

## Access Bank (South Africa) Limited

Rated Entity	Rating class	Rating scale	Rating	Outlook/Watch
Access Bank (South Africa) Limited	Long term issuer	National	BB <sub>(ZA)</sub>	Stable Outlook
	Short term issuer	National	B <sub>(ZA)</sub>	

### Analytical entity: Access Bank (South Africa) Limited

Access Bank (South Africa) Limited (Access Bank (South Africa), the bank), is considered the analytical entity. The bank is a subsidiary of Access Bank plc (Access Bank, the parent, the group) based in Nigeria, whose continued capital contributions since its acquisition of the bank have brought its shareholding to 97.9%, with GroCapital Holdings (Grobank) at 2.1%. As Access Bank (South Africa) is not a material asset or revenue contributor to its parent, the analysis is based on the bank's standalone credit analysis and group support characteristics.

### Credit profile summary

#### Strengths

- Strong demonstrated support from the group, Access Bank plc.
- Competitive product offering for both retail and commercial banking clients.

#### Weaknesses

- Limited scale and weak profitability.
- Low franchise recognition in a highly competitive second tier market, which could limit the bank's ability to scale operations over the outlook period.
- A small physical network, partially supported by digital retail product offerings.

### Rating summary

The Stable Outlook on Access Bank (South Africa)'s ratings reflect credit strength drawn from demonstrated capital support from Access Bank, strong assimilation into the group (including branding and reputational alignment), which has contributed to enhancing the bank's competitiveness position, and improved funding and liquidity.

### 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 be at adequate levels in the short to medium term, and therefore Access Bank (South Africa) 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 non-performing loans (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 ratings. 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.

## Risk score summary

Rating components and factors	Score
<b>Operating environment</b>	<b>14.25</b>
Country risk score	6.75
Sector risk score	7.50
<b>Business profile</b>	<b>(4.50)</b>
Competitive position	(4.50)
Sustainability	0.00
<b>Financial profile</b>	<b>(1.75)</b>
Capital and leverage	(0.25)
Risk Position	(0.50)
Funding and liquidity	(1.00)
<b>Comparative profile</b>	<b>1.00</b>
Group support	1.00
Peer comparison	0.00
<b>Total</b>	<b>9.00</b>

## Analytical contacts

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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, August 2024  
GCR Financial Institutions Sector Risk Scores, July 2024

## Ratings history

Access Bank (South Africa) Limited					
Rating class	Review	Rating scale	Rating	Outlook/Watch	Date
Long term issuer	Initial	National	BBB <sub>(ZA)</sub>	Negative Outlook	Nov 2019
Long term issuer	Last*	National	BB <sub>(ZA)</sub>	Positive Outlook	July 2022
Short term issuer	Initial	National	A3 <sub>(ZA)</sub>	n/a	Nov 2019
Short term issuer	Last*	National	B <sub>(ZA)</sub>	n/a	July 2022

\* The ratings were suspended in February 2024, due to lack of information

### Country risk

The South African country risk score of '7.00', partially reflects the strong GDP per capita underpin, which we expect to range well above the rest of Africa average at between USD6,500 to USD6,850 in the next 18 to 24 months. A well-diversified economy, institutional strength, independence of the Central Bank to continue to steer monetary policy towards managing inflation, and currency stability are also positively considered. Governance considerations continue to reflect rigour, especially with respect to the independent voice of civic society and the rule of law, although the country risk assessment could be negatively impacted by failure to sustain cohesion of a coalition government or to maintain socioeconomic stability beyond the electoral season. As with most regional territories, South Africa has become increasingly vulnerable to natural phenomena, especially highly destructive weather patterns, which have increased the extensive infrastructural burden on the fiscus.

In addition, various levels of government are behind on targets to supply indigent members of the population with basic amenities. This means a sizeable component of government revenues will go towards more economic inclusion, but this could curtail our country risk assessment unless it is balanced by policy that also builds productivity enhancing infrastructure and further stimulates foreign direct investment. Overall, the fiscal position continues to be strained by high government debt projected at 70.0% to 85.0% of GDP through to 2026. Including explicit debt guarantees and implied support for critical state-owned entities, the ratios are considerably higher, indicating risk of continued pressure on the fiscus. In view of these considerations, and our expectations that real GDP growth will continue to track below 2.0% against an unemployment backdrop of 30.0% to 40.0%, we expect the Gini coefficient and multi-dimensional poverty indices to remain weak in the medium term despite the high social spend.

### Sector risk

The South African financial institutions sector risk score of '7.5' balances the industry's strong, but pressured asset quality, sound capital adequacy, robust liquidity and upside from a highly formalised economy. Our non-banking financial institutions (NBFI) sector risk score remains 2.5 points lower, at 5.0 from the overall banking sector metric, to indicate the lack of NBFI supervision and no access to the lender of last resort support function from the Central Bank.

Lending remains highly cautious, especially among the systemically important financial institutions (SIFIs), due to vulnerable client credit risk profiles and operating environment uncertainty. As such, the gap between nominal and real growth in industry loans and advances could widen materially in the next 12 to 18 months. In addition, a combination of more stringent lending criteria, corporate and retail market reticence to borrow, and weaker asset quality has pushed industry NPL ratios to 10-year highs. We anticipate the sector average to plateau just above 5.0% before easing progressively in the next 12 to 18 months. There is also potential for credit losses to creep up above 1.275%, with scope for further escalation if inflation exceeds the Central Bank's expectations. Positively, conservative loan loss provisioning is anchored by entrenched Basel III adherence.

Although high interest rates will still benefit the sector in the short term, components of the industry loan book will continue to show sustained vulnerability, depending on the loan structure and market focus. Heightened transitional pressure on property valuations, especially, point to limited coverage of high leveraged secured consumer and corporate loans. Against this backdrop, local consumers, who typically carry much higher loan-to-value for mortgage and auto loans compared to other SSA territories, are increasingly using expensive unsecured credit to cover liquidity gaps. In comparison, corporates continue to defer capex and with respect to property funds, by enhancing the aesthetics of their properties and/or disposing of poorly performing assets to achieve sustainable debt service between their bank and debt capital market exposures.

Reliance on wholesale funding is a structural feature, with risk to the sector mainly deriving from high short and medium-term concentrations. Positively, we do not expect migration of institutional and similar deposits from the sector. Overall, the industry's liquidity coverage ratios continue to track comfortably above 100%, while we expect the GCR CAR ratio to track between 15.0% to 20.0%, mirroring the major banks' averages. Strong growth by new entrants, and non-systemically important banks with cost efficient operating structures have contributed to material progression in the sub-segment's return on equity and return on asset ratios, although we expect these metrics to continue to track behind the SIFIs' averages. We also consider non-systemically important banks to be more susceptible to risks from limited revenue diversification, and long tail financial/systemic pressures on the economy. Positively, regulatory oversight of the sector remains robust, closely mirroring prudential rigour seen in highly developed countries. In addition, extensive cycle information continues to translate into more efficient use of internal ratings-based approaches by the largest banks.

## Business profile

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### Competitive position

The bank's competitive position assessment is constrained by its limited scale and anaemic profitability track record in the highly fragmented and very competitive second tier South African banking landscape. Largely due to its novelty, the Access Bank group brand has low entrenchment within South Africa, which in our view, could limit the bank's ability to achieve critical mass and competitively expand its product offering in the next 12 to 18 months. This progression is likely to remain constrained until there is a definitive easing in monetary policy and/or stronger growth prospects in targeted market segments.

Access Bank (South Africa) is the 24th out of 30 regulated banks in South Africa, with a market share across assets, loans and deposits of less than 0.1%. Its ability to leverage its franchise in the past five to 10 years was adversely impacted by changes in ownership (prior to the Access Bank acquisition) from the South African Bank of Athens to Grobank, which had different underlying strategies and core markets. Positively, we believe Access Bank, its parent since May 2021, is more committed to achieving a sustainable turnaround of the bank. This has been evidenced by ongoing support, including substantial capital injections since the acquisition, undertakings of further funding and liquidity backing, as well as the branding and reputational realignment of the South African entity to the Nigerian-based group.

Management plans to reposition Access Bank (South Africa) as a leading tier two financial institution, on the back of the realignment of the product range with that offered by its parent. Given its small scale, the bank is maintaining a much more focused approach primarily targeted at four business lines, namely, Trade Finance, Business Banking, Alliance Banking, and Retail. 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. Given its very low retail participation and large corporate focused international banks in South Africa, we consider scope for progression in market share over the outlook period to be limited.

### Sustainability

The sustainability assessment is neutral, but delays in finalisation of the 2022 (and 2023 audits) due to internal control deficiencies arising from the change in core banking systems (which has also impacted Pillar III disclosures) results in significant gaps in transparency in comparison to rated banking 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.

The implementation of the various strategies to return the bank to targeted profitability is still in progress, with ambitious targets overshadowed by subdued economic growth amidst high interest rates. Looking ahead, regulatory censure, or continued limitations with respect to delays in meeting regulatory or reporting timelines will be negatively considered.

## Financial profile

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### Capital and leverage

The bank has remained loss making since the change in ownership, with BA900 (SARB) returns reflecting further erosion in equity of ZAR108 million in the six months to 30 June 2024 that expanded accumulated losses to ZAR1.5 billion. Against this backdrop, recourse to extensive capital raising totalling ZAR1.0 billion during the 2022 fiscal year has helped to anchor the capital and leverage position. New equity took the form of a ZAR600 million cash injection and conversion of two group loans/debentures, which brought cumulative capital injections since 2021 to ZAR1.4 billion. This has helped to insulate the balance sheet from the impact of amplified losses, supporting a reduced, but strong GCR capital ratio of 26.4% at the end of the 2023 fiscal year (2022: 32.6%).

Although we anticipate continued improvement, earnings quality will remain weak over the rating outlook, with RoE and RoA expected to considerably lag industry averages in the next 12 to 18 months. Accompanied with the attendant risk-weighted asset densification likely to derive from planned scaling and revenue diversification, we therefore project a moderation in the GCR capital ratio over the next 12-18 months towards 20%, or just below range, balancing the following assumptions:

- a 2024 fiscal year financial loss, but improving to approximately half that of the 2023 recorded losses;
- a financial gain in 2025, but internal capital generation to still trail the above inflationary risk asset growth, with a RoE of 3.0% to 5.0%;
- revenue diversification set to improve, as fees and commissions increase on the banking of improved service and customer growth;
- moderate net interest margin improvement, balancing the bank's higher-than-average cost of funds against the repricing of its risk asset portfolio;
- cost growth in line with inflation, but with the cost to income to remain above 100% (against our industry mean range expectation of 56.5% to 60.0%) until 2025;
- moderate market sensitive income, at less than 10% of revenues, and
- no dividends.

The capital and leverage assessment is expected to remain constrained by earnings sensitivity until market positioning in the key pillars is further entrenched beyond the rating outlook period. Positively, we expect further operational integration into the group, achieving internal efficiency targets, and a leaner cost base as it scales up its loan book to support consistent capital generation in the medium term. Bedding down strategy to achieve sustainable profitability is therefore a key consideration for potential ratings progression.

### Risk

The risk position is a moderately negative ratings factor. Non-performing loan metrics broadly tracked in line with the market, with the bank's NPL ratio of 4.2% as of 30 April 2024 (2023: 4.6%) registering below the industry average of 5.4%, until three exposures pushed defaulting loans above 10.0% of gross loans and advances during 3Q 2024. Remediation with respect to these exposures is under way, although normalisation of the bank's NPL ratio over the outlook period could be delayed somewhat by rescue and other debt workout processes. Credit losses have historically been modest,

albeit with some variability, reflective of low loan book activity. In our view, the backdrop of weak earnings and low coverage point to somewhat artificially low credit loss provisions.

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 approximately 17.0% of risk assets denominated in foreign currency; however, this is exclusively for the use of import/export finance and therefore has a natural hedge.

#### Exhibit 1: Risk metrics (%)

	2024/25 (f)	2023	2022	2021
Non-performing assets / gross customer loans	4.5 – 5.5	4.6	7.1	13.2
Loan loss reserves / IFRS Stage 3 loans	45.0 – 47.5	39.7	45.9	27.7
New loan loss provisions / average customer loans	<1.5	0.1	1.4	(2.9)

Based on BA900 returns, loans and advances declined by ZAR383 million in the six months to June 2024, on the back of an easing in the trade finance book from the robust growth achieved in the 2023 fiscal year. Loans are dominated by corporate and business banking exposures (49.3% and 44.4% respectively as of April 2024). Retail banking exposures are low, and we expect slow progression in the overall contribution of the book over the outlook period, especially given current pressure on consumers and NPLs. With respect to product, commercial loans (34% as of 30 April 2024), property loans (17%), overdrafts (18%), and home loans/ mortgages (15%) make up the loan book.

The assessment is viewed to be highly sensitive to concentration risk, although much higher than anticipated migration in NPLs would also impact our view negatively. With respect to the former, sustained obligor limit breaches, or adverse migration in the classification of key top 20 exposures could place pressure on our view of asset quality and overall risk.

### Funding and liquidity

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, with cognisance also taken of the strong anchoring to the funding and liquidity profile drawn from group funding in recent years. Depositor concentrations are higher than rated peers, with the top 10 depositors accounting for 33.5% of the deposit book. The bank's focused efforts to increase the customer base should improve depositor diversification in the medium term, with attendant upside to the cost of funds (and amelioration of concentration risk), albeit the competitiveness of the bank's structure in this regard will continue to lag established with respect to retail-weighted tier II market segment peer financial institutions. 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 solely information based.

#### Exhibit 2: Funding and liquidity ratios (%)

	2024/25 (f)	2023	2022	2021
Long term funding ratio	90.0 – 95.0	93.5	118.5	99.2
GCR stable funds ratio	80.0 – 87.5	84.7	147.2	88.1
Core deposits / funding base	65.0 – 70.0	67.8	69.7	90.4

The liquid asset portfolio was made up of available for sale (ZAR0.6 billion) and held to maturity (ZAR1.5 billion) bonds at the end of December 2023. The former has since been reduced to ZAR0.3 billion, as improved market sentiment has enabled the bank to unwind some of its long-dated bond exposures at breakeven (or better), shortening its overall balance sheet duration and reducing interest rate risk in the banking book. Therefore, while it still has exposures that could still give rise to mark to market implications, we do not anticipate the realisation of such losses by the bank, and

have also considered that the bonds can be used as repo for liquidity purposes in our analysis. Liquid assets appear to adequately cover the funding risks, although at least partly due to treasury's reliance on repo operations.

## Comparative profile

### Group support

GCR has factored in ongoing support from Access Bank plc, reflecting the shared branding and reputational alignment, operational assimilation, and demonstrated capital support. Sustained group support of the new strategic direction is critical to progressive stability in the medium term and is viewed to be a key rating underpin.

### Government support

GCR had not assigned any government support considerations to the bank.

### Peer analysis

GCR had not assigned any peer analysis adjustment to the bank.

## 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.
Agreement	A negotiated and usually legally enforceable understanding between two or more legally competent parties.
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 Markets	The part of a financial system concerned with raising capital by dealing in shares, bonds, and other long-term debt securities.
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.
Commission	A certain percentage of premiums produced that is received or paid out as compensation by an insurer.
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.
Country Risk	The range of risks emerging from the political, legal, economic and social conditions of a country that have adverse consequences affecting investors and creditors with exposure to the country, and may also include negative effects on financial institutions and borrowers in the country.
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 Risk	The possibility that a bond issuer or any other borrowers (including debtors/creditors) will default and fail to pay the principal and interest when due.
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.
Default	A default occurs when: 1.) The Borrower is unable to repay its debt obligations in full; 2.) A credit-loss event such as charge-off, specific provision or distressed restructuring involving the forgiveness or postponement of obligations; 3.) The borrower is past due more than typically 90 days on any debt obligations as defined in the transaction documents; 4.) The obligor has filed for bankruptcy or similar protection from creditors.
Environment	The surroundings or conditions in which an entity operates (Economic, Financial, Natural).

Exchange Rate	The value of one country's currency expressed in terms of another.
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
Facility	The grant of availability of money at some future date in return for a fee.
Financial Institution	An entity that focuses on dealing with financial transactions, such as investments, loans and deposits.
Financial Year	The year used for accounting purposes by a company or government. It can be a calendar year or it can cover a different period, often starting in April, July or October. It can also be referred to as the fiscal year.
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.
Index	An assessment of the property value, with the value being compared to similar properties in the area.
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.
Leverage	With regard to corporate analysis, leverage (or gearing) refers to the extent to which a company is funded by debt.
Liabilities	All financial claims, debts or potential losses incurred by an individual or an organisation.
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.
Maturity	The length of time between the issue of a bond or other security and the date on which it becomes payable in full.
National Scale Rating	National scale ratings measure creditworthiness relative to issuers and issues within one country.
Offset	A right (Right of Offset) to set liabilities against assets in any dispute over claims.
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.
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.
Principal	The total amount borrowed or lent, e.g. the face value of a bond, excluding interest.
Probability	The likelihood or relative frequency of an event expressed in a number between zero and one. The throw of a die is an example. The probability of throwing five is found by dividing the number of faces that have a five (1) by the total number of faces (6). That is a probability of one-sixth or one divided by six, which is .17. See also Degree of Risk, Law of Large Numbers, and Odds.
Real Estate	Property that consists of land and / or buildings.
Risk	The chance of future uncertainty (i.e. deviation from expected earnings or an expected outcome) that will have an impact on objectives.
Senior	A security that has a higher repayment priority than junior securities.
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.
Term Deposit	A savings account held for a fixed term. Also called a time deposit. Generally, there are penalties for early withdrawal.

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.
Total Capital	The sum of owner's equity and admissible supplementary capital.
Tranche	A portion of an obligation, each of which has different terms.
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.
Trigger Event	An event caused by transactional performance or environmental changes that would impact a transaction.
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.

### Salient points of accorded ratings

GCR affirms that a.) no part of the rating process 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.

The credit ratings have been disclosed to the rated entity.

The ratings above were solicited by, or on behalf of, the rated entity.

The rated entity participated in the rating process via in person interaction and/or via online virtual interaction and/or via electronic and/or verbal communication and correspondence. Furthermore, the quality of information received was considered adequate and has been independently verified where possible. The information received from the rated entity and other reliable third parties to accord the credit ratings included:

- Audited financials, latest 31 December 2022
- Unaudited management accounts to 31 December 2023
- Risk and ALCO board packs
- Enterprise Risk management packs

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