



GCR downgrades the national scale ratings of Atlas Mara Zambia; Evolving Outlook.

Johannesburg, 15 February 2019 — Global Credit Ratings (“GCR”) has downgraded national scale ratings of Atlas Mara Zambia to CCC_(ZM) and C_(ZM) in the long term and short term respectively; with the outlook accorded as Evolving.

SUMMARY RATINGS RATIONALE

The long and short-term Zambian national scale ratings on Atlas Mara Zambia have been downgraded to reflect the continued breach of an asset quality covenant which, if triggered, may result in the bank defaulting on its obligations. We also factor in sustained poor asset quality and modest but improving operating performance. We also take note of the recent, albeit slow improvement in asset quality. We consider the shareholder willingness to support to be good but its capacity to be ultimately restrained by its own weak credit profile.

Atlas Mara Zambia entered into \$65m Finance Agreement as of January 2016 with the Overseas Private Investment Corporation (“OPIC”). This agreement included a covenant which stipulated that the bank’s Non-Performing Loan (“NPL”) ratio should not exceed 8.5%. At June 2018, the bank breached this covenant. However, we understand that the creditor didn’t call an of event of default or for an acceleration of the funds. Instead a waiver agreement has been agreed upon, which increases the covenants tolerance for NPLs on an amortising basis over the next few years. Nevertheless, at 31 December 2018 the bank was in breach of the covenant as per the waiver agreement. If the creditor called an event of default, we believe it would lead to an acceleration of the loan and ultimately the default of the bank on this obligation.

We also factor into the ratings the impact of prolonged weak asset quality, capitalisation and operating performance, which have been historically weak but appear to have been improving due to shareholder support. The bank is a wholly-owned subsidiary of ABC Holdings Limited (“ABCH”). ABCH is the holding company of the African Banking Corporation group of companies (trading under the brand name BancABC), which provide various financial services, registered in Botswana, with operations in Botswana, Tanzania, Mozambique and Zimbabwe. ABCH is 100% owned by Atlas Mara, a London-listed financial services group with operations in seven sub-Saharan African countries. The group, through BancABC Zambia, acquired a 100% shareholding in Finance Bank Zambia (“FBZ”), a local bank with three subsidiaries on 30 June 2016. The merger resulted in a bigger and more competitive bank with a footprint of 51 branches, 20 agencies and 177 ATMs, spread across Zambia’s ten provinces. The combined entity was rebranded to Atlas Mara Zambia and is the sixth largest bank in Zambia by revenue.

A positive change in the rating could result from a significant improvement in asset quality, giving considerable headroom over covenant levels. Over the longer term, we may improve the ratings if the bank sustains a trend of improved earnings, solid liquidity and better capitalisation.



A default, unsuccessful restructure or credit standstill on one or more obligations would lower the ratings.

NATIONAL SCALE RATINGS HISTORY		
Initial/ last rating (January 2018)		
Long-term: BB _(ZM) ; Short term: B _(ZM)		
Outlook: Evolving		

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APPLICABLE METHODOLOGIES AND RELATED RESEARCH

Global Criteria for Rating Banks and Other Financial Institutions (March 2017)

BancABC Zambia rating reports (2005-17)

Atlas Mara Zambia rating report (2018)

RATING LIMITATIONS AND DISCLAIMERS

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SALIENT FEATURES OF ACCORDED RATINGS

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, 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.

Atlas Mara Zambia participated in the rating process via, teleconferences and other written correspondence.

The credit ratings have been disclosed to Atlas Mara Zambia Limited and the outlook was amended following an appeal.

The information received from Atlas Mara Zambia and other reliable third parties to accord the credit rating included:

- Audited financial results of Africa Banking Corporation Zambia at 31 December 2017 (plus three years of comparative numbers);
- Unaudited management accounts of Atlas Mara Zambia as at 30 June 2018;
- Management accounts as at 31 December 2018;
- Corporate governance and enterprise risk framework;
- 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, Atlas Mara Zambia, 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

Arrears	An overdue debt, liability or obligation. An account is said to be 'in arrears' if one or more payments have been missed in transactions where regular payments are contractually required.
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.
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.
Credit Rating Agency	An entity that provides credit rating services.
Customer Deposit	Cash received in exchange for a service, including safekeeping, savings, investment, etc. Customer deposits are a liability in a bank's books.
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.
Financial Statements	Presentation of financial data including balance sheets, income statements and statements of cash flow, or any supporting statement that is intended to communicate an entity's financial position at a point in time.
Financial Year	The year used for accounting purposes by a company. 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.
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.
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.
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.
Past Due	Any note or other time instrument of indebtedness that has not been paid on the due date.
Performing Loan	A loan is said to be performing if the borrower is paying the interest on it on a timely basis.
Provision	The amount set aside or deducted from operating income to cover expected or identified loan losses.
Regulatory Capital	The total of primary, secondary and tertiary capital.
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	Current; ordinarily less than one year.

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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 please click [here](#)