



## GCR affirms African Banking Corporation of Botswana Limited's rating of BBB-(BW); Outlook Stable.

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Johannesburg, 27 June 2016 — Global Credit Ratings has affirmed the national scale ratings assigned to African Banking Corporation of Botswana Limited of BBB<sub>(BW)</sub> and A3<sub>(BW)</sub> in the long-term and short-term respectively; with the outlook accorded as Stable. The ratings are valid until June 2017.

### SUMMARY RATING RATIONALE

Global Credit Ratings ("GCR") has accorded the above credit ratings to African Banking Corporation of Botswana Limited ("BancABC Botswana", "the bank") based on the following key criteria:

The accorded ratings reflect BancABC Botswana's established domestic franchise value, moderate risk profile and proven support structure provided by the ultimate parent company, Atlas Mara Limited ("Atlas Mara", "the group"). During F14, the bank's parent, ABC Holding Limited (ABCH), was acquired (98.7% equity stake) by Atlas Mara. The new shareholders are driving ABCH's next growth phase and stronger inroads into the retail sector, as well as providing much needed operational, capital and funding support.

The bank reported a total risk weighted capital adequacy ratio ("CAR") of 15.7% at FYE15 (FYE14: 17.6%), against a prudential minimum of 15%, calculated in line with Basel I requirements. However, beginning 1 January 2016, banks are now required by the Bank of Botswana to compute capital adequacy indicators in line with Basel II requirements, with the prudential minimum CAR remaining at 15% while the Tier 1 ratio was reduced to 4.5% (8% under Basel I). The bank reported a CAR of 16.9% at 30 April 2016 based on monthly returns submitted to the central bank, which was above the regulatory minimum.

The challenging domestic operating environment and uncertain global economic climate has elevated asset quality concerns. The bank's non-performing loans ("NPLs") grew by 18.9% in F15 (F14: 45.2%), largely emanating from the retail and small and medium enterprises portfolio. Notwithstanding this, the gross NPL ratio improved slightly to 3.3% at FYE15 (F14: 3.9%) partly due to 41.9% growth in loans and increased write-offs. Positively, the bank has enhanced its credit scoring and collection capability, which is expected to improve loan origination and bad debt recoveries going forward. Specific provisions covered 48.4% of NPLs at FYE15 (FYE14: 70.7%), pre-collateral. The ratio of NPLs net of provisions to the bank's capital was 10.8% at FYE15 (FYE14: 6.1%).

Pre-tax profit grew by 67.3% over the review period mainly due to growth in non-interest income and significant post loan write-off recoveries. The F15 ROaE and ROaA increased to 17.3% (F14: 11.9%) and 1.7% (F14: 1.2%), respectively.



The structural makeup of the bank’s funding base remains an issue, due to a dependence on confidence sensitive and relatively expensive term wholesale funding, high depositor concentration and a short maturity profile. The liquidity ratio (excluding statutory reserves and balances with related parties) closed the year at 14.2%, which was above the statutory minimum of 10% but below the industry average of 19.7%.

Strong capital and liquidity buffers, a more balanced funding profile, an extended track record of reasonable asset quality and earnings performance, as well as a recovery of the operating environment, would be credit-positive. Conversely, a marked deterioration in asset quality (on the back of aggressive loan growth or an increase in unprovided NPLs), earnings, liquidity and capital adequacy indicators, could result in a downgrade of the bank’s ratings. In addition, a further deterioration in economic prospects (on the back of a weak global outlook given the country’s dependence on diamond exports) and the consequent increase in credit losses and stability risks, could see the ratings come under pressure.

<b>NATIONAL SCALE RATINGS HISTORY</b>		
Initial rating (December 2005)		
Long-term: BBB-(BW); Short-term: A3(BW)		
Outlook: Positive		
Last rating (June 2015)		
Long-term: BBB-(BW); Short-term: A3(BW)		
Outlook: Stable		

## **ANALYTICAL CONTACTS**

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## **APPLICABLE METHODOLOGIES AND RELATED RESEARCH**

Global Criteria for Rating Banks and Other updated March Financial Institutions, updated March 2016



BancABC Botswana rating reports (2005-15)

## **RATING LIMITATIONS AND DISCLAIMERS**

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## **SALIENT FEATURES OF ACCORDED RATINGS**

GCR affirms that a.) no part of the rating was influenced by any other business activities of the credit rating agency; b.) the rating was based solely on the merits of the rated entity, security or financial instrument being rated; and c.) such rating was an independent evaluation of the risks and merits of the rated entity, security or financial instrument.

African Banking Corporation of Botswana Limited participated in the rating process via face-to-face management meetings, teleconferences 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 African Banking Corporation of Botswana Limited with no contestation of the ratings.

The information received African Banking Corporation of Botswana Limited and other reliable third parties to accord the credit rating included:

- Audited financial results of the bank at 31 December 2015 (plus four years of comparative numbers);
- Unaudited management accounts of the bank as at 30 April 2016;
- Budgeted financial statements for 2016
- Corporate governance and enterprise risk framework;
- Reserving methodologies and capital management policy;
- Industry comparative data and regulatory framework; and
- A breakdown of facilities available and related counterparties.

The ratings above were solicited by, or on behalf of, African Banking Corporation of Botswana Limited, 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 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.
Bad Debt	An amount owed by a debtor that is unlikely to be paid due, for example, to a company going into liquidation. There are various technical definitions of what constitutes a bad debt, depending on accounting conventions, regulatory treatment and the individual entity's own provisioning and write-off policies.
Basel	Basel Committee on Banking Supervision housed at the Bank for International Settlements.
Basel I	Basel Committee regulations, which set out the minimum capital requirements of financial institutions with the goal of minimising credit risk.
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.
Collateral	Asset provided to a creditor as security for a loan.
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.
Downgrade	The assignment of a lower credit rating to a company or sovereign borrower's debt by a credit rating agency. Opposite of upgrade.
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.
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.
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.
Maturity	The length of time between the issue of a bond or other security and the date on which it becomes payable in full.
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.
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.
Provision	The amount set aside or deducted from operating income to cover expected or identified loan losses.



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.

For a detailed glossary of terms utilised in this announcement please click [here](#)

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