

# Outlooks On Five South African Banks Revised To Stable On Similar Sovereign Rating Action; All Bank Ratings Affirmed

March 13, 2023

- On March 8, 2023, we revised the outlook on our long-term rating on South Africa to stable from positive on weakening economic growth amid severe electricity cuts.
- 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 the outlooks on our global scale ratings on five financial institutions to stable from positive, while affirming all global and national scale ratings on eight financial institutions.

JOHANNESBURG (S&P Global Ratings) March 13, 2023--S&P Global Ratings today revised its outlooks on the global scale ratings on five South Africa-based financial institutions to stable from positive. At the same time, we affirmed all our long- and short-term ratings on eight entities and their debt (see Ratings List).

Specifically, we revised our outlooks to stable from positive on:

- Capitec Bank Ltd. and affirmed our 'BB-/B' global scale ratings and our 'zaAA/zaA-1+' South Africa national scale ratings.
- FirstRand Bank Ltd. and affirmed our 'BB-/B' global scale ratings and 'zaAA/zaA-1+' South Africa national scale ratings.
- FirstRand Ltd. (a nonoperating holding company) and affirmed our 'B/B' global scale ratings and our 'zaA-/zaA-2' South Africa national scale ratings.
- Investec Bank Ltd., and affirmed our 'BB-/B' global scale ratings and 'zaAA/zaA-1+' South Africa national scale ratings.
- Nedbank Ltd. and affirmed our 'BB-/B' global scale ratings and 'zaAA/zaA-1+' South Africa national scale ratings.

Our South Africa national scale ratings do not carry outlooks. We also affirmed on:

- Absa Bank Ltd. our 'zaAA/zaA-1+' South Africa national scale ratings.
- BNP Paribas Personal Finance South Africa Ltd. our 'zaAA/zaA-1+' South Africa national scale ratings, as well as our 'zaAAA' rating on the company's parent-guaranteed domestic

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medium-term note (MTN) program.

- Sanlam Capital Markets Pty Ltd. our 'zaAA/zaA-1+' South Africa national scale ratings.

**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.**

The rating actions therefore follow the revision of the outlook on our sovereign rating on South Africa to stable from positive (see "South Africa Outlook Revised To Stable As Infrastructure Constraints Weigh On Growth; 'BB-/B' FC Ratings Affirmed," published March 8, 2023, on RatingsDirect). Despite efforts to address structural issues at the power utility company, Eskom, electricity cuts have intensified in recent months. The government declared a national state of disaster in February 2023 and appointed a Minister of Electricity on March 6, 2023, which could help accelerate the private sector and renewable electricity generation through fast-tracking measures to tackle the energy crisis. The lingering power crisis poses risks to the country's short- and medium-term growth prospects. As a result, we revised our real GDP growth forecasts for 2023 down to 1% from 1.5% previously and we expect economic growth will average 1.7% for 2024-2026. In addition, infrastructure bottlenecks have constrained export capacity. We now estimate a slightly wider current account deficit (CAD) of 0.7% in 2022 than previously expected and forecast the CAD to widen to 1.9% by 2026.

**Domestic private credit growth will be muted but the renewable sector will benefit.** Increasing electricity shortages are weighing on small and midsize enterprises. Larger corporates in the industrial sectors face a reduction of power consumption, which will likely decrease output and increase costs, in turn leading to a loss of productivity. That said, many corporates have implemented alternative power solutions. Their exposures to small businesses through their value chains pose a residual credit transmission risk. We expect these additional costs will be transferred to end customers. The retail property sector's income-producing assets have been resilient throughout the pandemic and recovered quicker than expected but office space continues to struggle, with the vacancy rate higher than 15% in 2022. Alternative power solutions are running in large commercial centres and large anchor tenants should mitigate risks. In our view, risks associated with the commercial real estate sector are manageable because of the diversified nature of banks' exposures, the collateral held, and moderate loan-to-value ratios. All in all, we expect muted private-sector credit growth of 5% over the next two years. Banks will continue to extend credit to the renewables sector although implementation of previous projects has faced delays because of capacity constraints.

**Households' disposable income will come under pressure because of higher interest rates, despite moderating inflation.** Credit conditions will remain constrained although inflation will moderate. The inflation rate decreased to 6.9% in January 2023, following a peak of 7.6% in October 2022. We expect it to fall back within the South African Reserve Bank's (SARB's) 3%-6% target this year, with headline inflation averaging 5.8%. The SARB has been tightening its monetary policy stance and raised its repo rate by 25 basis points in January 2023 to 7.25%. We expect households' disposable income will come under pressure in 2023 because of the additional costs associated with implementing alternative power solutions and higher interest rates. The South African private sector's debt absorption capacity is underpinned by moderate wealth levels, high unemployment, and wide income disparities. We forecast South Africa's GDP per capita at \$7,000 in 2023, down from \$9,000 in 2011. Household leverage (defined as household debt to disposable income) will be slightly higher than last year but stabilize at 68% through 2024.

**Grey listing will have manageable consequences for banks' financial performance.** On Feb. 24, 2023, the Financial Action Task Force (FATF) listed South Africa in its grey list of countries with structural deficiencies in their anti-money laundering and counter-terrorist financing (AML/CFT) regimes. These deficiencies stem from the misuse of public funds during 2009-2018. We believe the implications for the banking sector will be manageable despite some impact on transaction costs. Although banks' digital capabilities have contributed to embedding AML/CFT requirements into their risk management, the financial sector is indirectly exposed to gaps from the private sector's inadequate management of these risks (see "South Africa's Risk From FATF's Grey Listing Depends On Institutional Reform Momentum," published Sept. 8, 2022).

**We expect earnings will be resilient through the cycle.** We expect the banking sector's credit loss ratio will remain slightly higher than the historical low point of 75 basis points, averaging 1% through 2024. Similarly, nonperforming loans will likely increase to 3.5%-4.0% of systemwide loans. These metrics differ among rated banks based on their business profiles and diversification. We expect large banks will fare better than lower-tier banks, while higher interest rates support growth of investment income and net interest margins. Against this backdrop, we expect the sector will maintain adequate risk-adjusted returns of 15%-16% on average. This in turn will support banks' internal capital generation over 2023-2025.

## **Capitec Bank Ltd.**

### **Outlook**

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

**Downside scenario:** We would lower the ratings if we took a similar action on the sovereign.

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

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

## **FirstRand Bank Ltd. And FirstRand Ltd.**

### **Outlook**

The stable outlook on FirstRand Bank Ltd. mirrors that on South Africa. The stable outlook on FirstRand Ltd., the nonoperating holding company, mirrors that on FirstRand Bank Ltd.

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

**Downside scenario:** We would lower the ratings if we took a similar action on the sovereign.

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

## Investec Bank Ltd.

### Outlook

The stable outlook mirrors that on South Africa.

**Downside scenario:** We would lower the ratings if we took a similar action on the sovereign.

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

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

## Nedbank Ltd.

### Outlook

The stable outlook on the rating mirrors that on South Africa.

**Downside scenario:** We would lower the ratings if we took a similar action on the sovereign.

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

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

## National Scale Ratings

Our South Africa national scale ratings do not carry outlooks.

## 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. BNP Paribas Personal Finance South Africa Ltd. has 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. We revised our assessment of its group status following the announcement of BNP Paribas' geographic repositioning of its consumer finance business outside the eurozone.

The ratings on BNP Paribas Personal Finance South Africa continue to be supported by our opinion that the company is strategically important (previously highly strategically important) to BNP Paribas Personal Finance S.A. and, in turn, France-based BNP Paribas. This is further underpinned by BNP Paribas' 100% ownership and the amount and quality of funding it provides to the company.

## 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
- Criteria | Insurance | General: Insurers Rating Methodology, July 1, 2019
- General Criteria: Methodology For National And Regional Scale Credit Ratings, June 25, 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
- General Criteria: Ratings Above The Sovereign--Corporate And Government Ratings: Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011
- Criteria | Insurance | General: Refined Methodology And Assumptions For Analyzing Insurer Capital Adequacy Using The Risk-Based Insurance Capital Model, June 7, 2010

## Related Research

- South Africa Outlook Revised To Stable As Infrastructure Constraints Weigh On Growth; 'BB-/B' FC Ratings Affirmed, March 8, 2023
- South Africa's Risk From FATF's Grey Listing Depends On Institutional Reform Momentum, Sept. 8, 2022
- Banking Industry Country Risk Assessment: South Africa, June 30, 2022
- South Africa Outlook Revised To Positive On Resilient External Sector; Ratings Affirmed, May 20, 2022

## Ratings List

\*\*\*\*\* Absa Bank Ltd. \*\*\*\*\*

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**Ratings Affirmed**

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**Absa Bank Ltd.**

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Issuer Credit Rating

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**Outlooks On Five South African Banks Revised To Stable On Similar Sovereign Rating Action; All Bank Ratings Affirmed**

South Africa National Scale zaAA/--/zaA-1+

\*\*\*\*\*BNP Paribas\*\*\*\*\*

**Ratings Affirmed**

**BNP Paribas Personal Finance South Africa Ltd.**

Issuer Credit Rating

South Africa National Scale zaAA/--/zaA-1+

\*\*\*\*\*Capitec Bank Ltd.\*\*\*\*\*

**Ratings Affirmed**

**Capitec Bank Ltd.**

Issuer Credit Rating

South Africa National Scale zaAA/--/zaA-1+

**Ratings Affirmed; Outlook Action**

	To	From
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**Capitec Bank Ltd.**

Issuer Credit Rating	BB-/Stable/B	BB-/Positive/B
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\*\*\*\*\*FirstRand Ltd.\*\*\*\*\*

**Ratings Affirmed**

**FirstRand Bank Ltd.**

Issuer Credit Rating

South Africa National Scale zaAA/--/zaA-1+

**FirstRand Ltd.**

Issuer Credit Rating

South Africa National Scale zaA/--/zaA-2

**FirstRand Bank Ltd.**

Junior Subordinated zaBBB+

**Ratings Affirmed; Outlook Action**

	To	From
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**FirstRand Bank Ltd.**

Issuer Credit Rating	BB-/Stable/B	BB-/Positive/B
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**FirstRand Ltd.**

Issuer Credit Rating	B/Stable/B	B/Positive/B
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\*\*\*\*\*Investec Bank Ltd.\*\*\*\*\*

**Ratings Affirmed**

**Investec Bank Ltd.**

Issuer Credit Rating

South Africa National Scale zaAA/--/zaA-1+

**Ratings Affirmed; Outlook Action**

	To	From
<b>Investec Bank Ltd.</b>		
Issuer Credit Rating	BB-/Stable/B	BB-/Positive/B

\*\*\*\*\* **Nedbank Group Ltd.** \*\*\*\*\*

**Ratings Affirmed**

**Nedbank Ltd.**

Issuer Credit Rating		
South Africa National Scale	zaAA/--/zaA-1+	

**Ratings Affirmed; Outlook Action**

	To	From
<b>Nedbank Ltd.</b>		
Issuer Credit Rating	BB-/Stable/B	BB-/Positive/B

\*\*\*\*\* **Sanlam Ltd.** \*\*\*\*\*

**Ratings Affirmed**

**Sanlam Capital Markets Pty Ltd.**

Issuer Credit Rating		
South Africa National Scale	zaAA/--/zaA-1+	

## Regulatory Disclosures

- Primary Analyst: Charlotte Masvongo, Associate (Absa Bank Ltd., BNP Paribas Personal Finance South Africa Ltd., Capitec Bank Ltd., Sanlam Capital Markets Pty Ltd.)
- Chair: Mohamed Damak (Absa Bank Ltd., Capitec Bank Ltd., Sanlam Capital Markets Pty Ltd.)
- Chair: Sergey Voronenko (BNP Paribas Personal Finance South Africa Ltd.)

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
- Sanlam Capital Markets Pty Ltd.: Feb. 25, 2016

Date of previous review:

- Absa Bank Ltd.: May 25, 2022
- BNP Paribas Personal Finance South Africa Ltd.: May 25, 2022
- Capitec Bank Ltd.: May 25, 2022
- Sanlam Capital Markets Pty Ltd.: May 24, 2022

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## **Glossary**

- 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 alphanumeric 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.

- 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.
- Issuer credit rating: A forward-looking opinion about an obligor's overall creditworthiness, focusing on its capacity and willingness to meet its financial obligations in full as they come due.
- 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.

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