GCR GLOBAL CREDIT RATING CO.
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Victoria Commercial Bank Limited

Kenya Bank Analysis **July 2018**

Rating class	Rating scale	Rating	Rating outlook	Expiry date
Long-term Short-term	National National	BBB+(KE) A2(KE)	Stable	July 2019

Financial data:

(USDm comparative)

	31/12/16	31/12/17
KES/USD (avg.)	101.52	103.20
KES/USD (close)	102.49	103.15
Total assets†	259.3	304.9
Tier 1 capital‡	47.3	52.0
Tier 2 capital‡	1.4	1.5
Net advances	149.2	182.9
Liquid assets	62.5	61.5
Operating income	13.9	15.9
Profit after tax	5.8	6.0
Market cap.		n.a
Market share*		0.7%

† Including off-balance sheet items.
‡ Refers to the calculation of regulatory capital as per banking regulations.
* Based on the Central Bank of Kenya calculation of total banking industry assets at 31 December 2017.

Rating history:

Initial rating (October 2012)
Long-term rating: BBB(KE)
Short-term rating: A3(KE)
Rating outlook: Positive

Last rating (July 2017)
Long-term: BBB(KE)
Short-term: A2(KE)
Rating outlook: Positive

Related methodologies/research:
Global Criteria for Rating Banks and Other Financial Institutions, updated March 2017
Kenyan Bank Statistical Bulletin (December 2017)
VCB rating reports (2012-17)

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Summary rating rationale

- The ratings of Kenya based Victoria Commercial Bank Limited ("VCB" or "the bank") reflect its strong asset quality, adequate capitalisation, good earnings as well as stable funding and liquidity. The bank's ratings are, however, constrained by its lack of diversity and low number of clients, which implies lower systemic importance relative to the larger local banks.
- VCB has a highly selective client base; stringent pre-loan application processes; and strong risk management capabilities; which enable it to achieve strong asset quality. The bank's gross non-performing loan ("NPL") ratio of 0.1% at FY17 which reverted back to 0% at 1H18 is expected to remain at the ten-year average of 0%. VCB is expected to maintain a fairly lower risk profile relative to its peers.
- The bank's capitalisation is considered adequate with a Tier 1 capital adequacy ratio of 22.1% (24.7%) against a regulatory minimum of 10.5% and a total risk weighted capital adequacy ratio of 22.7% (FY16: 25.5%). GCR expects the bank's Tier 1 capital ratio to remain adequate ranging from 19.0% to 22% over the next 12 months mainly being addressed through organic growth and earnings retention. The bank's earnings performance remained solid with net profit before tax ("NPBT") increasing by 6.6% to KES849.2m at FY17 buoyed by a 37.7% increase in fee and commission income while net operating income also increased by 16%. However, operating expenditure also increased 24.8% resulting in a cost ratio of 46.2% (FY16: 42.9%) which compares favourably to peers. ROaA slightly declined to 2.6% (FY16: 2.8%) while ROaE reduced slightly to 11.6% (FY16: 13.8 %). Earnings growth is expected to continue albeit at a lower rate as economic conditions improve and the bank reduces its cost of funding by growing retail deposits.
- The bank's funding base is stable as it is predominantly funded by deposits comprising 71% of total funds, with shareholder funding contributing 22%, and DFIs and others 7%. Customer deposits comprised a higher 92.1% of liability funding at FY17 (FY16: 91.2%) drawing from its relationship-based business model, branch expansion and rise in deposit base. Customer deposits grew by 19% in FY17 against 6.5% YoY average customer deposit growth for the banking sector at end-December 2017. The growth is expected to continue as the bank continues to expand its branch network. The bank, has been incurring relatively high funding costs owing to its narrow target market for deposit generation and lack of transactional deposits. The bank manages mismatches, by maintaining its liquidity ratio above both the regulatory and board approved minima. The ratio of liquid assets to short-term funding registered 37.5% at FY17 (FY16: 38.2%).
- With its relatively lower number of clients and lack of diversity GCR considers that the scale of the bank exposes it to greater operational risk compared to its peers with larger market share.

Factors that could trigger a rating action may include

Positive change: The bank's rating could be positively impacted if the bank continues to outperform the market in terms of asset quality, capitalisation with improved funding and liquidity metrics.

Negative change: The ratings could be negatively affected by a deterioration in asset quality, earnings, capitalisation, liquidity as well as change in business strategy.

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Company profile

Business summary[1]

VCB commenced operations in 1987 as a private finance company specialising in leasing finance, mainly targeting the small and medium sized enterprises ("SME") sector in Kenya. The bank offers relationship-based niche private banking services, focusing on corporate and high net worth clients.

Ownership structure

The bank is owned by a diverse group of shareholders and none of them hold a controlling interest. Table 1 provides a breakdown of the bank's main shareholders as at 31 December 2017. There are no expected changes to shareholding in the short to medium term.

Table 1: Shareholding composition	Country of residence	%
Kanji Damji Pattni	Kenya	11.26
Orchid Holdings Ltd	Kenya	8.12
Kingsway Investments Ltd	Kenya	7.14
Rochester Holdings Ltd	Kenya	6.03
Rajan Jani & Yadav Rajan Jani	Kenya	4.97
Premchand Hemraj Gudka & Avani Jayeshkumar Devraj -Joint Executors Of Estate of late H Gudka	Kenya	4.25
Premchand H Gudka	Kenya	4.24
Godfrey C.Omondi	Kenya	3.20
Nishe Investments Ltd	Kenya	2.83
Minal Rajesh Chollera	Kenya	2.73
Occidental Insurance Company Limited	Kenya	2.62
Victoria SPL (ESOP)	Kenya	2.59
Others (< 2.59% individual shareholdings)	Kenya	40.02
Total		**100.0**

Source: VCB.

Management and Governance[2]

The board of directors ("board") fulfils its obligations through board committees, the composition of which is informed by the Central Bank of Kenya's ("CBK") Prudential Guidelines, and the Kenyan Banking Ammendment Act ("the Banking Act"). The board-established committees include: Audit, Credit, Nomination and Remuneration, and Risk Management. To further entrench good corporate governance practices, the board has established various management committees.

VCB is governed by a six member board, made up of one executive (the Chief Executive Officer) and five non-executive directors of which four are independent. VCB's board is chaired by an independent non-executive director, ensuring the separation of the roles of the chief executive officer and the board chairman. The chairman is the founder of the bank and holds 11% shareholding. Loans granted to insiders/related parties are approved by the entire board and fully secured in line with CBK Prudential Guidelines and Banking Act provisions.

Financial Reporting

VCB's financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS"). The content also complies with the Banking Act and the Kenyan Companies Act. The bank's external auditor, PricewaterhouseCoopers, issued an unqualified audit opinion on the FY17 financial statements.

Operating environment

Economic overview

The Kenyan economy has experienced a decline in GDP growth due to subdued credit growth caused by caps on commercial banks' lending rates, drought, and political challenges. However, macroeconomic stability continues, with most fundamentals projected to remain healthy. The economy is projected to rebound to GDP growth of 5.6% in 2018 and 6.2% in 2019.

Industry overview

At 31 December 2017, the banking sector comprised 40 commercial banks; one mortgage finance company, 12 microfinance banks, eight representative offices of foreign banks, 86 foreign exchange bureaus, 14 money remittance providers and three credit reference bureaus.

The banking sector has been mostly affected by the following factors:

- Interest rate caps which have had the effect of reducing the number of loan accounts and, a rise in average loan size. Resultantly, banks are shifting the revenue sources to non-interest income
- Banks have generally increased their investment in government securities., while the share of credit to the private sector has continued to decline.
- The structure of deposits, as time deposits (interest earning accounts) declined while demand deposits (non-interest earning accounts) increased.
- Capital erosion as a result of the interest rate caps, as reduced earnings impacted on bank's ability to build up capital.
- Asset quality deteriorated due to the adverse economic conditions.

Competitive position

VCB has a unique relationship-based niche private banking model and no other players in the market are able to adopt the business model as it is based on relationships developed over a long period of time. The bank approaches clients through referrals and thoroughly assesses the client's business and suitability. The bank has more than 3000 clients and four branches with plans to open a fifth branch in the near future. The bank has stable management and low employee turnover, which helps to improve client confidence and maintain client relationships. The bank has shown resilience and consistent performance over

[1] Refer to GCR's previous rating reports for additional background information.

[2] Given the intricacies associated with good corporate governance, GCR recommends an independent assessment to test compliance.

the years with strong earnings despite an adverse operating environment.

Table 2: Peer analysis (KESm)‡	ABC	GAB	GTB	VCB
Market shares (%)				
WMSI[3]	0.6	0.8	0.9	0.7
Total assets	0.6	0.8	0.7	0.6
Loans and advances	0.7	0.9	0.6	0.8
Customer deposits	0.7	0.9	0.5	0.6
Selected ratios (%)				
Tier 1 Capital adequacy	12.9	14.2	26.4	22.1
Gross NPL ratio	15.9	8.5	8.0	0.1
Coverage ratio	12.3	33.2	23.1	100.0
Advance to deposits ratio	78.1	74.3	87.2	101.0
Cost ratio	81.7	65.9	72.0	46.2
ROE	4.5	3.5	2.3	11.6
ROA	0.6	0.5	0.7	2.6

‡ Refers to Kenyan operations.
Source: CBK.

Financial profile

Capital and leverage

The bank's capitalisation despite declining from FY16 due to growth in risk weighted assets, is considered adequate with a Tier 1 capital adequacy ratio of 22.1% (FY16: 24.7%) against a regulatory minimum of 10.5% and a total risk weighted capital adequacy ratio of 22.7% (25.5%) with an internal minimum ratio of 17.3% and a regulatory minimum of 14.5%. GCR expects the bank's Tier 1 capital ratio to remain adequate ranging from 19% to 22% as management indicated that the bank's capital expansion will mainly be addressed through organic growth and earnings retention.

The bank's earnings performance remained solid with NPBT increasing by 6.6% to KES849.2m at FY17, buoyed by a 37.7% increase in fee and commission income while net operating income also increased by 16%. Operating expenditure however also increased by 24.8% due to set up and staff costs from the new branch, resulting in a cost ratio of 46.2% (FY16: 42.9%). ROaA slightly declined to 2.6% (FY16: 2.8%) while ROaE reduced slightly to 11.6% (FY16: 13.8 %). Earnings growth is expected to continue albeit at a lower rate as economic conditions improve and the bank reduces its cost of funding by growing retail deposits.

Growth in interest income was supported by loan growth and government securities uptake. In the same period, interest expenses declined by 2.2% due to concentrated efforts in growing low cost current and savings accounts as opposed to expensive term deposits, thereby reducing funding costs. However, interest spreads have been compressing following the implementation of the Banking Amendment Act limiting lending rates to 4% above CBR and minimum deposit rates at 70% of CBR.

Table 3: Capitalisation	FY15 KESm	FY16 KESm	FY17 KESm
Tier 1 capital	3 343	4 849	5 363
Ordinary share capital	*608*	*829*	*839*
Share premium	*420*	*1 272*	*1 321*
Retained earnings	*2 314*	*2 748*	*3 203*
Other reserves	*1*	*-*	*-*
Tier 2 capital	132	139	154
Total regulatory capital	**3 475**	**4 988**	**5 517**
Risk Weighted assets "RWA"	**18 004**	**19 599**	**24 265**
Tier 1 capital: RWA	**18.6**	**24.7**	**22.1**
Statutory requirement @ 10.5%			
Regulatory capital: RWA	**19.3**	**25.5**	**22.7**
Statutory requirement @ 14.5%			

Source: VCB.

The bank maintained a focus on the quality of current risk assets and very selective lending criteria in response to a challenging operating environment, characterised by higher risk of credit default. On-balance sheet lending is mainly through term loans (58.2%) and overdraft facilities (35.4%) to large corporates and SMEs.

Table 4: Gross loans and advances	FY16 KESm	FY16 %	FY17 KESm	FY17 %
By sector				
Agriculture	743	4.8	903	4.8
Construction	1 484	9.7	1 596	8.4
Individuals	1 258	8.2	1 015	5.3
Manufacturing	4 289	27.9	4 993	26.3
IT and telecommunication	50	0.3	278	1.5
Wholesale and retail trade	4 043	26.3	4 490	23.6
Other	3 483	22.7	5 734	30.2
Total	**15 350**	**100.0**	**19 009**	**100.0**
By borrower				
Corporates	14 092	91.8	17 994	94.7
Large corporates	*2 159*	*14.1*	*1 889*	*9.9*
SMEs	*11 933*	*77.7*	*16 105*	*84.7*
Individuals	1 258	8.2	1 015	5.3
Overdrafts	*116*	*0.8*	*62*	*0.3*
Mortgages	*259*	*1.7*	*122*	*0.6*
Term loans	*883*	*5.8*	*831*	*4.4*
Total	**15 350**	**100.0**	**19 009**	**100.0**

Source: VCB.

VCB's banking model resulted in some credit concentrations within the loan portfolio, with the top 20 exposures accounting for 51.3% of total loans and advances at FY17 (FY16: 53.1%). The largest borrower accounted for 6.1% (FY16: 4.0%) of the credit book and 21.1% (FY16: 16.0%) of total regulatory capital at 31 December 2017. By economic sector, the bank's loan portfolio is fairly diversified, albeit reflecting high exposures to the manufacturing (26.3%) as well as wholesale and retail trade (23.6%) sectors, given that it strategically targets mid-to large size corporates.

[3] The WMSI is a composite of the respective banks' market share of net assets, deposits, total shareholders' funds, number of loan accounts and number of deposits accounts.

The bank's asset base grew by 16.0% in FY17 (FY16: 11.9%), driven by net advances which contributed a higher 72.6% to total assets at FY17 (FY16: 68.3%).

Table 5: Asset composition	FY16		FY17	
	KESm	%	KESm	%
Cash and liquid assets	6 410	28.6	6 341	24.4
Cash	*68*	*0.3*	*88*	*0.3*
Balances with CBK	*1 272*	*5.7*	*1 661*	*6.4*
*Marketable securities**	*3 358*	*15.0*	*3 050*	*11.7*
Balances with banks	*1 712*	*7.6*	*1 542*	*5.9*
Customer loans	15 293	68.3	18 870	72.6
Investment in associates	284	1.3	297	1.1
Fixed assets	192	0.9	175	0.7
Other assets	225	1.0	303	1.2
Total	**22 404**	**100.0**	**25 986**	**100.0**

*Mainly comprise Government securities.
Source: VCB.

The bank's off-balance sheet exposure in the form of guarantees, letters of credit ("LCs") and committed facilities increased by 31.2% in FY17 to KES5.4bn, representing a higher 17.4% of total on- and off-balance sheet assets at FY17 (FY16: 15.7%). GCR notes that these exposures are mainly extended to strong and reputable clients. The majority of the guarantees and LCs are self-liquidating or cash covered. Management indicated that the bank intends to maintain its portfolio of contingent assets below 25% of balance sheet assets.

Risk

The bank's risk position is good with appropriate risk management processes, although its ERM is relatively developed compared to peers. VCB has consistently maintained strong asset quality due to its highly selective client base; stringent pre-loan application processes; and strong risk management capabilities, while the bank avoids any exposure to unsecured lending. This is expected to continue despite the turbulent operating environment. The gross NPL is also expected to normalise to the 10 year average of 0%.

Table 6: Asset quality	FY15 KESm	FY16 KESm	FY17 KESm
Gross advances	**13 169**	**15 350**	**19 009**
Neither past due nor impaired	*12 999*	*15 187*	*18 812*
Past due but not impaired	*170*	*163*	*180*
Impaired	*-*	*-*	*17*
Less: Provisions	**(45)**	**(57)**	**(92)**
Collectively assessed	*(45)*	*(57)*	*(92)*
Interest in Suspense	*-*	*-*	*(2)*
Staff loan fair value adjustment	*-*	*-*	*(45)*
Net loans and advances	**13 124**	**15 293**	**18 870**
Loan write-offs	0.03	0.03	0.06
Gross NPL ratio (%)	-	-	0.1
Total provisions/Gross loans (%)	0.3	0.4	0.6

Source: VCB.

Funding and liquidity

The bank's funding base is stable as it is predominantly funded by customer deposits comprising 71%, shareholder funding 22%, and development finance institutions ("DFIs"") and others 7%. Customer deposits comprised a higher 92.1% (FY16: 91.2%) of liability funding at FY17, drawing from its deposit mobilization drive with its relationship-based business model branch expansion. Customer deposits grew by 19% in FY17 against a 6.5% YoY average customer deposit growth for the banking sector at end-December 2017. Total liability funding grew by 20.6% to KES20.3bn at FY17.

Owing to its narrow target market for deposit generation and high proportion of term deposits, the bank has been incurring relatively high funding costs. To address this, ongoing efforts are in place to mobilise retail deposits by growing its branch network with one branch opened in June 2018 and another one expected before end of 2018. In terms of size, the top 20 depositors constituted 14% of customer deposits at FY17, while the top exposure accounted for 1.5% of the customer deposit book.

Table 7: Liability funding profile	FY16		FY17	
	KESm	%	KESm	%
Customer deposits	15 696	91.2	18,677	92.1
Corporates	*5 804*	*38.1*	*8 189*	*40.4*
Individuals	*8 220*	*53.1*	*10 488*	*51.7*
Interbank borrowings	-	-	209	1
Domestic banks	-	-	-	-
Foreign banks	-	-	*209*	*1*
Long-term borrowings	1 520	8.8	1 382	6.8
Total	**17 216**	**100.0**	**20 268**	**100.0**

Source: VCB.

Funding has also been augmented by medium/long term borrowings from DFIs and foreign banks, which have served to diversify and lengthen the funding base

The bank manages mismatches, by maintaining its liquidity ratio above both the regulatory and board approved minima. The ratio of liquid assets to short-term funding registered 37.5% at FY17 (FY16: 38.2%).

Support

Although the Kenyan government has demonstrated its position as interventionist, this must be viewed as a systemic protection mechanism only (there is no history of providing bailouts to distressed financial institutions). Furthermore, GCR feels that the relatively small size of VCB's deposit base places it at a lower systemic importance than the larger local banks.

Victoria Commercial Bank Limited

(Kenya Shillings in millions except as noted)

Year end: 31 December	2013	2014	2015	2016	2017
Income Statement Analysis					
Interest income	1,375.4	1,754.7	2,379.9	2,450.8	2,558.7
Interest expense	(604.3)	(902.9)	(1,325.4)	(1,302.9)	(1,274.4)
Net interest income	**771.1**	**851.8**	**1,054.5**	**1,147.9**	**1,284.3**
Fee and commission income	119.4	124.7	163.2	197.1	271.5
Trading income	24.3	23.4	27.7	26.2	29.6
Other income	45.8	56.8	246.0	44.7	57.7
Total operating income	**960.7**	**1,056.7**	**1,491.4**	**1,416.0**	**1,643.0**
Impairment charge	(7.5)	(11.0)	(20.0)	(12.0)	(35.3)
Operating expenditure	(366.8)	(410.9)	(553.5)	(607.6)	(758.5)
Net profit before tax	**586.4**	**634.9**	**917.9**	**796.4**	**849.2**
Tax	(154.5)	(170.5)	(205.3)	(204.0)	(232.0)
Net profit after tax	**431.9**	**464.3**	**712.6**	**592.4**	**617.2**
Balance Sheet Analysis					
Subscribed capital	953.6	971.6	1,027.9	2,100.9	2,159.8
Reserves (incl. net income for the year)	1,574.6	1,904.0	2,483.6	2,959.1	3,452.1
Total capital and reserves	**2,528.1**	**2,875.5**	**3,511.5**	**5,060.0**	**5,611.9**
Bank borrowings (incl. deposits, placements and REPOs)	530.0	636.6	1,076.9	-	208.8
Customer deposits	8,985.8	12,288.3	14,022.8	15,695.9	18,677.4
Other borrowings	1,482.7	1,387.4	1,305.4	1,098.9	957.1
Short-term funding (< 1 year)	**10,998.5**	**14,312.3**	**16,405.1**	**16,794.8**	**19,843.3**
Customer deposits	57.9	0.4	1.6	-	-
Other borrowings	-	-	-	421.0	425.3
Long-term funding (> 1 year)	**57.9**	**0.4**	**1.6**	**421.0**	**425.3**
Payables/Deferred liabilities	59.8	55.9	101.8	127.6	104.7
Other liabilities	**59.8**	**55.9**	**101.8**	**127.6**	**104.7**
Total capital and liabilities	**13,644.2**	**17,244.1**	**20,020.1**	**22,403.5**	**25,985.2**
Cash in hand	42.0	47.9	82.1	67.6	87.7
Balances with central bank	427.1	1,485.5	1,237.5	1,271.6	1,660.9
Fixed assets	137.4	185.4	235.5	192.4	174.5
Receivables/Deferred assets	198.8	205.2	247.9	224.8	303.1
Non-earnings assets	**805.3**	**1,924.0**	**1,803.0**	**1,756.4**	**2,226.2**
Loans and advances (net of provisions)	8,363.5	10,979.2	13,124.4	15,292.8	18,870.1
Bank placements	1,912.2	1,040.5	1,491.7	1,712.0	1,542.2
Marketable/Trading securities	2,005.7	2,703.8	3,347.9	3,358.2	3,049.7
Investments in subsidiaries/associates	557.6	596.6	253.1	284.0	834.2
Total earning assets	**12,838.9**	**15,320.1**	**18,217.1**	**20,647.1**	**23,759.0**
Total assets	**13,644.2**	**17,244.1**	**20,020.1**	**22,403.5**	**25,985.2**
Contingencies	**3,127.8**	**3,074.7**	**4,603.3**	**4,171.4**	**5,474.6**
Ratio Analysis (%)					
Capitalisation					
Internal capital generation	17.1	16.1	20.3	11.7	11.0
Total capital / Net advances + net equity invest. + guarantees	25.6	22.6	22.0	28.9	25.9
Total capital / Total assets	18.5	16.7	17.5	22.6	21.6
Liquidity					
Net advances / Customer deposits	92.5	89.3	93.6	97.4	101.0
Net advances / Customer deposits + other short-term funding	75.6	76.7	80.0	91.1	95.1
Net advances / Total funding (excl. equity portion)	75.6	76.7	80.0	88.8	93.1
Liquid and trading assets / Total assets	32.2	30.6	30.8	28.6	24.4
Liquid and trading assets / Total short-term funding	39.9	36.9	37.5	38.2	32.0
Liquid and trading assets / Total funding (excl. equity portion)	39.7	36.9	37.5	37.2	31.3
Asset quality					
Impaired loans / Gross advances	0.0	0.0	0.0	0.0	0.1
Total loan loss reserves / Gross advances	0.4	0.2	0.3	0.4	0.5
Bad debt charge (income statement) / Gross advances (avg.)	0.1	0.1	0.2	0.1	0.2
Bad debt charge (income statement) / Total operating income	0.8	1.0	1.3	0.8	2.1
Profitability					
Net interest margin	7.2	6.3	6.4	6.0	5.8
Interest income + com. fees / Earning assets + guarantees (a/avg.)	6.1	5.3	5.3	5.0	5.0
Non-interest income / Total operating income	19.7	19.4	29.3	18.9	21.8
Non-interest income / Total operating expenses (or burden ratio)	51.7	49.9	78.9	44.1	47.3
Cost ratio	38.2	38.9	37.1	42.9	46.2
ROaE	18.9	17.2	22.3	13.8	11.6
ROaA	3.6	3.0	3.8	2.8	2.6
Nominal growth indicators					
Total assets	32.2	26.4	16.1	11.9	16.0
Net advances	58.1	31.3	19.5	16.5	23.4
Shareholders funds	24.2	13.7	22.1	44.1	10.9
Total capital and reserves	24.2	13.7	22.1	44.1	10.9
Customer deposits	19.6	35.9	14.1	11.9	19.0
Net income	35.1	7.5	53.5	(16.9)	4.2

GLOSSARY OF TERMS/ACRONYMS USED IN THIS DOCUMENT AS PER GCR'S FINANCIAL INSTITUTIONS

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.
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.
Cash	Funds that can be readily spent or used to meet current obligations.
Contingent Assets	Assets not recorded in an entity's financial reports, but which may be realised.
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.
Cost Ratio	The ratio of operating expenses to operating income. Used to measures a bank's efficiency.
Credit Risk	The possibility that a bond issuer or any other borrowers (including debtors/creditors) will default and fail to pay the principal and/or interest when due.
Customer Deposit	Cash received in exchange for a service, including safekeeping, savings, investment, etc. Customer deposits are a liability in a bank's books.
Default	Failure to meet the payment obligation of either interest or principal on a debt or bond. Technically, a borrower does not default, the initiative comes from the lender who declares that the borrower is in default.
Economic Indicators	Statistical data about a country's economy, such as unemployment figures, the Consumer Price Index (CPI), Gross Domestic Product (GDP), money supply and housing statistics. This data gives information about the future direction of output and demand in an economy.
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.
Fixed Assets	Assets of a company that will be used or held for longer than a year. They include tangible assets, such as land and equipment, stake in subsidiaries and other investments, as well as intangible assets such as goodwill, information technology or a company's logo and brand.
Guarantee	An undertaking in writing by one person (the guarantor) given to another, usually a bank (the creditor) to be answerable for the debt of a third person (the debtor) to the creditor, upon default of the debtor.
Income Statement	A summary of all the expenditure and income of a company over a set period.
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.
International Financial Reporting Standards	IFRS is designed as a common global language for business affairs so that company accounts are understandable and comparable across international boundaries.
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.
Liabilities	All financial claims, debts or potential losses incurred by an individual or an organisation.
Liquid Assets	Assets, generally of a short term, that can be converted into cash.
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.
Liquidity Risk	The risk that a company may not be able to meet its financial obligations or other operational cash requirements due to an inability to timeously realise cash from its assets. Regarding securities, the risk that a financial instrument cannot be traded at its market price due to the size, structure or efficiency of the market.

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.
Maturity	The length of time between the issue of a bond or other security and the date on which it becomes payable in full.
Monetary Policy	Measures taken by the central bank to influence the quantity of money or the rate of interest with a view to achieving stable prices, full employment and economic growth.
Moratorium	A period of time in which an activity is suspended until such time as a change in circumstances permits its removal. For example, a borrower can declare a moratorium on the repayments of the principal, and sometimes the interest, on a loan.
Net Profit	Trading/operating profits after deducting the expenses detailed in the profit and loss account (including taxes).
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.
Overdraft	When the amount of money withdrawn from a bank account is greater than the amount actually available in the account, the excess is known as an overdraft, and the account is said to be overdrawn.
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.
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.
Private Placement	The sale of securities to a small number of institutional investors such as large banks, insurance companies and pension funds. Such issuances do not require a formal prospectus and are often not listed on an exchange.
Provision	The amount set aside or deducted from operating income to cover expected or identified loan losses.
Rating Outlook	Indicates the potential direction of a rated entity's rating over the medium term, typically one to two years. An outlook may be defined as: 'Stable' (nothing to suggest that the rating will change), 'Positive' (the rating symbol may be raised), 'Negative' (the rating symbol may be lowered) or 'Evolving' (the rating symbol may be raised or lowered).
Regulatory Capital	The total of primary, secondary and tertiary capital.
Retained Earnings	Earnings not paid out as dividends by a company. Retained earnings are typically reinvested back into the business and are an important component of shareholders' equity.
Rights Issue	One of the ways that a company can raise additional funds is to issue new shares. These must be first offered to current shareholders and a rights issue allows a shareholder to buy shares in proportion to the number already held.
Risk	The chance of future uncertainty (i.e. deviation from expected earnings or an expected outcome) that will have an impact on objectives.
Risk Management	Process of identifying and monitoring business risks in a manner that offers a risk/return relationship that is acceptable to an entity's operating philosophy.
Securities	Various instruments used in the capital market to raise funds.
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.
Tier 1 Capital	Primary capital consists of issued ordinary share capital, hybrid debt capital, perpetual preference share capital, retained earnings and reserves. This amount is then reduced by the portion of capital that is allocated to trading activities and other regulatory deductions.
Tier 2 Capital	Secondary capital is mainly made up of subordinated debt, portfolio impairment and 50% of any revaluation reserves and other specified regulatory deductions.

For a detailed glossary of terms please click here

SALIENT FEATURES 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.

Victoria Commercial Bank Limited participated in the rating process via face-to-face management meetings 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 Victoria Commercial Bank Limited with no contestation of the ratings.

Information received from Victoria Commercial Bank Limited and other reliable third parties to accord the credit ratings included:

- Audited financial results as at 31 December 2017 (and four years comparative numbers)
- Unaudited interim results at 31 March 2018
- Budgeted financial statements for 2018
- Latest internal and/or external audit report to management
- A breakdown of facilities available and related counterparties
- Corporate governance and enterprise risk framework

The ratings above were solicited by, or on behalf of, Victoria Commercial Bank Limited, and therefore, GCR has been compensated for the provision of the ratings.