



Credit Rating Announcement

GCR affirms Grindrod Bank Limited's national and international issuer credit ratings of A_{-(ZA)}/A2_(ZA) and B+ respectively, reflecting resilient asset quality, strong liquidity and adequate capital.

Rating Action

Johannesburg, 30 July 2021 - GCR Ratings ("GCR") has affirmed the South African long and short-term issuer ratings of Grindrod Bank Limited at A_{-(ZA)}/A2_(ZA). The outlook is Stable. At the same time, the long-term international scale rating has been affirmed at B+, Stable Outlook maintained. GCR has also assigned a short-term international scale rating of B.

Rated Entity / Issue	Rating class	Rating scale	Rating	Outlook / Watch
Grindrod Bank Limited	Issuer Long Term	National	A _{-(ZA)}	Stable Outlook
	Issuer Short Term	National	A2 _(ZA)	
	Issuer Long Term	International	B+	Stable Outlook
	Issuer Short Term	International	B	

Rating Rationale

The ratings of Grindrod Bank Limited ("Grindrod", or "the bank") balances its weak competitive position against excellent liquidity, resilient asset quality that held up well amidst the challenging operating environment, and adequate capital and leverage.

Competitive position is constrained by the bank's limited scale, with a market share of 0.2% of total industry assets and deposits at December 2020 respectively. Loan book growth was comparatively high in FY20 at 10.1% with the trend expected to continue into FY21. While loan growth amongst rated second tier peers was muted, the bank is more geared towards wholesale lending and continued to disburse funds during the last 12 months, albeit under more stringent vetting procedures. The bank's target market is Small Medium Enterprises ("SME") with emphasis placed on established businesses with a history of strong cash-flow generation. Lending to vulnerable sectors such as retail trade increased by 58.4% to 5.9% of the total loan portfolio at FY20. Real estate lending continues to make up the majority of advances comprising 59.9% of the total portfolio.

The bank's risk position is a positive ratings factor given the resilient asset quality with key metrics continuing to compare favourably to peers. Whilst the GCR calculated Credit Loss Ratio ("CLR") increased to 1.27% at FY20, from 0.33% at FY19, at these levels, they are still viewed to be below the peer average. Furthermore, non-performing loans (>90 days) were well contained at 3.6%.

The higher credit losses in FY20 (R101m vs. R25m) was due in part to the challenging operating environment and non-granular portfolio of loan advances. Grindrod has adequate collateral covering the classified, impaired or non-performing loans and advances. All real estate collateral undergoes annual internal desktop valuations. The bank's commercial property exposure to the office sector is c.11% of all mortgages or c.5% of all loan types at May '21 focusing on single name tenants with long leases for office sector lending. Nearly all accounts that had loan concessions granted during the pandemic are current with revised repayment arrangements.

The funding and liquidity assessment is a positive ratings factor. The bank's core deposits (except for Insurance, Pension and Private financial corporate sectors) as a percentage of total deposits was 86.4% at 31 December 2020. Depositor concentrations are mostly towards corporate banking at 51.2%, retail banking at 8.8% and notice / fixed deposits at 34.1% for FY20. The June 2021 Senior Unsecured Notes issuance of R400m priced well below the R263m notes it replaced which is indicative of the bank being a reoccurring issuer and a shortage of investable assets. The total Domestic Medium-Term Notes in issuance increased to R650m at end June 2021 from R513 at December 2020. The bank also maintained exceptional regulatory liquidity metrics, with a Liquidity Coverage Ratio ("LCR") of 553% at 31 March 2021 (453% at 31 December 2020) in comparison to the required minimum of 80%. The Net Stable Funding Ratio was sustained at 129% for both 31 March 2021 and 31 December 2020.

Capital and leverage is adequate with the GCR total capital ratio forecast at around 14.0% (standardised approach). Above average loan growth over the past 12-18 months resulted in risk weighted asset growth outstripping commensurate capital growth. The previously highlighted breach of the minimum capital ratio requirement has since been remedied with the bank reporting a total capital ratio of 14.7% at FY20. We believe the GCR total capital ratio may moderate on the back of strong loan growth expectations and potential moderation of earnings.

Outlook Statement

The outlook on the national scale ratings is stable as we anticipate asset quality to remain resilient with the bank's CLR expected to be well contained below 1% over the medium term, while Non-performing loans may track below peers at around 3%. Liquidity strength is also expected to be maintained while capital is likely to register around 14.0% over the medium term given GCR's loan growth and earnings expectations.

Rating Triggers

Upward movement on the international scale ratings are limited given pressure in the operating environment. Upward ratings movement on the national scale could stem from sustained improvement in capital and earnings, while maintaining good asset quality and exceptional liquidity. The international scale ratings could be downgraded if the operating environment score is lowered, while downward rating pressure on the national scale ratings could emanate from weaker than expected capital and/or a material deterioration in asset quality and liquidity.

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Related Criteria and Research

Criteria for the GCR Ratings Framework, May 2019
Criteria for Rating Financial Institutions, May 2019
GCR Rating Scales, Symbols & Definitions, May 2019
GCR Country Risk Scores, July 2021
GCR Financial Institutions Sector Risk Score, June 2021

Ratings History

Grindrod Bank Limited					
Rating class	Review	Rating scale	Rating class	Outlook	Date
Long Term issuer	Initial	National	BBB+(ZA)	Stable	April 2016
	Last	National	A-(ZA)	Stable	July 2020
	Initial	International	BB	Stable	April 2016
	Last	International	B+	Stable	July 2020
Short Term issuer	Initial	National	A2(ZA)	N/a	April 2016
	Last	National	A2(ZA)	N/a	July 2020
	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	(3.50)
Competitive position	(3.50)
Management and governance	0.00
Financial profile	1.25
Capital and Leverage	(0.25)
Risk	0.75
Funding and Liquidity	0.75
Comparative profile	0.00
Group support	0.00
Government support	0.00
Peer analysis	0.00
Total Score	12.25

Glossary

Balance Sheet	Also known as 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.
Cash	Funds that can be readily spent or used to meet current obligations.
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.
Diversification	Spreading risk by constructing a portfolio that contains different exposures whose returns are relatively uncorrelated. The term also refers to companies which move into markets or products that bear little relation to ones they already operate in.
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.
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	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.
Long Term Rating	See GCR Rating Scales, Symbols and Definitions.
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.
Maturity	The length of time between the issue of a bond or other security and the date on which it becomes payable in full.
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.
Short Term Rating	See GCR Rating Scales, Symbols and Definitions.
Short Term	Current; ordinarily less than one year.

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.

Grindrod 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:

- Audited financial results on 31 December 2020;
- A breakdown of Non-performing Loans (>90 days) on 31 December 2020;
- A breakdown of collateral held against Non-performing Loans;
- Top 20 clients and depositors on 31 December 2020; and
- Other relevant information.

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