

BNP Paribas Personal Finance South Africa Ltd.

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BNP Paribas Personal Finance South Africa Ltd.

Credit Highlights

Issuer Credit Rating

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

Overview

Key strengths

Support and oversight from parent BNP Paribas.

Strong capitalization and ongoing contingent liquidity support.

Key risks

Focus on unsecured consumer credit in South Africa, where households' income is under pressure.

Elevated normalized cost of risk.

A wholesale funding profile that is sensitive to investor confidence.

The niche monoline business could curb revenue growth because of continued pressure on consumers. BNP Paribas Personal Finance South Africa (BNPPF-SA) continues to focus solely on consumer lending. Although risky in the challenging economic context in South Africa, it has formed strategic partnerships with most major retailers in South Africa.

A strong capital position mitigates risks from higher credit losses. BNPPF-SA's credit losses will remain elevated in 2024, at about 7%, because of high interest rates and pressure on households' disposable income. We expect the entity will maintain a strong risk-adjusted capital (RAC) ratio of 10.0%-10.5% over the next 12-18 months.

S&P Global Ratings regards BNPPF-SA as 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 wholesale funding and the standby liquidity facility.

Outlook

We do not assign outlooks to South African national scale ratings. However, our national scale ratings on BNPPF-SA would likely move in line with any rating action on South Africa (foreign currency ratings: BB-/Stable/B; local currency ratings: BB-/Stable/B; South Africa scale ratings: zaAAA/zaA-1+).

Anchor: 'b+' For Nonbank Financial Institutions (NBFI) Operating Primarily In South Africa

The anchor for BNPPF-SA, an NBFI operating in South Africa is 'b+', in line with our typical preliminary anchor for a

finance company operating in South Africa. This is three notches below our 'bb+' anchor for banks in South Africa, which we derive from our Banking Industry Country Risk Assessment (BICRA). We think NBFIs face higher incremental risks than banks. These risks include the lack of access to central bank funding and liquidity and substantial reliance on wholesale funding. In addition, NBFIs face higher competitive risks because they are more susceptible to business cycles, leading to more volatile revenue and potential product substitution by banks.

S&P Global Ratings expects pressure on households to persist. Credit conditions will remain tight in 2024, with private-sector lending increasing in line with nominal GDP growth at about 5.2%, after less than 4% growth in 2023. The South African Reserve Bank's (SARB's) repurchase rate remained a high 8.25% as of May 2024. Higher interest rates and inflation will restrict households' disposable income and small and midsize enterprises' financial performance. Household leverage (defined as household debt to disposable income) will remain stable, at 62% through 2025. We estimate bank impairments at 1.0% in 2024 after 1.1% in 2023, but still higher than the historical average of 0.8%. Similarly, we expect nonperforming assets to decrease toward 4.4% in 2025 after reaching 4.9% in 2023.

Business Position: Unsecured Lender Operating As A Nonbank Financial Institution

BNPPF-SA is an unsecured consumer finance provider operating in the competitive South African market without a banking license. BNPPF-SA is modestly sized both in the context of the wider BNPP group and domestic financial sector with total assets of ZAR 15.1 billion (\$825 million) as of Dec. 31, 2023. It operates two main business lines: RCS Cards, which generated 82% of profit before tax (PBT); and RCS Loans which accounted for 11% PBT, both as of Dec. 31, 2023. The card business consists of general purpose, co-branded, credit, and private label cards. RCS leverages its strategic partnership networks with over 30,000 retail merchant outlets across a range of lifestyle products. BNPPF-SA holds about a 24.5% store card market share and 2% market share in the unsecured loans business. BNPPF-SA also provides short-term insurance products underwritten by third parties leveraging off its distribution channel.

BNPPF-SA continues to broaden its reach, entering strategic partnerships with the likes of Shoprite supermarkets. In addition, it has increased functionality on its digital platform with a recent partnership with South Africa-based fintech Zapper, allowing consumers to quickly make payments from their mobile devices. We expect the partnerships to accelerate growth into the e-commerce space, widen its customer base, and support revenue growth.

Capital And Earnings: Strong Capitalization Will Continue As Measured By Our RAC

BNPPF-SA's capitalization is strong under our RAC framework. We expect our RAC ratio to remain strong and broadly stable, at about 10.5% over the next 12-18 months, compared with 10% in 2023. We expect earnings to improve, supported by higher net interest income off high interest rates, growth in the customer base, and improved economic conditions in South Africa. Nevertheless, we forecast credit impairments will remain high, at about 7% in 2024-2025. BNPPF-SA's earnings declined in 2023 with a return on average equity of 6% in 2023 from 10% in 2022 because of higher credit loss provisions.

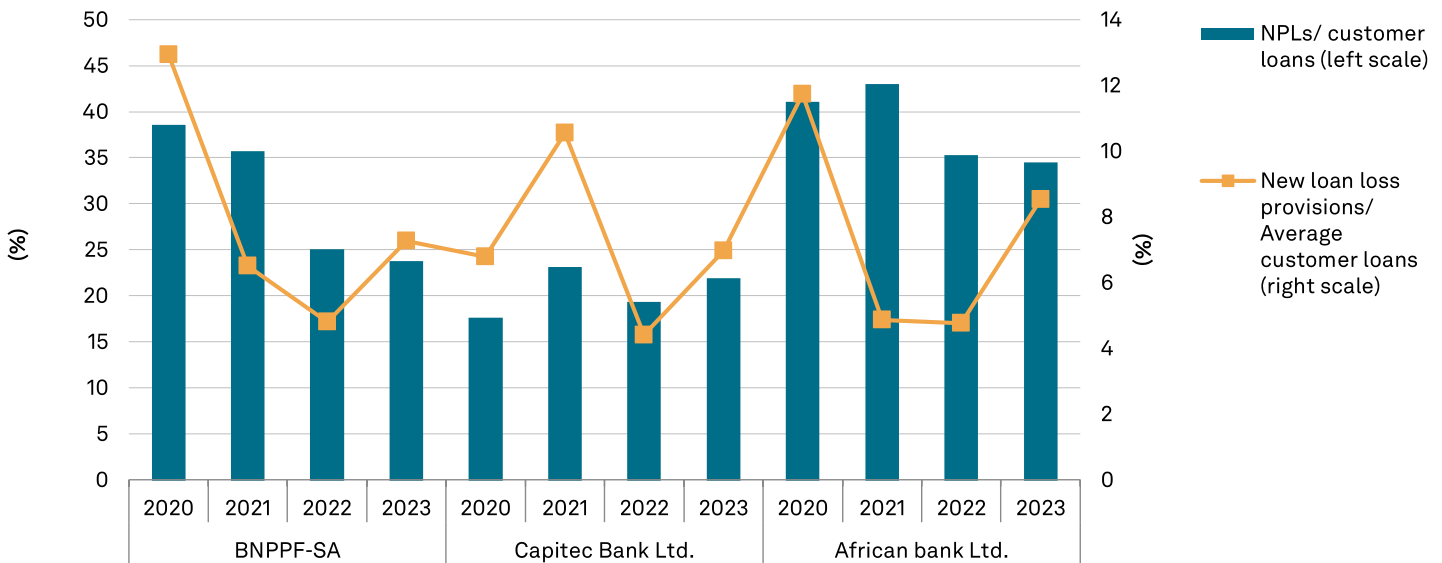
Unlike its banking sector peers, BNPPF-SA is not subject to regulatory supervision by the South African Reserve Bank and or required to adhere to minimum regulatory capital adequacy ratio (CAR). However, the company's financial policy operates with a high internal minimum CAR of 20%. We expect the company to maintain robust capital management targets above the internal minimum over the next 12-18 months.

Risk Position: High Credit Losses Stem From Pressure On Households' Disposable Income

We expect credit losses to remain high, in line with 2023 results. This largely stems from the nature of the lending book being consumer finance. Credit impairments increased to 7.3% in 2023 compared to 4.8% in 2022, while nonperforming loans (NPLs) were stable at 24%. This in in line with banking peers with a similar business focus, which on average recorded 7.8% and 28%, respectively, in 2023.

We expect nominal NPLs to increase in line with loan growth and the NPL ratio to remain elevated, near 23% over the next 12-18 months. Our measure of NPLs incorporates written off accounts that remain recoverable. BNPPF-SA mainly outsources collection of NPLs to third parties and regularly sells written off accounts in debt sale auctions.

BNPPFSA's asset quality metrics compare well with those of other unsecured lender peers



NPLs--Nonperforming loans. Source: S&P Global Ratings.
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Funding And Liquidity: BNPPF-SA's Wholesale Funding Is Fully Guaranteed By BNPP

BNPPF-SA is not a deposit-taking entity because it does not have a banking license. The full guarantee on BNPPF-SA's medium-term note program supports the 'zaAAA' issue rating. BNPP provides a conditional and irrevocable guarantee for BNPPF-SA's payment obligations in terms 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, noteholders are entitled to claim against BNPP.

Key Statistics

Table 1

BNP Paribas Personal Finance South Africa Ltd.--Business position					
--Year ended Dec. 31--					
(Mil. ZAR)	2023	2022	2021	2020	2019
Total assets	15,105.8	13,819.1	12,712.5	14,201.4	12,272.6
Gross receivables*	16,628.0	15,355.9	16,265.9	18,364.1	15,560.2
Operating revenue	2,882.3	2,609.3	2,751.9	3,544.4	2,439.1
Net income after extraordinary charges	205.2	376.4	321.4	56.9	472.3
% change in operating revenue	10.5	(5.2)	(22.4)	45.3	13.8
Net interest margin (%)	11.0	9.9	9.6	13.2	10.5

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--					
(%)	2023	2022	2021	2020	2019
Adjusted common equity/total adjusted capital	100.0	100.0	100.0	100.0	100.0
Noninterest expense/operating revenue (%)	50.8	53.4	44.7	37.3	40.1
Net interest income/operating revenue (%)	65.5	64.4	65.9	68.6	63.9
Fee income/operating revenues (%)	21.5	23.0	25.1	24.1	24.5
Return on average assets (%)	1.4	2.8	2.4	0.4	4.2
Core earnings/average managed assets (%)	1.4	2.8	2.4	0.4	4.2

Table 3

BNP Paribas Personal Finance South Africa Ltd.--Risk position					
--Year ended Dec. 31--					
(%)	2023	2022	2021	2020	2019*
Growth in gross receivables (year over year; %)	8.3	(5.6)	(11.4)	18.0	25.2
Nonperforming assets/receivables + other real estate owned (%)	23.6	24.9	35.6	38.5	31.5
New loan loss provisions/average gross receivables (%)	7.3	4.8	6.5	12.9	6.4

Table 3

BNP Paribas Personal Finance South Africa Ltd.--Risk position (cont.)					
	--Year ended Dec. 31--				
(%)	2023	2022	2021	2020	2019*
Loan loss reserves/gross nonperforming assets (%)	23.7	25.8	35.2	37.1	31.3

*2019 results are not comparable to those of prior periods due to a change in International Financial Reporting Standards 9.

Table 4

BNP Paribas Personal Finance South Africa Ltd.--Funding and liquidity					
	--Year ended Dec. 31--				
(%)	2023	2022	2021	2020	2019
Stable funding ratio	56.6	54.6	76.2	75.4	64.3
Liquidity coverage (x)	0.2	0.2	0.4	0.4	0.2

BNP Paribas Personal Finance South Africa Ltd.--Rating component scores

Related Criteria

- Risk-Adjusted Capital Framework Methodology, April 30, 2024
- General Criteria: Methodology For National And Regional Scale Credit Ratings, June 8, 2023
- 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 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

- South Africa Banking Outlook 2024, Jan. 18, 2024
- Tech Disruption In Retail Banking: South African Banks Move In Lockstep With System and Technology Innovation, Jan. 15 2024
- Banking Industry Country Risk Assessment: South Africa, June 15, 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

- Anchor: The starting point for assigning a bank a long-term rating, based on economic and industry risk.
- Asset quality: A key measure of the quality and performance of the assets of a bank.
- 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.
- 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.
- 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.
- 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).
- 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.
- 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.
- Risk-adjusted capital (RAC) ratio before diversification: This is calculated according to S&P Global Ratings' methodology as total adjusted capital over risk-adjusted assets.
- Short-term wholesale funding: Debt securities that mature in less than one year (of commercial papers, debt and senior and subordinated bonds), plus bank deposits that mature in less than one year.
- Sovereign support: An assessment of the likelihood that the government would provide extraordinary support to a bank.
- Stand-alone credit profile (SACP): An interim step in assessing a bank's overall creditworthiness. It includes government support, but not extraordinary government support.

Ratings Detail (As Of August 19, 2024)*

BNP Paribas Personal Finance South Africa Ltd.

Issuer Credit Rating		
<i>South Africa National Scale</i>		zaAA/--/zaA-1+
Issuer Credit Ratings History		
26-Nov-2019	<i>South Africa National Scale</i>	zaAA/--/zaA-1+
02-Jul-2018		zaAA+/--/zaA-1+
29-Nov-2017		zaAA/--/zaA-1+
Sovereign Rating		
South Africa		
<i>Foreign Currency</i>		BB-/Stable/B
<i>Local Currency</i>		BB/Stable/B
<i>South Africa National Scale</i>		zaAAA/--/zaA-1+

Related Entities

BNP Paribas

Issuer Credit Rating		A+/Stable/A-1
Resolution Counterparty Rating		AA/--/A-1+
Commercial Paper		
<i>Foreign Currency</i>		A-1
Junior Subordinated		BBB
Junior Subordinated		BBB-
Senior Subordinated		A-
Subordinated		BBB+

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.

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