



Rating Methodology – Banking Sector (South African National Scale)

Scope and Applicability	3
South African National Scale Financial Institutions: Rating Framework Overview	3
South African National Scale Rating Approach: Key Areas and Analytical Outputs	3
Discussion of Rating Factors and Analytical Outputs	5
1. Financial Baseline Assessment (FBA)	5
1.1 Capital and Earnings Factor (40% of FBA)	6
1.1.1 Capital and Earnings: Factor Assessment Ranges	7
1.2 Asset Quality Factor (37.5% of FBA)	9
1.2.1 Asset Quality: Factor Assessment Ranges	11
1.3 Funding and Liquidity Factor (22.5% of FBA)	13
1.3.1 Funding and Liquidity: Factor Assessment Ranges	14
2. Business Risk Assessment (BRA)	16
2.1 Market Position and Market Share	16
2.2 Business Line and Product Diversification	17
2.3 Geographic Diversification	17
2.4 Protected Market Position	18
2.5 Systemic Importance within the Domestic Financial System	18
2.6 Management and Governance Risk	18
3. South African National Scale Standalone Assessment Matrix (SA)	19
4. Support Assessment	19
4.1 Group Support	19
4.1.1 Relative Importance of the Subsidiary Within the Group	20
4.2 Sovereign Support	20
4.3 Rating caps to reflect support, capital and liquidity fungibility	20
5. Issuer Credit Rating (ICR)	21
6. Debt Instrument Ratings	21

Scope and Applicability

This document provides information on the factors and considerations CARE Ratings South Africa (Pty) Limited (CARE SA) uses to apply its criteria 'Rating Methodology for Banks' published in June 2025. Specifically, it describes the analytical framework, the key rating factors, the indicators considered within each factor, and the role of rating-committee judgement in arriving at ratings on the South African national scale. This report also describes the scoring model, its variables and the supporting rationale, used to rate banks on the South African national scale. This document applies to banks and other deposit-taking institutions regulated by the Prudential Authority. Non-deposit-taking lenders are rated under CARE SA's criteria for non-bank financial institutions.

A National Scale Issuer Credit Rating is an opinion of an issuer's relative creditworthiness within a specific domestic rating universe, rather than across global markets. National scale ratings rank issuers relative to other issuers domiciled in the same country, reflecting local operating conditions, regulatory frameworks, and systemic risk factors. Ratings on the South African national scale carry the suffix (za).

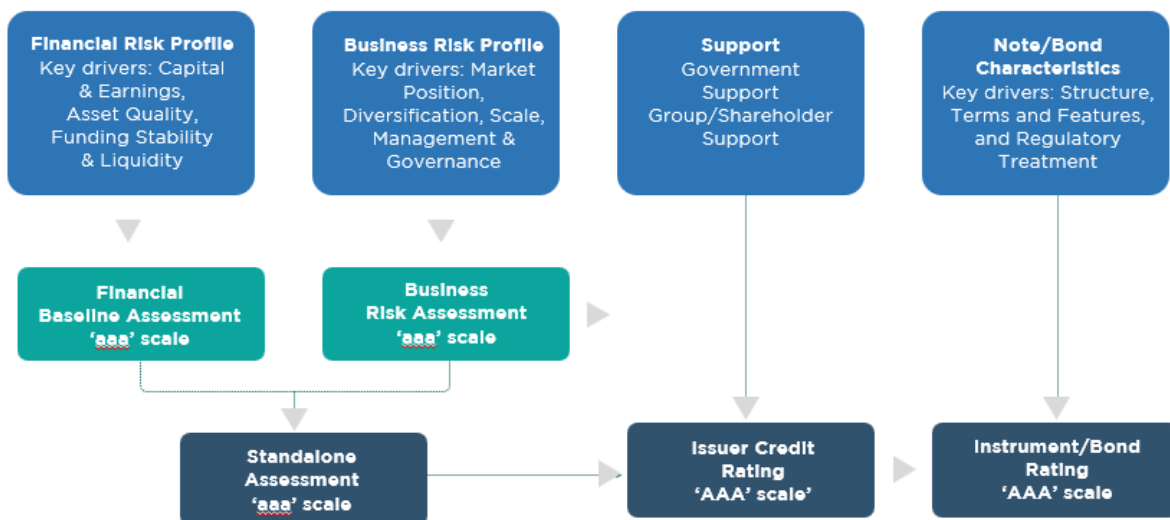
1.1.1 RATING GOVERNANCE AND TRANSPARENCY

CARE SA's ratings are assigned by a credit committee. Assigned ratings are based on publicly available rating criteria and reflect a combination of quantitative scorecard outputs and qualitative analytical judgements. For public ratings, CARE SA publishes rating rationales outlining key drivers and sensitivities.

The quantitative indicators described in this document are analytical inputs that support consistency and comparability across rated entities. They do not mechanically determine ratings. The rating committee considers the totality of the evidence, including trends, forecasts, the operating environment, the business model, peer comparisons, data quality, and analytical judgement, when assigning or affirming a rating.

South African National Scale Financial Institutions: Rating Framework Overview

Rating Framework Diagram



South African National Scale Rating Approach: Key Areas and Analytical Outputs

CARE SA's South African National Scale Financial Institutions rating framework follows a **sequential analytical process**. The approach to financial institutions ratings considers four key areas - **financial risk profile, business risk profile, support and specific note/bond characteristics** - to assign Issuer Credit Ratings (ICR) and Instrument/Bond Ratings on the South African National Scale. It progresses from intrinsic financial strength to instrument-level/bond-level ratings.

The framework comprises five principal analytical outputs:

1. **Financial Baseline Assessment (FBA)**
2. **Business Risk Assessment (BRA)**
3. **Standalone Assessment (SA za)**
4. **South African National Scale Issuer Credit Rating (ICR za)**
5. **South African National Scale Instrument/bond Rating (za)**

The **Financial Baseline Assessment (FBA)** represents CARE SA's assessment of a financial institution's **financial risk profile**. The FBA is derived from a structured quantitative scorecard and may be adjusted to reflect analytical considerations not fully captured by reported financial metrics.

The FBA is a measure of intrinsic financial strength, excluding considerations of:

- External support
- Franchise strength
- Management & Governance factors
- Systemic importance

The **Business Risk Assessment** measures the robustness of the financial institution's business model and market position. Importantly, the business risk profile is adjusted for management and governance risk factors to reflect how the management and governance structure supports the financial institution's business model and financial performance.

The FBA is then combined with the BRA to arrive at the **Standalone Assessment** of the financial institution.

The South African **Issuer Credit Rating** takes into account the Standalone Assessment and the impact of potential Support. The Issuer Credit Rating represents CARE SA's forward-looking opinion on the issuer's overall creditworthiness, incorporating potential **external support, on the South African National Scale**.

Support considerations may include:

- Government or sovereign support (not applied on the South African national scale; see section 4.2)
- Group or parent support (or shareholder support)

Support uplift is applied only where CARE SA considers such support to be **credible and demonstrable (i.e. ability and propensity of the government or shareholder to support the relevant financial institution) and timely**.

Instrument/Bond ratings are derived from the Issuer Credit Rating and adjusted to reflect seniority, security, subordination, loss-absorption features and regulatory treatment.

Discussion of Rating Factors and Analytical Outputs

1. Financial Baseline Assessment (FBA)

Financial Institution Scorecard Overview

FACTOR	SUB-FACTOR	Sub-Factor weight	Sub-Factor Net Weight
CAPITAL & EARNINGS (40%)	- TIER 1 CAPITAL RATIO (%)	17.50%	7.00%
	- TOTAL CAR (%)	20.00%	8.00%
	- PRICE / BOOK VALUE (x)	7.50%	3.00%
	- NET INTEREST MARGIN (NIM)	15.00%	6.00%
	- OVERALL GEARING (x)	25.00%	10.00%
	- RETURN ON TOTAL ASSETS (ROTA)	15.00%	6.00%
ASSET QUALITY (37.5%)	- GROSS NPL / GROSS ADVANCES	16.00%	6.00%
	- SLIPPAGE RATIO (%)	16.00%	6.00%
	- PROVISION COVERAGE RATIO (%)	16.00%	6.00%
	- NET STRESSED ASSETS / NET WORTH (%)	16.00%	6.00%
	- ADVANCES GROWTH / INDUSTRY CREDIT GROWTH (RANGE)	14.00%	5.25%
	- SHARE OF RETAIL / ADVANCES (RANGE)	7.33%	2.75%
	- SHARE OF TOP 20 GROUP EXPOSURES / NET WORTH (RANGE)	7.33%	2.75%
	- SHARE OF TOP 20 INDIVIDUAL EXPOSURES / NET WORTH (RANGE)	7.33%	2.75%
FUNDING & LIQUIDITY (22.5%)	- CASA DEPOSITS / TOTAL DEPOSITS	16.67%	3.75%
	- RETAIL DEPOSITS / TOTAL TERM DEPOSITS	16.67%	3.75%
	- CREDIT / DEPOSIT RATIO	11.11%	2.50%
	- BORROWINGS RATIO	11.11%	2.50%
	- LIQUIDITY COVERAGE RATIO	22.22%	5.00%
	- NET STABLE FUNDING RATIO	22.22%	5.00%

CARE SA uses a quantitative scorecard to arrive at the FBA. The scorecard is designed to capture the key elements of a financial institution's profile. Factors and metrics included in the scorecard do not capture all the specifics and nuances of a financial institution or every factor that a rating committee may deem relevant in assigning ratings to a financial institution. Therefore, we may apply notching adjustments to certain scores to incorporate analytical judgement. A discussion of typical drivers of adjustments is included in the sections below. Adjustments and caps are applied in a fixed order. The scorecard produces the three factor scores; the committee then applies the factor adjustments (up to one category for Capital and Earnings and for Asset Quality, up to two categories for Funding and Liquidity); the factor caps are applied last: a Weak score on any factor limits the FBA to Below Average, a Very Weak score on any factor limits the FBA to Weak, and a capital ratio below the regulatory minimum limits the FBA to Weak regardless of the scorecard result.

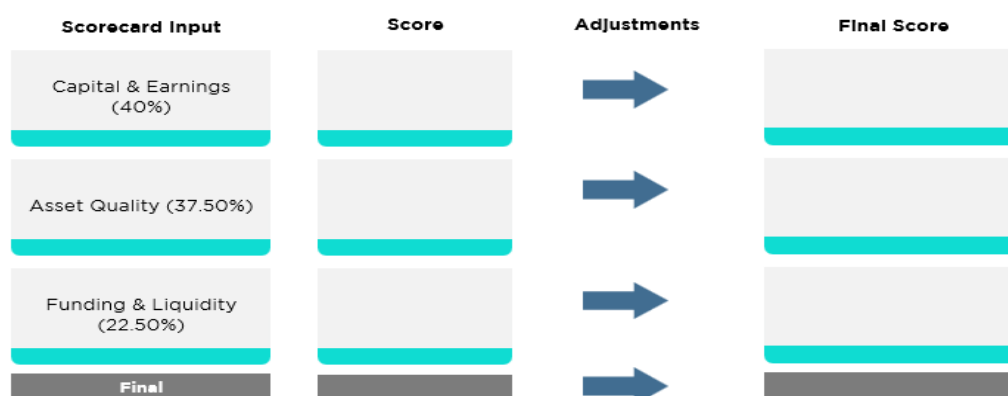
The scorecard consists of three weighted analytical factors:

- **Capital and Earnings**
- **Asset Quality**
- **Funding and Liquidity**

Each factor includes several weighted sub-factors scored using predefined metrics. Scores are expressed as opinions from Excellent (best) to Very Weak (worst) which are mapped to the main rating categories of our 21-point rating scale, using the following correspondence table:

Opinion	Excellent	Strong	Good	Adequate	Moderate	Below Average	Weak	Very Weak
Rating Category	aaa	aa	a	bbb	bb	b	ccc	cc

Financial Baseline Assessment Diagram



1.1 Capital and Earnings Factor (40% of FBA)

The Capital and Earnings factor measures a financial institution's capacity to absorb losses through capital buffers and sustainable earnings generation.

Key quantitative metrics include:

The Tier One Capital Ratio measures a financial institution's core capital strength by expressing Tier One capital as a percentage of total risk-weighted assets. Tier One capital consists primarily of common equity and disclosed reserves and represents the highest quality, most loss-absorbing form of regulatory capital. A higher Tier One Capital Ratio indicates a stronger capacity to absorb losses while remaining solvent under stress conditions.

The Total Capital Ratio measures a financial institution's total regulatory capital relative to risk-weighted assets. Total capital includes Tier One capital and eligible Tier Two instruments, such as subordinated debt and general provisions. This ratio provides an indication of overall regulatory capital adequacy, although CARE SA places greater analytical emphasis on the quality and permanence of capital rather than absolute levels alone.

The Price to Book Ratio compares the market value of a financial institution's equity to its reported book value. This metric serves as a market-based indicator of investor confidence in a financial institution's earnings sustainability, asset quality, and capital strength. Persistently low price-to-book ratios may signal market concerns regarding profitability, asset quality, or future capital generation capacity.

Net Interest Margin measures the difference between interest income earned and interest expense incurred, expressed as a percentage of average interest-earning assets. It reflects a financial institution's ability to generate core banking income from its lending and funding activities. Higher and more stable margins generally indicate stronger pricing power, funding efficiency, and earnings resilience.

The Overall Gearing Ratio measures a financial institution's total debt-like funding obligations relative to its tangible net worth. For a deposit-taking bank, the ratio is calculated by dividing debt, comprising customer deposits, borrowings, debt securities and other debt-like obligations, by Tangible Net Worth.

The debt ordinarily includes current, savings and term deposits; interbank and institutional borrowings; money-market funding; debt securities; subordinated debt; redeemable preference shares; optionally convertible instruments; perpetual debt; and regulatory capital instruments that retain material debt-like characteristics. Other liabilities may also be included where they represent financing obligations or have characteristics similar to debt.

Guarantees and other contingent obligations are not ordinarily included automatically in adjusted debt because they are not funded liabilities at the reporting date. However, CARE SA may include or separately adjust for such obligations where there is a material likelihood that they will crystallise, where the guarantee substitutes for direct borrowing, or where the institution has retained substantial credit risk in an off-balance-sheet transaction.

A higher Overall Gearing Ratio generally indicates greater financial leverage and a smaller tangible capital cushion relative to the institution's funding obligations. However, the ratio is not assessed in isolation or mapped mechanically to a rating category. CARE SA considers the institution's business model, regulatory capitalisation, regulatory leverage, funding composition, deposit stability, asset quality, liquidity, earnings, historical trends, prospective growth and position relative to comparable peers.

Return on Total Assets measures net income as a percentage of average total assets and serves as an indicator of overall profitability and management efficiency. This metric captures the institution's ability to generate earnings from its asset base, irrespective of funding structure. Higher returns generally support internal capital generation and balance-sheet resilience.

1.1.1 Capital and Earnings: Factor Assessment Ranges

Peer comparisons refer to South African banks reporting to the Prudential Authority over the same period. The scorecard sets the initial score from the metrics; the committee adjusts it where the profile described below is not fully captured by the reported figures.

Assessment	Typical profile	Considerations and possible adjustments
Excellent	The Tier 1 and total capital ratios sit well above the Prudential Authority's minimum plus buffers and above the peer median, and have been stable or rising. Internal capital generation is strong: return on total assets is well above the peer median, the net interest margin is wide and stable, and overall gearing is low relative to the peer median, so that the balance sheet carries a thick equity cushion. Where the group is listed, the price-to-book multiple is above 1x and above peers, which signals market confidence in the sustainability of earnings.	A positive adjustment is not available at this level. CARE SA may apply a negative adjustment where capital is trapped in subsidiaries and not fungible across the group, where earnings depend on non-recurring items, or where the capital trajectory is declining despite the current level.
Strong	The Tier 1 and total capital ratios are comfortably above minimum requirements and above the peer median. Return on total assets is above the peer median with limited volatility, the net interest margin is stable, and overall gearing is below the peer median. The price-to-book multiple is at or above 1x. The capital trajectory is stable or improving.	A negative adjustment may apply where capital buffers are narrowing, where earnings are concentrated in a single product or customer segment, or where dividend policy constrains retention.

Assessment	Typical profile	Considerations and possible adjustments
Good	The Tier 1 and total capital ratios are above minimum requirements with an adequate buffer and close to the peer median. Return on total assets and the net interest margin are close to peers, with some concentration in the sources of earnings and modest reliance on non-recurring income. The price-to-book multiple is around 1x. Overall gearing is close to the peer median.	A negative adjustment may apply where the capital trajectory is deteriorating. A positive adjustment may apply where the quality of capital (the CET1 share of Tier 1) or the stability of earnings is materially better than peers.
Adequate	The Tier 1 and total capital ratios meet requirements with moderate headroom. Return on total assets is broadly in line with peers but volatile, the net interest margin is under pressure, and overall gearing is above the peer median. The price-to-book multiple is below 1x. Internal capital generation is adequate but sensitive to stress.	CARE SA may adjust in either direction where peer comparison shows a divergent trend, or where the Prudential Authority's buffer requirements are changing materially.
Moderate	The Tier 1 and total capital ratios are above minimum requirements but with a limited buffer. Return on total assets is below the peer median or volatile, the net interest margin is declining or below peers, and there is meaningful reliance on non-recurring income. The price-to-book multiple is well below 1x and the capital trajectory is flat or declining. Overall gearing is well above the peer median.	A negative adjustment is likely where the trajectory is deteriorating or where losses under a moderate stress scenario would erode the regulatory buffers within a short horizon.
Below Average	The Tier 1 and total capital ratios are at or near the minimum thresholds. Return on total assets is below peers and under sustained pressure, the net interest margin is materially below peers, and internal capital generation is limited. The price-to-book multiple is heavily discounted. Overall gearing is high.	A further negative adjustment may apply where stress testing indicates a buffer breach under adverse scenarios. A positive adjustment applies only where a credible capital restoration plan with committed support is in place.
Weak	Capital ratios are near breach or are sustained only through external or intra-group support. Earnings are weak or negative, with significant reliance on non-recurring income or asset disposals, and internal capital generation is insufficient to maintain regulatory compliance. The capital trajectory is deteriorating. Overall gearing is among the highest of domestic peers.	A further negative adjustment may reflect liquidity constraints or an inability to access capital markets. A Weak score caps the FBA at Below Average irrespective of the other two factors. The committee assesses whether ongoing support is credible and timely.
Very Weak	Capital ratios are at or below the regulatory minimum. Losses are significant and capital erosion is material. The bank is unlikely to sustain operations without extraordinary intervention and its going-concern status is in question.	A Very Weak score, or a capital ratio below the regulatory minimum, caps the FBA at Weak. No positive adjustment is available and the analysis shifts to loss given default and instrument recovery.

Following scorecard aggregation, analytical adjustments may be applied to include considerations that are not reflected in the standard metrics above and may be relevant to the specific situation of a financial institution. For the Capital and Earnings Factor, if adjusted, the assigned and final score will usually be in the next category up or down (i.e. +/- 1 rating category) from the scorecard-driven score.

a) Capital quality and loss-absorption characteristics

Capital Quality refers to the composition, permanence, and loss-absorption capacity of a financial institution's capital base. CARE SA places greater analytical emphasis on common equity and retained earnings, which are the most permanent and subordinated forms of capital, than on hybrid or subordinated instruments.

Institutions with a high proportion of Tier 1 common equity are viewed more favourably than those reliant on Tier 2 capital, such as subordinated debt or preference shares. CARE SA may apply negative adjustments where capital is trapped, non-fungible, or regulatory-restricted across group entities.

Hybrid instruments with deferral, conversion, or write-down features are treated as weaker forms of capital unless explicitly loss-absorbing under stress.

b) Earnings Quality

Earnings Quality assesses the **sustainability**, **volatility**, and **source** of a financial institution's income. Stable, recurring earnings from core banking operations support internal capital formation and reduce reliance on external buffers.

CARE SA distinguishes between **core earnings** (e.g., net interest income, fee income) and **non-core or one-off income** (e.g., trading gains, asset sales).

Financial institutions with **volatile or concentrated income streams** may be subject to negative adjustments.

CARE SA evaluates **earnings persistence** across cycles and considers the impact of **regulatory changes**, **market volatility**, or **strategic shifts** on future profitability.

c) Capital Fungibility

Capital Fungibility refers to the ability of a financial institution to transfer capital across entities or jurisdictions within a banking group. High fungibility enhances consolidated resilience, while limited fungibility may weaken group-wide capital effectiveness.

CARE SA assesses regulatory barriers, ring-fencing, and structural impediments to capital movement. Institutions operating in multiple jurisdictions may face constraints on upstreaming or downstreaming capital, particularly where local regulators impose minimum capital retention.

d) Environmental and Social Risks

Environmental and Social risks refer to factors that may impair the value of a financial institution's assets or capital base due to climate-related, social, or governance-related exposures.

Using a qualitative peer analysis, CARE SA evaluates a financial institution's potential risk arising from exposures to high-risk sectors, such as fossil fuels, mining, or socially sensitive industries. Financial institutions that fail to integrate ESG risk factors into credit underwriting, portfolio management, or capital planning may be subject to negative adjustments.

CARE SA assesses how environmental social and governance (ESG) considerations could have an impact on the risk profile of a financial institution. In its analysis, CARE SA considers the potential for environmental and physical risks, regulatory penalties, reputational damage, or asset write-downs arising from ESG-related events.

1.2 Asset Quality Factor (37.5% of FBA)

The Asset Quality Factor evaluates the credit risk profile of the institution's loan book and investment exposures, as well as the adequacy of provisioning.

Key quantitative metrics include:

Gross non-performing loans to gross advances: the ratio of gross non-performing loans (NPLs, being exposures classified in IFRS 9 stage 3) to gross advances measures the proportion of the loan book that is impaired or in default. It reflects a financial institution's credit risk exposure and underwriting discipline.

Higher NPL ratios typically indicate weaker asset quality and may trigger negative scorecard outcomes or analytical adjustments. CARE SA considers both absolute levels and trends over time, as well as peer comparisons.

Slippage ratio: the slippage ratio measures the rate at which performing loans migrate into non-performing status over a defined period, calculated as gross additions to NPLs during the period, less upgrades, recoveries and write-offs of NPLs, divided by opening standard advances (net slippage). The ratio is negative where reductions in NPLs exceed new NPL formation, which is the strongest outcome. This ratio provides a forward-looking indicator of asset quality deterioration. A rising slippage ratio may signal weakening credit underwriting, adverse macroeconomic conditions, or stress in specific borrower segments.

Provision coverage ratio: the provision coverage ratio expresses loan loss provisions as a percentage of gross non-performing loans. It indicates the extent to which expected credit losses are already provisioned on the balance sheet. Higher coverage ratios suggest stronger loss absorption and more conservative provisioning practices. CARE SA may adjust for differences in provisioning standards across jurisdictions and consider the adequacy of coverage relative to collateral and recovery expectations.

Net stressed assets to net worth: this ratio measures the institution's net stressed assets (including NPLs, restructured loans, and other impaired exposures, net of provisions) as a percentage of shareholder equity. It reflects the potential erosion of capital from credit losses. A high ratio may indicate vulnerability to asset write-downs and constrain internal capital generation. CARE SA considers reported stressed assets and, where relevant, reported stressed assets are adjusted to reflect additional judgement deemed necessary to reflect the specifics of a financial institution.

Advances growth/industry credit growth: Loan growth relative to industry trends compares the institution's loan growth rate to the overall industry credit growth rate over a defined period. Outperformance may reflect competitive strength or aggressive expansion. CARE SA evaluates whether growth is sustainable, well-underwritten, and aligned with a financial institution's risk appetite. Excessive divergence from industry norms may trigger asset quality concerns. CARE SA measures the difference, in percentage points, between the institution's year-on-year growth in gross advances and growth in total banking-sector credit. Growth moderately ahead of the industry scores highest, as evidence of franchise gain within the bank's underwriting capacity. Growth in line with the industry, or somewhat below it, is assessed as Adequate. Deviations of ten percentage points or more in either direction, whether rapid expansion that has not seasoned or a sustained loss of franchise, score progressively lower.

Share of retail in advances: this ratio measures the share of retail loans in a financial institution's portfolio. While retail loans are comparatively smaller in size, their repayment is tied to the financial health of individuals. As a result, default risk can vary significantly with particularly limited recovery prospects for unsecured loans. CARE SA considers the share of retail lending against credit costs (loan loss provisions, NPLs and write-offs) and the net interest margin.

Share of top 20 group exposures / net worth and Share of top 20 individual exposures/net worth: these portfolio concentration metrics assess a financial institution's credit exposure by size of loan and by obligor group relative to net worth, an indicator of loss absorption capacity. High concentration increases vulnerability to idiosyncratic credit events and may weaken diversification benefits. CARE SA considers both individual and group concentrations, as well as sectoral and geographic clustering.

1.2.1 Asset Quality: Factor Assessment Ranges

Peer comparisons refer to South African banks reporting to the Prudential Authority over the same period. The scorecard sets the initial score from the metrics; the committee adjusts it where the profile described below is not fully captured by the reported figures.

Assessment	Typical profile	Considerations and possible adjustments
Excellent	The gross NPL ratio (gross non-performing loans to gross advances) is among the lowest of domestic peers and has remained low through at least one credit cycle. Net slippage is at or below zero, with upgrades and recoveries matching or exceeding new NPL formation, and the provision coverage ratio stands comfortably above the peer median so that net stressed assets are a negligible fraction of net worth. Advances growth is moderately ahead of industry credit growth, the top 20 group and individual exposures are small relative to net worth, and the share of retail in advances is balanced against the bank's corporate book.	A positive adjustment is not available at this level. CARE SA may apply a negative adjustment where a large part of the book has been originated recently and has not seasoned, or where a single sector concentration carries risk that the NPL and slippage ratios do not yet reflect.
Strong	The gross NPL ratio is below the peer median and stable. Net slippage is low or negative, and the provision coverage ratio is above the peer median, leaving net stressed assets modest relative to net worth. Advances growth is at or a little ahead of industry credit growth. The top 20 group and individual exposures are within internal limits and lower than at most peers.	A negative adjustment may apply where impairment is accelerating in a segment that the reported ratios do not yet show, or where the provision coverage ratio is being allowed to fall.
Good	The gross NPL ratio, slippage ratio and provision coverage ratio are each close to the peer median. Net stressed assets are a manageable share of net worth. Advances growth is in line with, or somewhat below, industry credit growth. The top 20 exposures and the share of retail in advances are consistent with peers of similar size and model.	CARE SA may adjust in either direction where collateral quality, valuation practice or provisioning policy places the bank apart from peers in a way the ratios do not capture.
Adequate	The gross NPL ratio is somewhat above the peer median and the slippage ratio is rising. The provision coverage ratio is at or slightly below the peer median, and net stressed assets are an elevated share of net worth. At least one obligor or sector concentration among the top 20 exposures warrants monitoring.	A negative adjustment may apply where collateral is thin, where provisioning appears insufficient relative to the slippage trend, or where borrowers carry unhedged foreign-currency obligations.
Moderate	The gross NPL ratio is clearly above the peer median and the slippage ratio is elevated. The provision coverage ratio is below the peer median, and net stressed assets are a material share of net worth. Advances growth is diverging from industry credit growth in either direction, or the top 20 exposures are large relative to net worth.	A further negative adjustment is likely where the trend in the gross NPL and slippage ratios is still worsening, or where provisions and collateral together would not absorb losses under a moderate stress scenario.
Below Average	The gross NPL ratio is well above the peer median and rising, and the slippage ratio is high. A provisioning shortfall against likely losses is probable, and net stressed assets are large enough to place pressure on capital. Concentration by sector, obligor group or geography is significant.	A further negative adjustment may apply for collateral that cannot realistically be enforced, for material lending to connected parties, or where underwriting standards have visibly loosened.

Assessment	Typical profile	Considerations and possible adjustments
Weak	The gross NPL ratio is among the highest of domestic peers and rising. The provision coverage ratio leaves a material shortfall, and net stressed assets consume a large part of net worth. The book is heavily concentrated and recovery prospects are uncertain.	A Weak score caps the FBA at Below Average irrespective of the other two factors. The committee assesses whether the bank remains viable without extraordinary intervention.
Very Weak	The gross NPL ratio is at a level that threatens viability. Provisions bear little relation to likely losses, net stressed assets exceed net worth, and recovery prospects are poor.	A Very Weak score caps the FBA at Weak regardless of the capital and funding scores.

For the Asset Quality Factor, if adjusted, the assigned and final score will usually be in the next category up or down (i.e. +/- 1 rating category) from the scorecard-driven score. Possible drivers of adjustments to the Asset Quality Assessment include the following.

a) Currency mismatch vulnerability

Currency mismatch vulnerability refers to the credit risk arising when borrowers are exposed to foreign-currency obligations without corresponding income or hedging mechanisms. This risk is amplified during periods of exchange rate volatility.

CARE SA evaluates the proportion of foreign-denominated credit within a financial institution's loan book. Where such exposure is material, particularly in sectors lacking natural hedges, CARE SA may apply negative adjustments. Financial institutions are expected to demonstrate robust FX risk management, including borrower-level assessments and stress testing.

b) Accelerated credit expansion

Accelerated credit expansion refers to rapid growth in lending volumes that may outpace a financial institution's risk management capacity or signal a shift toward higher-risk segments. CARE SA assesses loan growth relative to historical trends, peer benchmarks, and industry averages. Surges in specific products, geographies, or borrower types, especially those unfamiliar to the institution, may indicate aggressive risk-taking or relaxed underwriting standards. Such growth may temporarily suppress asset quality indicators, necessitating forward-looking adjustments.

c) Connected lending

Connected lending involves credit exposures to related parties, affiliates, or insiders, which may compromise credit discipline and transparency. CARE SA evaluates the extent and disclosure of related-party transactions. Where lending to connected entities is material relative to total credit exposure, or where governance structures fail to ensure independence, negative adjustments may apply.

Financial institutions are expected to maintain arm's-length lending practices and comply with regulatory reporting requirements.

d) Environmental and social risk oversight

Environmental and social risk oversight assesses the institution's ability to identify, measure, and manage ESG-related risks within its credit and investment portfolios. CARE SA examines whether the institution integrates climate-related threats, social impact, and governance issues into its risk models, credit policies, and portfolio monitoring. Failure to do so may limit the institution's ability to anticipate asset impairment, reputational damage, or regulatory penalties. Financial institutions with proactive ESG frameworks may benefit from positive recognition.

e) Market and investment volatility

CARE SA measures the share of operating income earned from trading and fair-value gains, and the share of net worth invested in unlisted equity, private equity and other assets valued on unobservable inputs. Where either share is large relative to South African peers, or where valuations rely on management assumptions, a negative adjustment may apply. The adjustment is moderated where limits, hedging and independent valuation are demonstrably effective.

f) Operational and conduct risk

CARE SA reviews the operational loss history, the maturity of information technology and cyber controls, the scale of contingent liabilities and off-balance-sheet commitments relative to net worth, and the record of conduct findings by the Financial Sector Conduct Authority and the National Credit Regulator. Material losses, repeat findings or commitments that are large relative to capital may lead to a negative adjustment.

g) Collateralisation quality

Collateralisation quality refers to the adequacy, enforceability, and liquidity of collateral backing the institution's loan exposures. CARE SA evaluates the composition and coverage of collateral across the loan book. High reliance on low-quality or illiquid collateral may undermine recovery prospects and provisioning adequacy. Financial institutions are expected to maintain robust valuation practices, legal enforceability, and collateral monitoring systems. Weak collateralisation may result in downward asset quality adjustments.

1.3 Funding and Liquidity Factor (22.5% of FBA)

The Funding and Liquidity assessment typically incorporates the following quantitative metrics, which collectively evaluate the stability, diversity, and resilience of a financial institution's funding profile and its ability to withstand liquidity stress.

The CASA ratio measures current, savings and call deposits (together, CASA) as a proportion of total customer deposits. CASA is used in this document as the label for these low-cost, non-term deposits. CASA deposits are generally considered more stable and less price-sensitive than term or wholesale funding. A higher CASA ratio indicates stronger funding stability, lower funding costs, and reduced refinancing risk. Institutions with structurally low CASA ratios may be more vulnerable to liquidity stress, particularly during periods of market disruption.

The Retail Deposit Share of Term Deposits represents the proportion of term deposits sourced from retail customers relative to total term deposits. Retail deposits are typically more granular and stable than corporate or institutional deposits. A higher retail deposit share enhances funding resilience and reduces exposure to sudden withdrawals by large depositors. CARE SA also considers deposit concentration and customer behaviour when assessing this metric.

The Credit-to-Deposit Ratio measures total loans and advances relative to total customer deposits. This ratio indicates the extent to which lending activities are funded by stable customer deposits versus wholesale or market funding. Lower ratios generally reflect stronger liquidity positions and funding self-sufficiency, while elevated ratios may signal increased reliance on less stable funding sources and heightened refinancing risk.

The Borrowings Ratio measures the proportion of total funding derived from wholesale borrowings, including interbank funding, debt securities, and other market-based sources. Higher reliance on wholesale funding may expose institutions to market volatility and refinancing risk, particularly during periods of financial stress. CARE SA evaluates the maturity profile, diversification, and currency composition of borrowings when assessing this metric.

The Liquidity Coverage Ratio (LCR) measures the stock of high-quality liquid assets relative to estimated net cash outflows over a 30-day stress scenario, as defined by regulatory standards. The LCR assesses short-term liquidity resilience under acute stress conditions. Ratios comfortably above regulatory minimums indicate stronger liquidity

buffers and greater capacity to absorb sudden funding shocks. CARE SA may adjust its assessment based on the quality and usability of liquid assets.

The Net Stable Funding Ratio (NSFR) measures the availability of stable funding relative to required stable funding over a one-year horizon. The NSFR evaluates structural funding stability and the alignment of asset maturities with funding sources. Higher NSFR levels indicate reduced maturity mismatch and lower reliance on short-term funding. CARE SA considers both regulatory compliance and structural funding characteristics when assessing this metric.

1.3.1 Funding and Liquidity: Factor Assessment Ranges

Peer comparisons refer to South African banks reporting to the Prudential Authority over the same period. The scorecard sets the initial score from the metrics; the committee adjusts it where the profile described below is not fully captured by the reported figures. The three negative liquidity adjustments (coverage of foreign-currency liabilities by liquid foreign-currency assets, liquid asset coverage of deposits, and liquid asset coverage of short-term wholesale funds) are applied through the considerations column.

Assessment	Typical profile	Considerations and possible adjustments
Excellent	The CASA ratio and the retail deposit share of term deposits are both high, so that low-cost, non-term and retail deposits fund most of the balance sheet. The credit-to-deposit ratio is well below the peer median and the borrowings ratio is in single digits. The liquidity coverage ratio (LCR) and net stable funding ratio (NSFR) are far above the 100% minimum, with headroom that would survive a severe outflow. Liquid asset coverage of deposits and of short-term wholesale funds is high, and coverage of foreign-currency liabilities by liquid foreign-currency assets is complete.	This level is not expected for a bank funded in the South African wholesale market and a positive adjustment is not available. CARE SA may apply a negative adjustment where single-name depositor concentration is not visible in the ratios.
Strong	The CASA ratio and the retail deposit share of term deposits are above the peer median. The credit-to-deposit ratio is below the peer median, and the borrowings ratio is low and spread across instruments and tenors. The LCR and NSFR are comfortably above the minimum, liquid asset coverage of short-term wholesale funds is complete, and coverage of foreign-currency liabilities by liquid foreign-currency assets is high with any residual mismatch hedged.	A negative adjustment may apply where the maturity mismatch is wider than the ratios suggest, or where wholesale funding, though small, is concentrated in a few counterparties.
Good	The CASA ratio and the retail deposit share of term deposits are close to the peer median, as is the credit-to-deposit ratio. The borrowings ratio is moderate. The LCR and NSFR are above the minimum with adequate headroom, liquid asset coverage of short-term wholesale funds is adequate, and coverage of foreign-currency liabilities by liquid foreign-currency assets is managed within limits.	CARE SA may adjust where depositor concentration is above peers, or where liquid asset coverage of short-term wholesale funds is incomplete.
Adequate	The CASA ratio or the retail deposit share of term deposits is below the peer median. The credit-to-deposit ratio is somewhat above the peer median, and the borrowings ratio is elevated but termed out. The LCR and NSFR are above the minimum with moderate headroom, liquid asset coverage of deposits is adequate, and coverage of foreign-currency liabilities by liquid foreign-currency assets is incomplete.	A negative adjustment may apply where large depositors could withdraw under a moderate stress, or where headroom to the minimum LCR and NSFR is narrowing.

Assessment	Typical profile	Considerations and possible adjustments
Moderate	Reliance on wholesale and short-term funding is above peers, shown in a low CASA ratio, a low retail deposit share of term deposits and a credit-to-deposit ratio well above the peer median. The LCR and NSFR are above the minimum but with limited headroom, liquid asset coverage of deposits and of short-term wholesale funds is thin, and coverage of foreign-currency liabilities by liquid foreign-currency assets is weak.	A negative adjustment is likely where the survival period (the number of days over which liquid assets cover net outflows) under a moderate liquidity stress is short. The committee assesses contingency funding capacity.
Below Average	The borrowings ratio is high and refinancing is concentrated in the near term. The CASA ratio and the retail deposit share of term deposits are low or the deposit base is concentrated, headroom on the LCR or NSFR is limited, and liquid asset coverage of deposits and of short-term wholesale funds is narrow.	A further negative adjustment may apply where structural funding weakness is not captured by the ratios.
Weak	There are structural liquidity gaps. The LCR or NSFR is at or just above 100%, liquid assets are insufficient to meet foreseeable outflows, access to wholesale markets is uncertain, and there is recurring reliance on South African Reserve Bank facilities beyond routine use.	A Weak score caps the FBA at Below Average irrespective of the other two factors.
Very Weak	The LCR or NSFR is below 100%, or is expected to fall below it within the rating horizon. Deposit outflows are under way, the central bank is the marginal source of funding, and refinancing is failing.	A Very Weak score caps the FBA at Weak irrespective of the other two factors, and resolution considerations apply.

For the Funding and Liquidity Factor, if adjusted, the assigned and final score can be up to 2 rating categories up or down from the scorecard-driven score (i.e. +/- 2 rating categories). The wider adjustment range reflects that a liquidity shortfall can force resolution before any deterioration in capital or asset quality is reported. A Weak funding and liquidity score caps the FBA at Below Average and a Very Weak score caps it at Weak.

a) FX Liquidity Coverage

FX Liquidity Coverage assesses the extent to which a financial institution's foreign-currency liabilities are supported by high-quality, liquid foreign-currency-denominated assets that are readily available under stress conditions. CARE SA evaluates whether the institution maintains sufficient liquid FX assets (cash balances, central bank placements or highly liquid sovereign securities) to meet foreign-currency obligations as they fall due.

Insufficient coverage may indicate currency mismatch risk, particularly where access to foreign-currency funding is constrained or dependent on volatile market conditions. Financial institutions with weak FX liquidity buffers may face reduced capacity to withstand exchange-rate shocks, capital flow reversals, or disruptions in cross-border funding markets, which may result in negative liquidity adjustments.

b) Liquid Asset Coverage of Deposits

Liquid Asset Coverage of Deposits measures the extent to which high-quality liquid assets can cover customer deposit balances, considering the behavioural stability and withdrawal characteristics of those deposits.

CARE SA assesses the adequacy of liquid asset buffers relative to a financial institution's deposit base, adjusting for factors such as deposit concentration, customer type, and historical withdrawal behaviour. Higher coverage ratios indicate stronger liquidity resilience and a reduced reliance on external or emergency funding during periods of stress. Financial institutions with limited liquid asset coverage relative to deposits may be more

vulnerable to sudden outflows, particularly in adverse market or confidence-driven scenarios, and may therefore be subject to negative adjustments.

c) Liquid Asset Coverage of Short-Term Wholesale Funding

Liquid Asset Coverage of Short-Term Wholesale Funding evaluates a financial institution's ability to meet short-term wholesale funding obligations using high-quality liquid assets, without reliance on refinancing or market access.

CARE SA considers the volume, maturity profile, and concentration of short-term wholesale funding, alongside the availability and usability of liquid assets. Low coverage levels may signal heightened exposure to market disruptions, refinancing risk, or sudden withdrawal of wholesale funding. Financial institutions with insufficient liquid assets to cover near-term wholesale obligations may face elevated liquidity risk during periods of market stress, potentially triggering negative liquidity adjustments.

These liquidity adjustment factors are assessed alongside regulatory liquidity ratios and structural funding metrics. CARE SA places particular emphasis on the quality, accessibility, and currency composition of liquid assets, as well as the institution's demonstrated ability to manage liquidity under stressed conditions.

2. Business Risk Assessment (BRA)

The Business Risk Assessment (BRA) is primarily a qualitative assessment of a financial institution's franchise strength and competitive positioning relative to peers. The BRA looks at Market Position & Share, Business Line and Product Diversity, Geographic Diversification, Protected Market Position and Systemic Importance. The factors are scored between Excellent (best), Strong, Good, Adequate, Moderate, Below Average, Weak and Very Weak (worst). Only the Market Position and Share is a quantitative assessment, the remainder are peer-based qualitative factors.

2.1 Market Position and Market Share

This factor assesses a financial institution's **relative scale and competitive positioning** within its primary markets. Market share is evaluated across key balance-sheet and income dimensions, including assets, deposits, loans, and revenue generation.

Larger financial institutions with meaningful market share typically benefit from stronger brand recognition, pricing power, and customer stickiness, which can enhance earnings stability and funding access. CARE SA also considers the **trajectory of market share**, recognising that sustained gains or losses may signal shifts in competitive strength, strategic execution, or risk appetite.

Assessment	Franchise position	Typical profile
Excellent	Dominant	The bank holds the largest share of banking-sector assets and sets prices in its core products. The brand is national, the footprint is systemic, and market share has been stable or growing across the cycle.
Strong	Leading	The bank is among the largest by sector assets and influences pricing in its core segments. The brand is well established and market share is broadly stable.
Good	Established	The bank holds a mid-sized share of sector assets with an entrenched presence in its target segments. It competes effectively but does not set prices, and market share is stable.
Adequate	Established, narrower	The bank holds a mid-sized share of sector assets but its presence is confined to a limited number of segments. Market share is stable, though sensitive to competitor action.

Assessment	Franchise position	Typical profile
Moderate	Moderate	The bank's share of sector assets is modest and it competes chiefly on price. Market share is exposed to economic or competitive shifts.
Below Average	Limited	The bank's share of sector assets is small and its franchise rests on a narrow product, client or regional base. Pricing power is limited and the franchise is exposed to larger competitors.
Weak	Marginal	The bank's share of sector assets is very small and its brand presence is low. It competes on price alone and market share is declining.
Very Weak	Failing	The franchise is in visible run-off. Customers and deposits are leaving and market share is negligible.

Metric	aaa	aa	a	bbb	bb	B	ccc	cc
	Excellent	Strong	Good	adequate	Moderate	Below Average	Weak	Very Weak
Market Share	25%	20%	15%	10%	5%	2.5%	1%	<1%

2.2 Business Line and Product Diversification

Business line and product diversification assesses the breadth and balance of an institution's revenue streams across its major banking activities. Financial institutions with a wide, well-distributed product suite (retail banking, corporate and investment banking, asset management, transaction services and insurance) tend to be more resilient to sector-specific downturns.

CARE SA evaluates the extent to which earnings are diversified rather than concentrated in a limited set of products or client segments, alongside the institution's capacity to cross-sell effectively and adjust its offering as market conditions evolve.

Peer comparison further considers how a financial institution's product breadth and revenue mix align with similarly sized competitors. Entities with multiple, independent revenue streams are viewed more favourably, as reduced reliance on any single business line supports earnings stability. The analysis also reviews the scale and depth of the product suite and the effectiveness of cross-selling to determine whether a financial institution's franchise breadth enhances client retention, operational flexibility, and long-term scalability.

2.3 Geographic Diversification

Financial institutions concentrated in a single market are more vulnerable to adverse local developments, particularly in emerging economies. Geographic diversification assesses the distribution of an institution's operations, earnings, and assets across multiple regions or jurisdictions. Broader geographic footprints help mitigate exposure to localised economic shocks, regulatory shifts, or political instability. However, effective geographic diversification should be earnings accretive on a risk-adjusted basis. Therefore, the analysis takes into consideration the strength of the jurisdictions, typically measured by a sovereign rating, where a financial institution operates.

CARE SA evaluates both domestic and cross-border diversification, while also considering the operational complexity and risk-management demands associated with multi-jurisdictional activity.

Peer comparison examines how a financial institution's geographic footprint aligns with similarly sized competitors. Entities with multi-regional or international exposure typically benefit from scale efficiencies, broader funding access, and reduced sensitivity to localised volatility. These advantages are weighed against the added complexity of managing cross-border risks, with greater geographic diversity generally supporting stronger risk-adjusted performance.

2.4 Protected Market Position

This factor assesses whether a financial institution benefits from structural, legal/regulatory, or franchise-based protections that reduce competitive pressures. Such protections may include exclusive mandates, statutory roles, regulatory barriers to entry, or entrenched customer relationships, all of which can support more stable earnings and lower volatility. CARE SA also evaluates the durability of these advantages, recognising that regulatory reform, policy changes, or technological disruption can weaken previously secure positions over time.

Peer comparison considers the extent to which the institution's competitive position is protected relative to peers operating in more open markets. Indicators such as dominant market share, exclusive mandates, or deep client entrenchment may signal pricing power and earnings stability, which should be validated against peer margins and volatility trends. While protected franchises often benefit from lower customer churn and stronger profitability, the analysis must also assess whether these protections are sustainable or vulnerable to policy or market shifts.

2.5 Systemic Importance within the Domestic Financial System

Systemic importance assesses a financial institution's role and influence within the domestic financial system, including its interconnectedness with other financial institutions and the broader economy.

Financial institutions deemed systemically important may benefit from stronger market confidence, preferential funding access, and a higher likelihood of extraordinary support during periods of stress. CARE SA considers both formal designations, such as domestic systemically important bank (D-SIB) status, and informal indicators of systemic relevance. Systemic importance also brings heightened regulatory scrutiny, higher capital requirements, and increased compliance obligations, all of which form part of the overall assessment.

Peer comparison evaluates whether a financial institution is formally designated as systemically important and how its regulatory treatment, capital buffers, and supervisory intensity differ from those of other SIFIs and non-SIFIs. While SIFI status can provide reputational and funding advantages, the analysis must also weigh the costs of enhanced compliance, resolution planning, and regulatory expectations relative to peers.

2.6 Management and Governance Risk

Management and Governance Risk examines the effectiveness of leadership, oversight, and internal control frameworks in supporting a financial institution's risk profile, business model and financial performance. Management and Governance Risk typically acts as a **negative adjustment** to the Business Risk assessment.

The analysis of Management and Governance Risk includes the following key considerations.

Risk appetite and governance frameworks: this factor considers a financial institution's risk appetite, the clarity with which it is articulated, and the robustness of governance frameworks that ensure adherence. Strong frameworks demonstrate effective oversight, well-defined limits, independent risk functions, and timely escalation processes. Weaknesses in governance or inconsistent risk-taking behaviour may signal vulnerabilities in culture, controls, and long-term resilience.

Management experience and track record: this evaluation focuses on the experience and capability of senior management, including their history of executing strategy, navigating stress periods, and maintaining stable performance. A strong track record reflects prudent decision-making, operational discipline, and responsiveness to market conditions. Frequent missteps, strategic reversals, or high senior management turnover may indicate weaker leadership effectiveness.

Organisational depth and succession planning: CARE SA evaluates a financial institution's bench strength, depth of skilled personnel, and resilience to leadership changes. Effective succession planning ensures continuity of strategy and risk culture, supported by structured talent pipelines and development programmes. Shallow organisational depth or ad-hoc succession processes may heighten key-person risk and operational instability.

Financial reporting quality and transparency: this factor considers the accuracy, clarity, and timeliness of financial reporting, including adherence to recognised accounting standards and the level of disclosure provided to stakeholders. Transparent reporting enhances comparability and confidence in risk assessments. Poor disclosure, inconsistent accounting practices, or opaque adjustments may obscure underlying performance and elevate governance concerns.

Structural complexity and opacity: This evaluation focuses on a financial institution's organisational structure, including the number of subsidiaries, cross-border entities, and non-core activities. High complexity can hinder oversight, complicate risk aggregation, and obscure accountability. Transparent structures with clear reporting lines are viewed more favourably, while opaque arrangements may mask risks or facilitate governance weaknesses.

Shareholding structure and related party risks: the analysis reviews the ownership profile, concentration of control, and potential influence of major shareholders. It also considers related-party exposures, including intra-group transactions and governance safeguards. Highly concentrated ownership or opaque related-party dealings may elevate conflicts of interest, while diversified, transparent structures typically support stronger governance.

Board independence and effectiveness: this factor considers the independence, expertise, and functioning of the board of directors. Effective boards provide strategic oversight, challenge management, and ensure sound governance practices. Independence, diverse skills, and active committee structures strengthen accountability. Weak oversight, limited independence, or passive board engagement may undermine risk management and long-term stability.

3. South African National Scale Standalone Assessment Matrix (SA)

The Standalone Assessment is created by combining the FBA and the BRA using the Standalone Assessment Matrix.

			Business Risk Profile							
			Excellent	Strong	Good	Adequate	Moderate	Below Average	Weak	Very Weak
Financial Risk	Excellent	7	aaa	aaa	aaa	aaa/aa	aa	a	bbb	bb
	Strong	6	aaa	aaa	aa	aa/a	a	bbb	bb	b
	Good	5	aa	aa	a	a/bbb	bbb	bb	b	b
	Adequate	4	a	a	bbb	bbb/bb	bb	b	b	ccc
	Moderate	3	bbb	bbb	bb	bb/b	b	ccc	ccc	cc
	Below Average	2	bb	bb	b	b/ccc	ccc	ccc	cc	cc
	Weak	1	b	b	ccc	ccc/cc	cc	cc	cc	cc
	Very Weak	0	ccc	ccc	cc	cc	cc	cc	cc	cc

The Standalone Assessment Matrix produces a category-specific national rating on the 'aaa' scale. The rating committee may assign an additional '+/-' to standalone ratings in the categories 'aa' through 'ccc' to indicate relative differences of creditworthiness for financial institutions in the same rating category.

4. Support Assessment

4.1 Group Support

Assessment of Parent Strength (ability to support) and Support Propensity

CARE SA assesses whether a financial institution's Issuer Credit Rating should benefit from group or parent support. The assessment considers two dimensions: the parent's ability to support, and the parent's propensity to support.

Ability to support is read from the parent's credit standing relative to the subsidiary's Standalone Assessment. Where the parent is rated on an international scale, its rating is mapped to the South African national scale using CARE SA's internal national scale mapping. Propensity to support is read from the subsidiary's strategic role within the group.

A group with a demonstrated record of timely capital injections, liquidity support, and strategic alignment with the subsidiary is viewed as having a strong propensity to support. Where such evidence is clear and sustained, the institution may receive a positive uplift (up to +2 rating notches) to reflect the likelihood of extraordinary assistance during periods of stress.

Conversely, group support is typically neutral where support is uncertain, reputationally weak, legally non-binding, or historically inconsistent. A financial institution's ICR may be capped at the parent's ICR level to reflect limited support capacity or willingness.

Propensity (role of subsidiary)	Ability: Strong (parent $\geq$ 3 notches above subsidiary's SA)	Ability: Moderate (parent 1–2 notches above)	Ability: Weak (parent at or below subsidiary's SA)
Core: integrated operations, shared brand, centralised risk management, material contributor to group earnings	+2 notches (+3 only by committee exception, with binding support undertaking on file)	+1 notch	0 notches; ICR may be capped at parent's mapped rating
Strategically important: aligned with group strategy, partial integration, no binding undertaking	+1 notch	+1 notch	0 notches; ICR may be capped at parent's mapped rating
Non-core or held for sale: limited integration, no strategic role	0 notches	0 notches	0 notches; ICR capped at parent's mapped rating

4.1.1 Relative Importance of the Subsidiary Within the Group

The analysis benchmarks a financial institution's strategic relevance and integration within the broader group against peers. Subsidiaries classified as core, with deep operational integration, shared branding, centralised risk management, or material contributions to group earnings, generally warrant a positive support assessment.

In contrast, non-core or peripheral entities, especially those with limited strategic value or weak integration, receive no uplift, and may be capped at the parent's rating where the parent is weaker, particularly when peer institutions benefit from stronger group backing. The degree of fungibility of capital and liquidity, as well as the ease of divestment, further informs the subsidiary's support position.

4.2 Sovereign Support

CARE SA does not apply uplift for government support to financial institutions in South Africa, as South Africa operates an active bank resolution regime under which shareholders and certain creditors are expected to absorb losses before public funds are used.

4.3 Rating caps to reflect support, capital and liquidity fungibility

CARE SA assesses the relationship between a rated bank and its parent or group when determining the Issuer Credit Rating. Where a bank's Standalone Assessment is above the credit profile of the entity expected to support it, CARE SA considers whether the rating should be constrained by that entity's profile. The cap will ordinarily apply where capital and liquidity are fungible between the parent and the bank, where the parent controls the

bank's dividend, funding and capital decisions, or where the bank is exposed to the parent through intra-group placements, guarantees or shared funding lines, because in those circumstances stress at the parent is likely to transmit to the bank regardless of its standalone strength. The cap may be relaxed, in full or in part, where regulatory ring-fencing, prudential restrictions on intra-group exposures or the Prudential Authority's supervisory stance limit the transfer of capital and liquidity to the parent, and where the bank's own funding and governance are demonstrably independent. Rating caps are applied consistently across peers and the rationale is recorded in the rating rationale.

5. Issuer Credit Rating (ICR)

The Issuer Credit Rating (ICR) is created by adjusting the Standalone Assessment for group support and rating caps. The ICR is expressed on the 21-point 'AAA' scale.

6. Debt Instrument Ratings

Senior Debt Instruments are obligations that rank pari passu with other senior unsecured creditors and are expected to be repaid before subordinated or hybrid instruments in the event of issuer default or resolution.

Subordinated Debt Instruments are obligations that rank below senior creditors but above equity holders. These instruments typically absorb losses after senior debt and may be subject to write-down or conversion under resolution or regulatory stress scenarios.

Hybrid Debt Instruments are securities that exhibit characteristics of both debt and equity, including discretionary or deferrable coupons, long or perpetual maturities, explicit loss-absorption features, conversion or write-down mechanisms under stress.

The debt instrument diagram (below) illustrates the credit rating hierarchy applied to South African banks, mapping different classes of liabilities to their relative rating positions.

At the top of the creditor hierarchy are preferred liabilities, which may receive a rating one notch above the Issuer Credit Rating (ICR) due to structural or legal protections.

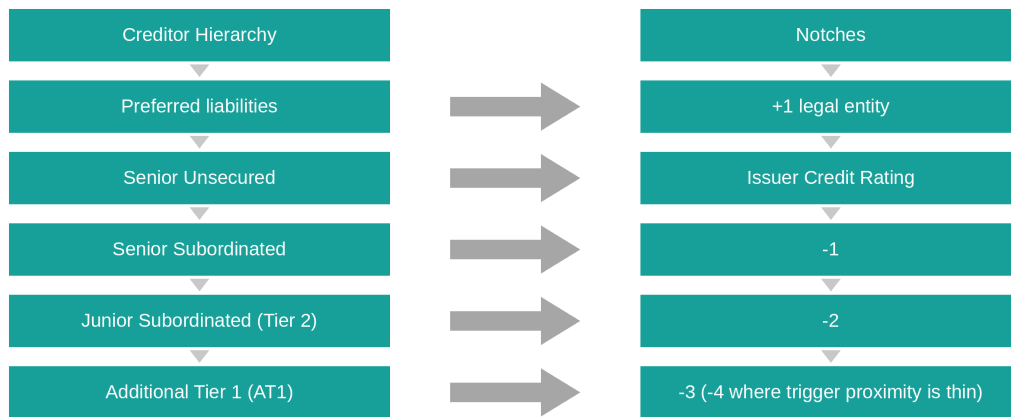
Senior unsecured debt is typically rated at the ICR level, reflecting pari passu treatment.

Subordinated instruments, including senior subordinated and junior subordinated debt, are rated progressively lower (–1 and –2 notches), reflecting their increased loss-absorption risk.

Additional Tier 1 (AT1) instruments, which carry discretionary coupons and principal write-down features, are rated three notches below the Issuer Credit Rating, with a further notch where the distance to the conversion or write-down trigger is thin or coupon non-payment is foreseeable. Instrument ratings on subordinated and hybrid instruments exclude any group support uplift applied to the ICR unless the supporter is expected to absorb losses ahead of the instrument.

Debt Instrument Rating diagram

Financial Institutions Framework: SA banks rating credit hierarchy



Contact

Saurav Chatterjee	Director & Chief Executive Officer	saurav.chatterjee@careratingsafrica.com	+ 230 5862 6551 / 5955 3060
Vidhyasagar Lingesan	Chief Rating Officer	vidhya.sagar@careratingsafrica.com	+ 230 5273 1406 / 5955 3060
Mradul Mishra	Media Relations	mradul.mishra@careedge.in	+91 - 22 - 6754 3596

Care Ratings South Africa (PTY) Limited

Registered Address: 1st Floor, 35 Ferguson Road, Illovo, Sandton, 2196, Johannesburg, South Africa

Business Address: Spaces Atrium on 5th, 9th Floor, 5th Street, Sandton, 2196, Johannesburg, South Africa

FSC License No.: CRA007

About Us:

CARE Ratings South Africa (Pty) Limited (CareEdge South Africa) is incorporated in 2023 to provide credit ratings and related services in South Africa. CARE SA is a wholly owned subsidiary of CARE Ratings Africa (Private) Limited (CareEdge Africa), which is a part of CareEdge Group based in India. In October 2024, CareEdge South Africa has received its license from the Financial Sector Conduct Authority (FSCA) of South Africa. CARE SA provides Ratings of various instruments such as Bonds, Money Market Instruments, Bank Deposits, Structured Finance and Bank Facilities. CareEdge South Africa also does Issuer Rating (Banks, Corporates, NBDTIs & Insurance companies). Please visit CareEdge South Africa website - <https://www.careedgesouthafrica.com>.

About CareEdge Group

CARE Ratings Ltd. (CareEdge Ratings)

CareEdge Ratings, based out of India and the parent company of the CareEdge group, was incorporated in 1993 and is the one of the largest Credit Rating Agency (CRA) of India and features amongst the top ten credit rating agencies globally. Since inception, CareEdge Ratings has rated USD 2.5 trillion worth of debt and has undertaken over 95,000 rating assignments which includes ratings of large, mid and small corporates as also sub sovereign and state utility companies. Please visit CareEdge website - <https://www.careratings.com>.

CARE Ratings (Africa) Private Limited

In the quest of supporting the development of capital market in African Union, CareEdge Group has set up the first rating agency of Mauritius - CARE Ratings (Africa) Private Limited (CareEdge Africa) in 2014, which is licensed by Financial Services Commission of Mauritius and Capital Markets Authority of Kenya. CareEdge Africa is also recognised by the Bank of Mauritius as External Credit Assessment Institution (ECAI). CareEdge Africa's shareholders are CARE Ratings, India (CARE Ratings), African Development Bank (AfDB), MCB Equity Fund (MEF) and SBM (NFC) Holdings Limited (SNHL). Please visit CARE Ratings Africa website - <https://www.careratingsafrica.com>.