S&P Global Ratings

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South African Banks Outlooks Revised To Positive On Similar Sovereign Action

November 20, 2024

- On Nov. 15, 2024, we revised our outlook on South Africa to positive from stable on improved reform momentum and stronger growth prospects and affirmed our 'BB-/B' long- and short-term sovereign foreign currency credit ratings.
- We have subsequently revised our outlooks to positive on six South African financial institutions, affirmed our global scale ratings (where they exist), and raised our national scale ratings by one notch on four banks.
- We consider that lower inflation in the country and banks' cautious lending expansion could lead to lower economic risks.
- Furthermore, systemwide funding is supported by broad and deep capital markets and the closed rand system.
- We now see the economic risk trend as positive and have improved our view of risks related to systemwide funding.

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JOHANNESBURG (S&P Global Ratings) Nov. 20, 2024--S&P Global Ratings today revised its outlook on the global scale ratings on six South Africa-based financial institutions to positive from stable and raised the national scale ratings on four financial institutions. The global scale and national scale ratings on several entities were affirmed, including the issue ratings on the debt.

Specifically, the rating actions are as follows:

- Absa Bank Ltd.: We raised our long-term South Africa national scale rating to 'zaAA+' from 'zaAA' and affirmed our 'zaA-1+' short-term national scale rating.
- African Bank Ltd.: We affirmed our 'B/B' global scale issuer credit ratings and maintained the positive outlook. We also affirmed our 'zaA-/zaA-2' South Africa national scale ratings.
- BNP Paribas Personal Finance South Africa Ltd.: We affirmed our 'zaAA/zaA-1+' South Africa national scale ratings.
- Capitec Bank Ltd.: We affirmed our 'BB-/B' global scale issuer credit ratings and revised the outlook to positive from stable. 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 from stable. At the same time, we raised our long-term South Africa national scale rating to 'zaAA+' from 'zaAA' and affirmed our 'zaA-1+' short-term national scale rating.
- FirstRand Ltd. (nonoperating holding company): We affirmed our 'B/B' global scale issuer credit

ratings and revised the outlook to positive from stable. 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 from stable. At the same time, we raised our long-term South Africa national scale rating to 'zaAA+' from 'zaAA' and affirmed our 'zaA-1+' short-term national scale rating.
- Nedbank Ltd.: We affirmed our 'BB-/B' global scale issuer credit ratings and revised the outlook to positive from stable. At the same time, we raised our long-term South Africa national scale rating to 'zaAA+' from 'zaAA' and affirmed our 'zaA-1+' short-term national scale rating.
- Development Bank of Southern Africa Ltd.: We affirmed our 'BB-/B' foreign currency and 'BB/B' local currency global scale issuer credit ratings and revised the outlook to positive from stable.

The rating actions follow our revision of the outlook on South Africa on Nov. 15, 2024 (see "South Africa Outlook Revised To Positive On Improved Reform And Growth Potential," published on RatingsDirect).

Investor confidence is improving on the back of the formation of a government of national unity. The South African rand (ZAR) strengthened markedly, thanks to the government's market-friendly policy stance and reform momentum that aims to address infrastructure deficiencies and service delivery. At the same time, debt yields and portfolio inflows have improved, leading to easing government financing conditions and currency strengthening. While this is supportive for the economy, delays in reform implementation or lower cohesion within the governing coalition could change the picture.

Credit conditions through 2025 will support household consumption and lending. Improving macroeconomic conditions in South Africa on the back of energy stability and lower inflation will ease pressure on households' capacity to service debt. While the South African Reserve Bank (SARB), the central bank, cut its repurchase rate by 25 basis points (bps) to 8% in September 2024, following the U.S. Federal Reserve rate cut of 50 bps, its cut cycle rate could last until the end of 2025 as inflation remains anchored in the middle of the SARB's 3%-6% target range. Inflation fell to 3.8% year on year in September, from 4.4% in August, relative to almost 6% on average in 2023.

Lower inflation, coupled with cautious expansion of the banking system, could lead to lower economic risks. Therefore, we expect credit losses to normalize below 1%, closer to historical trends by 2025. Similarly, we expect the trend of nonperforming assets to improve toward 4.4% of total loans at year-end 2025 after reaching 4.9% at year-end 2023. We forecast GDP growth will accelerate to 1.4% on average over the next three years from less than 1% in the past two years, while lending growth will hover around 8%-9% in 2025. We expect credit demand will stem from the property market and investments in infrastructure, including logistics and renewable projects.

South Africa has broad and deep capital markets. The domestic market provides a sustainable funding base for the government and the private sector. Government domestic debt, issued on the local capital market, accounts for 75% of GDP, while private sector debt stood at about 65% of GDP at year-end 2023. The country has relatively strong institutions, particularly the SARB. In addition to its track record of effective monetary policy that slowed inflation in 2024, the SARB introduced a new operational framework to implement its monetary policy decisions. In 2022, in response to the market volatility observed in first quarter 2020, the SARB shifted to a surplus system from a cash reserve system, transferring management of excess liquidity in the market to commercial banks. Furthermore, the SARB will release the equivalent of ZAR150 billion through

2026 to the National Treasury. The release of the unrealized gains of the country's gold and foreign exchange contingency reserve account will contribute to strengthen banks' deposit base and increase quota share, supporting their earnings in the process.

The South African banking sector is inherently exposed to concentrated short- and medium-term wholesale funding from nonbank financial institutions (NBFIs). NBFIs represent 200% of GDP and are a steady source of funding. That said, banks have reduced their share of short-term wholesale funding (30%-40% of their funding base). We deduct this share from our loan-to-deposit ratio. The combination of this adjustment with a 50% haircut on corporate deposits to reflect their market sensitivity results in comparatively higher loan-to-deposit ratio metrics in South Africa compared with peers. We forecast the loan-to-deposit ratio will increase to about 175% of systemwide domestic loans through 2026. Still, in a crisis, resident exchange controls mitigate banks' exposure to institutional funding and strengthen the stability of domestic deposits, keeping the rand liquid. What's more, South African banks are not exposed to external refinancing risks, which is a positive differentiator among emerging market peers.

We continue to assess South Africa's banking sector in group '6' according to our banking industry country risk assessment (BICRA) on a scale of '1 to 10' with '10' being the riskiest. Our anchor for banks operating in South Africa remains at 'bb+'. This has no impact on our rated banks' stand-alone credit profiles (SACPs). 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.

We raised our national scale ratings by one notch to 'zaAA+' on Absa Bank Ltd., FirstRand Bank Ltd., Investec Ltd., and Nedbank Ltd. to reflect their relative credit strength in the South African market.

We now see economic risk having a positive trend. This reflects our expectations of the improving macroeconomic conditions and that banks' cautious lending expansion could lead to lower economic risks.

Underpinning our view of the stable trend we see for industry risk are the proactive supervision and good risk adjusted profitability of the banking system. South African banks operate with broad and liquid capital markets that support systemwide funding, while the closed rand system mitigates banks' exposure to wholesale funding.

Absa Bank Ltd.:

Primary credit analyst: Charlotte Masvongo, Johannesburg

Outlook

We do not assign outlooks to national scale ratings.

African Bank Ltd.

Primary credit analyst: Charlotte Masvongo, Johannesburg

Outlook

Our 'b' stand-alone credit profile (SACP) is unchanged. The positive outlook on African Bank reflects the prospects of further franchise strengthening while it maintains strong capitalization and improves asset quality indicators, supported by improving broader economic prospects.

Upside scenario: We could raise our ratings if the bank continues to expand its franchise and improve its profitability while maintaining strong capitalization. We could also raise the ratings if the bank's normalized credit losses decrease sustainably because of the stronger quality of the new loan production. This could happen thanks to the shift in the loan book mix between unsecured and secured lending. At the same time, we would see the bank continuing to write off legacy exposures. In addition, we could raise the ratings if broader economic prospects continue to improve, leading to cautious banking sector growth prospects while keeping economic imbalances in check.

Downside scenario: We could revise the outlook to stable if broader economic prospects deteriorate, leading to weaker prospects for franchise improvement, or additional deterioration in asset quality indicators or the risk-adjusted capital (RAC) ratio falling sustainably below 10%.

BNP Paribas Personal Finance South Africa Ltd.

Primary credit analyst: Adnan Osman, Johannesburg

Outlook

We do not assign outlooks to national scale ratings.

Capitec Bank Ltd.

Primary credit analyst: Charlotte Masvongo, Johannesburg

Outlook

Our 'bb+' SACP is unchanged. 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.

FirstRand Bank Ltd.

Primary credit analyst: Sergey Voronenko, Dubai

Outlook

Our 'bbb-' SACP is unchanged. 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.

FirstRand Ltd.

Primary credit analyst: Sergey Voronenko, Dubai

Outlook

FirstRand Ltd. is the nonoperating holding company of the FirstRand Group, and remains structurally subordinated to the ratings on the bank. The positive outlook mirrors that on FirstRand Bank Ltd.

Investec Bank Ltd.

Primary credit analyst: Sergey Voronenko, Dubai

Outlook

Our 'bbb-' SACP is unchanged. 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.

Nedbank Ltd.

Primary credit analyst: Charlotte Masvongo, Johannesburg

Outlook

Our 'bbb-' SACP is unchanged. 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.

Development Bank of Southern Africa Ltd. (DBSA)

Primary credit analyst: Adnan Osman, Johannesburg

Outlook

The positive outlook mirrors that of South Africa because we view government support as almost certain based on the stable role and link of DBSA's with the state.

Upside scenario: We would raise the ratings on the bank if we take a similar action on the sovereign. We do not expect to rate DBSA higher than the sovereign.

Downside scenario: We would revise the outlook back to stable if we take a similar action on the sovereign. Pressure on the ratings could also build if the bank's public policy role or its link with the government were to weaken.

BICRA Score Snapshot

South Africa BICRA

	To	From
BICRA Group	**6**	**6**
Economic Risk/Trend	**7/Positive**	**7/Stable**
Economic Resilience	Very high	Very high
Economic Imbalances	Intermediate	High
Credit Risk in the Economy	High	High
Industry Risk/Trend	**4/Stable**	**5/Stable**
Institutional Framework	Intermediate	Intermediate
Competitive Dynamics	Intermediate	Intermediate
Systemwide Funding	Intermediate	High
Government Support	Uncertain	Uncertain

BICRA--Banking industry country risk assessment.

Related Criteria

- Criteria | Financial Institutions | General: Risk-Adjusted Capital Framework Methodology, April 30, 2024

- General Criteria: National And Regional Scale Credit Ratings Methodology, June 8, 2023
- General Criteria: Hybrid Capital: Methodology And Assumptions, March 2, 2022
- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Dec. 9, 2021
- Criteria | Financial Institutions | General: Financial Institutions Rating Methodology, 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 Linking Long-Term And Short-Term Ratings, April 7, 2017
- General Criteria: Guarantee Criteria, Oct. 21, 2016
- General Criteria: Rating Government-Related Entities: Methodology And Assumptions, March 25, 2015
- General Criteria: Ratings Above The Sovereign--Corporate And Government Ratings: Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Criteria For Assigning 'CCC+', 'CCC', 'CCC-', And 'CC' Ratings, Oct. 1, 2012
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- South Africa Outlook Revised To Positive On Improved Reform And Growth Potential, Nov. 15, 2024
- Banking Industry Country Risk Assessment: South Africa, July 31, 2024
- 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
- South Africa Outlook Revised To Positive On Resilient External Sector; Ratings Affirmed, May 20, 2022

Ratings List

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

Upgraded; Ratings Affirmed		
	To	**From**
Absa Bank Ltd.		
Issuer Credit Rating		
South Africa National Scale	zaAA+/--/zaA-1+	zaAA/--/zaA-1+

*** * * * * * * * * * * * African Bank Holdings Ltd. * * * * * * * * * * * ***		
Ratings Affirmed		
African Bank Ltd.		
Issuer Credit Rating	B/Positive/B	
South Africa National Scale	zaA-/--/zaA-2	
*** * * * * * * * * * * * * * * * 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**
Capitec Bank Ltd.		
Issuer Credit Rating	BB-/Positive/B	BB-/Stable/B
*** * * * * * * * * Development Bank of Southern Africa Ltd. * * * * * * * ***		
Ratings Affirmed		
Development Bank of Southern Africa Ltd.		
Senior Unsecured	BB	
Ratings Affirmed; Outlook Action		
	To	**From**
Development Bank of Southern Africa Ltd.		
Issuer Credit Rating		
Foreign Currency	BB-/Positive/B	BB-/Stable/B
Local Currency	BB/Positive/B	BB/Stable/B
*** * * * * * * * * * * * * * * FirstRand Ltd. * * * * * * * * * * * * * * ***		
Ratings Affirmed		
FirstRand Ltd.		
Issuer Credit Rating		
South Africa National Scale	zaA-/--/zaA-2	
Ratings Affirmed; Outlook Action		
	To	**From**
FirstRand Bank Ltd.		
Issuer Credit Rating	BB-/Positive/B	BB-/Stable/B

FirstRand Ltd.		
Issuer Credit Rating	B/Positive/B	B/Stable/B
Upgraded; Ratings Affirmed		
	To	**From**
FirstRand Bank Ltd.		
Issuer Credit Rating		
South Africa National Scale	zaAA+/--/zaA-1+	zaAA/--/zaA-1+
*** * * * * * * * * * * * * * Investec Bank Ltd. * * * * * * * * * * * * * ***		
Ratings Affirmed; Outlook Action		
	To	**From**
Investec Bank Ltd.		
Issuer Credit Rating	BB-/Positive/B	BB-/Stable/B
Upgraded; Ratings Affirmed		
	To	**From**
Investec Bank Ltd.		
Issuer Credit Rating		
South Africa National Scale	zaAA+/--/zaA-1+	zaAA/--/zaA-1+
*** * * * * * * * * * * * * * Nedbank Group Ltd. * * * * * * * * * * * * * ***		
Ratings Affirmed; Outlook Action		
	To	**From**
Nedbank Ltd.		
Issuer Credit Rating	BB-/Positive/B	BB-/Stable/B
Upgraded; Ratings Affirmed		
	To	**From**
Nedbank Ltd.		
Issuer Credit Rating		
South Africa National Scale	zaAA+/--/zaA-1+	zaAA/--/zaA-1+

Regulatory Disclosures

Primary Analysts:

- Absa Bank Ltd.: Charlotte Masvongo, Associate, Primary Analyst
- African Bank Ltd.: Charlotte Masvongo, Associate, Primary Analyst:
- Capitec Bank Ltd.: Charlotte Masvongo, Associate, Primary Analyst
- Nedbank Ltd.: Charlotte Masvongo, Associate, Primary Analyst
- BNP Paribas Personal Finance South Africa Ltd.: Adnan Osman, Rating Analyst
- Development Bank of Southern Africa Ltd.; Adnan Osman, Rating Analyst

- Chair: Mohamed Damak

Date initial ratings assigned:

- Absa Bank Ltd.: Nov. 30, 2015
- African Bank Ltd.: April 5, 2016
- BNP Paribas Personal Finance South Africa Ltd.: Nov. 15, 2016
- Capitec Bank Ltd.: Oct. 13, 2015
- Nedbank Ltd: Dec. 10, 2012
- Development Bank of Southern Africa Ltd.: Oct. 10, 2000

Date of previous review:

- Absa Bank Ltd.: July 30, 2024
- African Bank Ltd.: July 30, 2024
- BNP Paribas Personal Finance South Africa Ltd.: March 13, 2023
- Capitec Bank Ltd.: May 28, 2024
- Nedbank Ltd: July 30, 2024
- Development Bank of Southern Africa Ltd.: March 15, 2023

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

- 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.
- 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.