



Credit Rating Announcement

GCR places Access Bank South Africa Limited's national scale issuer credit ratings of BB_(ZA)/B_(ZA), on positive outlook due to capital support from its parent.

Rating Action

Johannesburg, 18 August 2021 - GCR Ratings ("GCR") has affirmed the South African long and short-term issuer ratings of Access Bank South Africa Limited (previously Grobank Limited) of BB_(ZA)/B_(ZA) respectively, with the outlook accorded as Positive.

Rated Entity / Issue	Rating class	Rating scale	Rating	Outlook / Watch
Access Bank South Africa Limited	Long Term Issuer	National	BB _(ZA)	Positive
	Short Term Issuer	National	B _(ZA)	

Rating Rationale

The positive outlook on Access Bank South Africa Limited's ('the bank') reflects material capital injections from Access Bank plc ('the group'), as well as tier 2 conversion from the bank's previous shareholders over the past 12 months. The result of which is expected to improve the bank's projected GCR Total Capital to Risk Weighted Assets ratio to c.19% for FY21 (vs 4.9% at FY20). We expect the bank's capitalisation to face some downward pressure over the outlook horizon, balancing the shrinking loan book with currently weak earnings. The bank made a R354m loss in FY20 from R93m loss in FY19. Further losses are expected to continue in 2021, as substantial amounts of once off costs (systems, staff retrenchments and transaction costs relating to the new shareholding) may run over to FY21. The bank expects to return to profitability from FY22. Nevertheless, the bank has an internal minimum capital target of c.17.5% for the full year 2021, and we have rated to that baseline.

A total of 90.35% shares in Grobank Limited were acquired by Access Bank, with the remaining 9.64% being held by GroCapital Holdings Limited and 0.01% by other minorities. Grobank Limited rebranded to Access Bank South Africa Limited on 14 June 2021, bringing the same product offering to the South African market as offered by Lagos based Access Bank plc.

The bank's competitive position is constrained by its lack of scale, with a market share of 0.04% of total industry assets and 0.05% deposits at December 2020, respectively. The bank's nascent retail banking is focused on diaspora clients offering cross border banking solutions, targeting banking and local communities to be accessed via retail branches, mobile, call centre, internet banking, USSD and agency banking. The bank is targeting strategic placement of new branches to improve its retail footprint.

The bank's Corporate and Business banking strategy shifted to focus on developing and delivering banking services to large pan-African corporates as well as micro and small to medium-sized businesses and individuals, driven by a unique combination of retail, business and Alliance Banking. The main business segments are: Corporate Banking, Structured Trade Financing, Business and Commercial Banking, and Trade Finance by leveraging their OneBank platform. The bank is also targeting offering correspondent banking services to all non-South African banks in the SADC and COMESA region. Bedding down the strategy to return the bank to sustained and stable earnings is a key consideration for the rating.

The bank's risk position has further weakened over the past 12-18 months, reflected by a deterioration in the cost of risk which increased to 5.6% at FY20 from 2.0% at FY19. Non-performing loans ("NPLs") were reported at 10.8% for FY20. We expect NPLs to taper downward from a nominal perspective in the next 12 months. The largest impairments per sector was agriculture at 40%, which is representative of its overall loan book, due to the previous market focus as Grobank Limited. Positively, loan concentrations are moderate with the top 20 exposures accounting for 35% of total loans as of FY20. Limited foreign currency lending also benefits the bank's risk position.

Funding and liquidity assessment reflect the bank's relatively limited core transactional deposit franchise heightened by the deposits and the loan term profile. Future funding plans should assist in diversifying reliance on deposits. The bank has strong regulatory liquidity metrics, with a Liquidity Coverage Ratio of 266.5% at 30 June 2021 (161.2% at 31 December 2020) in comparison to the required minimum of 80%. The Net Stable Funding Ratio was 126.4% at 30 June 2021 and 111.1% at December 2020.

GCR has factored in ongoing support from Access Bank plc, reflecting the shared franchise and capital support.

Outlook Statement

The outlook on the national scale ratings is positive as we anticipate credit losses to moderate over the medium term and an improvement of funding and liquidity. Capitalisation metrics are expected to stay above 17.5%, despite ongoing earnings pressure.

Rating Triggers

Upward ratings movement on the national scale could stem from lower credit losses, stable capitalisation, lower liquidity risk and covenant risk. Downward rating pressure on the national scale ratings could emanate from an earnings shock, weaker than expected capital and/or a material deterioration in asset quality and liquidity.

Analytical Contacts

Primary analyst Johannesburg, ZA	Corné Els CorneE@GCRratings.com	Senior Financial Institutions Analyst +27 11 784 1771
Committee chair Johannesburg, ZA	Matthew Pirnie MatthewP@GCRratings.com	Group Head of Ratings +27 11 784 1771

Related Criteria and Research

Criteria for the GCR Ratings Framework, May 2019
 Criteria for Rating Financial Institutions, May 2019
 GCR Rating Scales, Symbols & Definitions, May 2019
 GCR Country Risk Scores, July 2021
 GCR Financial Institutions Sector Risk Score, June 2021

Ratings History

Access Bank South Africa Limited's (prev. Grobank Limited)

Rating class	Review	Rating scale	Rating class	Outlook	Date
Long Term issuer	Initial	National	BBB _(ZA)	Negative	November 2019
	last	National	A3 _(ZA)	Rating Watch	July 2020
Short Term issuer	Initial	National	BB _(ZA)	n.a.	November 2019
	last	National	B _(ZA)	n.a.	July 2020

Risk score summary

Rating Components & Factors	Risk scores
Operating environment	14.50
Country risk score	7.00
Sector risk score	7.50
Business profile	(5.00)
Competitive position	(5.00)
Management and governance	0.00
Financial profile	(2.00)
Capital and Leverage	0.00
Risk	(1.00)
Funding and Liquidity	(1.00)
Comparative profile	1.00
Group support	1.00
Government support	0.00
Peer analysis	0.00
Total Score	8.50

Glossary

Balance Sheet	Also known as 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.
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.
Diversification	Spreading risk by constructing a portfolio that contains different exposures whose returns are relatively uncorrelated. The term also refers to companies which move into markets or products that bear little relation to ones they already operate in.
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. In insurance, it refers to an individual or company's vulnerability to various risks
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 Rating	See GCR Rating Scales, Symbols and Definitions.
Rating Outlook	See GCR Rating Scales, Symbols and Definitions.
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 Rating	See GCR Rating Scales, Symbols and Definitions.
Short Term	Current; ordinarily less than one year.

SALIENT POINTS 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.

The credit ratings have been disclosed to the rated entity.

The ratings were solicited by, or on behalf of, the rated entity, and therefore, GCR has been compensated for the provision of the ratings.

Access Bank South Africa Limited participated in the rating process via teleconference management meetings, and other written correspondence. Furthermore, the quality of information received was considered adequate and has been independently verified where possible. The information received from the entities and other reliable third parties to accord the credit ratings included:

- Audited financial results as at 31 December 2019;
- Interim Accounts presentations June 2021;
- Forecast 2022 to 2023;
- Board Strategy and MANCO pack;
- Letter of Support from Access Bank plc;
- Other relevant information; and
- Industry comparative data.

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