



Credit Rating Announcement

GCR upgrades Access Bank (South Africa) Limited's national scale long-term issuer credit rating on improved ongoing competitive turnaround, capital injection and liquidity to BB_(ZA), Outlook Positive.

Rating Action

Johannesburg, 05 July 2022 - GCR Ratings ("GCR") has upgraded the South African long-term issuer rating of Access Bank (South Africa) Limited to BB_(ZA) whilst affirming the short-term issuer rating of B_(ZA), the outlook remains on 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'), noticeable strides that has been made in their competitiveness position and improved funding and liquidity.

The bank's competitive position has been steadily improving, largely due to the ongoing support and strategy of the new shareholder. In our opinion the bank remains somewhat constrained by the lack of scale and weak profitability, but the strategic initiatives and capital injections continue to improve longer-term viability.

The bank is aiming to bring the same product offering to the South African market as offered by Lagos based Access Bank plc. 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 by leveraging their OneBank platform, and its strong partnerships and fintech driven Alliance Banking. The bank is also targeting offering Correspondent Banking services to non-South African banks in the SADC and COMESA region. Their nascent Retail Banking remained largely unchanged in 2021/2 and remains for the moment focused still focusing on diaspora clients: offering cross border banking solutions, targeting banking and local communities to be accessed via retail branches, mobile banking, call centre, internet banking, USSD and Agency banking. The bank has started targeting the broader South African retail banking client base however, new branch roll outs have been limited with only three full-offering branch and one mobile branch launched to date.

GCR see some evidence of the strategy working, with slight improvements in market share 0.07% (0.04% at FY20) of market assets and 0.08% (0.05% at FY20) deposits in December 2021 respectively. Bedding down the strategy to return the bank to sustained and stable earnings is a key consideration for the rating. In this regard, the bank continues to make losses which was supported by the once off costs, the economic downturn of FY21 and the lack of scale. Reported losses were R214m for FY21 from R354m in FY20 and R93m in FY19. We expect the bank to become broadly profitable in 2023, supported by increasing fees and commissions (from Transactional banking, Alliance banking and African / International banking business) and quicker loan growth.

The bank raised R375m from the group in the form of new capital injection on 28 March 2022 that altered the Access Bank group's holding in the bank to 95.21% from 90.35%.

As a result of the capital injection and ongoing weak earnings, GCR expect the bank's projected GCR Total Capital to Risk Weighted Assets ratio to approximate 17% for FY22 from 12.6% for FY21.

The bank's risk position improved marginally over the past year although remaining weaker than competing Tier 2 banks. Non-performing loans ("NPLs") were reported at 8.8% for FY21 from 10.8% for FY20. We expect NPLs to continue to taper downward from a nominal perspective in the next 12 months. Similarly, the cost of risk improved to 3.3% at FY21 from 5.6% at FY20. The impairments per sector is less concentrated than that of FY20, although reducing substantially in nominal terms with Manufacturing (38.8%) and financing of Real Estate (34.2%) making up majority of its exposures.

Funding and liquidity assessment reflect the bank's relatively limited core transactional deposit franchise heightened by the deposits term profile. The bank has strong regulatory liquidity metrics, with a Liquidity Coverage Ratio of 1144.13% at March 2022 from 797.58% at December 2021 which is assisted by the high exposure to government bonds that had weaker liquidity of late. The Net Stable Funding Ratio was 131.55% at March 2022, from 139.31% at December 2021.

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 higher earnings to support capital, credit losses to moderate over the medium term and an improvement of funding and liquidity and potential for higher group support as they become more integrated into the group and cement its strategic importance to the Access Bank group.

Rating Triggers

Upward ratings movement on the national scale could stem from improved earnings, lower credit losses, stable capitalisation, lower liquidity 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.

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Related Criteria and Research

Criteria for the GCR Ratings Framework, January 2022
 Criteria for Rating Financial Institutions, May 2019
 GCR Rating Scales, Symbols & Definitions, May 2022
 GCR Country Risk Scores, June 2022
 GCR Financial Institutions Sector Risk Score, June 2022

Ratings History

Access Bank South Africa Limited

Rating class	Review	Rating scale	Rating class	Outlook	Date
Long Term issuer	Initial	National	BBB _(ZA)	Negative	November 2019
	last	National	BB _(ZA)	Positive	August 2021
Short Term issuer	Initial	National	A3 _(ZA)	n.a.	November 2019
	last	National	B _(ZA)	n.a.	August 2021

Risk score summary

Rating Components & Factors	Risk scores
Operating environment	14.50
Country risk score	7.00
Sector risk score	7.50
Business profile	(4.75)
Competitive position	(4.75)
Management and governance	0.00
Financial profile	(1.75)
Capital and Leverage	0.00
Risk	(1.00)
Funding and Liquidity	(0.75)
Comparative profile	1.00
Group support	1.00
Government support	0.00
Peer analysis	0.00
Total Score	9.00

Glossary

Advance	A lending term, to transfer funds from the creditor to the debtor.
Agency	An insurance sales office which is directed by an agent, manager, independent agent, or company manager.
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.
Asset/s	A resource with economic value that a company owns or controls with the expectation that it will provide future benefit.
Bond	A long-term debt instrument issued by either a company, institution or the government to raise funds.
Capital	The sum of money that is invested to generate proceeds.
Capitalisation	The provision of capital for a company, or the conversion of income or assets into capital.
Covenant	A provision that is indicative of performance. Covenants are either positive or negative. Positive covenants are activities that the borrower commits to, typically in its normal course of business. Negative covenants are certain limits and restrictions on the borrowers' activities.
Coverage	The scope of the protection provided under a contract of insurance.
Environment	The surroundings or conditions in which an entity operates (Economic, Financial, Natural).
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
Impairment	Reduction in the value of an asset because the asset is no longer expected to generate the same benefits, as determined by the company through periodic assessments.
Income	Money received, especially on a regular basis, for work or through investments.
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.
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.
Issuer	The party indebted or the person making repayments for its borrowings.
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.

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.
Loan	A sum of money borrowed by a debtor that is expected to be paid back with interest to the creditor. A debt instrument where immovable property is the collateral for the loan. A mortgage gives the lender a right to take possession of the property if the borrower fails to repay the loan. Registration is a prerequisite for the existence of any mortgage loan. A mortgage can be registered over either a corporeal or incorporeal property, even if it does not belong to the mortgagee. Also called a Mortgage bond.
Loss	1. A tangible or intangible, financial or non-financial loss of economic value. 2. The happening of the event for which insurance pays (insurance).
Margin	A term whose meaning depends on the context. In the widest sense, it means the difference between two values.
Market	An assessment of the property value, with the value being compared to similar properties in the area.
National Scale Rating	National scale ratings measure creditworthiness relative to issuers and issues within one country.
Performing Loan	A loan is said to be performing if the borrower is paying the interest on it on a timely basis.
Performing	An obligation that performs according to its contractual obligations.
Rating Outlook	See GCR Rating Scales, Symbols and Definitions.
Real Estate	Property that consists of land and / or buildings.
Recovery	The action or process of regaining possession or control of something lost. To recoup losses.
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.
Total Capital	The sum of owner's equity and admissible supplementary capital.
Transaction	A transaction that enables an Issuer to issue debt securities in the capital markets. A debt issuance programme that allows an Issuer the continued and flexible issuance of several types of securities in accordance with the programme terms and conditions.
Upgrade	The rating has been raised on its specific scale.
Weighted	The weight that a single obligation has in relation to the aggregated pool of obligations. For example, a single mortgage principal balance divided by the aggregated mortgage pool principal balance.

For a detailed glossary of terms utilized in this announcement please click [here](#)

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 annual financial results as at 31 December 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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