



Credit Rating Announcement

GCR affirms Sasfin Bank Limited's national and international issuer credit ratings of BBB^{+(ZA)}/A2^(ZA) and B/B respectively, balancing strong capital with moderated asset quality. Outlooks revised to Stable.

Rating Action

Johannesburg, 31 August 2022 - GCR Ratings ("GCR") has affirmed the South African long and short-term issuer ratings of Sasfin Bank Limited at BBB^{+(ZA)}/A2^(ZA). The outlook is revised to Stable. At the same time, the international long and short-term issuer ratings has been affirmed at B/B, the outlook is revised to Stable.

Rated Entity / Issue	Rating class	Rating scale	Rating	Outlook / Watch
Sasfin Bank Limited	Issuer Long Term	National	BBB ^{+(ZA)}	Stable
	Issuer Short Term	National	A2 ^(ZA)	
	Issuer Long Term	International	B	Stable
	Issuer Short Term	International	B	

Rating Rationale

The ratings of Sasfin Bank Limited ('Sasfin', 'the bank') are based on the credit profile of the group company (Sasfin Holdings Ltd) and its subsidiaries.

The affirmation of the ratings and revised outlooks balances the group's strong capital and liquidity levels against a moderate funding structure and risk profile and a weak competitive position.

Capital and leverage is sound, with the GCR total capital ratio stabilising at 17.1% at 31 December 2021. GCR expects the total capital ratio to remain within the intermediate range of between 16.5% to 17.5% over the next 6-12 months due to projected loan growth of 6% (and subsequently risk weighted asset) whilst planned Tier I issuance should assist the capital metrics. Similarly, the leverage ratio is also expected to range between 11.25% to 11.75% for the next 6-12 months.

The funding and liquidity assessment is ratings neutral. The bank's core deposits (except for Insurance, Pension and Private financial corporate sectors) as a percentage of total deposits (BA900) have been tracking lower from 73.8% at 31 December 2020 to 62.4% at 30 June 2021 and 52.9% at 31 December 2021. This notwithstanding, the deposits grew by 17.5% from 30 June 2021 to 31 December 2021 to R5.6bn. Term deposits are viewed positively as a source of more stable funding. The group and bank reported a Net Stable Funding Ratio of 106.37% at 31 March 2022 from 112.13% at 31 December 2021 and 104.53% at 30 June 2021.

The group and bank continue to maintain strong, albeit volatile regulatory liquidity with Liquidity Coverage Ratio ("LCR") of 189.45% at 31 March 2022 from 301.81% at 31 December 2021 and 266.10% at 30 June 2021. Large outflows of secured lending resulted in the decrease of the LCR to March 2022. Liquidity is further supported by the short tenor of the loan book whilst, to a lesser extent lower repurchase agreements, which continued to show a declining trend. Funding and Liquidity is assisted by Sasfin's South African Securitisation Programme (RF) Limited.

The Group's competitive position is regarded as modest across the three operating segments, namely Asset Finance, Business and Commercial Banking and Wealth. As of December 2021, GCR noted the decline of Asset Finance segmented profits is due to limited origination volumes, medium to short tenor of the book and higher related costs. Business and Commercial Banking (previously Beyond Business Banking and Capital that has since merged) on the other hand had a favourable turnaround to profit largely due to debt recoveries. The Wealth business had a large decline of profits which is largely due to the sale of the Efficient Group, despite exponential growth in assets under advice and management which should see to an increase of profitability for this segment.

The Group's Cost-to-Income ratio of 81.1% at 31 December 2021 is high. This has largely been driven by once-off losses / costs.

The bank's risk position is a negative ratings factor which is largely driven by its core client base and sector concentrations. The group's Credit Loss Ratio ("CLR") is expected to remain below 1.50% for the next 6-12 months from the 1.23% at 31 December 2021. Stage III exposures are expected to marginally decline from the 8.8% at June 2021 and 9.4% at December 2021.

Outlook Statement

The stable outlook reflects GCR's expectations that earnings are on an improving trend, supporting elevated capital and leverage metrics. The GCR capital is expected to be in excess of 17% for the next 18 months. Asset quality is slightly above peers whilst expecting a moderation of non-performing loans (NPLs). Credit losses are projected below 150bps for the next 18 months. The funding and liquidity profile (NSFR and LCR ratios) are expected to remain at strong levels with stable and alternative funding sources.

Rating Triggers

GCR may revise the 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 the larger banks. The ratings may also be upgraded should there be an improvement in the funding structure, with reduced reliance on wholesale funding while being able to sustain exceptional liquidity metrics. Conversely, should asset quality deteriorate beyond expectations and the GCR capital ratio falls to below 15% on a consistent basis with the leverage ratio below 10%, negative ratings action may arise. Downward ratings movement could also stem from a weakening in the operating environment of the group's core exposures.

Analytical Contacts

Primary analyst Johannesburg, ZA	Corné Els CorneE@GCRratings.com	Deputy Sector Head: Financial Institutions +27 11 784 1771
Committee chair Johannesburg, ZA	Matthew Pirnie MatthewP@GCRratings.com	Group Head of Ratings +27 11 784 1771

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 2022
GCR Financial Institutions Sector Risk Score, June 2022

Ratings History

Sasfin Bank Limited					
Rating class	Review	Rating scale	Rating class	Outlook	Date
Long Term issuer	Initial	National	BBB+(ZA)	Stable	May 2016
	Last	National	BBB+(ZA)	Negative	July 2021
	Initial	International	BB	Stable	May 2016
	Last	International	B	Stable	July 2021
Short Term issuer	Initial	National	A1-(ZA)	N/a	May 2016
	Last	National	A2(ZA)	N/a	July 2021
	Initial/last	International	B	N/a	July 2021

Risk score summary

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

Glossary

Affirmation	See GCR Rating Scales, Symbols and Definitions.
Agreement	A negotiated and usually legally enforceable understanding between two or more legally competent parties.
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.
Asset/s	A resource with economic value that a company owns or controls with the expectation that it will provide future benefit.
Capital	The sum of money that is invested to generate proceeds.
Concentrations	A high degree of positive correlation between factors or excessive exposure to a single factor that share similar demographics or financial instrument or specific sector or specific industry or specific markets.
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.
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.

Environment	The surroundings or conditions in which an entity operates (Economic, Financial, Natural).
Equity	Equity is the holding or stake that shareholders have in a company. Equity capital is raised by the issue of new shares or by retaining profit.
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
Income	Money received, especially on a regular basis, for work or through investments.
Insurance	Provides protection against a possible eventuality.
Issuer Ratings	See GCR Rating Scales, Symbols and Definitions.
Issuer	The party indebted or the person making repayments for its borrowings.
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.
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.
Origination	A process of creating assets.
Performing Loan	A loan is said to be performing if the borrower is paying the interest on it on a timely basis.
Rating Outlook	See GCR Rating Scales, Symbols and Definitions.
Repurchase Agreement	In a REPO one party sells assets or securities to another and agrees to repurchase them later at a set price on a specified date.
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.
Tenor	The time from the value date until the expiry date of an instrument, typically a loan or option.
Term Deposit	A savings account held for a fixed term. Also called a time deposit. Generally, there are penalties for early withdrawal.
Total Capital	The sum of owner's equity and admissible supplementary capital.
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.

For a detailed glossary of terms utilized in this announcement please [click here](#)

SALIENT POINTS OF ACCORDED RATINGS

GCR affirms that a.) no part of the ratings 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 of the following entities were solicited by, or on behalf of, the rated entities, and therefore, GCR has been compensated for the provision of the ratings.

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

- Interim financial results as at 31 December 2021;
- Audited Annual Finance Statements as at 30 June 2021;
- Management accounts to May 2022;
- Portfolio ageing at December 2021 and May 2022;
- Budget presentation to June 2022 and June 2023;
- Forecast for June 2024 to June 2027;
- Latest internal and/or external audit report to management; and
- A breakdown of facilities available and related counterparties.

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