

CREDIT RATING ANNOUNCEMENT

GCR affirms Sasfin Bank Limited's national scale issuer credit ratings of BBB⁺_(ZA)/A2_(ZA) with a Ratings Watch Evolving following the announced asset disposal. At the same time, GCR affirms the B/B international scale ratings with a Stable Outlook.

Rating action

Johannesburg, 18 December 2023 - GCR Ratings (GCR) has affirmed the South African long and short-term national scale issuer ratings of Sasfin Bank Limited at BBB⁺_(ZA)/A2_(ZA). GCR has concurrently affirmed the international scale long and short-term issuer ratings of B/B. GCR placed the national scale ratings on Ratings Watch Evolving and the international scale ratings on Stable Outlook. This following the announced disposal of Sasfin Holdings Limited's Capital Equipment Finance Business (CEF Business), Commercial Property Finance Business (CPF Business).

Rated entity	Rating class	Rating scale	Rating	Outlook/Watch
Sasfin Bank Limited	Issuer Long term	National	BBB ⁺ _(ZA)	Rating Watch Evolving
	Issuer Short term	National	A2 _(ZA)	
	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 are supported by the moderately strong capital and leverage position, good liquidity levels against the funding structure. The ratings are constrained by weaker than average asset quality and a modest competitive position.

We have placed the national scale ratings on Watch Evolving to reflect the proposed sale of their CEF Business and CPF Business to African Bank Limited. On the upside we could see a material improvement in the capitalisation and funding / liquidity risks of the issuer, due the cash consideration paid to Sasfin and reduction in RWAs. We expect the GCR capital ratio to remain within the 16.0% level until the conclusion of the sale when the expected GCR capital ratio is to register more than 20.0% whilst the leverage ratio to remain more than 10.5%.

We could also see the return on asset and equity increase and the entity look more profitable on a ratio basis. The reported cost-to-Income ratio remains high at 85.4% at 30 June 2023 from 82.9% the year prior. The group is making clear efforts to reduce costs whilst improving internal controls and management structures.

On the downside, the scale will decrease, and the entity will look to rebuild into its competitive advantages and core lending strengths going forward. The CEF Business and CPF Business represented around 24% of total assets and around 27% of total interest income at 30 June 2023. Asset quality may also look weaker in the short term. Credit Loss Ratio (CLR) has been reported at 1.25% for June 2023 from 0.25% at 30 June 2022.

GCR expect the CLR to record around 1.25% for the next 6 - 12 months. GCR expect the non-performing loans (NPLs) to increase to around 12.5% (10.4% at June 2023), following the sale, as capital equipment assets yield lower credit risk. This is counterbalanced by our expectation that gross interest margins will proportionally improve due to equipment finance attracting higher interest rates albeit at higher relative origination costs for smaller loan sizes.

Outlook statement

The Rating Watch Evolving outlook assigned to the national scale rating reflects GCR's expectation that Sasfin's competitive position and asset quality may weaken on conclusion of the sale. This is counterbalanced by an expectation that the overall financial profile should improve on account of higher capital and leverage assessments, whilst cost savings and marginally higher interest income crystallise to improve earnings. The Stable outlook assigned to the international scale rating considers the beforementioned that would in itself not translate to a ratings migration.

Rating triggers

GCR may revise the national scale ratings upward should the 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 12.5% and CLR more than 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. A reduction in competitive position or offering could also bring down the ratings.

The international scale is less likely to move negatively, although we do see a positive move more likely, due to the stability of the rating versus the national scale.

Analytical contacts

Primary analyst Johannesburg, ZA	Corné Els CorneE@GCRratings.com	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, December 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+(ZA)	Stable	May 2016
	Last	National	BBB+(ZA)	Stable	August 2023
	Initial	International	BB	Stable	May 2016
	Last	International	B	Stable	August 2023
Short Term issuer	Initial	National	A1-(ZA)	N/a	May 2016
	Last	National	A2(ZA)	N/a	August 2023
	Initial	International	B	N/a	July 2021
	Last	International	B	N/a	August 2023

Risk score summary

Rating Components & Factors	Score
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
Peer comparison	0.00
Total Risk Score	11.75

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.
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.
Cash	Funds that can be readily spent or used to meet current obligations.
Collateral	Asset provided to a creditor as security for a loan or performance.
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.
Credit Risk	The possibility that a bond issuer or any other borrowers (including debtors/creditors) will default and fail to pay the principal and interest when due.
Demand Deposit	A deposit of funds that can be withdrawn without any advance notice, or "on demand".
Income	Money received, especially on a regular basis, for work or through investments.
Insurance	Provides protection against a possible eventuality.
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.
International Scale Rating	An opinion of creditworthiness relative to a global pool of issuers and issues.
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.
Liabilities	All financial claims, debts or potential losses incurred by an individual or an organisation.
Liquid Assets	Assets, generally of a short term, that can be converted into cash.
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.
National Scale Rating	National scale ratings measure creditworthiness relative to issuers and issues within one country.
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.
Performing	An obligation that performs according to its contractual obligations.
Property	Movable or immovable asset.
Rating Outlook	See GCR Rating Scales, Symbols and Definitions.
Rating Watch	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.

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:

- Audited Annual Finance Statements as at 30 June 2023;
- A breakdown of facilities available and related counterparties; and
- Other relevant information.

CREDIT RATINGS ISSUED BY GCR ARE GCR'S CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES, AND MATERIALS, PRODUCTS, SERVICES AND INFORMATION PUBLISHED BY GCR (COLLECTIVELY, PUBLICATIONS) MAY INCLUDE SUCH CURRENT OPINIONS. GCR DEFINES CREDIT RISK AS THE RISK THAT AN ENTITY MAY NOT MEET ITS CONTRACTUAL FINANCIAL OBLIGATIONS AS THEY COME DUE. SEE APPLICABLE GCR RATING SCALES, SYMBOLS AND DEFINITIONS PUBLICATION FOR INFORMATION ON THE TYPES OF CONTRACTUAL FINANCIAL OBLIGATIONS ADDRESSED BY GCR'S CREDIT RATINGS. CREDIT RATINGS DO NOT ADDRESS ANY OTHER RISK, INCLUDING BUT NOT LIMITED TO: FRAUD, LIQUIDITY RISK, MARKET VALUE RISK, OR PRICE VOLATILITY. CREDIT RATINGS, NON-CREDIT ASSESSMENTS ("ASSESSMENTS") AND OTHER OPINIONS INCLUDED IN GCR'S PUBLICATIONS ARE NOT STATEMENTS OF CURRENT OR HISTORICAL FACT. GCR'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS DO NOT CONSTITUTE OR PROVIDE INVESTMENT OR FINANCIAL ADVICE, AND GCR'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS ARE NOT AND DO NOT PROVIDE RECOMMENDATIONS TO PURCHASE, SELL OR HOLD PARTICULAR SECURITIES. GCR'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS DO NOT COMMENT ON THE SUITABILITY OF AN INVESTMENT FOR ANY PARTICULAR INVESTOR. GCR ISSUES ITS CREDIT RATINGS, ASSESSMENTS AND OTHER OPINIONS AND PUBLISHES ITS PUBLICATIONS WITH THE EXPECTATION AND UNDERSTANDING THAT EACH INVESTOR WILL, WITH DUE CARE, MAKE ITS OWN STUDY AND EVALUATION OF EACH SECURITY THAT IS UNDER CONSIDERATION FOR PURCHASE, HOLDING OR SALE.

GCR'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS, AND PUBLICATIONS ARE NOT INTENDED FOR USE BY RETAIL INVESTORS AND IT WOULD BE RECKLESS AND INAPPROPRIATE FOR RETAIL INVESTORS TO USE GCR'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS OR PUBLICATIONS WHEN MAKING AN INVESTMENT DECISION. IF IN DOUBT YOU SHOULD CONTACT YOUR FINANCIAL OR OTHER PROFESSIONAL ADVISER.

ALL INFORMATION CONTAINED HEREIN IS PROTECTED BY LAW, INCLUDING BUT NOT LIMITED TO, COPYRIGHT LAW, AND NONE OF SUCH INFORMATION MAY BE COPIED OR OTHERWISE REPRODUCED, REPACKAGED, FURTHER TRANSMITTED, TRANSFERRED, DISSEMINATED, REDISTRIBUTED OR RESOLD, OR STORED FOR SUBSEQUENT USE FOR ANY SUCH PURPOSE, IN WHOLE OR IN PART, IN ANY FORM OR MANNER OR BY ANY MEANS WHATSOEVER, BY ANY PERSON WITHOUT GCR'S PRIOR WRITTEN CONSENT.

GCR'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS ARE NOT INTENDED FOR USE BY ANY PERSON AS A BENCHMARK AS THAT TERM IS DEFINED FOR REGULATORY PURPOSES AND MUST NOT BE USED IN ANY WAY THAT COULD RESULT IN THEM BEING CONSIDERED A BENCHMARK.

All information contained herein is obtained by GCR from sources believed by it to be accurate and reliable. Because of the possibility of human or mechanical error as well as other factors, however, all information contained herein is provided "AS IS" without warranty of any kind. GCR adopts all necessary measures so that the information it uses in assigning a credit rating is of sufficient quality and from sources GCR considers to be reliable including, when appropriate, independent third-party sources. However, GCR is not an auditor and cannot in every instance independently verify or validate information received in the rating process or in preparing its Publications.

To the extent permitted by law, GCR, its affiliates and its and their directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability to any person or entity for any indirect, special, consequential, or incidental losses or damages whatsoever arising from or in connection with the information contained herein or the use of or inability to use any such information, even if GCR or any of its directors, officers, employees, agents, representatives, licensors or suppliers is advised in advance of the possibility of such losses or damages, including but not limited to: (a) any loss of present or prospective profits or (b) any loss or damage arising where the relevant financial instrument is not the subject of a particular credit rating assigned by GCR.

To the extent permitted by law, GCR, its affiliates and its and their directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability for any direct or compensatory losses or damages caused to any person or entity, including but not limited to by any negligence (but excluding fraud, willful misconduct or any other type of liability that, for the avoidance of doubt, by law cannot be excluded) on the part of, or any contingency within or beyond the control of, GCR or any of its directors, officers, employees, agents, representatives, licensors or suppliers, arising from or in connection with the information contained herein or the use of or inability to use any such information.

NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY CREDIT RATING, ASSESSMENT OTHER OPINION OR INFORMATION IS GIVEN OR MADE BY GCR IN ANY FORM OR MANNER WHATSOEVER.

GCR hereby discloses that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) rated by GCR have, prior to assignment of any credit rating, agreed to compensate GCR for the provision of those credit ratings opinions and services rendered by it. GCR also maintains policies and procedures to address the independence of GCR's credit ratings and credit rating processes.