

## CREDIT RATING ANNOUNCEMENT

GCR affirms Grindrod Bank Limited's national and international issuer credit ratings upon acquisition by African Bank Limited.

### Rating action

Johannesburg, 30 June 2023 - GCR Ratings (GCR) has affirmed the South African long and short-term issuer ratings of Grindrod Bank Limited at A<sub>-(ZA)</sub>/A2<sub>(ZA)</sub>. At the same time, the international scale long and short-term issuer ratings has been affirmed at B+/B. GCR concurrently removed the ratings from Rating Watch Evolving and placed the ratings on Stable Outlooks.

Rated entity	Rating class	Rating scale	Rating	Outlook/Watch
Grindrod Bank Limited	Issuer Long Term	National	A <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 of Grindrod Bank Limited ("Grindrod", or "the bank") balances its competitive position and adequate capitalisation with modest earnings against the positive risk, funding and liquidity profiles. African Bank Limited acquired Grindrod Financial Holdings Limited (and its subsidiaries, including the bank) on 01 November 2022. The Bank currently operates as a separate legal entity under its current banking license and will amalgamate as the Business Banking Division of African Bank Limited upon the approval of the Section 54 application by the South African Reserve Bank. GCR assessed the credit profile of African Bank Limited, as the shareholder of Grindrod Financial Holdings Limited being the ultimate shareholder of the bank. African Bank Limited's financial profile was considered neutral to the ratings of the bank.

The bank's competitive position had remained largely unchanged since the last review, having 0.2% of market assets and 0.2% of market deposits (BA900 January 2023). Loan growth remained muted. This is due to the bank's client base and to a larger extent where South African corporates have been withholding capital expenditure given the limited growth and investment opportunities in the domestic market. The Management and Governance assessment was a neutral factor for the ratings. GCR had considered the bank's Emphasis of matter - Going Concern basis of preparing for the financial year end results 31 December 2022, noting that the bank would surrender its banking license upon the approval of the Section 54 application, to operate under one banking license of its shareholder, African Bank Limited.

The bank's risk position is a positive ratings factor. The GCR calculated Credit Loss Ratio ("CLR") decreased to 0.3% at 31 December 2022 from 0.6% at 31 December 2021, below the rated peer average. Nonetheless, non-performing loans (NPLs) were 2.3% at 31 December 2022 from 1.1% in the prior year.

The stage 3 loans had low loan loss reserving at 0.2x for 31 December 2022 which is mitigated by the bank's stage 3 collateral coverage of 1.1x.

Commercial property finance continues to make up the majority of loans and advances, comprising 45.3%, followed by corporate loans of 35.5% for the financial year end 31 December 2022. The loan book is relatively concentrated versus rated peers, with the top twenty loans accounting for 41.3% of the total loan book and over 2.0x of total equity.

Capital and leverage as assessed is broadly neutral, with the GCR total capital ratio of 16.6%, expected to oscillate around 15.5% for the next 12 months (standardised approach). The bank's Pillar III total capital ratio was reported at 17.1% for 31 March 2023 and 15.8% for 31 December 2022. The bank is expected to achieve low to moderate growth in the medium term however, higher growth targets may be achieved with the successful execution of the revised business banking strategy emphasised by African Bank. This is however expected to raise the bank's risk weighted assets whilst internal capital generation could be lagging if earnings do not improve. The bank's return on assets has averaged less than 1% over the past 5 years.

The funding and liquidity assessment is a positive ratings factor. The bank's core deposits (all deposits except for Insurance, Pension and Private financial corporate sectors) as a percentage of total deposits was 90.8% at 31 December 2022 from a year prior at 84.7% - largely due to corporate banking customers. The bank continues to maintain exceptional regulatory liquidity metrics, with a Liquidity Coverage Ratio ("LCR") of 416% at 31 March 2023 and 407% at 31 December 2022. The bank's Net Stable Funding Ratio was reported at 151% for 31 March 2023 and 157% for 31 December 2022.

## Outlook statement

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The stable outlook on the national and international scale ratings are reflective of the expectation that the bank's GCR capital will remain within the 15.0% range for the ratings horizon, in addition to a marginal weakening of asset quality whilst maintaining stable funding and liquidity metrics. GCR does not expect a material change to the bank's competitive position however renewed access to funding and banking relations would garner improvements in their growth strategies.

## Rating triggers

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An upwards rating migration on the national and international scale ratings are limited due to the credit profile of the bank's ultimate shareholder. Should the bank's asset quality deteriorate above GCR's expectation, GCR capital and / or a significant weakening of liquidity may see to a downwards movement of the ratings, notwithstanding a weakening of African Bank Limited's credit profile.

## Analytical contacts

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### Primary analyst

Johannesburg, ZA

Corné Els

CorneE@GCRratings.com

Sector Head: Financial Institutions

+27 11 784 1771

### Secondary analyst

Nairobi, KE

Mark Kiringai

MarkK@GCRratings.com

Analyst: Financial Institutions

+254 713 461 259

### 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 Service Companies, January 2022  
 GCR Ratings Scales, Symbols & Definitions, May 2022  
 GCR Country Risk Scores, May 2023  
 GCR Sector Risk Scores, June 2023

## Ratings history

### Grindrod Bank Limited

Rating class	Review	Rating scale	Rating	Outlook/Watch	Date
Long Term issuer	Initial	National	BBB+(ZA)	Stable	April 2016
	Last	National	A-(ZA)	Stable	July 2021
	Initial	International	BB	Stable	April 2016
	Last	International	B+	Stable	July 2021
Short Term issuer	Initial	National	A2(ZA)	n/a	April 2016
	Last	National	A2(ZA)	n/a	July 2021
	Initial	International	B	n/a	July 2021
	Last	International	B	n/a	July 2021

## 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>(3.50)</b>
Competitive position	(3.50)
Management and governance	0.00
<b>Financial profile</b>	<b>1.25</b>
Capital and Leverage	(0.25)
Risk	0.75
Funding and Liquidity	0.75
<b>Comparative profile</b>	<b>0.00</b>
Group support	0.00
Peer comparison	0.00
<b>Total Risk Score</b>	<b>12.25</b>

## Glossary

Accounting	A process of recording, summarising, and allocating all items of income and expense of the company and analysing, verifying and reporting the results.
Advance	A lending term, to transfer funds from the creditor to the debtor.
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 Expenditure	Expenditure on long-term assets such as plant, equipment or land, which will form the productive assets of a company.
Capital	The sum of money that is invested to generate proceeds.
Capitalisation	The provision of capital for a company, or the conversion of income or assets into capital.
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.
Credit Rating	An opinion regarding the creditworthiness of an entity, a security or financial instrument, or an issuer of securities or financial instruments, using an established and defined ranking system of rating categories.
Credit	A contractual agreement in which a borrower receives something of value now, and agrees to repay the lender at some date in the future, generally with interest. The term also refers to the borrowing capacity of an individual or company
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.
Financial Year	The year used for accounting purposes by a company or government. It can be a calendar year or it can cover a different period, often starting in April, July or October. It can also be referred to as the fiscal year.
Going Concern	An accounting convention that assumes a company will continue to exist and trade normally for the foreseeable future. In practice this is likely to mean at least for the next 12 months.
Guarantee	An undertaking in writing by one person (the guarantor) given to another, usually a bank (the creditor) to be answerable for the debt of a third person (the debtor) to the creditor, upon default of the debtor.
Insurance	Provides protection against a possible eventuality.
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.
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).
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.
Rating Watch	See GCR Rating Scales, Symbols and Definitions.
Real Estate	Property that consists of land and / or buildings.
Risk	The chance of future uncertainty (i.e. deviation from expected earnings or an expected outcome) that will have an impact on objectives.
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.
Surrender	The termination of a life insurance policy while the life assured is still alive in return for a cash sum.
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.

<https://gcratings.com/glossary-creator/>



### 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 face-to-face 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:

- Grindrod Bank Limited Annual Financial Statements for 31 December 2021 and 31 December 2022;
- Grindrod Bank Limited Basel Pillar III disclosure report at 31 March 2023;
- Unaudited management account to April 2023;
- Banking sector information and Industry comparative data; and
- Other related information and documentation.

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