

CREDIT RATING ANNOUNCEMENT

Access Bank (South Africa) Limited long and short term ratings reassigned at BB_(ZA) / B_(ZA). The outlook is stable.

Rating action

Johannesburg, 05 June 2024 – GCR Ratings (GCR) has reassigned the South African national scale long and short term issuer ratings of BB_(ZA)/ B_(ZA) to Access Bank (South Africa) Limited, after its suspension in February 2024. The Outlook is Stable.

Rated entity	Rating class	Rating scale	Rating	Outlook/Watch
Access Bank (South Africa)	Long Term Issuer	National	BB(ZA)	Stable
Limited	Short Term Issuer	National	B(ZA)	

Rating rationale

The ratings on Access Bank (South Africa, 'the bank') Limited reflect its modest market position, currently adequate levels of capitalisation being eroded by persistent losses, high loan concentrations and asset quality broadly in line with the market. Moderate funding and liquidity, alongside ongoing group support also anchor the ratings.

Access Bank (South Africa) Limited is the 24th (out of 30) largest regulated bank in South Africa, with a market share across assets, loans and deposits of less than 0.1%. The franchise has been relatively diminished over a 5-to-10-year period due to change in owners from the South African Bank of Athens to Grobank, which had different underlying strategies and core markets. Positively, we believe the current ultimate shareholder (Nigeria based-Access Bank Group PLC, 'the Group', which has been the owner since May 2021) is more committed to, and have a demonstrable track-record of, making a sustainable success of the bank. This can be demonstrated by the ongoing financial support (including capital injections of Zar1.4bln since the acquisition) and the rebranding of the South African entity into the Group.

Going forward, the strategy of the bank is to become South Africa's leading tier two banking institution. Given the growth of the challenger retail banks and presence of large corporate focused international banks in South Africa, this is a significant ambition. However, by focusing on the core strengths of the group and the legacy strengths of the bank, Access Bank (South Africa) has carved out a customer centric strategy that looks to bear fruit over the next couple of years. The core strengths are expected to be in trade finance, servicing large African corporates banked by the group, Alliance banking and focusing on the relatively under-banked South African business banking space.

The sustainability assessment is neutral, but the delay in audited financial reporting for 2022 (and the knock-on effect in 2023, the bank anticipates finalisation of the accounts by end July 2024) due to the change in core banking systems has caused a significant gap in transparency in comparison to rated peers. Positively, the bank has standardised models to assess the environmental and social impact of its loan book. The bank neither derives competitive advantage or is exposed to significantly more risk from Environmental and Social factors.

Capitalisation and earnings are currently neutral factors. At December 31 2023 the GCR Capital ratio was 26% but we expect it to moderate over the next 12-18 months towards 20% or just below range, balancing the following assumptions:

- A financial loss at year end 2024 but improving to approximately half that of the 2023 recorded losses.
- Posting a financial gain in 2025, but internal capital generation to still trail the above inflationary risk asset growth.
- Revenue diversification set to improve, as fees and commissions increase on the banking of improved service and customer growth.
- A moderate improvement in net interest margins, balancing the higher-than-average cost of funds against the repricing of its risk asset portfolio.
- Cost growth in-line with inflation, but the cost to income to remain above 100% until 2025.
- Moderate market sensitive income, at less than 10% of revenues.
- No dividends.

The risk position is a moderately negative ratings factor. Non-performing loans are broadly in line with the market, at around 4.2% of total loans as of end April 2024. Similarly, credit losses have been modest over the past couple of years. The impairment coverage of stage 3 loans is a modest 38%, especially when considering collateral coverage over the same stage 3 loans of 55%. Portfolio concentrations are high, in a South African context, with the top twenty exposures accounting for 46% and the single largest 28.5% of total risk exposures, respectively. The bank lends in foreign currency to a higher degree than South African banking peers, with 17% of risk assets denominated in foreign currency however its exclusively for the use of import/ export finance and therefore has a natural hedge.

Funding and liquidity is a negative ratings factor. The bank's funding base is predominantly made up of deposits, accounting for approximately 70%-75% of total funds. Depositor concentrations are higher than rated peers, with the top 10 depositors accounting for 33.5% of the deposit book. The banks focused efforts to increase the customer base should improve depositor diversification over the medium term. Group funding continues to provide stability to the funding and liquidity profile. The bank is currently in breach of two information covenants (single obligor and late annual financial statement submission) with an international multilateral. We do not expect the lender to enforce its right to accelerate, as the covenants are information based solely. Liquid assets appear to adequately cover the funding risks, although at least partly due to the reliance on repo operations used by the treasury. The liquid asset portfolio is made up of available for sale (zar0.6bln) and held to maturity (zar1.5bln) bonds, which are currently out of the money and therefore cannot

be unwound without mark to market implications. However, we do not anticipate the realisation of any such losses, as the bonds can be used as repo for liquidity purposes.

Outlook statement

The rating Outlook is Stable. We expect the bank to continue to improve its financial performance, but a full year's profit will only likely come in 2025. As the bank embeds its strategy, we expect improved risk asset growth and potentially, although less compellingly, deposit growth and therefore the bank will likely have to attract diversified funding from the market. Capitalisation is expected to deteriorate but to still adequate levels in the short to medium term and therefore it will have to return to shareholders or the market to increase capital at the end of the outlook horizon.

Rating triggers

The ratings could be lowered if the GCR capital ratio falls below 17.5%, credit losses and/or NPLs rise above 1.5% and 6% respectively or if earnings fail to improve in line with our ratings expectations. We have assumed the issues with the core banking system, which caused the material delay in financials, have been rectified but another repeat would lower the rating.

We could raise the ratings in the medium term upon improved funding stability/ diversification and maintenance of good liquidity or if capitalisation stays above 22% and the bank turns profitable quicker than expected or if loan book diversification improves as the risk asset growth increases. Over the long-term, proof of strategy and revenue diversification could also prove to be ratings positive.

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Related criteria and research

Criteria for the GCR Ratings Framework, May 2024
Criteria for Rating Financial Institutions, May 2024
GCR Ratings Scales, Symbols & Definitions, May 2023
GCR Country Risk Scores, February 2024
GCR Financial Institutions Sector Risk Scores, November 2023

Ratings history

Access Bank (South African) Limited

Rating class	Review	Rating scale	Rating	Outlook/Watch	Date
Long Term issuer	Initial	National	BBB _(ZA)	Negative	Nov 2019
Long Term issuer	Last*	National	BB _(ZA)	Positive	July 2022
Short Term issuer	Initial	National	A3 _(ZA)	n/a	Nov 2019
Short Term issuer	Last*	National	B _(ZA)	n/a	July 2022

* the ratings were suspended in Feb 2024, due to lack of information

Risk score summary

Rating Components & Factors	Score
Operating environment	14.25
Country risk score	6.75
Sector risk score	7.50
Business profile	(4.50)
Competitive position	(4.50)
Sustainability	0.00
Financial profile	(1.75)
Capital and Leverage	(0.25)
Risk Position	(0.50)
Funding & Liquidity	(1.00)
Comparative profile	1.00
Group support	1.00
Peer comparison	0.00
Total Risk Score	9.00

Glossary

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	A resource with economic value that a company owns or controls with the expectation that it will provide future benefit.
Benefits	Financial reimbursement and other services provided to insureds by insurers under the terms of an insurance contract.
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.
Cash	Funds that can be readily spent or used to meet current obligations.
Concentrations	A high degree of positive correlation between factors or excessive exposure to a single factor that share similar demographics or financial instrument or specific sector or specific industry or specific markets.
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.
Credit Rating	An opinion regarding the creditworthiness of an entity, a security or financial instrument, or an issuer of securities or financial instruments, using an established and defined ranking system of rating categories.
Credit	A contractual agreement in which a borrower receives something of value now, and agrees to repay the lender at some date in the future, generally with interest. The term also refers to the borrowing capacity of an individual or company
Customer Deposit	Cash received in exchange for a service, including safekeeping, savings, investment, etc. Customer deposits are a liability in a bank's books.
Downgrade	The rating has been lowered on its specific scale.
Environment	The surroundings or conditions in which an entity operates (Economic, Financial, Natural).
Fix	The setting of a currency or commodity price for trade at a future date.
Forbearance	A temporary suspension of repayments, granted by a creditor to a debtor.
Illiquid	Markets or financial instruments are described as being illiquid if there are few buyers and sellers. Assets may also be considered illiquid. It may be difficult, or even impossible, to find a reliable price for an illiquid security.
Income	Money received, especially on a regular basis, for work or through investments.
Institutional Investors	Financial institutions such as pension funds, asset managers and insurance companies, which invest large amounts in financial markets on behalf of their clients.
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 Ratings	See GCR Rating Scales, Symbols and Definitions.
Issuer	The party indebted or the person making repayments for its borrowings.
Lender	A credit provider that is owed debt obligations by a debtor.
Liquid Assets	Assets, generally of a short term, that can be converted into cash.
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).
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.
Obligation	The title given to the legal relationship that exists between parties to an agreement when they acquire personal rights against each other for entitlement to perform.
Property	Movable or immovable asset.
Rating Horizon	The rating outlook period
Rating Outlook	See GCR Rating Scales, Symbols and Definitions.
Refinancing	The issue of new debt to replace maturing debt. New debt may be provided by existing or new lenders, with a new set of terms in place.
Reserve	(1) An amount representing actual or potential liabilities kept by an insurer to cover debts to policyholders. (2) An amount allocated for a special purpose. Note that a reserve is usually a liability and not an extra fund. On occasion a reserve may be an asset, such as a reserve for taxes not yet due.
Reserves	A portion of funds allocated for an eventuality.
Revaluation	Formal upward or downward adjustment to assets such as property or plant and equipment.
Risk	The chance of future uncertainty (i.e. deviation from expected earnings or an expected outcome) that will have an impact on objectives.
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.
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.

Salient points of accorded rating

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- Audited Financials, latest Dec 2022
- Unaudited management accounts to December 2023
- Risk and ALCO board packs
- Enterprise Risk management packs

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