MOODY'S INVESTORS SERVICE

CREDIT OPINION
24 April 2023

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	Stable

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 December 2022 results

Summary

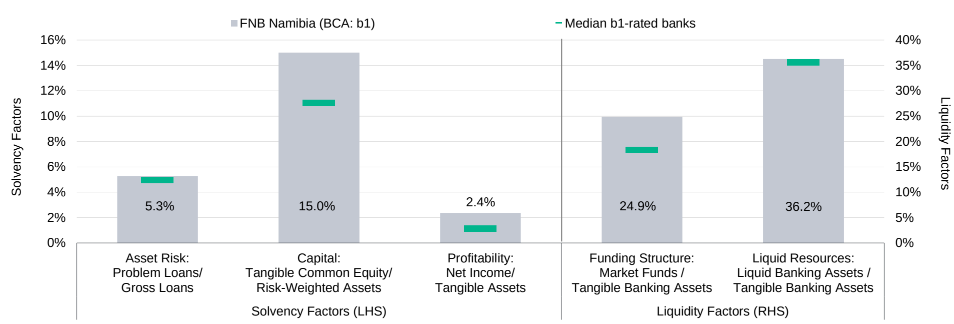
First National Bank of Namibia Limited's (FNB Namibia) Ba3 long-term deposit ratings reflects the bank's b1 Baseline Credit Assessment (BCA), as well as a one-notch uplift based on our assessment of a very high probability of affiliate support from the bank's parent, FirstRand Limited.

While we believe there is a high likelihood that the Government of Namibia (B1 stable) would support the bank's senior liabilities in case of need, this does not benefit the bank's ratings given that the government itself is rated no higher than the bank's b1 BCA.

FNB Namibia's b1 BCA reflects its strong capitalisation, solid liquidity as well as strong and improving profitability underpinned by a solid domestic franchise. These strengths are moderated by the bank's exposure to short-term institutional deposit funding (similar to other large Namibian banks), its exposure to government debt securities holdings, and its weakened asset quality (albeit stronger than local peers) following the pandemic.

FNB Namibia's financial profile is ba3 in our scorecard (page 7), but we constrain the bank's BCA at b1 (in line with the Namibian sovereign rating) given the interlinkages between the sovereign's creditworthiness and the bank's balance sheet (sovereign debt exposure accounts for 13% of the bank's assets).

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 capitalisation provides sizeable buffer

» Strong and improving profitability underpinned by solid domestic franchise

» Solid liquidity buffers

Credit challenges

» Weakened asset quality following the pandemic and amid challenging environment

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

Outlook

The stable outlook on the long-term deposit ratings mirrors the stable outlook on Namibia's government issuer rating.

The stable outlook also reflects our view that the bank's high capitalisation, strong profitability and solid liquidity will balance the challenges from its weakened asset quality and exposure to short-term institutional deposits.

Factors that could lead to an upgrade

Upwards pressure on FNB Namibia's long-term deposit ratings is limited given their positioning above the Namibian sovereign rating. Upwards pressure on FNB Namibia's BCA is limited given its positioning at the same level as the Namibian sovereign rating.

Factors that could lead to a downgrade

Downward pressure on FNB Namibia's ratings could result from a deterioration in the Namibian sovereign's credit profile, a deterioration in FirstRand Limited's credit profile, or a material deterioration in the FNB Namibia's asset quality and capitalisation.

Key Indicators

Exhibit 2

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

	12-22[2]	06-22[2]	06-21[2]	06-20[2]	06-19[2]	CAGR/Avg.[3]
Problem Loans / Gross Loans (%)	5.3	5.4	5.2	4.4	2.7	4.6[4]
Tangible Common Equity / Risk Weighted Assets (%)	15.0	15.6	15.8	13.0	14.5	14.8[5]
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	24.9	24.6	24.5	23.0	14.6	22.3[4]
Net Interest Margin (%)	4.9	4.7	4.2	4.5	4.9	4.7[4]
PPI / Average RWA (%)	6.6	5.4	4.7	5.1	5.4	5.4[5]
Net Income / Tangible Assets (%)	3.0	2.3	2.3	1.9	2.4	2.4[4]
Cost / Income Ratio (%)	46.0	52.6	54.5	52.6	52.5	51.6[4]
Market Funds / Tangible Banking Assets (%)	24.0	24.9	14.2	18.1	24.5	21.1[4]
Liquid Banking Assets / Tangible Banking Assets (%)	36.4	36.2	25.5	29.9	26.2	30.8[4]
Gross Loans / Due to Customers (%)	102.3	104.7	104.9	101.2	118.9	106.4[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

First National Bank of Namibia Limited (FNB Namibia) is a Namibia-based bank founded as Deutsche Afrika Bank (DAB) in 1907. The National Bank of South Africa took over the assets of DAB in 1915, after which National Bank of South Africa was integrated into Barclays Bank in 1926. After a shareholding change in 1987, First National Bank of SWA/Namibia Limited was incorporated in 1988.

FNB Namibia is a wholly owned subsidiary of FirstRand Namibia Limited, which is listed on the Namibian Stock Exchange. FirstRand Namibia Limited is 58.4% owned by FirstRand EMA Holdings Proprietary Limited, which itself is fully owned by FirstRand Limited (a South Africa based holding company listed on the Johannesburg Stock Exchange).

FNB Namibia is the largest bank in Namibia, with total assets of NAD 54.3 billion ($3.2 billion) as of December 2022. As of December 2022, FNB Namibia had a 33% market share in terms of assets in Namibia. FNB Namibia, which was listed on the Namibia Stock Exchange in 1997, is the largest locally listed company with market capitalisation of NAD9.7 billion.

Detailed credit considerations

High interest rates and inflation pose risks to the bank's asset quality

We expect FNB Namibia's asset quality to face some further pressure, as the higher inflation and tighter financing conditions will weigh on the repayment capacity of the most vulnerable borrowers. Namibia's headline inflation rose to 6.1% during 2022, from 3.6% in 2021. Nonetheless, we expect FNB Namibia's sound risk management to help contain the risks that the challenging environment poses to asset quality.

The bank's sizeable exposure to mortgage lending poses some risk for asset quality, given the indirect underlying exposure to the volatile real estate market. Household mortgage lending accounted for 47% of total loans as of December 2022, while lending to the commercial property sector accounted for 12% of total loans.

However, the aforementioned risk is moderated by various factors, including (a) the significant portion of first-lien mortgages in the bank's mortgage book (providing priority interest on the property asset); (b) the principal repayment terms of all mortgages (FNB Namibia does not offer interest only mortgages); (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); and (d) the sound performance of the mortgage book since before the global financial crisis. House prices increased by 7.2% between March 2020 and March 2021 in the country.

Similar to other Namibian banks, FNB Namibia's high exposure to domestic sovereign debt poses risk to the bank's credit profile. The sovereign's creditworthiness has implications for local banks given the interlinkages between the sovereign's creditworthiness and the banks' balance sheets. Nonetheless, FNB Nambia's exposure to sovereign debt securities has been gradually declining. FNB Namibia's direct exposure to the sovereign (through debt securities) stood at 13.3% of total assets as of December 2022 (122% its shareholders' equity), compared to 14.0% of total assets as of June 2022 and 15.9% of total assets as of December 2021.

FNB Namibia's single name concentration also poses some risk to asset quality. The bank's 20 largest borrowers represented 93% of the its 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 borrowers moderates the concentration risk.

As of December 2022, FNB Namibia's problem loans to gross loans ratio improved slightly to 5.3%, from 5.4% as of June 2022 (5.2% as of June 2021). This compares favourably with the 5.6% industry average at end of December 2022. 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 — also decreased to 6.6% of gross loans as of December 2022, from 8.3% as of June 2022.

Strong capitalisation provides sizeable buffer

We expect FNB Namibia 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 continue to decline slightly owing to renewed growth in risk weighted assets and still elevated provisioning requirements.

The bank's tangible common equity to risk-weighted assets ratio decreased to 15.0% as of December 2022, from 15.6% as of June 2022 (15.8% as of June 2021). The bank's reported Tier 1 ratio declined noticeably to 15.9% as of December 2022, from 19.3% as of June 2022 (16.7% as of December 2021). The capital adequacy ratio declined to 18.1% as of December 2022, from 20.3% as of June

2022 (20.0% as of December 2021). The Tier 1 leverage ratio was 8.9% as of December 2022, compared to 10.7% as of June 2022 (10.9% as of December 2021).

Strong and improving profitability underpinned by solid domestic franchise

We expect FNB Namibia's profitability to remain strong and higher than peers, but face some pressure amid inflationary pressures. Net interest income will improve further amid higher policy rates (following a 300 basis points cumulative increase in policy rates during 2022), but we expect provisioning needs to increase as the higher inflation and interest rates weigh on the repayment capacity of households and small businesses. The large majority of the bank's mortgage loan book carries floating interest rates, allowing the bank to reprice them as interest rates rise. The bank's net income to tangible assets ratio increased materially to 3.0% during the six-months ended December 2022, from 2.3% during the full year ended June 2022 (2.3% during the full year ended June 2021).

FNB Namibia's strong profitability will reflect the bank's strong and established footprint in the retail segment, and leading franchise in corporate and investment banking in Namibia. The bank's profitability will also benefit from significant cross-selling within its large client base, combined with continued diversification of its offering in the insurance and asset management segments. FNB Namibia's franchise will also benefit from the bank's belonging to the wider FirstRand Limited group, which contributes to disciplined financial resources management, brand association and technological innovation.

FNB Namibia's net interest margins improved significantly to 4.9% during the six months ending December 2022, compared to 4.7% during the twelve months ending June 2022 (4.2% during the twelve months ending June 2021). The bank's cost-to-income ratio improved to 46% during the six months ending June 2022, compared to 53% during the twelve months ending June 2022. FNB Namibia's cost to income ratio compares favourably to the 52% local average for Namibian banks. The bank's provisioning needs increases slightly, with loan loss provisioning consuming 7% of pre-provision income during the six months ending December 2022, compared to 5% during the twelve months ending June 2022.

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 70% of the bank's liabilities. As of June 2022, the bank's deposit base comprises deposits sourced from corporate customers (45% of total deposits), retail customers (27%), banks (16%), public sector entities (8%), sovereigns including central banks (2%) and local authorities (1%).

The bank's exposure to institutional funding poses some risk. FNB Namibia's funding structure, similar to other Namibian banks, includes a sizeable component of institutional deposits and other market funding sourced from insurance, pension companies and money-market funds. This funding tends to be concentrated and more expensive than retail deposits, which poses risks. However, the historical stability of the institutional funding partly moderates the risk. In addition, we understand that the institutional funding raised through negotiable certificates of deposits and senior notes typically has a tenor of more than a year, which also moderates the risk.

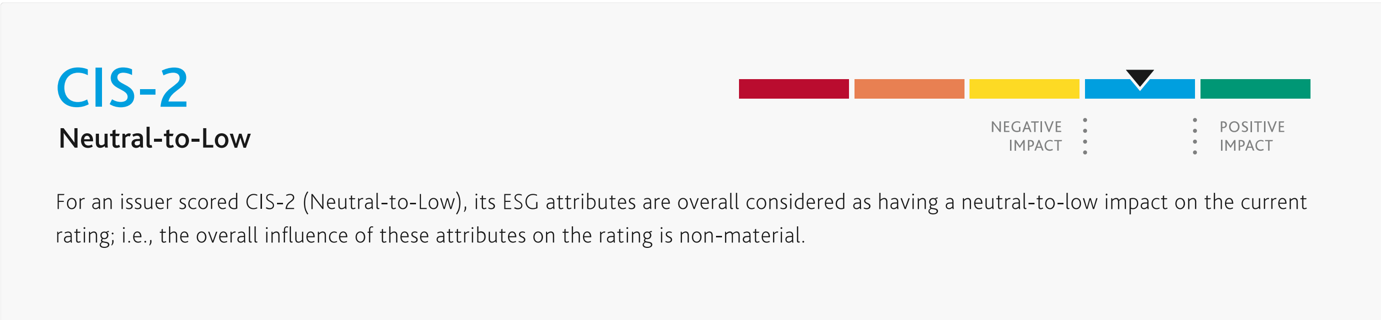
We expect the bank to continue to maintain solid liquidity buffers. In addition, we expect the local regulation that requires pension funds and other institutional investors to invest at least 45% of their funds domestically to continue to support liquidity in the country.

FNB Namibia's ratio of liquid banking assets to tangible banking assets improved to a solid 36.4% as of December 2022, from 36.2% as of June 2022 (25.5% as of June 2021). However, the bank's gross loans to deposit ratio was high at 102% as of December 2022. Nonetheless, 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.

ESG considerations

First National Bank of Namibia Limited's ESG Credit Impact Score is Neutral-to-Low CIS-2

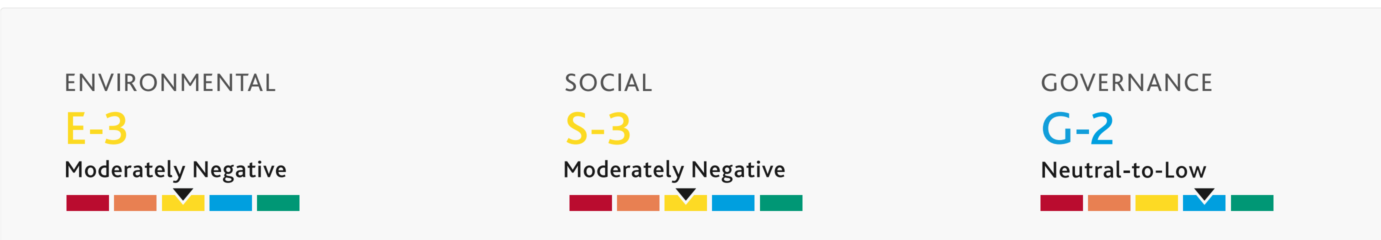
Exhibit 3
ESG Credit Impact Score



Source: Moody's Investors Service

FNB Namibia's ESG Credit Impact Score is neutral-to-low (**CIS-2**). This reflects limited credit impact from ESG risk factors on the rating to date.

Exhibit 4
ESG Issuer Profile Scores



Source: Moody's Investors Service

Environmental

FNB Namibia faces moderate environmental risks. Water management risks reflect (a) the impact of droughts (which affected livestock and crops in recent years), as well as (b) the lack of sustained rains, which has affected the availability of water to generate power in hydroelectric plants (water supply interruptions remain a challenge to mining production). The bank's limited exposure to the agriculture and the mining sectors mitigates the risk, but the large retail exposure creates some indirect exposure to the aforementioned risk. In line with peers, it is facing mounting business risks and stakeholder pressure to meet broader carbon transition goals. In response, FNB Namibia is engaging in developing its climate risk and portfolio management capabilities.

Social

FNB Namibia faces moderate industrywide social risks. Customer relations risks captures the moderate supervisory focus on promoting the fair treatment of financial customers. Industry wide socials risks related to customer relations are partly mitigated by FNB Namibia's adoption (as part of the larger FirstRand Limited Group) of frameworks, policies and standards with respect to Market Conduct (including treating customers fairly and complaints management, Data Privacy and Protection, Financial Crime Risk Management, Business Conduct and Ethics, etc.). Risks related to demographic and societal trends reflect the relatively modest population growth (in comparison to Sub-Saharan African peers) and the already meaningful banking penetration, which together limit business growth prospects in Namibia. High cyber and personal data risks are mitigated by a sound IT framework.

Governance

FNB Namibia's governance risks are low, similar to its South Africa-based parent FirstRand Limited. The bank benefits from strong corporate governance practices, combined with a track record of efficient and deeply embedded financial resources management.

Management credibility and track record is strong, similar to its South African based parent. Board structure and policies risks reflect the potential challenges that could result from the group's concentrated ownership. However, these aforementioned risks are moderated by (a) the large presence of independent members in FNB Namibia's Board of Directors, (b) the strong risk management framework of the parent FirstRand Group Limited, and (c) the strong regulatory oversight from both the Namibian and the South African regulators.

ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on Moodys.com. In order to view the latest scores, please click here to go to the landing page for the entity/transaction on MDC and view the ESG Scores section.

Support and structural considerations

Affiliate support

FNB Namibia's ratings benefit from a very high likelihood of support by its ultimate parent, FirstRand Limited, which results in a one-noth uplift 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 b1 is in line with Namibia's sovereign issuer rating of B1 and also given the bank's long-term deposit ratings are above Namibia's sovereign issuer rating. Our assessment of 'High' probability of government support reflects the bank's systemic importance (FNB Namibia is Namibia's largest bank with a 33% 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 B1 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	5.3%	b2	↔	b3	Expected trend		
Capital							
Tangible Common Equity / Risk Weighted Assets (Basel III - transitional phase-in)	15.0%	ba1	↔	ba2	Expected trend		
Profitability							
Net Income / Tangible Assets	2.4%	baa3	↔	baa3	Return on assets		
Combined Solvency Score		ba2		ba3			
Liquidity							
Funding Structure							
Market Funds / Tangible Banking Assets	24.9%	b1	↔	b1	Extent of market funding reliance		
Liquid Resources							
Liquid Banking Assets / Tangible Banking Assets	36.2%	ba2	↔	ba2	Stock of liquid assets		
Combined Liquidity Score		ba3		ba3			
Financial Profile				ba3			
Qualitative Adjustments				Adjustment			
Business Diversification				0			
Opacity and Complexity				0			
Corporate Behavior				0			
Total Qualitative Adjustments				0			
Sovereign or Affiliate constraint				B1			
BCA Scorecard-indicated Outcome - Range				ba3 - b2			
Assigned BCA				b1			
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	Stable
Counterparty Risk Rating	Ba2/NP
Bank Deposits	Ba3/NP
Baseline Credit Assessment	b1
Adjusted Baseline Credit Assessment	ba3
Counterparty Risk Assessment	Ba2(cr)/NP(cr)

Source: Moody's Investors Service

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