GCR RATINGS

GCR affirms AFB (Ghana) Plc's rating of BB+(GH); Outlook Positive

Johannesburg, 28 May 2018—Global Credit Ratings has affirmed AFB (Ghana) Plc's long-term and short-term national scale ratings of $BB+_{(GH)}$ and $B_{(GH)}$ respectively; with the outlook accorded as Positive. The ratings are valid until May 2019.

SUMMARY RATINGS RATIONALE

Global Credit Ratings ("GCR") has accorded the above credit ratings to AFB (Ghana) Plc ("AFB Ghana" or "the company") based on the following key criteria:

AFB Ghana's ratings reflect its scaling balance sheet, supported by a sustainable multi-lending product strategy executed by leveraging on the expertise of its parent Letshego Holdings Limited ("Letshego"), increased funding diversification, strong capitalisation and an enhanced earnings profile. However, the potential impact of the changing risk profile of the loan book emanating from a new product (mobile loans) with no established credit curve is a key consideration over the rating horizon.

The company's loan portfolio booked healthy credit metrics at FY17. Non-performing loans ("NPL") and credit loss ratios registered a further decrease from the prior year to 7.0% (FY16: 9.1%) and 2.5% (FY16: 11.2%), respectively. Additionally, the loan book expanded by 74.8% (FY16: 30.4%) at FY17, underpinned by growth in payroll loans and the newly rolled out mobile loan product. However, the new product poses uncertainty in the prospective trend of credit metrics due to the absence of a credit history. As such, the development of the portfolio's risk profile over the rating horizon is a key rating consideration.

AFB Ghana is largely funded through the medium-term note programme ("MTN"). The term profile of MTN consequently reduces reliance on short-term funding. Registering a decline in average cost of capital at FY17, the company benefitted from the endowment effect of duration mismatch as debt funding is linked to floating 182-day Treasury bill rates (which have been falling over the review period) while lending rates remain fixed. At FY17, the average duration of the loan portfolio was 48 months (MTN: 54 months). However, AFB Ghana aims to match the term of its liabilities to the loan book subject to continuous falling in interest rates. AFB Ghana is also diversifying its funding base through cost efficient fixed deposits with terms ranging between 3-6 months.

The company is strongly capitalised, supported by a capital base of GHS30.5m against a regulatory minimum of GHS15m at FY17. However, balance sheet growth continues to be substantially debt financed, resulting in further reduction in the capital adequacy ratio ("CAR") to 17.7% (FY16: 22.1%, FY15: 27.5%), albeit remaining above the regulatory minimum of 10.0%. Going forward, a sustainably strong CAR is envisaged from continued bolstered earnings generation and a robust risk management framework.

AFB Ghana posted headline earnings of GHS8.2m in FY17, representing a notable 164.5% growth over FY16. Cost containment remains a significant management focus. However, the FY17 cost ratio increased to 69.2% (FY16: 60.5%) largely due to the integration of AFB Ghana with Letshego which is expected to run through FY19. Significant reduction in impairments (66%) supported bottom line metrics, yielding ROaE of 26.1% (FY16: 10.9%) and ROaA of 6.3% (FY16: 3.1%). Earnings volatility is expected to be minimised by the company's adoption of an accounting standard that smoothes and matches the profile of booked lending fees and cost over the life of the loan.

Maintenance of strong asset quality metrics while increasing operational scale, earnings stability and funding diversification may trigger a positive rating action. A negative rating action may follow funding/capital raising constraints and above expectation credit losses.

NATIONAL SCALE RATINGS HISTORY		
Initial rating (May 2014)		Last rating (May 2017)
Long term: $BB_{(GH)}$; Short term: term: $B_{(GH)}$		Long term: $BB+_{(GH)}$; Short term: term: $B_{(GH)}$
Outlook: Stable		Outlook: Positive

ANALYTICAL CONTACTS

Primary Analyst	**Secondary Analyst**	
Simbarake Chimutanda	Nyasha Chikwengo	
Credit Analyst	Credit Analyst	
(011) 784-1771	(011) 784-1771	
simbarakec@globalratings.net	nyashac@globalratings.net	
Committee Chairperson		
Marc Chadwick		
Sector Head: Insurance Ratings		
(011) 784-1771		
chadwick@globalratings.net		

APPLICABLE METHODOLOGIES AND RELATED RESEARCH

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

Global Criteria for Rating Finance and Leasing Companies, updated March 2017

AFB Ghana rating reports, 2014-17

RATING LIMITATIONS AND DISCLAIMERS

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SALIENT FEATURES OF ACCORDED RATINGS

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.

AFB (Ghana) Plc participated in the rating process via a face-to-face management meeting 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 AFB (Ghana) Plc with no contestation of the rating.

The information received from AFB (Ghana) Plc and other reliable third parties to accord the credit ratings included:

- Audited financial results of the company at 31 December 2017;
- Four years of comparative numbers;
- Management accounts to 31 March 2018;
- A breakdown of facilities available and related counterparties; and
- Corporate governance and enterprise risk framework.

The ratings above were solicited by, or on behalf of, AFB (Ghana) Plc, and therefore, GCR has been compensated for the provision of the ratings.

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.
Budget	Financial plan that serves as an estimate of future cost, revenues or both.
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.
Corporate Governance	Refers to the mechanisms, processes and relations by which corporations are controlled and directed, and is used to ensure the effectiveness, accountability and transparency of an entity to its stakeholders.
Correlation	A term that describes the degree to which two variables move together. A correlation of 1 means that they move together exactly, while a correlation of minus 1 means that they move in exactly the opposite direction from each other.
Cost Ratio	The ratio of operating expenses to operating income. Used to measures a bank's efficiency.
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 Rating Agency	An entity that provides credit rating services.
Creditworthiness	An assessment of a debtor's ability to meet debt 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 investments, 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.
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.
Hedging	A financial risk management process or function to take a market position to protect against an eventuality. Taking an offsetting position in addition to an existing position. The correlation between the existing and offsetting position is negative.
Impairment	Reduction in the value of an asset because the asset is no longer expected to generate the same benefits, as determined by the company through periodic assessments.
Insolvent	When an entity's liabilities exceed its assets.
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.
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 Rate Risk	Interest rate risk in the banking book is the risk that earnings or economic value will decline as a result of changes in interest rates. The sources of interest rate risk in the banking book are repricing/mismatch, basis and yield curve risk.
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.
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.
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.
Margin	The rate taken by the lender over the cost of funds, which effectively represents the entity's profit and remuneration for taking the risk of the loan; also known as spread.
National Scale Rating	Provides a relative measure of creditworthiness for rated entities only within the country concerned. Under this rating scale, a 'AAA' long term national scale rating will typically be assigned to the lowest relative risk within that country, which in most cases will be the sovereign state.
Net Interest Margin	Net interest income divided by average interest earning assets. Measures a bank's margin after paying funding sources and how successful a bank's interest-related operations are.
Off Balance Sheet	Off balance sheet items are assets or liabilities that are not shown on a company's balance sheet. They are usually referred to in the notes to a company's accounts.
Operational Risk	The risk of loss resulting from inadequate or failed internal processes, people or systems or from external events. This includes legal risk, but excludes strategic risk and reputational risk.
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.
Principal	The total amount borrowed or lent, e.g. the face value of a bond, excluding interest.
Provision	The amount set aside or deducted from operating income to cover expected or identified loan losses.
Redemption	The repurchase of a bond at maturity by the issuer.
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.
Term Deposit	A savings account held for a fixed term. Also called a time deposit. Generally, there are penalties for early withdrawal.

Tertiary Capital	Capital held by banks to cover certain classes of risk, including foreign currency exchange risk and commodities risk. To qualify as Tier 3 capital, assets must be limited to 250% of a bank's Tier 1 capital, be unsecured, subordinated, and have a minimum maturity of two years.
Treasury Bill	Short-term obligation backed by the government that bears no interest and is sold at a discount.
Yield	Percentage return on an investment or security, usually calculated at an annual rate.
For a detailed glossary of terms, please click here	

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