

# MOODY'S

## INVESTORS SERVICE

### CREDIT OPINION

4 December 2020

#### Update

 Rate this Research

#### RATINGS

##### Bidvest Bank Limited

Domicile	Johannesburg, South Africa
Long Term Issuer Rating	Ba3
Type	LT Issuer Rating - Dom Curr
Outlook	Negative

Please see the [ratings section](#) at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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## Bidvest Bank Limited

### Update to credit analysis

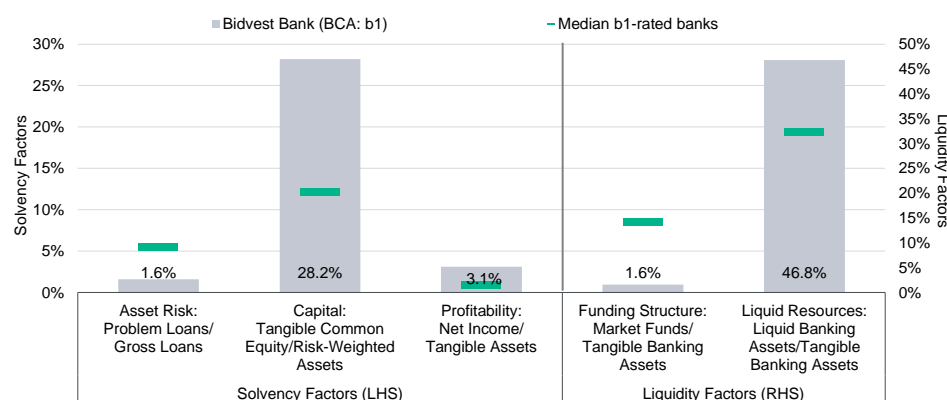
#### Summary

The Ba3 global scale and Aa3.za national scale long-term issuer ratings assigned to [Bidvest Bank Limited](#) (Bidvest Bank) are driven by the bank's b1 Baseline Credit Assessment (BCA) and our assessment of a low probability of government support in case of need. Bidvest Bank's BCA reflect its niche franchise in the foreign-exchange and vehicle-leasing businesses, and its solid financial fundamentals, specifically its comfortable capitalisation, robust profitability and adequate liquidity. The bank's ratings also incorporate our assessment of a high probability of parental support from [The Bidvest Group Limited](#) (Bidvest Group, Ba2 negative), in case of need.

Bidvest Bank's strengths are moderated by (1) Bidvest Bank's relatively narrow lending franchise, with an overall loan market share of 0.1% as of the end of June 2019, which results in low earnings diversification and high credit concentrations; (2) competition from the larger and more established banks in its niche businesses; and (3) the South African economy's weak growth prospects, which are worsened by the global spread of the coronavirus, and are likely to lead to a deterioration in asset quality metrics and profitability of all South African banks.

Exhibit 1

#### Rating Scorecard - Key financial ratios



These are our [Banks Methodology](#) scorecard ratios. Asset risk and profitability reflect the weaker of the three-year average and the latest figure. Capital is the latest reported figure. Funding structure and liquid resources reflect the latest fiscal year-end figures.

Source: Moody's Investors Service

## Recent developments

The global spread of the coronavirus is resulting in simultaneous supply and demand shocks. We expect these shocks to materially slow economic activity. The full extent of the economic costs will be unclear for some time. Fear of contagion will dampen consumer and business activity. The longer it takes for households and businesses to resume normal activity, the greater the economic impact. Fiscal and monetary policy measures will likely help limit the damage.

The coronavirus outbreak will have a direct negative impact on the asset quality and profitability of banks, in some cases in a pronounced manner, for example for undiversified banks with material exposure to high-risk sectors and small and medium-sized enterprises.

## Credit strengths

- » Solid capitalisation, which supports balance-sheet expansion
- » Strong profitability, driven by the bank's high net interest margin
- » High probability of affiliate support

## Credit challenges

- » Asset-quality challenges amid low economic growth and high concentration risks
- » Relatively slower new business generation and higher impairments, which are likely to strain profitability
- » Reliance on short-term and wholesale deposits, partially mitigated by the bank's improving maturity profile and strong liquidity

## Outlook

The negative outlook on Bidvest Bank's long-term issuer rating reflects the negative outlook on the parent rating, which signals potential weakening in Bidvest Group's credit strength as well as in its capacity to support Bidvest Bank in case of need.

The negative outlook on Bidvest Bank's long-term ratings also mirrors the negative outlook on the sovereign rating, which signals potential weakening in the South African government's credit strength and in the South African economy. A weakening in South Africa's economy could lead to further deterioration in the bank's standalone credit profile.

## Factors that could lead to an upgrade

Upwards pressure on the bank's long-term issuer ratings is limited given the negative outlook. A stabilisation in the ratings of the parent, combined with a stabilisation in local operating conditions, could lead to a stabilisation in the outlook of Bidvest Bank.

## Factors that could lead to a downgrade

Conversely, downwards pressure on the bank's long-term issuer ratings could result from a weakening in the ability of Bidvest Group to support Bidvest Bank, from continued deterioration in the local operating conditions affecting the BCA of the bank and from any deterioration in the creditworthiness of South Africa.

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on [www.moody's.com](http://www.moody's.com) for the most updated credit rating action information and rating history.

## Key Indicators

Exhibit 2

### Bidvest Bank Limited (Consolidated Financials) [1]

	06-19 <sup>2</sup>	06-18 <sup>2</sup>	06-17 <sup>2</sup>	06-16 <sup>2</sup>	06-15 <sup>2</sup>	CAGR/Avg. <sup>3</sup>
Total Assets (ZAR Million)	10,263.2	9,219.4	7,812.0	6,902.7	6,201.0	13.4 <sup>4</sup>
Total Assets (USD Million)	727.8	672.6	596.2	471.3	510.9	9.3 <sup>4</sup>
Tangible Common Equity (ZAR Million)	2,601.4	2,451.3	2,370.0	2,228.7	2,051.8	6.1 <sup>4</sup>
Tangible Common Equity (USD Million)	184.5	178.8	180.9	152.2	169.0	2.2 <sup>4</sup>
Problem Loans / Gross Loans (%)	1.6	0.5	1.0	2.0	0.8	1.2 <sup>5</sup>
Tangible Common Equity / Risk Weighted Assets (%)	28.2	26.9	26.4	30.3	35.7	29.5 <sup>6</sup>
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	1.7	0.5	0.9	1.5	0.5	1.0 <sup>5</sup>
Net Interest Margin (%)	4.2	4.9	5.1	4.8	4.9	4.8 <sup>5</sup>
PPI / Average RWA (%)	4.8	4.6	5.8	7.1	6.7	5.8 <sup>6</sup>
Net Income / Tangible Assets (%)	3.1	3.4	4.4	4.8	4.3	4.0 <sup>5</sup>
Cost / Income Ratio (%)	75.9	75.8	78.4	79.4	71.1	76.1 <sup>5</sup>
Market Funds / Tangible Banking Assets (%)	1.6	2.2	2.6	2.9	2.6	2.4 <sup>5</sup>
Liquid Banking Assets / Tangible Banking Assets (%)	46.8	44.5	40.8	41.3	41.1	42.9 <sup>5</sup>
Gross Loans / Due to Customers (%)	42.4	41.6	46.5	42.8	43.6	43.4 <sup>5</sup>

[1] All figures and ratios are adjusted using Moody's standard adjustments. [2] Basel III - fully-loaded or transitional phase-in; IFRS. [3] May include rounding differences due to scale of reported amounts. [4] Compound Annual Growth Rate (%) based on time period presented for the latest accounting regime. [5] Simple average of periods presented for the latest accounting regime. [6] Simple average of Basel III periods presented.

Source: Moody's Investors Service; Company Filings

## Profile

Bidvest Bank Limited (Bidvest Bank) is a challenger bank in South Africa, with ZAR10.3 billion of reported assets as of June 2019. The bank provides a wide range of business and personal banking services, as well as fleet management and financing services. Bidvest Bank's niche franchise, however, is in the foreign-exchange sector, with its Bidvest Bank brand recognised as a leading South African specialist provider of travel-related foreign-exchange and related services. In addition, Bidvest Bank has had a niche franchise in the vehicle-leasing business since 2010, which has helped the bank broaden its product range.

Bidvest Bank wanted to acquire Eqstra, a company focused on heavy commercial vehicle leasing to the private sector, which would complement Bidvest Bank's fleet-leasing services to the public sector. The transaction was awaiting regulatory approval, but the sale has fallen through after approval from the Prudential Authority (PA) failed to materialise before the agreed deadline of May 4th 2020 for the transaction.

Bidvest Bank is a wholly owned subsidiary of Bidvest Group, an international services, trading and distribution company with operations in South Africa, Europe, Asia Pacific and the Middle East. The group is listed on the Johannesburg Stock Exchange and reported an annual turnover of ZAR77.2 billion (\$5.5 billion) as of June 2019.

## Detailed credit considerations

### Resilient asset quality, likely to be challenged by low economic growth and high concentration risks

We expect Bidvest Bank's asset-quality performance to weaken amid the more challenging economic environment as a result of the coronavirus pandemic. Historically, Bidvest Bank's asset quality has been robust. The bank takes credit risk on both its financing (27% of assets as of June 2019) and leasing (15%) businesses. The bank's reported nonperforming loans and leases (NPLs) ratio, despite remaining low at 1.56% as of June 2019, shows a significant increase from 0.47% as of June 2018. However, despite the economic and political difficulties in South Africa, Bidvest Bank maintained an annual credit loss ratio of just 0.20% as of June 2019.

We expect asset-quality deterioration and higher credit losses for Bidvest Bank over the next 12-18 months in view of (1) the challenges to the economic environment, as discussed above; and (2) the seasoning of the bank's loan portfolio following rapid growth in recent years (gross loans grew at a compound annual rate of 16% over the last two fiscal years ended June 30, 2019). Additionally, we expect that the coronavirus outbreak will have a direct impact on banks' asset quality and we could reassess our current assessment of asset quality depending on the breadth and severity of the shock.

Our assessment of Bidvest Bank's asset risk also takes into account its high borrower concentrations, which make the bank's solvency vulnerable to the default of a few large borrowers and would amplify credit losses during economic recessions. The bank's top 20 loan and leased asset exposures accounted for a high 138% of its Common Equity Tier 1 capital as of June 2019. In addition, the bank's largest loans and advances and leased asset exposure amounted to 15% of its total loans and leased assets book as of June 2019.

#### **Solid capitalisation, supportive of balance-sheet expansion**

Bidvest Bank's capitalisation is solid, as illustrated by its reported Tier 1 capital adequacy ratio of 22.9% as of June 2019. We expect the bank to remain well capitalised because its shareholder will likely inject more capital into the bank to support growth. Our view is based on the capital and liquidity support provided by the parent company in the past<sup>1</sup>. We negatively adjust the bank's Capital score in our scorecard to take into account the uncertainty surrounding the loss-absorption capacity of the bank's unappropriated capital reserves, which could be paid out as dividends.

#### **Profitability remains strong, but likely to come under pressure**

The bank's profitability ratios remain strong, although have marginally declined, with reported return on asset and return on equity at 3% and 11%, respectively, as of June 2019, compared with 3.3% and 11.3% a year earlier. Such strong profitability metrics are driven by a high net interest margin of 4.2% as of June 2019. Additionally, net interest income increased by 4.1%, administrative and other operating expenses increased by 5% and operating expenses increased by 7% from a year earlier, while non-interest revenue increased by 6%. The bank continues to record relatively weak efficiency indicators because of its small size; its cost-to-income ratio was 76% as of June 2019.

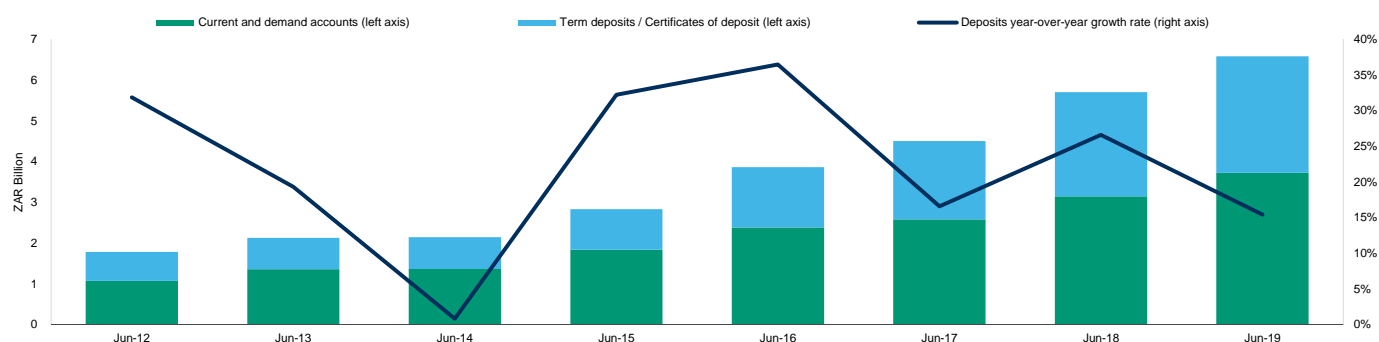
Over the next 12-18 months, we expect some pressure on the bank's profitability because the bank is likely to be challenged in generating new business and further diversifying its earnings amid subdued economic conditions in South Africa further exacerbated by the coronavirus pandemic. Moreover, we expect impairments to increase from their very low levels; putting downward pressure bottom-line profitability. In our scorecard, we make a negative adjustment to the Profitability factor to reflect the bank's relatively high dependence on vehicle-leasing and foreign-exchange earnings.

#### **Reliance on short-term and wholesale deposits partially mitigated by an improving maturity profile and adequate liquidity**

Bidvest Bank relies on customer deposits to fund its operations. Although customer deposits constituted 89% of total liabilities as of June 2019, the maturity profile of the deposit base remains short term. Further, 35% of the deposit base consisted of less sticky, wholesale deposits as of the same date (down from 37% as of June 2018). The bank's ratio of gross loans to deposits (including leased assets) decreased to 66% as of June 2019 from 71% as of June 2018, because loan growth trailed deposit growth.

Bidvest Bank has been successful in attracting transactional accounts with cheap demand deposits while also raising long-term funding through 12-month fixed deposits (term deposits grew by 12% in June 2019 from the year-earlier period, driving the 15% increase in total deposits, see Exhibit 3). A committed borrowing facility of ZAR500 million is also available from the parent company and can be used by the bank in case of need. This facility is sizeable compared with the bank's ZAR7.4 billion of liabilities as of June 2019. The bank's funding dependence on its parent company, however, has decreased significantly in recent years, to 2% of its non-equity liabilities as of June 2019 from 35% as of June 2010. As management aims to grow the business, the bank has plans to further diversify its funding sources and lengthen its maturity profile. The short term profile of the bank's deposits drives the negative adjustments to the Funding score in our scorecard.

Exhibit 3

**High deposit growth rate in recent years, coupled with improving deposit composition**

Sources: Moody's Financial Metrics and bank's financials

Bidvest Bank's liquidity is adequate because the bank has historically adopted a policy of retaining at least one-third of its depositor base in cash or near cash. Given the bank's liquid balance sheet, significant retail deposit base and high capital base, it complies with Basel III liquidity requirements<sup>2</sup>, with a reported liquidity coverage ratio of 177% as of June 2019. The net stable funding ratio increased to 159% as of June 2019, from 153% as of June 2018, well above the 100% minimum implemented in 2018.

## Environmental, social and governance considerations

In line with our general view for the banking sector, Bidvest Bank has a low exposure to environmental risks. See our [Environmental risk heat map](#) for further information.

We believe banks face moderate social risks. [See our Social risk heat map](#) for further information. The most relevant social risks for banks arise from the way they interact with their customers. Social risks are particularly high in the area of data security and customer privacy, which is partly mitigated by sizeable technology investments and banks' long track record of handling sensitive client data. Fines and reputational damage because of product mis-selling or other types of misconduct are further social risks. Societal trends are also relevant in a number of areas, such as shifting customer preferences towards digital banking services increasing information technology costs, population concerns in several countries affecting demand for financial services or socially driven policy agendas that may translate into regulations that affect banks' revenue base.

Governance is highly relevant for Bidvest Bank, as it is to all entities in the banking industry. Corporate governance weaknesses can lead to a deterioration in a bank's credit quality, while governance strengths can benefit its credit profile. Governance risks are largely internal rather than externally driven, and for Bidvest, we do not highlight any particular governance issues. Nonetheless, corporate governance remains a key credit consideration and requires ongoing monitoring.

## Support and structural considerations

### Affiliate support

Bidvest Bank's ratings incorporate a high likelihood of affiliate support from Bidvest Group based on the following: (1) the group's 100% ownership of the bank; (2) Bidvest Bank's association with the Bidvest brand (including the use of both its name and logo); and (3) the relatively low probability that the parent would dispose of its stake in Bidvest Bank because group management believes there are synergies, benefits and strategic importance of a financial services division within the group.

### Government support considerations

Bidvest Bank's global scale issuer ratings do not benefit from any government support uplift. Following the events relating to African Bank Limited, we believe that the inclusion of a bail-in for senior unsecured bondholders and wholesale depositors by the South African Reserve Bank (SARB) indicates the regulator's willingness to impose losses on creditors of troubled banks.

### National scale ratings

Moody's National Scale Credit Ratings (NSRs) are intended as relative measures of creditworthiness among debt issues and issuers within a country, enabling market participants to better differentiate relative risks. NSRs differ from Moody's global scale credit

ratings in that they are not globally comparable with the full universe of Moody's rated entities, but only with NSRs for other rated debt issues and issuers within the same country. NSRs are designated by a ".nn" country modifier signifying the relevant country, as in ".za" for South Africa. For further information on Moody's approach to national scale credit ratings, please refer to Moody's Credit rating Methodology [Mapping National Scale Ratings from Global Scale Ratings](#), published in May 2016. While NSRs have no inherent absolute meaning in terms of default risk or expected loss, a historical probability of default consistent with a given NSR can be inferred from the GSR to which it maps back at that particular point in time. For information on the historical default rates associated with different global scale rating categories over different investment horizons, please see [https://www.moody.com/researchdocumentcontentpage.aspx?docid=PBC\\_189530](https://www.moody.com/researchdocumentcontentpage.aspx?docid=PBC_189530).

**Source of facts and figures cited in this report**

Unless noted otherwise, we have sourced data relating to systemwide trends and market shares from the central bank. Bank specific figures originate from banks' reports and Moody's Banking Financial Metrics. All figures are based on our own chart of account and may be adjusted for analytical purposes. Please refer to the document [Financial Statement Adjustments in the Analysis of Financial Institutions](#), published on August 9, 2018.

## Rating methodology and scorecard factors

Exhibit 4

### Bidvest Bank Limited

#### Macro Factors

**Weighted Macro Profile**                      **Moderate**    **100%**

Factor	Historic Ratio	Initial Score	Expected Trend	Assigned Score	Key driver #1	Key driver #2
Solvency						
Asset Risk						
Problem Loans / Gross Loans	1.6%	baa3	↓↓	b1	Single name concentration	Unseasoned risk
Capital						
Tangible Common Equity / Risk Weighted Assets (Basel III - transitional phase-in)	28.2%	a3	↔	baa3	Capital fungibility	Stress capital resilience
Profitability						
Net Income / Tangible Assets	3.1%	a3	↓↓	baa3	Earnings quality	
Combined Solvency Score		baa1		ba2		
Liquidity						
Funding Structure						
Market Funds / Tangible Banking Assets	1.6%	a3	↔	ba3	Deposit quality	Lack of market access
Liquid Resources						
Liquid Banking Assets / Tangible Banking Assets	46.8%	baa2	↔	baa2	Stock of liquid assets	
Combined Liquidity Score		baa1		ba1		
Financial Profile				ba2		
Qualitative Adjustments				Adjustment		
Business Diversification				-2		
Opacity and Complexity				0		
Corporate Behavior				0		
Total Qualitative Adjustments				-2		
Sovereign or Affiliate constraint				Ba2		
BCA Scorecard-indicated Outcome - Range				ba3 - b2		
Assigned BCA				b1		
Affiliate Support notching				-		
Adjusted BCA				ba3		

[1] Where dashes are shown for a particular factor (or sub-factor), the score is based on non-public information.

Source: Moody's Investors Service

## Ratings

Exhibit 5

Category	Moody's Rating
<b>BIDVEST BANK LIMITED</b>	
Outlook	Negative
Issuer Rating -Dom Curr	Ba3
NSR Issuer Rating	Aa3.za
ST Issuer Rating -Dom Curr	NP
NSR ST Issuer Rating	P-1.za
<b>PARENT: BIDVEST GROUP LIMITED, THE</b>	
Outlook	Negative
Corporate Family Rating	Ba2
NSR Corporate Family Rating	Aa1.za
ST Issuer Rating -Dom Curr	NP
NSR ST Issuer Rating	P-1.za

Source: Moody's Investors Service

## Endnotes

- [1](#) The parent company injected ZAR90 million in capital into the bank in September 2011 and provided a ZAR500 million liquidity facility in fiscal 2015.
- [2](#) The liquidity coverage ratio minimum increased to 90% on 1 January 2018 and to 100% on 1 January 2019.



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