

## CREDIT RATING ANNOUNCEMENT

GCR affirms Sasfin Bank Limited's national and international scale issuer credit ratings of BBB<sup>+</sup><sub>(ZA)</sub>/A2<sub>(ZA)</sub> and B/B respectively, balancing strong capital with moderate weakening of asset quality. Outlooks are Stable.

### Rating action

Johannesburg, 31 August 2023 - GCR Ratings (GCR) has affirmed the South African long and short-term issuer ratings of Sasfin Bank Limited at BBB<sup>+</sup><sub>(ZA)</sub>/A2<sub>(ZA)</sub> with a Stable Outlook. GCR has concurrently affirmed the international scale long and short-term issuer ratings of B/B with a Stable Outlook.

Rated entity	Rating class	Rating scale	Rating	Outlook/Watch
Sasfin Bank Limited	Issuer Long term	National	BBB <sup>+</sup> <sub>(ZA)</sub>	Stable
	Issuer Short term	National	A2 <sub>(ZA)</sub>	
	Issuer Long term	International	B	Stable
	Issuer Short term	International	B	

### Rating rationale

The ratings assigned to Sasfin Bank Limited (Sasfin, the bank) are based on the credit profile of the group, Sasfin Holdings Limited, and its subsidiaries. The ratings affirmation considered the moderately strong capital and leverage position with a marginally weaker risk profile, whilst balancing the strong liquidity levels to an acceptable funding structure. The competitive position remains weak.

Capital and leverage is sound, with the GCR capital ratio at 16.9% for December 2022, from 15.8% at June 2022, whilst the leverage ratio registered at 11.2% and 10.9% for the same period. We expect the GCR capital ratio to remain within the intermediate range in excess of 16.0% for the next 6-12 months. The leverage ratio is expected to be more than 11.0% for the next 6-12 months. GCR views the continuing decline of the loan loss reserving negatively however, the risk is partially mitigated by the collateral financed, as the bank largely lends on a secured basis.

The funding and liquidity assessment is neutral to the ratings. The bank's deposits grew by 6.9% for the 12 months to January 2023 (BA900), whilst core deposits (except for Insurance, Pension and Private financial corporate sectors) increased by 6.7% as a percentage of total deposits over the same period. Core deposits made up 57.0% of the total depositor base at June 2023, although noting a 3.1% decline of total deposits at ZAR6.3 billion to June 2023 from January 2023. Total deposits make up 50.1% of total liabilities, largely made up of term / notice / demand deposits. This is viewed positively as representative a stable sources funding. The group and bank reported a Net Stable Funding Ratio of 104.4% at 31 March 2023 from 107.9% at 31 December 2022, and 102.1% at 30 June 2022.

Liquidity was held at exceptionally high levels to December 2022, although higher net cash outflows and less liquid assets to March 2023 accounted for a reduced, albeit high Liquidity Coverage Ratio (LCR). The group and bank reported LCR of 171.8% at 31 March 2023 from 256.9% at 31 December 2022 and 253.4% at 30 June 2022. Despite the aforementioned, the short to medium term of loans and advances support liquidity. The reliance on securitisation through their serialised South African Securitisation Programme (RF) Limited settles the group with longer dated medium term funding whilst aiding liquidity considerations.

The Group's competitive position is regarded as weak to modest across the three operating segments, namely Asset Finance, Business and Commercial Banking and Wealth. Asset Finance saw good growth for the 12 months to December 2022, however interest rate increases have since challenged debt serviceability as borrowers' income levels have not kept up with the quantum of rate increases. Business and Commercial Banking trading activities were muted for the period whilst the Wealth business had shown good progress with increased profitability as predicted.

The group made good strides in reducing costs, albeit the cost-to-Income ratio of 76.3% at 31 December 2022, is still regarded as high.

Credit Loss Ratio (CLR) has been reported at 1.3% for 31 December 2022 from 1.2% at 30 June 2022. GCR expect the CLR to near exceed 1.50% for the next 6-12 months. Stage III exposures have surpassed our expectations reaching 9.9% to December 2022 from 10.1% at June 2022.

## Outlook statement

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The stable outlook reflects GCR's expectations that earnings will be moderate albeit improving, supported by elevated capital and leverage metrics. The GCR capital ratio is expected to be in excess of 16.0% over the next 18 months. Asset quality is slightly above peers although NPLs and credit losses are expected to trend above market average, with CLR edging closer to 1.50% over the next 6 to 12 months.

## Rating triggers

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GCR may revise the national scale ratings upward should GCR capital and leverage ratios be sustained at elevated levels and NPLs and through the cycle credit losses moderate to levels similar to those of larger banks. The ratings may also be upgraded should the group sustain exceptional liquidity metrics with an improvement of the funding structure and reduced reliance on wholesale funding. Conversely, should asset quality deteriorate beyond expectations with NPLs above 11.0% and CLR well in excess of 1.5% and the GCR capital ratio falls to below 15.0% on a consistent basis with the leverage ratio below 10.0%, negative ratings action may arise.

## Analytical contacts

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## Related criteria and research

Criteria for the GCR Ratings Framework, January 2022  
 Criteria for Rating Financial Institutions, May 2019  
 GCR Ratings Scale, Symbols & Definitions, May 2019  
 GCR Country Risk Scores, August 2023  
 GCR Financial Institutions Sector Risk Score, June 2023

## Ratings history

### Sasfin Bank Limited

Rating class	Review	Rating scale	Rating class	Outlook	Date
Long Term issuer	Initial	National	BBB+ <sub>(ZA)</sub>	Stable	May 2016
	Last	National	BBB+ <sub>(ZA)</sub>	Stable	August 2022
	Initial	International	BB	Stable	May 2016
	Last	International	B	Stable	August 2022
Short Term issuer	Initial	National	A1- <sub>(ZA)</sub>	N/a	May 2016
	Last	National	A2 <sub>(ZA)</sub>	N/a	August 2022
	Initial	International	B	N/a	July 2021
	Last	International	B	N/a	August 2022

## Risk score summary

Rating Components & Factors	Score
<b>Operating environment</b>	<b>14.50</b>
Country risk score	7.00
Sector risk score	7.50
<b>Business profile</b>	<b>(3.00)</b>
Competitive position	(3.00)
Management and governance	0.00
<b>Financial profile</b>	<b>0.25</b>
Capital and Leverage	0.75
Risk	(0.50)
Funding and Liquidity	0.00
<b>Comparative profile</b>	<b>0.00</b>
Group support	0.00
Peer comparison	0.00
<b>Total Risk Score</b>	<b>11.75</b>

## Glossary

Advance	A lending term, to transfer funds from the creditor to the debtor.
Affirmation	See GCR Rating Scales, Symbols and Definitions.
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.
Core Deposits	That portion of a bank's deposits that is relatively stable and has a predictable cost. Deposits fluctuate seasonally and cyclically, but even in adverse circumstances, deposits normally do not fall below some minimum level.
Coverage	The scope of the protection provided under a contract of insurance.
Demand Deposit	A deposit of funds that can be withdrawn without any advance notice, or "on demand".
Exposure	Exposure is the amount of risk the holder of an asset or security is faced with as a consequence of holding the security or asset. For a company, its exposure may relate to a particular product class or customer grouping. Exposure may also arise from an overreliance on one source of funding. In insurance, it refers to an individual or company's vulnerability to various risks
Interest Rate	The charge or the return on an asset or debt expressed as a percentage of the price or size of the asset or debt. It is usually expressed on an annual basis.
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.
Issuer Ratings	See GCR Rating Scales, Symbols and Definitions.
Issuer	The party indebted or the person making repayments for its borrowings.
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.
Loan	A sum of money borrowed by a debtor that is expected to be paid back with interest to the creditor. A debt instrument where immovable property is the collateral for the loan. A mortgage gives the lender a right to take possession of the property if the borrower fails to repay the loan. Registration is a prerequisite for the existence of any mortgage loan. A mortgage can be registered over either a corporeal or incorporeal property, even if it does not belong to the mortgagee. Also called a Mortgage bond.
Loss	1. A tangible or intangible, financial or non-financial loss of economic value. 2. The happening of the event for which insurance pays (insurance).
Margin	A term whose meaning depends on the context. In the widest sense, it means the difference between two values.
Market	An assessment of the property value, with the value being compared to similar properties in the area.
Performing Loan	A loan is said to be performing if the borrower is paying the interest on it on a timely basis.
Performing	An obligation that performs according to its contractual obligations.
Private	An issuance of securities without market participation, however, with a select few investors. Placed on a private basis and not in the open market.
Rating Outlook	See GCR Rating Scales, Symbols and Definitions.
Risk	The chance of future uncertainty (i.e. deviation from expected earnings or an expected outcome) that will have an impact on objectives.
Securitisation	A process of repackaging portfolios of cash-flow producing financial instruments into securities for sale to third parties.
Short Term	Current; ordinarily less than one year.
Upgrade	The rating has been raised on its specific scale.
Weighted	The weight that a single obligation has in relation to the aggregated pool of obligations. For example, a single mortgage principal balance divided by the aggregated mortgage pool principal balance.

### Salient points of accorded rating

GCR affirms that a.) no part of the rating process was 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; and c.) such ratings were an independent evaluation of the risks and merits of the rated entity, security or financial instrument.

The credit ratings have been disclosed to the rated entity.

The ratings above were solicited by, or on behalf of, the rated entity, and therefore, GCR has been compensated for the provision of the ratings.

The rated entity participated in the rating process via management meetings, as well as other written correspondence. Furthermore, the quality of information received was considered adequate and has been independently verified where possible. The information received from the rated entity and other reliable third parties to accord the credit ratings included:

- Interim financial results as at 31 December 2022;
- Audited Annual Finance Statements as at 30 June 2022;
- Management accounts for Sasfin Bank Limited to May 2023;
- Latest external audit report to management;
- A breakdown of facilities available and related counterparties; and
- Other relevant information.

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