry and remains lower than the 6.5% local average).

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

» Strong capital

» Strong profitability underpinned by solid domestic franchise

» Solid liquidity buffers

Credit challenges

» Weakened asset quality amid the pandemic; concentration to the mortgage sector also poses risk

» Exposure to short-term institutional deposits, partly moderated by historical stability

Outlook

The negative outlook on long-term deposit ratings is aligned with the negative outlook on the Namibian sovereign's issuer rating.

Factors that could lead to an upgrade

Upwards pressure on FNB Namibia's ratings is limited given the negative outlook. A stabilisation in the sovereign outlook could lead to a stabilisation in the bank's rating.

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]

	06-21[2]	06-20[2]	06-19[2]	06-18[2]	06-17[2]	CAGR/Avg.[3]
Problem Loans / Gross Loans (%)	5.2	4.4	2.7	1.7	1.2	3.0[4]
Tangible Common Equity / Risk Weighted Assets (%)	15.8	13.0	14.5	14.9	14.0	14.5[5]
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	24.5	23.0	14.6	9.6	7.7	15.9[4]
Net Interest Margin (%)	4.2	4.5	4.9	4.9	5.1	4.7[4]
PPI / Average RWA (%)	4.7	5.1	5.4	5.4	5.8	5.3[5]
Net Income / Tangible Assets (%)	2.3	1.9	2.4	2.7	2.8	2.4[4]
Cost / Income Ratio (%)	54.5	52.6	52.5	52.4	49.7	52.3[4]
Market Funds / Tangible Banking Assets (%)	14.2	18.1	24.5	21.4	25.6	20.7[4]
Liquid Banking Assets / Tangible Banking Assets (%)	25.5	29.9	26.2	22.7	20.3	24.9[4]
Gross Loans / Due to Customers (%)	104.9	101.2	118.9	119.4	128.0	114.5[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. 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 NAD7.7 billion.

Detailed credit considerations

Weakening asset quality amid the pandemic

We expect FNB Namibia's asset quality to remain under pressure owing to the difficult operating environment amid the coronavirus pandemic, as well as the expected gradual removal of forbearance measures. However, we expect the bank's sound risk management to help contain the risk.

FNB Namibia's Moody’s adjusted problem loans to gross loans ratio increased to 5.2%, as of June 2021, from 4.4%, as of June 2020 and 2.7% as of June 2019. This still compares favourably with the 6.5% industry average at end of June 2021.

The increase in the amount of rescheduled and/or restructured loans amid the pandemic poses some risk to asset quality. The balance of loans and advances that are not impaired but exhibit a significant increase in credit risk — classified in the Stage 2 bucket under IFRS9 — increased materially to 12% of gross loans as of June 2021, from 6% as of June 2020.

FNB Namibia’s single name concentration also poses some risk to asset quality. The bank's Top 20 largest borrowers represents 93% of the bank's capital and 16% of its total loans as of June 2021. However, the diversified nature of the business operations (across various industries) of several of the Top 20 moderates the concentration risk.

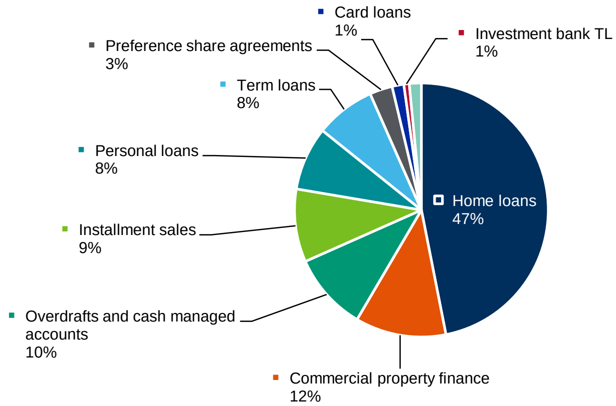
The bank's concentrated exposure to mortgage lending is another source of asset risk for the bank, given the indirect exposure to the real estate market. However, the bank's large exposure to the mortgage and commercial property sector (59% of total loans as of June 2021) has been well performing despite being high since before the global financial crisis. In addition, the concentration risks from the mortgage portfolio are mitigated by (a) the significant portion of first-lien mortgages in the bank's mortgage book (thus holding first priority interest on the property asset), (b) the principal repayment terms of all mortgages (FNB Namibia does not offer interest only mortgages) and (c) the diversification within the mortgage book, with a skew of the commercial property book towards shopping malls, which exhibit a different risk profile than the home loan book. House prices increased by 7.2% between March 2020 and March 2021.

Similar to other Namibian banks, FNB Namibia’s high exposure to domestic sovereign debt poses risk to the bank's credit profile. The weakening in the sovereign's credit profile has implications for local banks given the interlinkages between the sovereign's creditworthiness and the banks' balance sheets. FNB Namibia's direct exposure to the sovereign (through debt securities) stood at 125% its shareholders' equity as of June 2021.

Exhibit 3

FNB Namibia's loan book has high concentration to mortgages

Loan book breakdown, June 2021



Source: The bank, Moody's Investors Service

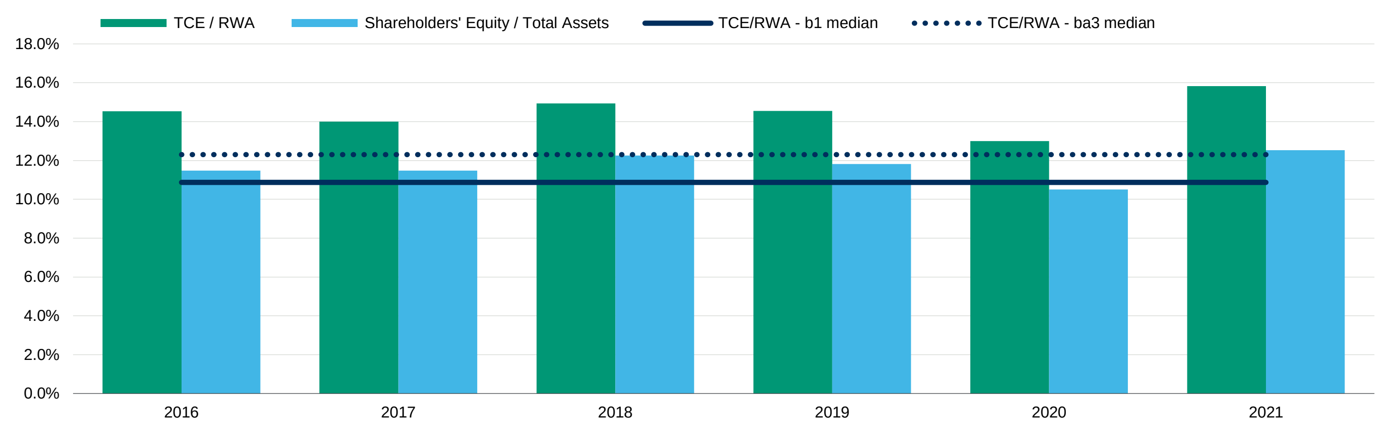
Strong capital and robust profitability provide loss absorbance

FNB Namibia will continue to maintain strong and higher than peers capital buffers, supported by its solid earnings generation capacity and conservative dividend policy. Nonetheless, we expect the bank's capitalisation to slightly decline owing to renewed growth in risk-weighted assets and still elevated provisioning requirements.

The bank's tangible common equity to risk-weighted assets ratio increased materially to 15.8% as of June 2021, from 13.0% as of June 2020. The bank's reported Tier 1 ratio stood at 17.1%.

Exhibit 4

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



Source: The bank, Moody's Investors Service

FNB Namibia exhibit solid profitability, underpinned by the bank's strong franchise as the largest bank in Namibia (29.4% market share in total assets as of June 2021) which allows it to attract cheap deposits and service high end borrowers.

The bank's bottom line profitability increased during the twelve months ended June 2021, as the decline in provisioning requirements outweighed the decline in operating income. Net income to tangible assets ratio increased to 2.3% during the twelve months ending June 2021, from 1.9% a year earlier.

Net interest income declined during the fiscal year ended June 2021, primarily reflecting the impact of the central bank's interest rate cuts in 2020, which affected the full financial year ending June 2021, but only affected three months of the previous financial year ending

June 2020. FNB Namibia's cost-to-income ratio was 55% during the fiscal year ended June 2021, which compares favourably with the 60% average for Namibian banks.

Exposure to short-term institutional deposit funding, moderated by historical stability and solid liquidity buffers

We expect FNB Namibia to remain primarily funded through customer deposits, which made up about 80% of the bank's liabilities. The bank's deposits comprise corporate deposits (57%), retail deposits (29%) and government related deposits (12%).

The bank's exposure to institutional funding poses some risk. Similar to other large Namibian banks, FNB Namibia has exposure to short-term corporate and commercial deposit funding. This funding tends to be short term, concentrated and more expensive than retail deposits, which poses risks. However, the historical stability of the institutional funding partly moderates the risk. As of June 2021, professional funding such as negotiable certificates of deposits, senior notes, tier II liabilities and interbank deposits contributed 16% of the bank's liabilities.

We expect the bank to continue to maintain solid liquidity buffers. In addition, we expect the local regulation that requires pension funds and other institutional investors to invest at least 45% of their funds domestically to continue to support liquidity in the country.

FNB Namibia’s ratio of liquid banking assets to tangible banking assets stood at 25.5% (29.9% as of June 2020). The bank's gross loans to deposit ratio was 105% as of June 2021. However this ratio declines materially when including in “deposits” the negotiable certificates of deposits raised from institutional investors. Such deposits have historically been stable in the Namibian market.

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 58.4% 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 29.4% 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 5

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	5.2%	b2	↓	b3	Expected trend	
Capital						
Tangible Common Equity / Risk Weighted Assets (Basel III - transitional phase-in)	15.8%	ba1	↔	ba3	Expected trend	
Profitability						
Net Income / Tangible Assets	2.2%	ba1	↔	ba1	Return on assets	
Combined Solvency Score		ba3		b1		
Liquidity						
Funding Structure						
Market Funds / Tangible Banking Assets	14.2%	ba3	↔	ba3	Extent of market funding reliance	
Liquid Resources						
Liquid Banking Assets / Tangible Banking Assets	25.5%	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 6

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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