GCR Global Credit Rating Co.
Local Expertise • Global Presence

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CREDIT RATING ANNOUNCEMENT

GCR accords an initial rating of AA+(NA) to First National Bank of Namibia Limited; Outlook Stable.

Johannesburg, 17 February 2017 -- Global Credit Ratings has assigned national scale ratings 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 assigned a South African national scale (Rand) issuer rating of AA-$_{(ZA)}$ 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 the following key criteria:

The initial ratings assigned to FNB Namibia reflect its leading market position in the Namibian banking industry, strong overall credit/financial profile, and high probability of government/shareholder support (if required). 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 is the largest commercial bank in Namibia with total assets of NAD34bn at FYE16. 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 which provide some protection from competitors.

The bank's traditional, albeit adaptable, business model has proved effective in generating a track record of very strong and sustainable profitability, while preserving a generally conservative risk appetite. The bank has maintained very strong capitalisation and asset quality over the review period although it remains reliant on wholesale funding from the local market. The bank is in the process of exploring alternative funding avenues, which should reduce funding concentration risk.

FNB Namibia is 100% owned by FNB Namibia Holdings Limited ("FNB Namibia Holdings"), the ultimate parent of which is FirstRand Limited ("FirstRand"), which is listed on the Johannesburg and Namibian Stock Exchanges, and is one of the largest financial institutions in South Africa, providing banking, insurance and investment products/services. The bank's key status within FNB Namibia Holdings, given that it accounts for 99.9% of assets and 92.2% of pre-tax profits, implies a strong likelihood of support from FirstRand. Furthermore, the bank's market share of 32.9% and 34.4% in terms of total industry assets and customer deposits respectively, indicates very high systemic importance, and therefore a high probability of support from the Namibian authorities.

The bank has maintained very strong capitalisation metrics (measured in accordance with Basel II) over the review period. The bank's total risk weighted capital adequacy ratio of 17.8% at FYE16 (FYE15: 17.4%) and Tier 1 risk based capital ratio of 15.1% (FYE15: 14.5%) were well above the regulatory minima of 10% and 7% respectively, providing a sufficient buffer to absorb credit losses.

FNB Namibia's sound credit practices and lending linked to collateral have seen the bank maintain very strong asset quality since F12. The gross non-performing loan ratio slightly increased to 1.0% at FYE16 (FYE15: 0.6%), and GCR believes operating environment challenges may see the ratio continue to rise somewhat over the medium term. While provision coverage of defaults was only 26.7%, provisions plus collateral fully cover arrears. The bank's unreserved arrears (excl. collateral) relative to regulatory capital remained very low (4.3%) at FYE16.

Very strong and consistent returns (F16: ROaE/ROaA of 30.2%/3.5%) have been demonstrated over the past five years, supported by high interest margins, very low impairments and an improving cost ratio.

An upward adjustment of the bank's very strong rating (which constitutes the highest rating for a bank in Namibia accorded by GCR) is considered unlikely over the short to medium term. A sharp deterioration in the bank's competitive position, capital adequacy, liquidity, earnings and asset quality, 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.

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NATIONAL SCALE RATINGS HISTORY

Initial/last rating: New rating
Outlook: New rating

SOUTH AFRICAN NATIONAL SCALE RATINGS HISTORY

Initial/last rating: New rating
Outlook: New rating

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APPLICABLE METHODOLOGIES AND RELATED RESEARCH

Global Criteria for Rating Banks and Other Financial Institutions, updated March 2016

RATING LIMITATIONS AND DISCLAIMERS

SALIENT FEATURES OF ACCORDED RATINGS

GCR affirms that a.) no part of the rating was influenced by any other business activities of the credit rating agency; b.) the rating was 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; and d.) the validity of the rating is for a maximum of 12 months, or earlier as indicated by the applicable credit rating document.

First National Bank of Namibia Limited participated in the rating process via teleconferences and other written correspondence. Furthermore, the quality of information received was considered adequate and has been independently verified where possible.

The credit ratings have been disclosed to First National Bank of Namibia Limited with no contestation of the ratings.

Information received:

- Consolidated audited financial results of First National Bank of Namibia Limited at 30 June 2016 (plus four years of comparative figures);
- Reserving methodologies;
- A breakdown of facilities available and related counterparties;
- 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.

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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 measures 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.
Margin	The rate taken by the lender over the cost of funds, which effectively represents the entity's profit and remuneration for taking the risk of the loan; also known as spread.
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.
Security	An asset deposited or pledged as a guarantee of the fulfilment of an undertaking or the repayment of a loan, to be forfeited in case of default.
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.

For a detailed glossary of terms utilised in this announcement please click here

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