Greensill Bank AG
Issuer Rating Report

SCOPE BBB+ NEGATIVE

Overview

Scope assigns an issuer rating of BBB+ to Greensill Bank AG with a short-term rating of S-2. All ratings have a Negative Outlook.

Highlights

- After a substantial capital injection from the parent in 2019, Greensill Bank AG ("Greensill Bank") has successfully implemented its business plan by growing its balance sheet and investing heavily in systems and staffing. Profitability and capitalisation have developed in line with our expectations.
- The ratings reflect the changed global operating environment for parent company Greensill Capital Pty (Greensill) due to the sharp decline in global growth triggered by the Covid-19 induced recession.
- While outright credit risk tends to be well covered by credit insurance, we expect the negative economic outlook to result in lower business growth and rising insurance costs, which will have a negative impact on profitability. Our Negative Outlook reflects our view that the difficult operating environment will persist for some time.

Rating drivers (summary)

The rating drivers, in decreasing order of importance in the rating assignment, are:

- Greensill Bank is part of Greensill, a leading global player in supply chain finance. Greensill Bank is fully dependent on Greensill to generate business and hedge its credit exposure. The close link implies that the credit profile of the bank is linked to the overall risk profile of Greensill.
- The loan book consists of factoring and reverse factoring obligations that are fully covered by credit insurance, leaving the bank with limited exposure to credit risk. Liquidity risk is mitigated by the short-dated nature of its factoring exposure that is refinanced with term deposits. This is reflected in the S-2 short-term debt rating.
- The volatile operating environment has exposed the group's reliance on cyclical customer business and weaknesses in Greensill's governance regarding third-party funds. We acknowledge that the Board has taken steps to address these issues by overhauling the governance structure and adding resources to risk management.
- Greensill Bank benefits from very high capitalisation and liquidity after a capital increase earmarked for future growth. Thus, ratios will normalise as the bank grows its asset portfolio. The balance sheet benefits from the short-dated nature of trade receivables that are enhanced by credit insurance from high-quality credit insurers. The assets are appropriately matched with term deposits covered by deposit insurance.
- Greensill's use of third-party IT platforms, in addition to its own software infrastructure, for origination, structuring and servicing exposes the group to elevated levels of operational risk. Greensill Bank's staffing and systems need continuous reinforcement to handle the expansion.

Ratings & Outlook

Issuer rating	BBB+
Outlook	Negative
Short term rating	S-2
Outlook	Negative

Team Leader

Dierk Brandenburg
d.brandenburg@scoperatings.com

Scope Ratings GmbH

3rd Floor
111 Buckingham Palace Road
UK-London SW1W OSR

Headquarters

Lennéstraße 5
10785 Berlin

Phone +49 30 27891-0
Fax +49 30 27891-100

info@scoperatings.com
www.scoperatings.com

Bloomberg: SCOP

Rating-change drivers

↑	Successful execution of Greensill's growth strategy without any detrimental impact to the risk profile and profitability of Greensill Bank
↓	Loss of insurance cover, a material downgrade of credit insurance counterparties or unexpected losses to Greensill Bank due to delayed or sub-par recoveries.
↓	Loss of ongoing access to Germany's voluntary private bank depositor protection fund.
↓	Operational risk events related to IT platforms, litigation, loss of key staff or reputation leading to reduced origination capacity of Greensill.

Rating drivers (details)

Legal structure and ownership

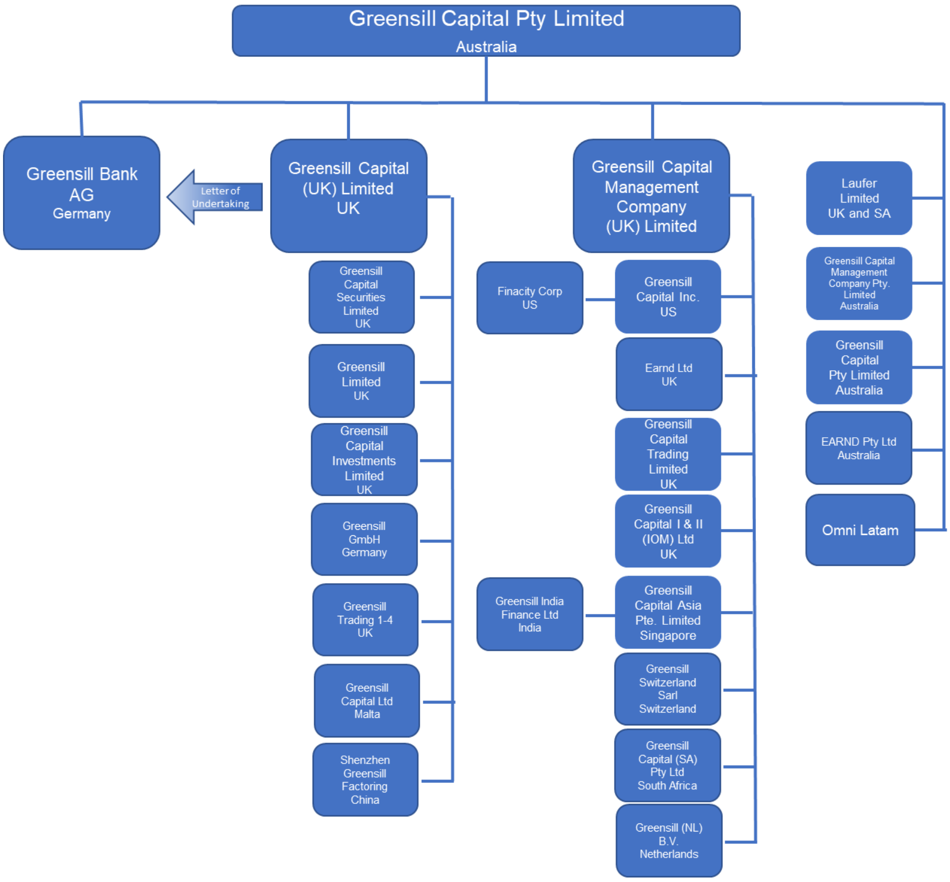
Complex group structure

Greensill Bank AG is a core operating entity of Greensill Capital Pty Ltd , the parent of a specialised group of companies providing supply chain finance and working capital solutions globally. Greensill Bank is 100% owned by the parent company Greensill in Australia (see Figure 1).

While legally domiciled in Australia, Greensill's business is mainly based in the UK, notably Greensill Capital (UK) Ltd (Greensill Capital),Germany (Greensill Bank) and the US (Finacity).

Since 2019, Greensill has expanded its global footprint by adding offices in the Middle East and Asia. Most recently, it acquired Omni LatAm, a working capital provider with offices in Chile and Columbia, giving the group access to the Latin American supply chain finance market.

Figure 1: Greensill group structure



Source: Company data

Regulated bank subsidiary

Greensill Bank is supervised by the German BaFin and is a member of the German private bank deposit insurance fund. Greensill Bank provides the group with access to the German deposit market and an EU-wide licence to purchase and warehouse trade receivables originating in the EU. Greensill Bank benefits from a letter of undertaking from Greensill Capital, governed by German law (Patronatserklärung).

Closely held ownership

Greensill is a closely held private company, owned by directors, staff and two private equity funds (SoftBank Vision Fund & General Atlantic). Softbank initially invested $ 784mn in 2019, followed by a second investment later that year.

Improved governance

In line with its growth plans the group has strengthened its governance by creating several committees, including a group executive committee and a group risk committee. In January 2020, Greensill also appointed a new vice-chairman, who is responsible for governance and regulatory affairs, to the group executive committee.

Business model

Greensill has an originate to distribute business model

Greensill's business model is focused on the origination, structuring and distribution of trade receivables. The group's focus is on working capital solutions for both account payables (reverse factoring) and account receivables (traditional factoring).

Greensill originates the receivables through its relationships with buyers and suppliers using proprietary and external IT platforms for servicing. Asset pools are structured into capital market notes that are distributed to third parties, including white label funds, or are retained by Greensill Bank. For any transactions purchased by Greensill Bank the bank takes out credit insurance to cover any loss from defaults and, in the case of account receivables, also fraud or dilution.

The group currently employs 1,083 full-time equivalents (including Omni), a number that is expected to rise further under current expansion plans. Greensill Bank has more than doubled its workforce since 2018, employing 122 staff as of June 2020. Having already invested heavily in expansion, management expects the headcount to rise to 130 as more functions are insourced.

Supply chain finance: obligor default is the key risk

Greensill's core business is supply chain financing solutions for account payables. Greensill Capital acquires irrevocable payment undertakings from an obligor and assigns them to a special purpose vehicle (SPV). The SPV then issues notes to Greensill Bank and other investors equivalent to the face value of the irrevocable payment undertakings.

Greensill Capital offers improved payment terms to the suppliers of the obligor ahead of the respective due dates of the receivables and settles the invoices at a discount using funds raised via an SPV. At legal final maturity, the obligor repays the SPV and the note is redeemed at par.

To process the transactions, Greensill Capital uses proprietary and third-party IT platforms such as Oracle or Taulia. To cover the risk of non-payment by the obligor of the irrevocable payment undertakings, Greensill Bank takes out credit insurance for any notes acquired by Greensill Bank, thus eliminating the risk of default.

Receivables purchases: dilution risk in addition to obligor risk

Greensill Capital also purchases account receivables on a recourse and non-recourse basis. Unlike with purchases of account payables, where the credit risk lies solely with the obligor, receivables purchases expose Greensill to the risk of dilution, which in some cases is covered by insurance.

Short duration of lending assets support asset quality

Most account receivables and payables have very short payment terms by nature. While this supports the risk profile of Greensill Bank, it also means that profitability and the availability of assets can change quickly.

Greensill Bank also finances a small number of longer-term transactions, such as mobile phone contracts that typically offer payment terms of three years to their retail clients. Here the risk of the underlying obligors is very granular.

Extension risk lies mainly with default or dilution events where the terms and conditions of the credit insurance may only allow the insurance counterparties to settle claims after a delay of several months. There are, however, provisions in place that allow some of the credit insurance to count as hedges for regulatory capital purposes.

Balance sheet

Greensill Bank's credit profile is linked to profile of Greensill Capital

Greensill Bank is fully dependent on Greensill Capital to generate business and hedge its credit exposure. The close link implies that the credit profile of the bank is linked to the overall risk profile of Greensill Capital.

The credit profile of the latter benefited from substantial investment by Softbank in 2019 as well as increased busines volume and higher profits. The group has been profitable since 2017 and we expect this trend to continue, though ongoing investments and the more volatile operating environment due to Covid-19 pose risks to the outlook.

Greensill Bank received major capital injection in 2019

Greensill Bank is consolidated into Greensill Capital under Australian GAAP and accounted for EUR 3.8bn of group assets at end-2019 (2018: EUR 0.7bn), having grown substantially during 2019. Greensill Bank's loan book increased from EUR 489m at year-end 2018 to EUR 2.8bn at end-2019. During that period, Greensill downstreamed more than EUR 400m of equity, increasing the total capital of Greensill Bank to EUR 516m.

The total capital ratio increased to 55.4% at the end of May 2019 from 14.8% at the end of December 2018, reflecting the capital injections as well as credit insurance contracts that qualify as credit mitigation for regulatory capital purposes. Excluding risk mitigation, the capital ratio was stable at around 14%. We do not expect the ratio to fall below this level, excluding credit mitigation.

Table 1: Balance sheet of Greensill Bank AG

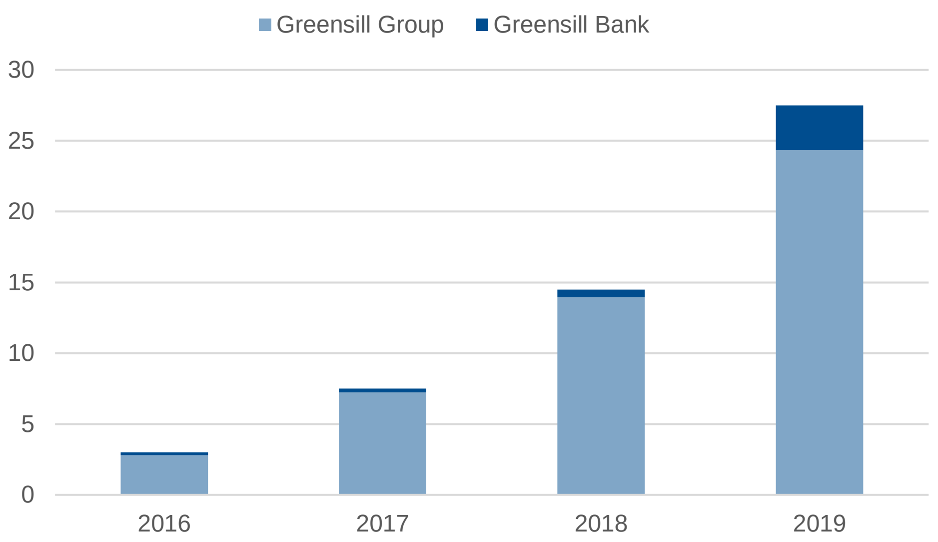
in EUR m	2016Y	2017Y	2018Y	2019Y
Total assets	360	338	666	3,806
Interbank	127	93	134	885
Loan book	226	233	498	2,850
SCF book	**197**	**220**	**489**	**2,835**
Non-core book	29	13	9	6
Customer deposits	**315**	**293**	**582**	**3,267**
Bonds	7	7	7	7
Subdebt	5	5	5	5
Equity	28	28	68	516
Total capital	40	39	78	500
Total capital ratio	13.1%	19.1%	14.8%	57.8%
SREP minimum			12.5%	13.3%
RWAs	305	207	526	902
RWA density	85%	61%	79%	24%
Risk volume	227	234	499	2,850
SCF/WCS	198	220	489	2,835
ARP			295	2,591
SCF notes			158	244
Non-core	16	8	5	4
Value-adjusted	13	5	5	2

Source: Company data, Scope

Profitability & market position

Greensill Capital has grown its assets under management substantially in recent years, almost doubling in 2019 to $27.5bn, incl. the acquisition of Finacity in the US.

Figure 2: Greensill assets under management (USD bn)



Source: Company data

Greensill's profitability is supported by the higher asset retention of its banking subsidiary. It will also depend on its fund cooperation business in which Greensill raises assets for dedicated supply chain funds managed by third-party providers such as Credit Suisse Asset Management or GAM. The substantial relationships with third-party liquidity providers imply an elevated compliance risk for Greensill as it has no control over the complex rules governing fund managers and their fund structures.

Due to the sharp decline in the global economic outlook, we expect lower business growth and rising insurance costs, which will have a negative impact on profitability. Our Negative Outlook reflects our view that the difficult operating environment will persist for some time.

Greensill Bank turned the corner in 2018

Having addressed a small legacy book of non-performing loans that pre-date the acquisition by Greensill, Greensill Bank generated its first net profit of EUR 29m in 2019.

We expect profit to increase further in line with higher business volume because Greensill Bank is paid a fixed fee plus funding costs by Greensill Capital for the assets the bank finances. This includes forex hedging cost, which, unlike in previous years, will no longer accrue at the bank. Given the wholesale nature of the business, costs are not a major factor despite the significant investment in staff and systems. We therefore expect the bank to maintain a cost-to-income ratio below 25%. The credit insurance cover (paid by the Greensill Capital company, including first loss) should mean that credit losses continue at a minimal level, provided credit insurers settle any claims from defaults or dilution in a timely fashion.

Table 2: P&L of Greensill Bank

in EUR m	2016Y	2017Y	2018Y	2019Y
Net interest income	9.11	7.46	11.40	8.18
Net commission income	0.25	-0.04	0.01	38.61
Leasing	0.31	0.31	1.33	3.78
Other income	0.27	0.74	0.89	0.30
Other cost (incl forex hedges)	-2.51	-3.25	-6.78	-5.11
Revenues	**7.42**	**5.22**	**6.83**	**45.76**
Admininistrative cost	-8.57	-9.31	-10.04	-13.42
Depreciation	-0.50	-0.57	-1.36	-3.31
Cost	**-9.07**	**-9.87**	**-11.40**	**-16.73**
Pre-provision operating profit	-1.65	-4.66	-4.57	29.03
Provisions	0.53	1.10	0.02	0.04
Net profit (before attribution)	-7.41	-0.01	-0.68	29.07
Cost/income ratio	122%	189%	167%	37%
ROA	-0.31%	-1.05%	-0.68%	0.76%

Source: Company Data & Scope

Asset quality

Concentrated asset portfolio

Due to its wholesale nature, the asset portfolio of Greensill Bank is concentrated on certain sellers and countries. Obligor risk (investment grade and non-investment grade) is spread across account debtors from a limited number of industry sectors, which we consider as cyclical. These concentrations are mitigated by the predominantly short-dated nature of the assets and the available risk mitigation from credit insurance. We expect that Greensill Bank will diversify its portfolio over time, depending on Greensill Capital's ability to source the assets.

Geographical concentrations are mainly outside Germany

Despite being incorporated in Germany, only a small part of Greensill Bank's underlying obligor exposure is in Germany, which reflects the global nature of Greensill's origination capacity. The biggest country concentrations are in EU countries, however.

Seller concentrations point to elevated business risk

Greensill Bank currently only reports a few outright single obligor' concentrations due to the highly granular structure of account debtors in the receivables portfolio. However, due to the wholesale focus of the group, a few sellers tend to dominate the sourcing of assets at any point in time, which could lead to swings in business volumes.

Credit enhancement is the key risk mitigant for Greensill Bank

The working capital solutions portfolio is fully covered by available credit enhancement from credit insurers. The minimum rating for the insurance counterparties is single A, although the credit quality of insurance counterparties is typically higher.

Funding and liquidity

Liquidity relies on insured term deposits

Greensill Bank relies mainly on term deposits raised in the German market through money brokers and retail platforms. At end-2019, Greensill Bank had EUR 3.2bn in deposits outstanding, which were predominantly raised in Germany through the institutional market (73%) and retail platforms (27%). Given that most of Greensill Banks's assets are short-term, deposit funding allows for appropriate maturity matching, which reduces liquidity risk. The bank maintains a substantial liquidity buffer that is held at the Bundesbank.

Deposit insurance provides a backstop for the funding franchise

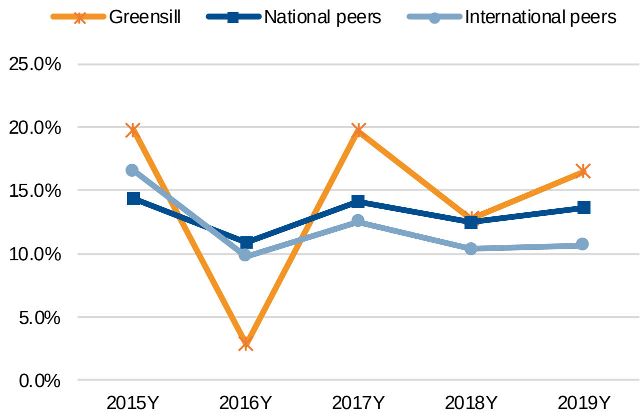
Greensill Bank is a member of the German Banks' voluntary private depositor protection scheme (Einlagensicherungsfonds des Bundesverband deutscher Banken e.V. „ESF"), which provides private and certain institutional depositors with additional depositor protection above the EU's statutory limits. Most German private banks are members of the ESF, including Deutsche Bank and Commerzbank. Thus, the fund has enough financial fire power to bail-out a small member institution the size of Greensill Bank.

The ESF protects depositors up to 15% of the capital of a given bank (EUR 75m per depositor in the case of Greensill Bank) and is restricted to term-deposits with a maximum maturity of 18 months. Most institutional investors are covered except for financial institutions and certain funds. Access to the insurance fund is subject to conditions laid out in the ESF's statutes.

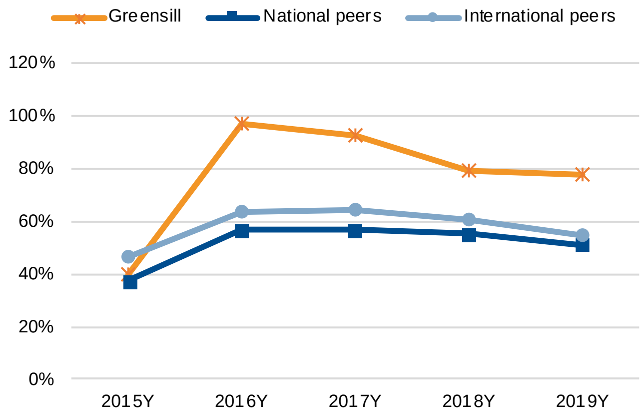
German investors are familiar with the system when placing deposits with smaller banks that fall within the coverage of the ESF. This provides Greensill Bank with a stable funding base through money brokers provided it continues to fulfil the membership criteria of the ESF and avoids headline risk.

I. Appendix: Peer comparison

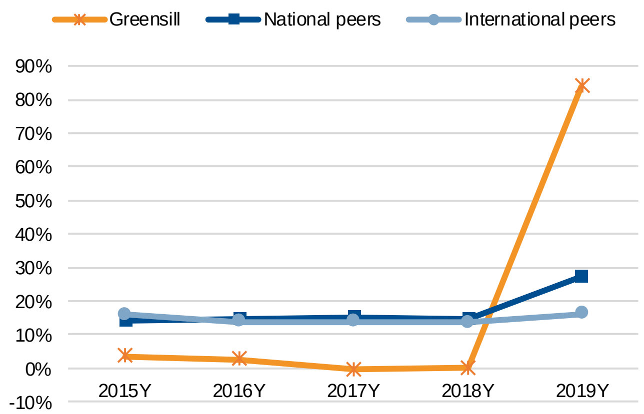
CET1 Ratio (%, transitional)



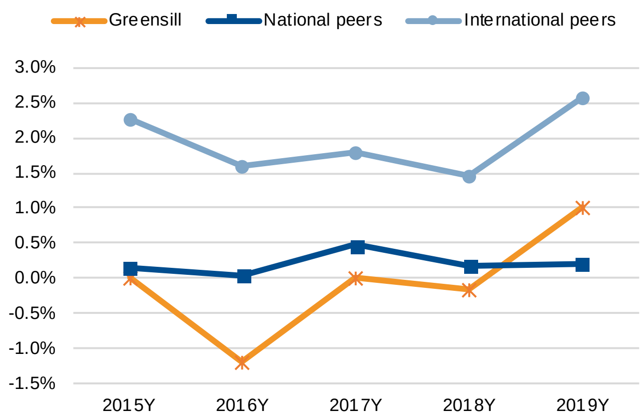
RWA / Total assets (%)



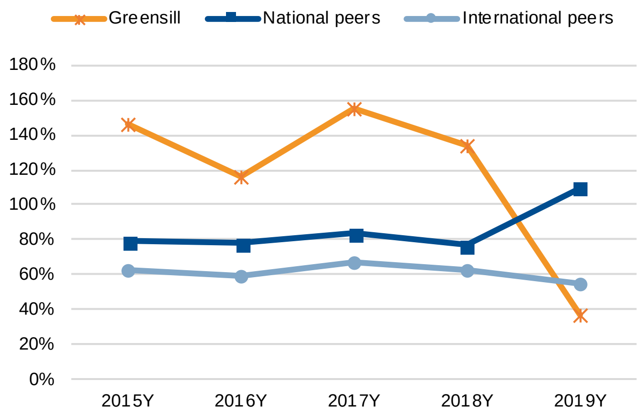
Fees & commission income / Revenues (%)



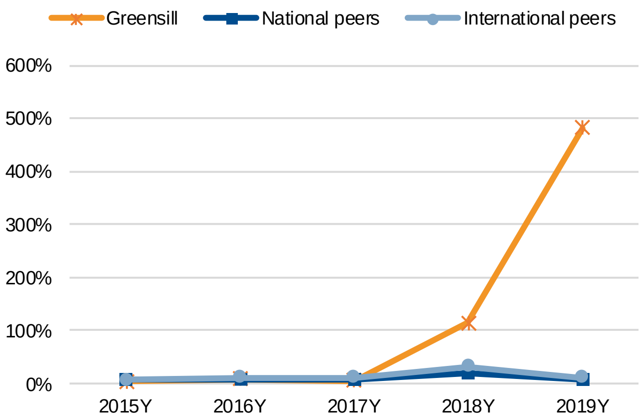
Return on average RWAs (%)



Cost income ratio



Net loan growth (%)



*National peers: Deutsche Bank, Commerz Bank, DZ Bank, Deutsche Factoring Bank, Eurofactor GmbH, Grenke Bank. IKB Bank Group
International peers: UniCredit Factoring SpA, Meediocredit Italiano, Banca Farmafactoring, Bibby Financial Services
To allow for peer comparisons, the RWAs used in the calculation of ratios for Greensill Bank at end-2019 exclude the effect of qualifying hedges
Source: SNL

II. Appendix: Selected Financial Information – Greensill Bank AG

	2015Y	2016Y	2017Y	2018Y	2019Y
Balance sheet summary (EUR m)					
Assets					
Cash and interbank assets	132	127	93	134	886
Total securities	0	0	0	0	0
of which, derivatives	0	0	0	0	0
Net loans to customers	206	222	234	499	2,850
Other assets	14	10	11	33	70
Total assets	**353**	**360**	**338**	**666**	**3,806**
Liabilities					
Interbank liabilities	0	0	0	0	0
Senior debt	7	7	7	7	7
Derivatives	0	0	0	0	0
Deposits from customers	308	315	293	582	3,267
Subordinated debt	5	5	5	5	5
Other liabilities	NA	NA	NA	NA	NA
Total liabilities	**325**	**331**	**309**	**598**	**3,289**
Ordinary equity	28	28	28	67	511
Equity hybrids	0	0	0	0	2
Minority interests	0	0	0	0	0
Total liabilities and equity	**353**	**360**	**338**	**666**	**3,806**
Core tier 1/ common equity tier 1 capital	28	10	62	67	511
Income statement summary (EUR m)					
Net interest income	7	9	7	11	8
Net fee & commission income	0	0	0	0	39
Net trading income	0	0	0	0	0
Other income	0	1	1	2	4
Operating income	**7**	**10**	**8**	**14**	**51**
Operating expenses	11	12	13	18	22
Pre-provision income	**-3**	**-2**	**-5**	**-5**	**29**
Credit and other financial impairments	1	-1	-1	0	0
Other impairments	0	0	0	0	0
Non-recurring items	0	0	0	0	0
Pre-tax profit	**1**	**-3**	**0**	**-1**	**26**
Discontinued operations	0	0	0	0	0
Other after-tax Items	0	0	0	0	0
Income tax expense	1	0	0	0	0
Net profit attributable to minority interests	0	0	0	0	0
Net profit attributable to parent	**0**	**-3**	**0**	**-1**	**21**

Source: SNL, Scope Ratings

III. Appendix: Selected Financial Information – Greensill Bank AG

	2015Y	2016Y	2017Y	2018Y	2019Y
Funding and liquidity					
Net loans/ deposits (%)	66.9%	70.7%	79.9%	85.7%	88.3%
Liquidity coverage ratio (%)	NA	NA	NA	NA	NA
Net stable funding ratio (%)	NA	NA	NA	NA	NA
Asset mix, quality and growth					
Net loans/ assets (%)	58.5%	61.8%	69.3%	74.9%	74.9%
Problem loans/ gross customer loans (%)	4.5%	4.2%	0.1%	1.0%	NA
Loan loss reserves/ problem loans (%)	53.7%	49.8%	387.2%	17.5%	NA
Net loan growth (%)	3.1%	7.8%	5.2%	113.1%	481.3%
Problem loans/ tangible equity & reserves (%)	28.8%	29.1%	0.5%	7.3%	NA
Asset growth (%)	23.2%	1.9%	-6.1%	97.3%	471.6%
Earnings and profitability					
Net interest margin (%)	2.3%	2.6%	2.2%	2.4%	0.4%
Net interest income/ average RWAs (%)	4.7%	3.7%	2.3%	2.7%	0.5%
Net interest income/ operating income (%)	93.2%	91.6%	88.1%	83.7%	16.1%
Net fees & commissions/ operating income (%)	3.5%	2.5%	-0.4%	0.0%	84.0%
Cost/ income ratio (%)	146.4%	116.4%	155.0%	133.5%	37.0%
Operating expenses/ average RWAs (%)	7.5%	4.7%	4.0%	4.3%	1.0%
Pre-impairment operating profit/ average RWAs (%)	-2.4%	-0.7%	-1.4%	-1.1%	2.0%
Impairment on financial assets / pre-impairment income (%)	0.3%	-0.2%	-0.3%	0.0%	0.0%
Loan loss provision/ average gross loans (%)	0.4%	-0.2%	-0.5%	0.0%	0.0%
Pre-tax profit/ average RWAs (%)	0.5%	-1.2%	0.0%	-0.1%	2.0%
Return on average assets (%)	0.0%	-0.8%	0.0%	-0.1%	1.0%
Return on average RWAs (%)	0.0%	-1.2%	0.0%	-0.2%	1.0%
Return on average equity (%)	0.0%	-10.2%	0.0%	-1.4%	7.0%
Capital and risk protection					
Common equity tier 1 ratio (%, fully loaded)	NA	NA	NA	NA	NA
Common equity tier 1 ratio (%, transitional)	19.8%	2.8%	19.7%	12.8%	16.5%
Tier 1 capital ratio (%, transitional)	24.7%	4.9%	22.0%	14.1%	16.8%
Total capital ratio (%, transitional)	28.4%	6.3%	23.4%	14.7%	16.8%
Leverage ratio (%)	9.9%	3.7%	14.4%	11.2%	13.6%
Asset risk intensity (RWAs/ total assets, %)	40.1%	96.8%	92.5%	79.2%	78.0%
Market indicators					
Price/ book (x)	NA	NA	NA	NA	NA
Price/ tangible book (x)	NA	NA	NA	NA	NA
Dividend payout ratio (%)	NA	NA	NA	NA	NA

The capital and risk position for 2019 is shown without hedging. Including qualifying hedges, the regulatory solvency ratios for end-2019 were 56.63% (CET1), 57.55% (T1) and 57.81% (total capital).

Source: SNL, Scope Ratings

Scope Ratings GmbH

Headquarters Berlin

Lennéstraße 5
D-10785 Berlin

Phone +49 30 27891-0

Frankfurt am Main

Neue Mainzer Straße 66-68
D-60311 Frankfurt am Main

Phone +49 69 66 77 389-0

Paris

23 Boulevard des Capucines
F-75002 Paris

Phone +33 1 8288 5557

London

3rd Floor
111 Buckingham Palace Road
UK-London SW1W 0SR

Madrid

Edificio Torre Europa
Paseo de la Castellana 95
E-28046 Madrid

Phone +34 914 186 973

Milan

Regus Porta Venezia
Via Nino Bixio, 31
20129 Milano MI

Phone +39 02 30315 814

Oslo

Haakon VII's gate 6
N-0161 Oslo

Phone +47 21 623142

info@scoperatings.com
www.scoperatings.com

Disclaimer