Outlooks On South African Bank Global Scale Ratings Revised To Positive On Similar Sovereign Action; 'BB-/B' Affirmed

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- On May 20, 2022, we revised our outlook on South Africa (BB-/B) to positive from stable on resilient external sector performance.
- We do not rate financial institutions in South Africa above the foreign currency sovereign ratings, given the direct and indirect impact that sovereign distress would have on domestic banks' operations.
- As a result, we revised our outlooks to positive on five financial institutions and affirmed our global (where they exist) and national scale ratings on seven financial institutions.

JOHANNESBURG (S&P Global Ratings) May 25, 2022--S&P Global Ratings today revised its outlooks to positive on the global scale ratings on five South Africa-based financial institutions. It also affirmed its global scale and national scale ratings on these entities, including the issue ratings.

Specifically, the rating actions are as follows:

- Absa Bank Ltd.: We affirmed our 'zaAA/zaA-1+' South Africa national scale ratings.
- BNP Paribas Personal Finance South Africa Ltd.: We affirmed our 'zaAA/zaA-1+' South Africa national scale ratings. We also affirmed our 'zaAAA' rating on the parent-guaranteed domestic medium-term note (MTN) program.
- Capitec Bank Ltd.: We affirmed our 'BB-/B' global scale issuer credit ratings and revised the outlook to positive. We also affirmed our 'zaAA/zaA-1+' South Africa national scale ratings.
- FirstRand Bank Ltd.: We affirmed our 'BB-/B' global scale issuer credit ratings and revised the outlook to positive. We also affirmed our 'zaAA/zaA-1+' South Africa national scale ratings.
- FirstRand Ltd. (nonoperating holding company): We affirmed our 'B/B' global scale issuer credit ratings and revised the outlook to positive. We also affirmed our 'zaA-/zaA-2' South Africa national scale ratings.
- Investec Bank Ltd.: We affirmed our 'BB-/B' global scale issuer credit ratings and revised the outlook to positive. We also affirmed our 'zaAA/zaA-1+' South Africa national scale ratings.
- Nedbank Ltd.: We affirmed our 'BB-/B' global scale issuer credit ratings and revised the outlook to positive. We also affirmed our 'zaAA/zaA-1+' South Africa national scale ratings.

The rating actions come after we revised the outlook on our South Africa ratings (see "South Africa Outlook Revised To Positive On Resilient External Sector; Ratings Affirmed," published May 20, 2022, on RatingsDirect).

Favorable terms of trade will continue to support the good performance of South Africa's external sector. We forecast it will post a third consecutive current account surplus in 2022 (albeit smaller than in 2021) aided by the positive momentum on metal prices. After a surplus of 3.7% for 2021, we expect a current account surplus of 2.7% for 2022. Although the Russian-Ukraine conflict has benefited commodities demand, the economic slowdown in China acts as a background reminder that downside risks persist. In addition, infrastructure constraints could limit the upside to growth. As a result, we expect modest economic growth of 1.8% in 2022. We do not rate South African banks above the foreign currency sovereign ratings on South Africa given the direct and indirect impact that sovereign distress would have on domestic banks' operations. We therefore revised our outlooks to positive from stable on five financial institutions and affirmed our global (where they exist) and national scale ratings on seven financial institutions.

Domestic credit growth picked up to 5.7% in 2021, from 4.3% in 2020, helped by the robust economic recovery of 4.9% in 2021. Banks will likely continue extending credit conservatively amid muted growth prospects. We expect credit growth to average 5% over the next three years. Credit conditions will remain constrained amid rising inflation. The South African Reserve Bank (SARB) has been actively adjusting its main lending rate since late 2021 and raised it by another 50 basis points (bps) in May 2022 to 4.75%. This will cast a shadow on household credit quality. The South African private sector's debt absorption capacity is underpinned by moderate wealth levels and wide income disparities. We forecast South Africa's GDP per capita at $7,000 in 2022, an improvement from the $5,600 recorded in 2019 but still below the $9,000 in 2011. Household leverage (defined as household debt to disposable income) will hinge slightly higher but stabilize at 68% through 2024. Household lending growth, which is generally more cyclical, increased 5.4% in 2021, closer to the 6% in 2019. Mortgage lending increased 4% in 2021, amid relatively stable residential real estate prices in real terms.

Corporate lending growth strongly rebounded by 6.2% in 2021 following a contraction of almost 1% in 2020. The digital spectrum auction reform and the independent power producer (IPP) program could spur lending opportunities in the telecommunication and renewable energy spaces. Mining companies have deleveraged, taking advantage of high commodity prices. Commercial real estate has also shown signs of resilience on the back of a good economic recovery in 2021, regaining some of the capital market losses recorded in 2020 because of lower valuations. Credit losses in the banking sector have been very low, reflecting a diversified and moderate exposure to commercial real estate. We expect South African office rental prices will remain under pressure in the next two years after the vacancy rate reached 15%.4 in 2021. Some small and midsize enterprises (SMEs) remain under pressure from the significant interruption in business activity in 2020 and a slow recovery in the tourism sector.

We consider the South African banking sector to be in a recovery phase. We expect the credit loss ratio for the sector will hinge closer to historical levels of 0.8% in 2017-2019. We forecast that credit losses will average 1% through 2023 although top-tier banks will likely record a ratio below the sector average.

We expect earnings will recover to pre-pandemic levels in 2022. Lower impairment charges and higher interest rates will support net interest margins. We forecast return on equity will reach 16% in 2022 after improving to 14% in 2021, while return on assets will rise to 1.3% in 2022 from 1% in 2021. Banks resumed dividend payments in 2021 on the back of resilient earnings in 2020. The

SARB reinstated the systemic risk capital (Pillar 2A) buffer and adjusted the calibration of the domestic systemically important banks (D-SIB) capital requirement at mid-year 2021 while it phased out the committed liquidity facility (CLF) as planned at year-end 2021. The South African banking sector is inherently exposed to concentrated short- and medium-term wholesale funding from nonbank financial institutions. Still, in a crisis, rand liquidity remains in the country because of resident exchange controls, which mitigate banks' exposure to institutional funding. Also, major banks are not exposed to large-scale refinancing risk thanks to their limited exposure to international funding. The Financial Sector Laws Amendment Bill was adopted by parliament in 2021 and promulgated recently. This paves the way for the SARB to issue prudential standards for an effective resolution regime, including the finalization of the calibration of additional loss-absorbing capital instruments (Flac) issued by D-SIBs. We expect a deposit insurance scheme, and ultimately an effective resolution regime, will be implemented over the short term. We do not apply extraordinary support in the form of additional loss absorbing capacity to our issuer credit ratings on South African banks.

As a result of the above, our banking industry country risk assessment (BICRA) on South Africa is unchanged in group '6' (on a '1-10' scale , with '10' being the most risky). Our starting point for rating ranks in South Africa is still 'bb+'. The stable economic risk trend incorporates our expectations of a moderate economic growth amid normalizing credit losses in the sector. Economic imbalances stemming from volatile portfolio flows and stress in commercial real estate will remain manageable for banks. Our view of a stable industry risk trend is underpinned by effective regulation and proactive supervision, as well as improving financial performance. This will support banks' capitalization over our forecast horizon.

Absa Bank Ltd.

Absa is one of the top four banking groups in South Africa, and the rating is supported by its strong retail and business banking franchise, as well as its wider African and expanding international presence. Its diversified business model supports earnings. We forecast that our risk-adjusted capital (RAC) ratio will be 6.0%-6.5% in the next 12-18 months, supported by higher net interest margins. The loan portfolio could be more sensitive to the credit cycle due to the group's strong retail and SME franchise as well as its exposure to the rest of Africa. The latter is a combination of exposures to oil producing countries as well as economies susceptible to external shocks and high indebtedness. We expect the group will post a cost of risk averaging 90 bps in 2022-2023 and nonperforming loans will average 5.8% over the same period, broadly in line with our expectations for the sector average. We also expect the group will maintain a stable funding and liquidity profile through the forecast, supported by its strong deposit franchise and the closed rand system.

We do not assign outlooks to national scale ratings.

ESG credit indicators: E-2, S-2, G-2

BNP Paribas Personal Finance South Africa Ltd.

We affirmed the national scale ratings on BNP Paribas Personal Finance South Africa Ltd. In general, we do not rate nonbank financial institutions above the foreign currency ratings of the country of domicile, even when the institution is part of a highly rated banking group. We therefore cap the ratings on the entity to reflect its very high exposure to South Africa--accounting for over 95% of credit exposures--dependence on local funding markets, and the potential for direct and indirect regulatory intervention affecting the group. The ratings are supported by our opinion that the company is a highly strategic subsidiary of BNP Paribas Personal Finance S.A. and, in turn, France-based BNP Paribas. Our opinion of the subsidiary's high strategic importance remains underpinned by its 100% ownership by BNP Paribas and the strong ongoing support it receives, illustrated by the amount and quality of funding provided by the French parent. The ratings on the guaranteed domestic MTN program are unchanged.

We do not assign outlooks to national scale ratings.

Capitec Bank Ltd.

We forecast the bank will maintain a still strong RAC ratio of about 13.5% over the next 12-18 months, supported by improved net interest margins. We anticipate earnings will increase at the 11% three-year average on the back of lower credit losses, which are forecast to normalize at about 5.5%, and charge-offs to average 5.5% over the next 12-18 months. The bank continues to pursue its diversification strategy through business banking and insurance activities. Its funding and liquidity profile compares well with the sector since it is largely reliant on customer deposits. Our 'bb' stand-alone credit profile (SACP) is unchanged.

Outlook

The positive outlook on Capitec Bank mirrors that on the sovereign.

Upside scenario: We would raise the ratings on the bank if we take a similar action on the sovereign.

Downside scenario: We would revise the outlook back to stable if we take a similar action on the sovereign.

ESG credit indicators: E-2, S-2, G-2

Firstrand Bank Ltd.

FirstRand Bank's leading market position within South Africa across multiple lines of business affords it stable revenue streams and a diversified revenue mix, supporting its earnings-capacity. We expect a RAC ratio of 5.5%-6.0% over the next 12-18 months on the back of stronger earnings. We expect credit losses for FirstRand group will be 60 bps-70 bps over the next 12-18 months, down from 1.1% in 2021, largely stemming from the retail and SME segment. Credit losses will be mitigated by the low concentration risks of the loan portfolio. The group's stable funding and liquidity profile is supported by the closed rand system. We expect the bank's liquidity coverage ratio (LCR) will remain above 100% in 2022. Our 'bbb-' SACP is unchanged.

Outlook

The positive outlook mirrors that on South Africa.

Upside scenario: We would raise the ratings on the bank if we take a similar action on the sovereign.

Downside scenario: We would revise the outlook back to stable if we take a similar action on the sovereign.

ESG credit indicators: E-2, S-2, G-2

Firstrand Ltd.

We affirmed the ratings on FirstRand Ltd., the nonoperating holding company of the FirstRand Group, since they remain structurally subordinated to the ratings on the bank.

Outlook

The positive outlook mirrors that on FirstRand Bank Ltd.

Investec Bank Ltd.

Our 'bbb-' SACP is unchanged and reflects the bank's niche position among South Africa's high-net-worth individuals and professionals. The better-than-average creditworthiness of the specialist bank supports Investec group's resilience and business stability through the cycle. Our view of its risk position is a strength to the ratings, and balances its better cost of risk than rated peers against concentrations in real estate and its relatively small customer base. We believe Investec Bank's cost of risk will normalize at 0.2% over the next two years, reflecting a clientele that is more resilient to changes in interest rates and inflation. As a result, we estimate core earnings to adjusted assets will average about 1.0% through the forecast period and the RAC ratio will average about 6% over the next 12-18 months. We expect the bank will maintain a stable funding and liquidity profile, which is further supported by the closed rand system. We expect the bank's LCR will remain above 100% in 2022.

Outlook

The positive outlook mirrors that on South Africa.

Upside scenario: We would raise the ratings on the bank if we take a similar action on the sovereign.

Downside scenario: We would revise the outlook back to stable if we take a similar action on the sovereign.

ESG credit indicators: E-2, S-2, G-2

Nedbank Ltd.

Our 'bbb-' SACP is unchanged and is supported by a strong diversified banking franchise. The bank has demonstrated controlled credit losses and its asset quality compares well to peers; we expect credit losses will moderate to 40 bps-60 bps through 2023. Net interest income is expected to improve as a result of higher interest rates and support earnings growth. We forecast the bank's RAC ratio will range between 5.0% and 5.2% through our forecast horizon. However, this is less favorable than peers given Nedbank's comparatively higher exposure to commercial real estate on which S&P Global applies a higher standard risk weight. The group improved the stability of its funding in recent years, and recorded an LCR of 128% at year-end 2021. The closed rand system will continue to support the bank's stable funding and liquidity profile.

Outlook

The positive outlook mirrors that on South Africa.

Upside scenario: We would raise the ratings on the bank if we take a similar action on the sovereign.

Downside scenario: We would revise the outlook back to stable if we take a similar action on the sovereign.

ESG credit indicators: E-2, S-2, G-2

BICRA Score Snapshot

South Africa--BICRA Score Snapshot*

	To	From
BICRA Group	6	6
Economic Risk/Trend	7/Stable	7/Stable
Economic Resilience	Very high	Very high
Economic Imbalances	Intermediate	High
Credit Risk in the Economy	High	High
Industry Risk/Trend	5/Stable	5/Stable
Institutional Framework	Intermediate	Intermediate
Competitive Dynamics	Intermediate	Intermediate
Systemwide Funding	High	High
Government Support	Uncertain	Uncertain

BICRA--Banking industry country risk assessment.

Related Criteria

- General Criteria: Hybrid Capital: Methodology And Assumptions, March 2, 2022
- Criteria | Financial Institutions | General: Financial Institutions Rating Methodology, Dec. 9, 2021
- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Dec. 9, 2021
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Group Rating Methodology, July 1, 2019
- General Criteria: Methodology For National And Regional Scale Credit Ratings, June 25, 2018
- Criteria | Financial Institutions | General: Methodology For Assigning Financial Institution Resolution Counterparty Ratings, April 19, 2018
- Criteria | Financial Institutions | General: Risk-Adjusted Capital Framework Methodology, July 20, 2017
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- General Criteria: Guarantee Criteria, Oct. 21, 2016
- Criteria | Financial Institutions | Banks: Bank Rating Methodology And Assumptions: Additional Loss-Absorbing Capacity, April 27, 2015
- General Criteria: Ratings Above The Sovereign--Corporate And Government Ratings: Methodology And Assumptions, Nov. 20, 2013
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- South Africa Outlook Revised To Positive On Resilient External Sector; Ratings Affirmed, May 20, 2022
- South African Banks Ratings Affirmed Under Revised Criteria, Feb. 1, 2022
- Banking Industry Country Risk Assessment: South Africa, June 30, 2021

Ratings List

Ratings Affirmed;/Outlook Action

	To	From
Capitec Bank Ltd.		
Issuer Credit Rating	BB-/Positive/B	BB-/Stable/B

Ratings Affirmed		
Capitec Bank Ltd.		
South Africa National Scale	zaAA/--/zaA-1+	
Ratings Affirmed;/Outlook Action		
	To	**From**
FirstRand Ltd.		
Issuer Credit Rating	B/Positive/B	B/Stable/B
FirstRand Bank Ltd.		
Issuer Credit Rating	BB-/Positive/B	BB-/Stable/B
Ratings Affirmed		
FirstRand Ltd.		
South Africa National Scale	zaA-/--/zaA-2	
FirstRand Bank Ltd.		
South Africa National Scale	zaAA/--/zaA-1+	
Ratings Affirmed;/Outlook Action		
	To	**From**
Investec Bank Ltd.		
Issuer Credit Rating	BB-/Positive/B	BB-/Stable/B
Ratings Affirmed		
Investec Bank Ltd.		
South Africa National Scale	zaAA/--/zaA-1+	
Ratings Affirmed;/Outlook Action		
	To	**From**
Nedbank Ltd.		
Issuer Credit Rating	BB-/Positive/B	BB-/Stable/B
Ratings Affirmed		
Nedbank Ltd.		
South Africa National Scale	zaAA/--/zaA-1+	
Ratings Affirmed		
Absa Bank Ltd.		
South Africa National Scale	zaAA/--/zaA-1+	
Ratings Affirmed		
BNP Paribas Personal Finance South Africa Ltd.		
South Africa National Scale	zaAA/--/zaA-1+	

Regulatory Disclosures

Primary Credit Analyst: Trevor Barsdorf, Associate Director (Capitec Bank Ltd., FirstRand Bank Ltd., First Rand Ltd., Investec Bank Ltd.)

Primary Credit Analyst: Charlotte Masvongo, Associate (Absa Bank Ltd., BNP Paribas Personal Finance South Africa Ltd.)

Rating Committee Chairperson: Mohamed Damak

Date initial ratings assigned:

- Absa Bank Ltd.: Nov. 30, 2015
- BNP Paribas Personal Finance South Africa Ltd.: Nov. 15, 2016
- Capitec Bank Ltd.: Oct. 13, 2015
- FirstRand Bank Ltd.: Oct. 29, 1999
- FirstRand Ltd.: April 14, 2011
- Investec Bank Ltd.: Feb. 19, 2014

Date of previous review:

- Absa Bank Ltd.: Feb. 1, 2022
- BNP Paribas Personal Finance South Africa Ltd.: Apr. 28, 2021
- Capitec Bank Ltd.: Feb. 1, 2022
- FirstRand Bank Ltd.: Feb. 1, 2022
- FirstRand Ltd.: Feb. 1, 2022
- Investec Bank Ltd.: Feb. 1, 2022

Disclaimers

This rating has been determined by a rating committee based solely on the committee's independent evaluation of the credit risks and merits of the issuer or issue being rated in accordance with S&P Global Ratings published criteria and no part of this rating was influenced by any other business activities of S&P Global Ratings.

This credit rating is solicited. The rated entity did participate in the credit rating process. S&P Global Ratings did have access to the accounts, financial records and other relevant internal, non-public documents of the rated entity or a related third party. S&P Global Ratings has used information from sources believed to be reliable but does not guarantee the accuracy, adequacy, or completeness of any information used.

Materials Used In The Credit Rating Process: Sufficient information in general consists of both (i) financial statements that describe the Issuer's financial condition, results of operations and cash-flows, and (ii) a description of the activities and obligations of the entity including of its governance and legal structure.

This credit rating was disclosed to the rated entity or related third party before being issued.

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Glossary

- ALAC: Additional Loss-Absorbing Capacity, which can provide extraordinary external support for banks.
- Anchor: The starting point for assigning a bank a long-term rating, based on economic and industry risk.
- Asset-liability mismatch: Occurs when financial terms of an institution's assets and liabilities do not correspond.
- Asset quality: A key measure of the quality and performance of the assets of a bank.
- Available stable funding: Core deposits, plus deposits due to banks (net of those that mature within one year), plus other borrowings (net of maturities within one year), plus total equity, minus intangibles.
- Broad liquid assets: cash (net of restricted cash) and reserves at central bank, plus other cash and money market, plus bank loans and reverse repos that mature in less than one year, plus total liquid assets.
- Business position: A measure of the strength of a bank's business operations.
- Capital and earnings: A measure of a bank's ability to absorb losses.
- Counterparty credit rating: A form of issuer credit rating, which is a forward-looking opinion about an obligor's overall creditworthiness.
- Credit losses: Losses arising from credit risk.
- Credit risk: Risk that a borrower will default on its payment obligations.
- Customer loans (gross): Total customer loans before loan loss reserves.
- Date initial rating assigned: The date S&P Global Ratings assigned the long-term foreign currency issuer credit rating on the entity.
- Date of previous review: The date S&P Global Ratings last reviewed the credit rating on the entity.
- ESG credit indicators: ESG credit indicators provide additional disclosure and transparency at the entity level and reflect S&P Global Ratings' opinion of the influence that environmental, social, and governance factors have on our credit rating analysis. They are not a sustainability rating or an S&P Global Ratings ESG Evaluation. The extent of the influence of these factors is reflected on an alphanumerical 1-5 scale where 1 = positive, 2 = neutral, 3 = moderately negative, 4 = negative, and 5 = very negative. For more information, see our commentary "ESG Credit Indicators: Definition And Applications," published Oct. 13, 2021.
- Funding and liquidity: A combined assessment of the strength and stability of a bank's funding

mix and its ability to manage its liquidity needs in adverse market and economic conditions over an extended period.

- Funding base: Total deposits, plus acceptances, repurchase agreements, and other borrowings (including commercial papers, short- and long-term debt, subordinated debt, and minimal equity content hybrids).
- Gross nonperforming assets over customer loans plus other real estate owned over customer loans: Nonaccrual loans, plus restructured loans, plus repossessed assets plus loans 90-days past due; over gross customer loans plus repossessed assets.
- Group support: An assessment of the likelihood that a parent or other group member would provide extraordinary support to a bank within that group.
- Loan-loss reserves over gross nonperforming assets: General plus specific reserves, over adjusted nonperforming assets (nonaccrual loans plus restructured loans plus repossessed assets plus 90-day past due loans).
- Long-term funding ratio: Available stable funding, over funding base plus total equity, minus intangibles.
- National scale rating: An opinion of an obligor's creditworthiness or overall capacity to meet specific financial obligations, relative to other issuers and issues in a given country or region.
- New loan-loss provisions over average customer loans: Credit loss provisions (including specific loan provisions and general and other provisions) minus recoveries, over average gross customer loans of current period and last fiscal year.