

South African Bank of Athens Limited

South Africa Bank Analysis

December 2018

Rating class	Rating scale	Rating	Rating outlook	Review date
Long-term	National	BBB ^{-(ZA)}	Stable	October 2019
Short-term	National	A3 ^(ZA)		

Financial data:

(USDm comparative)

	30/09/17
R/USD (avg.)	13.54
R/USD (close)	13.56
Total assets	170.2
Primary capital	31.2
Secondary capital	3.7
Net advances	133.8
Liquid assets	19.5
Operating income	7.7
Profit/(loss) after tax	(1.2)
Market cap*	R223.3bn/USD15.1bn
Market share	n.a

*Relates to Fairfax Financial Holdings' TSX listing at 05 October 2018.

Rating history:

Initial/last rating (December 2018)

Long-term: BBB^{-(ZA)}Short-term: A3^(ZA)

Rating outlook: Stable

Related methodologies/research:

Global Criteria for Rating Banks and Other Financial Institutions, updated March 2017

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Summary rating rationale

- South African Bank of Athens Limited's ("SABA", "the bank") ratings reflect a modest business position, above average capitalisation relative to top banks, modest risk and funding concentration balanced with good liquidity. We also factor in an element of ongoing group support into the ratings.
- With a market share of 0.5%, Johannesburg based- South African Bank of Athens is a small bank focusing on domestic small to medium sized businesses, mainly amongst the Greek expatriate community. Over the last decade, due to stress at the parent level, the bank has been focusing on capital preservation and curtailed business growth. As a result, earnings have been suppressed.
- The bank was acquired by a Fairfax Africa Investments Proprietary Limited ("FAI"), Government Employees Pension Fund ("GEPF") and AFGRI Group Holdings Limited ("AFGRI"), each taking up 35%, 35% and 30% equity stake respectively. Subsequently, GroCapital Holdings ("GCH") was formed to operate as a bank controlling company. Going forward the strategy of the bank will be to increase the scale and profitability of the company using the parents' advantages in the food and agricultural value chain as well as funding support.
- GCR expects the capital adequacy ratio ("CAR") to gradually strengthen to about 19% at end FY19, supported by capital injection and full profit retention (dividends payments not expected in the first three years). Shareholders plan to inject R202m into the bank by 1Q FY19. CAR was 13.3% at 3Q FY18 (regulatory minimum 12.6%) and is expected to close the year at 14.3%.
- Asset quality improved with the gross non-performing loan ("NPL") ratio registering at 6.8% at FY17 (FY16: 10.2%). Positive NPL trend is expected, with a gross NPL ratio of 6.6% and 1.7% in FY18 and FY19 respectively. GCR takes note of the expected shift in lending focus (mortgage and property loans were 58% of the book at FY17) to less risky agricultural-related lending which will constitute c.40% of the portfolio. We therefore expect an improved portfolio quality but increased concentration risk as the bank leverages on parents' specialised skill in financing agriculture.
- The funding is somewhat undiversified, with the parents and the Land Bank being notable concentrations. But this is balanced by good liquidity. Going forward the bank expects to increase the institutional funding to around 30% of total deposits, and push retail deposits as much as possible.

Factors that could trigger a rating action may include

Positive change: Strengthening in capitalisation up to 19%, through the planned injection of growth capital and strong internal capital generation, reduction in funding concentration over the medium term, sustained improvement in risk position, and improved business franchise.

Negative change: No capital injection, continued operating losses, weakening asset quality and reserving, and sustained concentration in funding.

South African Bank of Athens Limited

(South African Rands in millions except as noted)

Year end: 31 December	2019f	2020f	2021f	2022f	2022f
Income Statement Analysis					
Interest income	243.4	310.6	382.1	445.1	496.4
Interest expense	(111.7)	(136.4)	(165.3)	(187.2)	(205.0)
Net interest income	131.7	174.2	216.8	257.9	291.4
Fee and commission income	86.4	115.7	142.0	174.9	207.9
Total operating income	218.1	289.9	358.8	432.8	499.3
Impairment charge	(6.9)	(8.7)	(10.6)	(12.4)	(13.9)
Operating expenditure	(201.7)	(227.4)	(256.0)	(276.7)	(291.9)
Net profit before tax	9.5	53.9	92.2	143.6	193.5
Tax	-	-	(0.9)	(40.2)	(54.2)
Net profit after tax	9.5	53.9	91.2	103.4	139.3
Balance Sheet Analysis					
Subscribed capital	652	652	652	652	652
Reserves (incl. net income for the year)	(120)	(58)	44	122	204
Less: Goodwill and other intangible assets	(41)	(50)	(60)	(73)	(87)
Total capital and reserves	491	545	636	702	770
Deposits and current accounts	2 271	2 887	3 437	3 852	4 199
Total funding	2 271	2 887	3 437	3 852	4 199
Other financial liabilities and payables (current and deferred)	168	173	174	137	81
Other liabilities	168	173	174	137	81
Total capital and liabilities	2 930	3 604	4 247	4 691	5 049
Cash in hand	142	167	201	119	135
Balances with central bank	90	106	120	129	137
Fixed assets	15	13	11	8	5
Other financial assets and receivables (current and deferred)	105	90	74	57	39
Non-earnings assets	352	377	405	314	316
Loans and advances (net of provisions)	2 437	3 055	3 642	4 159	4 500
Marketable/Trading securities	141	172	199	218	233
Total earning assets	2 578	3 227	3 841	4 377	4 733
Total assets	2 930	3 604	4 247	4 691	5 049
Contingencies	-	-	-	-	-
Ratio Analysis (%)					
Capitalisation					
Internal capital generation	1.8	9.1	13.8	13.4	16.3
Total capital / Total assets	16.8	15.1	15.0	15.0	15.2
Liquidity					
Loans-to-customer deposits ratio	98.2	105.8	106.0	108.0	107.2
Loans-to-total funding ratio (excl. equity portion)	98.2	105.8	106.0	108.0	107.2
Liquid & trading assets / Total assets	12.7	12.4	12.2	9.9	10.0
Liquid & trading assets / Total short-term funding	38.3	36.8	37.5	31.0	31.7
Liquid & trading assets / Total funding (excl. equity portion)	16.4	15.4	15.1	12.1	12.0
Asset quality					
Non-performing loan ratio	2.1	1.7	1.3	1.0	0.8
Total loan loss reserves / Gross loans	0.3	0.5	0.7	0.9	1.2
Credit loss ratio	n.a	0.3	0.3	0.3	0.3
Bad debt charge (income statement) / Total operating income	3.2	3.0	3.0	2.9	2.8
Profitability					
Net interest margin	n.a	6.0	6.1	6.3	6.4
Non-interest income / Total operating income	39.6	39.9	39.6	40.4	41.6
Cost-to-income ratio	92.5	78.4	71.4	63.9	58.5
ROaE	n.a	9.6	14.1	14.1	17.9
ROaA	n.a	1.6	2.3	2.3	2.9
Nominal growth indicators					
Total assets	n.a	23.0	17.8	10.5	7.6
Net advances	n.a	25.4	19.2	14.2	8.2
Shareholders funds	n.a	11.8	17.1	11.2	10.6
Total capital and reserves	n.a	11.0	16.7	10.3	9.7
Customer deposits	n.a	27.1	19.1	12.1	9.0
Total funding (excl. equity portion)	n.a	27.1	19.1	12.1	9.0
Net income	n.a	471.5	69.3	13.4	34.7

South African Bank of Athens Limited

(South African Rands in millions except as noted)

Year end: 31 December	2014	2015	2016	2017	1H 2018
Income Statement Analysis					
Interest income	199.3	194.6	212.8	215.9	108.0
Interest expense	(101.5)	(105.0)	(126.4)	(127.3)	(67.4)
Net interest income	97.8	89.6	86.4	88.6	40.6
Fee and commission income	35.2	35.8	37.4	44.1	11.0
Foreign exchange profit	7.9	11.6	11.5	12.8	5.3
Other income	0.4	6.7	4.5	3.9	1.0
Total operating income	141.4	143.7	139.8	149.5	57.9
Impairment charge	(58.2)	(32.6)	(18.3)	(11.2)	3.2
Operating expenditure	(127.2)	(137.6)	(150.8)	(163.1)	(75.5)
Net profit before non-trading items	(44.0)	(26.6)	(29.4)	(24.8)	(14.4)
Non-trading items	(14.2)	-	-	(900.0)	-
Net profit before tax	(58.2)	(26.6)	(29.4)	(24.8)	(14.4)
Tax	-	-	-	-	-
Net profit after tax	(58.2)	(26.6)	(29.4)	(24.8)	(14.4)
Balance Sheet Analysis					
Subscribed capital	363	363.2	403.2	438.2	438.2
Reserves (incl. net income for the year)	-	77	(106.1)	(136.0)	(173.3)
Hybrid capital (incl. eligible portion of subordinated term debt)	-	50.0	50.0	50.0	50.0
Total capital and reserves	286	307.1	317.2	326.4	314.9
Deposits and current accounts	1 300	1 287.2	1 440.2	1 224.9	1 264.5
Bank acceptances and collateralised agreements	672	879.8	453.4	716.6	750.9
Total funding	1 972	2 167.0	1 893.6	1 941.6	2 015.5
Other financial liabilities and payables (current and deferred)	25	35.9	54.7	86.8	89.8
Other liabilities	25	35.9	54.7	86.8	89.8
Total capital and liabilities	2 284	2 510.0	2 265.5	2 354.8	2 420.2
Cash in hand	0	0	0	0	-
Balances with central bank	54	71	65	143	362
Fixed assets	34	28	16	17	15
Other financial assets and receivables (current and deferred)	166	337	244	197	95
Non-earnings assets	254	436.1	324.4	357.5	471.9
Loans and advances (net of provisions)	1 794	1 792	1 735	1 773	1 801
Marketable/Trading securities	129	140	153	136	122
Financial investments (negotiable)	0	0	10	10	10
Investments in associates and joint ventures	-	-	-	-	-
Other financial assets and receivables (current and deferred)	13	72	4	22	15
Total earning assets	2 030	2 073.9	1 941.0	1 997.3	1 948.3
Total assets	2 284	2 510.0	2 265.5	2 354.8	2 420.2
Contingencies	311 184	269 815	331 684	269 815	311 184
Ratio Analysis (%)					
Capitalisation					
Internal capital generation	n.a.	n.a.	n.a.	n.a.	n.a.
Total capital / Total assets	12.5	12.2	14.0	13.9	13.0
Liquidity ‡					
Loans-to-customer deposits ratio	145.2	144.7	123.1	149.4	142.4
Loans-to-total funding ratio (excl. equity portion)	95.7	85.9	93.7	94.2	89.4
Liquid & trading assets / Total assets	13.2	19.1	16.4	16.1	20.0
Liquid & trading assets / Total short-term funding	44.8	54.5	81.8	53.0	64.5
Liquid & trading assets / Total funding (excl. equity portion)	15.3	22.1	19.6	19.5	24.0
Asset quality					
Non-performing loan ratio	10.2	10.6	10.2	6.8	6.6
Total loan loss reserves / Gross loans	5.9	7.1	7.0	2.8	2.6
Credit loss ratio	3.1	1.8	1.0	0.6	(0.2)
Bad debt charge (income statement) / Total operating income	41.2	22.7	13.1	7.5	(5.6)
Profitability					
Net interest margin	4.6	4.2	4.1	4.3	4.1
Non-interest income / Total operating income	30.8	37.7	38.2	40.7	30.0
Cost-to-income ratio	90.0	95.8	107.9	109.1	130.4
ROaE	(16.0)	(9.8)	(11.2)	(9.1)	(10.6)
ROaA	(2.0)	(1.1)	(1.2)	(1.1)	(1.2)
Nominal growth indicators					
Total assets	3.1	9.9	(9.7)	3.9	2.8
Net advances	(3.4)	(0.1)	(3.2)	2.2	1.6
Shareholders funds	8.8	(10.2)	3.9	3.5	(4.2)
Total capital and reserves	8.8	7.3	3.3	2.9	(3.5)
Customer deposits	9.1	(1.0)	11.9	(14.9)	3.2
Total funding (excl. equity portion)	2.8	9.9	(12.6)	2.5	3.8
Net income	484.6	(54.3)	10.5	(12.4)	11.9

GLOSSARY OF TERMS/ACRONYMS USED IN THIS DOCUMENT AS PER GCR'S FINANCIAL INSTITUTIONS GLOSSARY

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.
Balance Sheet	Also known as a Statement of Financial Position. A statement of a company's assets and liabilities provided for the benefit of shareholders and regulators. It gives a snapshot at a specific point in time of the assets the company holds and how they have been financed.
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.
Consortium	A group of companies that combine some or all of their resources to undertake a joint project.
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.
Equity	Equity (or shareholders' funds) 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.
Financial Institution	An entity that focuses on dealing with financial transactions, such as investments, loans and deposits.
Forecast	A calculation or estimate of future financial events.
Intangible Assets	The non-physical assets of a company such as trademarks, patents, copyright, information systems and goodwill.
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.
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.
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.
Market Capitalisation	The total value of a company's shares as quoted on a stock exchange. It is calculated by multiplying the total number of shares in issue by the market price.
Net Profit	Trading/operating profits after deducting the expenses detailed in the profit and loss account (including taxes).
Performing Loan	A loan is said to be performing if the borrower is paying the interest on it on a timely basis.
Portfolio	A collection of investments held by an individual investor or financial institution. They may include stocks, bonds, futures contracts, options, real estate investments or any item that the holder believes will retain its value.
Primary Capital	Primary capital consists of issued ordinary share capital, hybrid debt capital, perpetual preference share capital, retained earnings and reserves. This amount is then reduced by the portion of capital that is allocated to trading activities and other regulatory deductions.
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).
Redemption	The repurchase of a bond at maturity by the issuer.
Risk	The chance of future uncertainty (i.e. deviation from expected earnings or an expected outcome) that will have an impact on objectives.
Risk Management	Process of identifying and monitoring business risks in a manner that offers a risk/return relationship that is acceptable to an entity's operating philosophy.
Secondary Capital	Secondary capital is mainly made up of subordinated debt, portfolio impairment and 50% of any revaluation reserves and other specified regulatory deductions.
Shareholder	An individual, entity or financial institution that holds shares or stock in an organisation or company.
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.
Tier 1 Capital	Primary capital consists of issued ordinary share capital, hybrid debt capital, perpetual preference share capital, retained earnings and reserves. This amount is then reduced by the portion of capital that is allocated to trading activities and other regulatory deductions.

For a detailed glossary of terms please click [here](#)

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GCR affirms that a.) no part of the ratings were influenced by any other business activities of the credit rating agency; b.) the ratings were based solely on the merits of the rated entity; c.) such rating was an independent evaluation of the risks and merits of the rated entity; and d.) the validity of the rating is for a maximum of six months, or earlier as indicated by the applicable credit rating document.

South African Bank of Athens Limited participated in the rating process via face-to-face management meetings 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 South African Bank of Athens Limited.

Information received from South African Bank of Athens Limited and other reliable third parties to accord the credit ratings included:

- The bank's FY17 balance sheet (plus financial forecasts for five years);
- A breakdown of facilities available and related counterparties;
- Corporate governance and enterprise risk framework; and
- Industry comparative data.

The ratings above were solicited by, or on behalf of South African Bank of Athens Limited, and therefore, GCR has been compensated for the provision of the ratings.

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