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Update: BNP Paribas Personal Finance South Africa Ltd.

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Update: BNP Paribas Personal Finance South Africa Ltd.

Major Rating Factors

Issuer Credit Rating

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

Overview

Key strengths	Key risks
Support and oversight from parent, BNP Paribas.	Focus on unsecured consumer credit in South Africa, where household leverage is high.
Strong capitalization and ongoing contingent liquidity support.	Elevated normalized cost of risk.
Fully guaranteed funding.	Largely wholesale funded.

We consider BNP Paribas Personal Finance South Africa Ltd. (BNPPPFSA) to be a strategically important subsidiary of France-based BNP Paribas (BNPP). Our opinion of the subsidiary's group status is underpinned by its 100% ownership by BNPP and the strong ongoing support it receives, illustrated by guaranteed funding, as well as the standby liquidity facility provided by the French parent. We view the provision of a guarantee on BNPPPFSA's medium-term note program as a strong sign of support and commitment. Moreover, BNPPPFSA's operations are integrated into its parent's risk and financial controls. We believe BNPP's oversight benefits BNPPPFSA's revenue stability, governance, and strategy. We however, revised our assessment of its group status following the announcement of BNPP's geographic repositioning of its consumer finance business outside the eurozone.

Revenue concentration in unsecured retail lending expected to persist. BNPPPFSA is an unsecured consumer finance provider operating in the competitive South African market without a banking license. With total assets of South African rand (ZAR) 13.8 billion (approximately \$768 million) on Dec. 31, 2022, BNPPPFSA is modestly sized both in the context of the wider group and the domestic financial sector. It operates two main business lines: RCS Cards, which generated 73% of profit before tax (PBT) as of Dec. 31, 2022; and RCS Loans, which accounted for 24% of PBT at the same date. The card business consists of general purpose, co-branded, credit, and private label cards. BNPPPFSA holds about 23.9% store card market share and about 2% market share in the unsecured loans business. The group also provides short-term insurance products underwritten by third parties leveraging off its distribution channel.

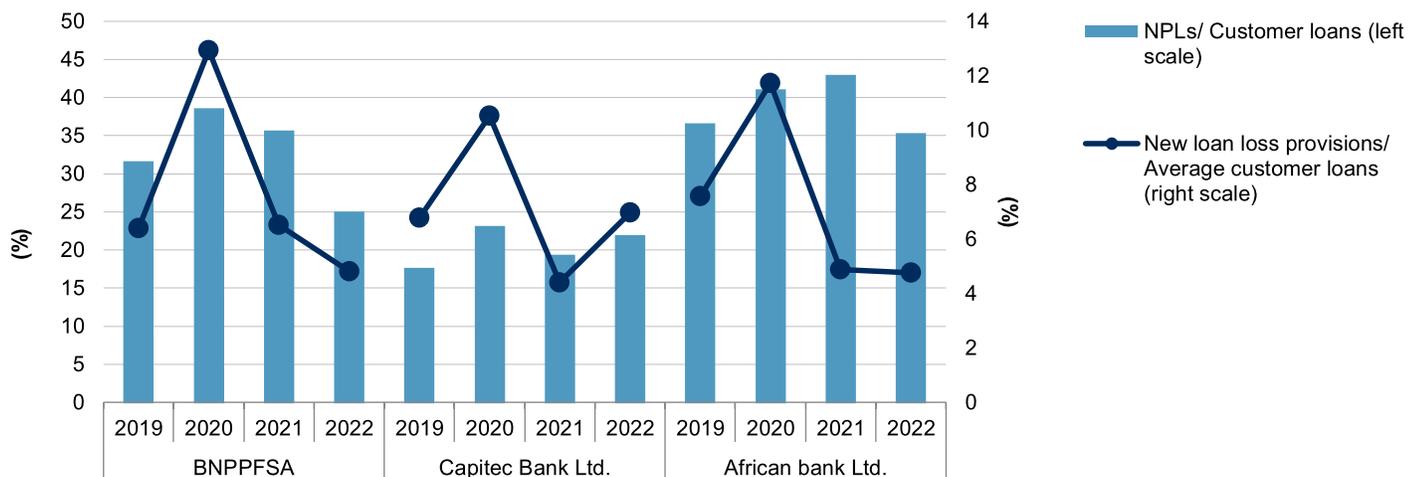
BNPPPFSA continues to focus on improving diversification of its multiple retail partnerships and digital transformation to enhance their customer offering. After acquiring Edcon in 2020, BNPPPFSA announced the acquisition of Mobicred, an online retail credit solutions provider, in April 2022. In further diversification, the entity also has online payment processing solution partnerships and credit card products. We expect the acquisitions and partnerships will help accelerate its growth into the e-commerce space, widen its customer reach, and support revenue growth.

We expect BNPPFSA to maintain high capital levels. Unlike its banking sector peers, BNPPFSA is not subject to regulatory supervision by the South African Reserve Bank and is not required to adhere to minimum regulatory capital adequacy (CAR) requirements. However, the company's financial policy operates with conservative capital buffers and a high internal CAR that stood at 27% as of Dec. 31, 2022. We expect the company to maintain high levels of capital with a capital adequacy ratio above the internal minimum target of 20% over the next 12-18 months. We expect earnings to improve, supported by higher net interest income off the back of higher interest rates and growth in the customer base. In addition, we also expect net insurance income to continue improving. BNPPFSA's earnings improved in 2022 (supported by lower credit loss provisions) with a return on average equity (ROE) ratio of 10% from 8.4% in 2021. This is however below the pre-pandemic average of about 16% between 2016-2019 and the 14% average of unsecured lender peers in 2022.

BNPPFSA's focus on unsecured lending results in high normalized credit losses. BNPPFSA records high normalized credit losses because of its sole focus on unsecured retail credit. We expect credit losses and non-performing loans (NPLs) to increase over the next 12-18 months reflecting higher interest rates and the cost of living, which will impact households' disposable income and affordability. BNPPFSA's credit losses decreased to 4.8% in 2022 from 6.5% in 2021, while NPLs decreased to 25% from 36% in 2021 mainly driven by a debt sale amounting to ZAR1.7 billion. This compares well relative to unsecured lender peers, which on average recorded 5.9% for credit losses and 29% for NPLs in 2022. Our measure of NPLs for BNPPFSA incorporates accounts that have been transferred to third parties for collections.

Chart 1

BNPPFSA's asset quality metrics are in line with other unsecured lender peers



Source: S&P Global Ratings.

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BNPPFSA's debt is fully guaranteed by BNPP France. The full guarantee on BNPPFSA's medium-term note program supports the 'zaAAA' issue rating. BNPP provides a conditional and irrevocable guarantee for the due and punctual fulfilment of all payment obligations by BNPPFSA in regards to all amounts owing by the entity in respect of the notes issued under the Domestic Medium Term Note program. The entity also has a guarantee on the program from RCS Cards (Pty) Ltd. Noteholders would first claim against RCS Cards in the event of default; if payment is not received, then noteholders are entitled to claim against BNPP.

Outlook

We do not assign outlooks to South Africa national scale ratings.

Key Statistics

Table 1

BNP Paribas Personal Finance South Africa Ltd.--Business position					
--Year-ended Dec. 31--					
(Mil. ZAR)	2022	2021	2020	2019	2018
Total assets	13,823.0	12,712.0	14,201.0	12,273.0	10,237.0
Gross receivables	15,356.0	16,266.0	18,364.0	15,560.0	12,428.0
Operating revenues	2,634.0	2,752.0	3,544.0	2,439.0	2,144.0
Net income after extraordinary	383.0	321.0	57.0	472.0	405.0
% Change in operating revenue	-4.3	-22.4	45.3	13.8	12.5
Net interest margin (%)	9.8	9.6	13.3	10.5	N/A

N/A--Not applicable. ZAR--South African rand. #Gross active cards and loans receivables

Table 2

BNP Paribas Personal Finance South Africa Ltd.--Capital and earnings					
--Year-ended Dec. 31--					
(%)	2022	2021	2020	2019	2018
Adjusted common equity/total adjusted capital	100.0	100.0	100.0	100.0	100.0
Noninterest expenses/operating revenues (%)	53.6	44.7	37.3	40.1	43.1
Net interest income/operating revenues (%)	63.8	65.9	68.6	63.9	64.1
Fee income/operating revenues (%)	22.8	25.1	24.1	24.5	24.9
Return on average assets (%)	2.9	2.4	0.4	4.2	4.5
Core earnings/average managed assets (%)	2.9	2.4	0.4	4.2	4.5

Table 3

BNP Paribas Personal Finance South Africa Ltd.--Risk position					
	--Year-ended Dec. 31--				
(%)	2022	2021	2020	*2019	2018
Growth in gross receivables (%) (YoY)	-5.6	-11.4	18.0	25.2	50.8
Nonperforming assets/receivables + other real estate owned (%)	24.9	35.6	38.5	31.5	27.8
New loan loss provisions/average gross receivables (%)	4.8	6.5	12.9	6.4	6.8
Loan loss reserves/gross nonperforming assets (%)	103.5	98.9	96.4	99.3	99.5

*2019 not comparable to prior periods due to change in International Financial Reporting Standards Nine (IFRS9).

Table 4

BNP Paribas Personal Finance South Africa Ltd.--Funding and liquidity					
	--Year-ended Dec. 31--				
(%)	2022	2021	2020	2019	2018
Stable funding ratio	53.9	76.2	75.4	64.3	71.1
Liquidity coverage metric (x)	0.2	0.4	0.4	0.2	0.2

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: 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

Related Research

- Banking Industry Country Risk Assessment: South Africa, June 15, 2023
- Sub-Saharan Africa's Fading Tailwinds And Missed Opportunities, May 30, 2023
- South Africa, May 22, 2023

- Outlooks On Five South African Banks Revised To Stable On Similar Sovereign Rating Action; All Bank Ratings Affirmed, March 13, 2023

Regulatory Disclosures

Regulatory disclosures applicable to the most recent credit rating action can be found at "Outlooks On Five South African Banks Revised To Stable On Similar Sovereign Rating Action; All Bank Ratings Affirmed ", published March 13, 2023, on RatingsDirect.

Glossary

- **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.
- **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.
- **Core earnings over average managed assets:** Annualized core earnings, over average assets of current period and last fiscal year.
- **Core earnings:** Net income before minority interest, minus nonrecurring income, plus nonrecurring expenses, plus/minus tax impact on adjustments, plus amortization/impairment of goodwill/intangibles, minus preferred dividends.
- **Cost of risk:** As a percentage of total loans, the charge for bad and doubtful debts.
- **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.
- **Earning capacity:** The capacity of a bank to generate sufficient earnings against losses and the primary way that a bank builds or maintains its capitalization.
- **Fee income over operating revenues:** Net income on fees and commissions over operating revenues.
- **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).
- **Group support:** An assessment of the likelihood that a parent or other group member would provide extraordinary support to a bank within that group.
- **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.

- 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.
- Net interest income over operating revenues: Net interest income (including net interest income on loans, securities, and other assets), over operating revenues.
- 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.
- Noninterest expenses: Salaries and general administrative expenses (including depreciations and amortizations).
- Operating revenues: Net interest income, plus operating noninterest income (mainly includes fees and commissions and trading gains).
- Pre provision operating income over average assets: Operating revenues minus noninterest expenses, over average assets.
- Return on equity: Net income before extraordinary results minus preferred dividends over average common equity (average between current period and last fiscal period).
- Risk position: Our view of the specific risk characteristics of a particular bank.
- Stable funding needs: Restricted cash and reserves at the central bank, plus interbank deposits, plus loans to banks (net of maturities within one year), plus reverse repurchase agreements, plus gross customer loans net of loan-loss reserves, plus securities, minus total liquid securities, plus equity participations in nonfinancial entities, plus fixed assets, plus other assets (considering foreclosed assets, tax loss carryforwards, and deferred assets).
- Stable funding ratio: Available stable funding over stable funding needs.

Ratings Detail (As Of July 28, 2023)*

BNP Paribas Personal Finance South Africa Ltd.

Issuer Credit Rating

South Africa National Scale

zaAA/--/zaA-1+

Issuer Credit Ratings History

26-Nov-2019

South Africa National Scale

zaAA/--/zaA-1+

02-Jul-2018

zaAA+/--/zaA-1+

29-Nov-2017

zaAA/--/zaA-1+

Sovereign Rating

South Africa

Foreign Currency

BB-/Stable/B

Local Currency

BB/Stable/B

South Africa National Scale

zaAAA/--/zaA-1+

Related Entities

Arval Service Lease S.A.

Issuer Credit Rating

A-/Stable/A-2

Ratings Detail (As Of July 28, 2023)*(cont.)

Commercial Paper	
<i>Local Currency</i>	A-2
Senior Unsecured	A-
Banca Nazionale del Lavoro SpA	
Issuer Credit Rating	BBB+/Stable/A-2
Resolution Counterparty Rating	A-/--/A-2
Banco BNP Paribas Brasil S.A.	
Issuer Credit Rating	
<i>Brazil National Scale</i>	brAAA/Stable/--
BGL BNP Paribas S.A.	
Issuer Credit Rating	A+/Stable/A-1
Resolution Counterparty Rating	AA-/--/A-1+
Senior Unsecured	A+
Short-Term Debt	A-1
Subordinated	BBB+
BNP Paribas	
Issuer Credit Rating	A+/Stable/A-1
Resolution Counterparty Rating	AA-/--/A-1+
Commercial Paper	A-1
Junior Subordinated	BBB
Junior Subordinated	BBB-
Senior Subordinated	A-
Subordinated	BBB+
BNP Paribas (Australian Branch)	
Senior Unsecured	A+
BNP Paribas Cardif	
Issuer Credit Rating	A-/Stable/--
Junior Subordinated	BBB
Subordinated	BBB
BNP Paribas (China) Ltd.	
Issuer Credit Rating	A-/Stable/A-2
BNP Paribas Fortis (New York Branch)	
Issuer Credit Rating	A+/Stable/A-1
Resolution Counterparty Rating	AA-/--/A-1+
Commercial Paper	
<i>Local Currency</i>	A-1
BNP Paribas Fortis SA/NV	
Issuer Credit Rating	A+/Stable/A-1
Resolution Counterparty Rating	AA-/--/A-1+
Certificate Of Deposit	A+/A-1
Junior Subordinated	BBB-
Senior Secured	AAA/Stable
Senior Unsecured	A+
Short-Term Debt	A-1

Ratings Detail (As Of July 28, 2023)*(cont.)

BNP Paribas Home Loan SFH	
Senior Secured	AAA/Stable
BNP Paribas Issuance B.V.	
Issuer Credit Rating	A+/Stable/A-1
Resolution Counterparty Rating	AA-/--/A-1+
BNP Paribas (London Branch)	
Issuer Credit Rating	A+/Stable/A-1
Resolution Counterparty Rating	AA-/--/A-1+
BNP Paribas Mexico, S.A., Institucion de Banca Multiple	
Issuer Credit Rating	
<i>CaVal (Mexico) National Scale</i>	mxAAA/Stable/mxA-1+
BNP Paribas (New York Branch)	
Issuer Credit Rating	A+/Stable/A-1
Resolution Counterparty Rating	AA-/--/A-1+
Commercial Paper	
<i>Local Currency</i>	A-1
BNP Paribas Personal Finance	
Issuer Credit Rating	A+/Stable/A-1
Resolution Counterparty Rating	AA-/--/A-1+
Certificate Of Deposit	
<i>Local Currency</i>	A-1
Senior Unsecured	A+
BNP Paribas SA (Dublin Branch)	
Issuer Credit Rating	A+/Stable/A-1
Resolution Counterparty Rating	AA-/--/A-1+
BNP Paribas SA (Milan Branch)	
Issuer Credit Rating	A+/Stable/A-1
Resolution Counterparty Rating	A+/--/A-1
BNP Paribas Securities Corp.	
Issuer Credit Rating	A+/Stable/A-1
Resolution Counterparty Rating	A+/--/A-1
BNP Paribas (Taipei Branch)	
Issuer Credit Rating	
<i>Taiwan National Scale</i>	twAAA/Stable/twA-1+
Cardif-Assurances Risques Divers	
Financial Strength Rating	
<i>Local Currency</i>	A/Stable/--
Issuer Credit Rating	
<i>Local Currency</i>	A/Stable/--
Cardif Assurance Vie	
Financial Strength Rating	
<i>Local Currency</i>	A/Stable/--
Issuer Credit Rating	
<i>Local Currency</i>	A/Stable/--

Ratings Detail (As Of July 28, 2023)*(cont.)**Cardif Colombia Seguros Generales S.A.**

Financial Strength Rating

Local Currency BBB-/Stable/--

Issuer Credit Rating

Local Currency BBB-/Stable/--**Carrefour Banque**

Issuer Credit Rating

BBB/Stable/A-2

Commercial Paper

Local Currency A-2

Senior Unsecured

BBB

Cetelem, S.A. de C.V., SOFOM, E.R.

Senior Secured

CaVal (Mexico) National Scale mxAAA

Short-Term Debt

CaVal (Mexico) National Scale mxA-1+**Exane S.A.**

Issuer Credit Rating

A+/Stable/A-1

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