Creditreform Bankrating

BPCE SA (Group)

Creditreform Rating

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Rating object	Rating information		
BPCE SA (Group)	Long Term Issuer Rating: **A-**	Short Term: **L2**	Outlook: **Stable**

Creditreform ID:	493455042
Incorporation:	2009
(Main-) Industry:	Banks
Management:	François Pérol (Chairman of the Mgmt Board) Marguerite Bérard-Andrieu (CEO - Group Finance, Strategy & Legal Affairs Division) *until 2017* François Riahi (CEO - Group Finance, Strategy & Legal Affairs Division) *effective Jan. 2018*

Rating of Bank Capital and Unsecured Debt Instruments:

Senior Unsecured	Tier 2	Additional Tier 1
BBB+	BB+	BB

Prepared on:	**12 January 2018**
Monitoring until:	withdrawal of the rating
Publication:	30 January 2018
Rating type:	**unsolicited**
Rating system(s):	bank ratings; rating of bank capital and unsecured debt instruments
Rating history:	www.creditreform-rating.de

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SWOT-Analysis

Strengths

+ Stable business model with stable profits amid low interest environment
+ Sufficient capital adequacy
+ Relatively low NPL figures
+ Above average earnings figures (especially ROAA, ROAE)

Weaknesses

- Low interest environment cuts into Net Interest Margin
- Elevated credit risk due to credit concentration in real estate, finance and energy
- Dense network of branches costly to maintain

Opportunities / Threats

+ Acquisition of Fidor Bank provides future growth opportunities

+/- Consolidation of regional banks as necessary cost cutting measure

+/- Digital transformation in full swing

- High reliance on French home market
- Rigidities of French labor market prove a challenge to cost cutting

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Company Overview

Groupe BPCE is the second largest banking group in France and includes two independent cooperative banking networks. The banking group is the result of the merger of 15 Banque Populaire banks (BP) and 16 Caisses d'Epargne (CE) in 2009. It has over 31.2 million customers and operates over 8,000 bank branches.

Nine million cooperative shareholders own BPCE, while both banking networks hold 50% each of the central institute BPCE S.A, which in turn owns 100% of Credit Foncier (real estate financing), Banque Palatine and BPCE International as well as 71% of Natixis (29% free float).

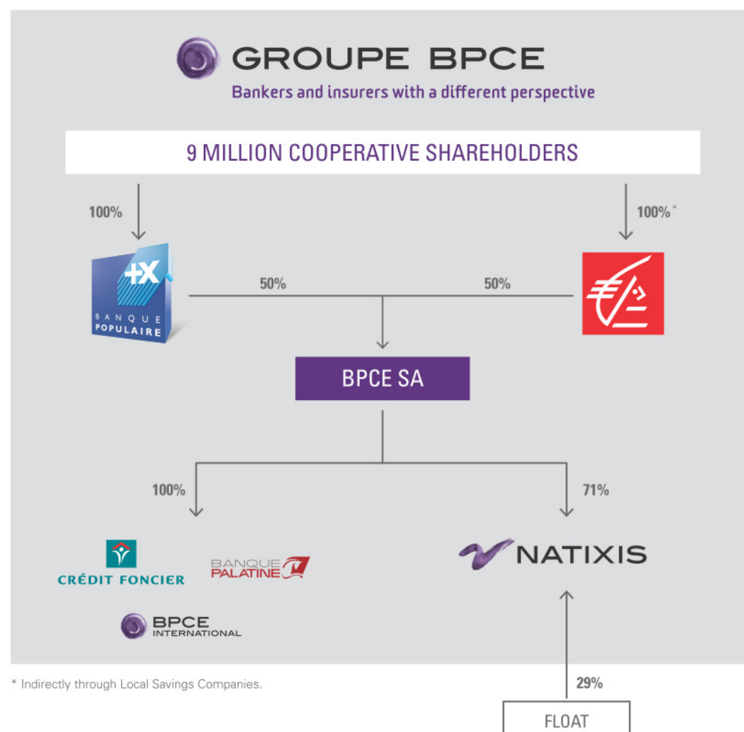

Chart 1: Organization Chart of Groupe BPCE (Source: website of BPCE)

BPCE operates three core businesses. Commercial Banking and Insurance is responsible for about two thirds of operating income and is served by the BP and CE networks as well as other, smaller networks including but not limited to insurance and real estate financing. Natixis operates corporate and investment banking (CIB), investment solutions (IS) and specialized financial services (SFS). The Corporate Center is served by BPCE SA as the group's central institution and holding company. It controls equity interests in Natixis, manages the contribution to the Single Resolution Fund (SRF), amongst others.

Major events of 2016 were the purchase of German fintech Fidor Bank as part of the group's digital transformation and nonrecurring revenues of €831m due to the Visa Europe buyout.

Business Development

Profitability

Operating Income was €23.9bn last year, and declined 2% YOY (-€365m). Net Interest Income contributed the biggest share of income with 46%, and fell by 1% YOY (-€155m). Fees and Commissions were responsible for 37%, and considerably decreased by -4% YOY (-€378m). Of the three main drivers of operating income, Net Trading Income contributed the smallest share with 12%, and significantly decreased by 6% YOY (-€194m).

Operating Expense was €16.7bn last year, and increased 3% YOY (+€425m). Personnel Expenses accounted for 60.1% of total expenses last year, and expanded 1% YOY (+€139m). Other Expenses accounted for 34.8% of total expenses last year, and significantly increased 5% YOY (+€282m).

As a result, the operating profit fell markedly by 10% YOY (-€790m). BPCE reported Nonrecurring Revenues of €873m and Nonrecurring Expenses of €69m. Responsible for the revenues were €831m from the Visa Europe buyout and €42m stemming from the sale of the Nexity stake. Nonrecurring expenses were due to litigation provisioning for the Walloon Housing Corporation. Paired with lower impairments compared with fiscal year 2015, the pre-tax profit of Groupe BPCE was boosted by 4% (+€247m). Lower income tax expenses thus led to a reported Net Profit of €4.5bn last year, which increased markedly by 18% YOY (+€688m). In absence of nonrecurring factors and a stable tax expense, BPCE would have posted a lower profit (-€116m YOY), however.

Latest third quarter figures point towards a slight increase in both operating income as well as operating expense over Q3 2017. For the first three quarters of 2017, operating income has decreased by €169m, while expenses have gone up by €257m.

A detailed group income statement for the years 2013-2016 can be found in Figure 1 below:

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Income Statement	2013	%	2014	%	2015	%	2016	%
Income (€000)								
Net Interest Income	NA	0.0%	11,542,000	48.8%	11,059,000	45.5%	10,904,000	45.6%
Net Fee & Commission Income	NA	0.0%	8,121,000	34.3%	9,159,000	37.7%	8,781,000	36.7%
Net Insurance Income	NA	0.0%	55,000	0.2%	190,000	0.8%	311,000	1.3%
Net Trading Income	NA	0.0%	2,170,000	9.2%	2,999,000	12.3%	2,805,000	11.7%
Equity Accounted Results	255,000	1.1%	103,000	0.4%	275,000	1.1%	257,000	1.1%
Dividends from Equity Instruments	NA	0.0%	296,000	1.3%	231,000	1.0%	237,000	1.0%
Rental Revenue	NA	0.0%	127,000	0.5%	183,000	0.8%	117,000	0.5%
Lease and Rental Revenue	NA	0.0%	6,000	0.0%	-1,000	0.0%	0	0.0%
Other Noninterest Income	-51,000	-0.2%	1,247,000	5.3%	206,000	0.8%	524,000	2.2%
Operating Income	**22,934,000**	**100%**	**23,667,000**	**100%**	**24,301,000**	**100%**	**23,936,000**	**100%**
Expenses (€000)								
Depreciation and Amortisation	923,000	5.7%	890,000	5.5%	849,000	5.2%	853,000	5.1%
Personnel Expense	NA	0.0%	10,007,000	61.8%	9,886,000	60.8%	10,025,000	60.1%
Occupancy & Equipment	NA	0.0%	NA	0.0%	NA	0.0%	NA	0.0%
Tech & Communications Expense	NA	0.0%	NA	0.0%	NA	0.0%	NA	0.0%
Marketing and Promotion Expense	NA	0.0%	NA	0.0%	NA	0.0%	NA	0.0%
Other Provisions	NA	0.0%	NA	0.0%	NA	0.0%	NA	0.0%
Other Expense	15,174,000	94.3%	5,303,100	32.7%	5,513,000	33.9%	5,795,000	34.8%
Operating Expense	**16,097,000**	**100%**	**16,200,100**	**100%**	**16,248,000**	**100%**	**16,673,000**	**100%**
Operating Profit & Impairment (€000)								
Pre-impairment Operating Profit	**6,837,000**		**7,466,900**		**8,053,000**		**7,263,000**	
Asset Writedowns	2,046,000		2,058,000		1,930,000		1,697,000	
Net Income (€000)								
Nonrecurring Revenue	87,000		0		0		873,000	
Nonrecurring Expense	0		129,900		0		69,000	
Pre-tax Profit	**4,878,000**		**5,279,000**		**6,123,000**		**6,370,000**	
Income Tax Expense	1,892,000	38.8%	1,913,000	36.2%	2,323,000	37.9%	1,882,000	29.5%
Discontinued Operations	0		0		0		0	
Net Profit	**2,986,000**		**3,366,000**		**3,800,000**		**4,488,000**	

Figure 1: Group income statement
(Source: S&P Global Market Intelligence)

With increased net profits, income ratios generally were favorable in fiscal year 2016.

Important metrics such as ROAA, ROAE as well as RoRWA were up compared to the previous year. With increases of well over 10% for each ratio, BPCE outperformed it’s peer group, whose ratios declined on average. The ROAA increased to 0.37%, a value roughly 50% higher than the peer group’s average. The ROAE was 6.76%, likewise almost 50% higher than the peer group’s average. The RoRWA increased to 1.15%, a value almost a fourth higher. However, higher costs pushed the Cost Income Ratio (CIR) towards 70%. The CIR is now comparable with the analyzed peer group, where it enjoyed a small competitive edge only a year prior. The Net Interest Margin, a key metric for profitability, was considerably lower than the metric for the peer group and decreased YOY. While the decrease was more pronounced for the peer group, the figure was still about a third higher than BPCE’s.

Current Q3 2017 figures point to a performance similar to the previous year. ROAA and RoRWA stand almost unchanged at 0.36% and 1.13%, respectively, while ROAE retreated to a ratio of 6.24% due to an increase in equity. While no figure was published, posted operating income and expenses indicate a slightly increased CIR both in comparison to Q3 2016 as well as in the current YTD.

A detailed view of key earnings figures for the years 2013-2016 can be found in Figure 2 below:

Income Ratios (%)	2013	%	2014	%	2015	%	2016	%
Return on Average Assets (ROAA)	0.26	NA	0.29	0.03	0.32	0.03	0.37	0.05
Return on Equity (ROAE)	5.33	NA	5.51	0.18	6.00	0.50	6.76	0.76
RoRWA	NA	NA	NA	NA	0.96	NA	1.15	0.19
Net Interest Margin	NA	NA	1.06	NA	0.99	-0.07	0.97	-0.02
Cost income Ratio ex. Trading	NA	NA	75.36	NA	76.27	0.91	78.90	2.63
Cost income Ratio	70.19	NA	68.45	-1.74	66.86	-1.59	69.66	2.80
Change in %Points								

Figure 2: Group key earnings figures
(Source: S&P Global Market Intelligence)

Asset Situation and Asset Quality

In terms of total assets, Financial Assets made up 93%, and increased markedly by 6% YOY (+€64bn). The increase was mainly driven by Net Loans as well as Cash and equivalents which increased YOY by 6% (+€49bn) and 8% (+€14bn), respectively. Total Securities remained virtually unchanged. Net Loans to Customers made up the biggest share of financial assets with 54%, while Total Securities as well as Cash made up 23.9% and 14.7%. Altogether, Total Assets measured €1235bn and considerably increased by 6% (+€69bn), mostly due to the loan portfolio growth.

A detailed look at the asset side for the years 2013-2016 can be taken in Figure 3 below:

Assets (€000)	2013	%	2014	%	2015	%	2016	%
Cash and Cash Equivalents	168,610,000	15.0%	183,125,000	15.0%	167,480,000	14.4%	181,022,000	14.7%
Net Loans to Customers	579,062,000	51.5%	610,967,000	49.9%	617,465,000	52.9%	666,898,000	54.0%
Total Securities	308,878,000	27.5%	342,593,000	28.0%	294,453,000	25.2%	294,647,000	23.9%
Financial Assets	**1,056,550,000**	**94%**	**1,147,236,000**	**94%**	**1,089,171,000**	**93%**	**1,153,049,000**	**93%**
Equity Accounted Investments	3,193,000	0.3%	4,091,000	0.3%	3,666,000	0.3%	3,891,000	0.3%
Other Investments	0	0.0%	0	0.0%	0	0.0%	0	0.0%
Insurance Assets	NA	0.0%	7,969,000	0.7%	8,444,000	0.7%	9,551,000	0.8%
Noncurrent Assets HFS & Discontinued Ops	0	0.0%	209,000	0.0%	22,000	0.0%	947,000	0.1%
Tangible and Intangible Assets	12,022,000	1.1%	11,452,000	0.9%	12,186,000	1.0%	11,960,000	1.0%
Tax Assets	6,620,000	0.6%	6,457,000	0.5%	6,107,000	0.5%	4,598,000	0.4%
Total Other Assets	46,472,000	4.1%	45,884,000	3.8%	46,939,000	4.0%	51,244,000	4.1%
Total Assets	**1,124,857,000**	**100%**	**1,223,298,000**	**100%**	**1,166,535,000**	**100%**	**1,235,240,000**	**100%**

Figure 3: Development of assets
(Source: S&P Global Market Intelligence)

Asset Quality development was a mixed bag in 2016.

The NPL ratio declined by 0.23 percentage points over the previous year, the decline for the peer group was more pronounced. The average NPL ratio for the peer group was higher, though. The larger decrease for the peer group can be explained by the better performing European periphery as the economy is still in recovery mode. The NPL/RWA ratio remains largely unchanged and on average lower than the peer group. Potential Problem Loans noticed a recent upswing, but the figure is far lower compared to the peer group. Reserves for loan losses are largely stable, but near the peer group's average.

Q3 2017 figures point to a slight, but general improvement of asset quality across the board, compared to the previous year.

A detailed look at the Asset Quality for the years 2013-2016 can be taken in Figure 4 below:

Asset-Quality (%)	2013	%	2014	%	2015	%	2016	%
Non Performing Loans (NPL) / Loans	NA	NA	3.75	NA	3.74	-0.01	3.51	-0.23
NPL / RWA	NA	NA	5.83	NA	5.90	0.07	5.99	0.09
Potential Problem Loans / NPL	NA	NA	13.87	NA	11.78	-2.09	13.74	1.96
Reserved / Impaired Loans	NA	NA	53.62	NA	53.29	-0.32	52.41	-0.89
Net Write-offs / Risk-adjusted Assets	NA	NA	NA	NA	NA	NA	NA	NA
Risk-weighted Assets/ Assets	NA	NA	32.12	NA	33.55	1.43	31.65	-1.90
Change in %Points								

Figure 4: Development of asset quality
(Source: S&P Global Market Intelligence)

Refinancing and Capital Quality

Financial Liabilities accounted for 88% of total liabilities, and increased 5% YOY (+€44.2bn). Customer deposits represented 46% of total liabilities, and increased markedly by 6% YOY (+€32bn). Total Debt accounted for 27% of total liabilities, and expanded 2% YOY (+€5bn). Total Equity accounted for 5.6% of liabilities and equity, and considerably increased 6% YOY (+€4bn), but the Total Equity ratio remained unchanged, as total assets increased at the same pace.

A detailed look at the Liabilities side for the years 2013-2016 can be taken in Figure 5 below:

Liabilities (€000)	2013	%	2014	%	2015	%	2016	%
Total Deposits from Banks	88,783,000	8.3%	85,752,000	7.4%	77,067,000	7.0%	87,211,000	7.5%
Total Deposits from Customers	458,013,000	42.9%	473,845,000	40.8%	499,741,000	45.4%	531,781,000	45.6%
Total Debt	NA	0.0%	357,974,000	30.8%	304,822,000	27.7%	309,475,000	26.5%
Derivative Liabilities	NA	0.0%	88,700,000	7.6%	74,624,000	6.8%	71,149,000	6.1%
Securities Sold, not yet Purchased	NA	0.0%	39,264,000	3.4%	23,351,000	2.1%	23,834,000	2.0%
Other Financial Liabilities	NA	0.0%	1,288,000	0.1%	1,562,000	0.1%	1,870,000	0.2%
Total Financial Liabilities	**961,008,000**	**90%**	**1,046,823,000**	**90%**	**981,167,000**	**89%**	**1,025,320,000**	**88%**
Insurance Liabilities	51,572,000	4.8%	48,796,000	4.2%	50,445,000	4.6%	64,383,000	5.5%
Unit-Linked Insurance and Investment Contr.	NA	0.0%	8,315,000	0.7%	9,117,000	0.8%	11,433,000	1.0%
Tax Liabilities	532,000	0.0%	694,000	0.1%	1,240,000	0.1%	1,106,000	0.1%
Noncurrent Asset Retirement Obligations	NA	0.0%	1,917,000	0.2%	1,789,000	0.2%	2,546,000	0.2%
Other Provisions	5,239,000	0.5%	3,691,000	0.3%	3,876,000	0.4%	3,953,000	0.3%
Total Other Liabilities	48,505,000	4.5%	50,278,000	4.3%	53,699,000	4.9%	56,550,000	4.8%
Total Liabilities	**1,066,856,000**	**94.8%**	**1,160,620,000**	**94.9%**	**1,101,342,000**	**94.4%**	**1,166,104,000**	**94.4%**
Total Equity	**58,001,000**	**5.2%**	**62,678,000**	**5.1%**	**65,193,000**	**5.6%**	**69,136,000**	**5.6%**
Total Passiva	**1,124,857,000**	**100%**	**1,223,298,000**	**100%**	**1,166,535,000**	**100%**	**1,235,240,000**	**100%**
Deposits from Customers Growth*	6.38	NA	3.46	-2.93	5.47	2.01	6.41	0.95
Change in %Points								

Figure 5: Development of refinancing and capital adequacy
(Source: S&P Global Market Intelligence)

As Total Capital increased by almost 10% last year and RWA remained largely unchanged, the capital ratios for BPCE increased across the board with the exception of the Total Equity / Total Assets ratio, mentioned previously.

All regulatory capital ratios jumped by at least one percentage point over the previous year (CET1: +1.12pp, Tier 1: +1.12pp, Total Capital: +1.68pp). While the peer group did notice increases across the board as well, BPCE's were more pronounced. This in turn resulted in a significant move to catch up with the peer group and as such resulted in a more favorable rating result. As it stands, all capital ratios are now firmly in line with the peer group's average as opposed to 2015, when the Tier 1 Ratio as well as the Total Capital Ratio were still lagging behind. The Leverage Ratio is both well above regulatory requirements as well as perfectly in line with the peer group's average.

As of Q3 2017, regulatory capital ratios had increased markedly compared to the fiscal year 2016. CET1 stood at 14.90% (+0.76pp), Tier 1 at 15.13% (+0.65pp) and Total Capital at 18.92 (+0.43pp). The banking group seeks a CET1 ratio of 15.5% by 2020. The leverage ratio stood at 5.1%, a small increase.

A detailed look at BPCE's capital ratios for the years 2013-2016 can be taken in Figure 6 below:

Capital (€000)	2013	%	2014	%	2015	%	2016	%
Total Capital	NA	NA	60,537,000	NA	65,791,000	8.68	72,300,000	9.89
Total Risk-weighted Assets	NA	NA	392,887,000	NA	391,382,000	-0.38	390,981,000	-0.10
Capital Ratios (%)								
Core Tier 1 Ratio	NA	NA	11.86	NA	13.02	1.16	14.14	1.12
Tier 1 Ratio	NA	NA	12.72	NA	13.34	0.62	14.48	1.14
Total Capital Ratio	NA	NA	15.41	NA	16.81	1.40	18.49	1.68
Leverage Ratio	NA	NA	4.50	NA	4.47	-0.03	4.94	0.47
Fully Loaded: Common Equity Tier 1 Ratio	NA	NA	11.70	NA	12.90	1.20	14.20	1.30
Fully Loaded: Tier 1 Ratio	NA	NA	12.70	NA	13.30	0.60	14.60	1.30
Fully Loaded: Risk-weighted Capital Ratio	NA	NA	15.30	NA	16.70	1.40	18.50	1.80
Total Equity/ Total Assets	5.16	NA	5.12	-0.03	5.59	0.46	5.60	0.01
Change in %Points								

Figure 6: Development of capital ratios
(Source: S&P Global Market Intelligence)

Liquidity

The Liquidity Coverage Ratio for 2016 was 120%, well in excess of the 70% required for 2016 but below the peer group's average of about 140%. The Interbank Ratio which remained largely above 120% decreased to about 111% in the reporting year. The LTD Ratio remained mostly unchanged, both compared to the last year as well as in comparison to previous years.

A detailed look at the bank's liquidity for the years 2013-2016 can be taken in Figure 7 below:

Liquidity (%)	2013	%	2014	%	2015	%	2016	%
Liquidity Coverage Ratio	NA	NA	NA	NA	NA	NA	120.04	NA
Interbank Ratio	121.87	NA	121.39	-0.48	125.04	3.64	111.34	-13.69
Loan to Deposit (LTD)	126.43	NA	128.94	2.51	123.56	-5.38	125.41	1.85
Change in %Points								

Figure 7: Development of liquidity
(Source: S&P Global Market Intelligence)

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Conclusion

Groupe BPCE had a relatively successful year 2016 and continues to perform in a difficult market environment, marked by low interest rates due to ECB policy as well as the rapid digitalization of the retail banking market.

While traditional sources of income fall flat and expenses keep rising, BPCE is well under way to cut costs and find new avenues of growth. A major cost cutting program with increased digitalization efforts should prove fruitful if implemented thoroughly. In our professional opinion, there are still some significant risks associated with this retail transformation. On the upside, the purchase of German fintech Fidor Bank shows that BPCE is a future-oriented bank which embraces the digital challenges ahead. The entry of Orange Bank SA, the mobile banking arm of telecommunications giant Orange SA, in November 2017 may prove a formidable foe, especially as the launch of Fidor on the French market has been delayed until 2018. However, BPCE is dedicating more than 1,000 employees to its digitalization efforts, almost 1% of the entire workforce. As the business is rapidly digitalizing, tough French labor laws will make it hard to cut real costs by simply slashing employee numbers. In comparison to other major European markets, the French banking market is generally overbanked and especially rigid in terms of numbers of employees. BPCE’s pledge to keep branches close and accessible for urban as well as rural areas could prove to be a major roadblock for cost cutting, especially as the ECB seems to be in no hurry to change its interest rate policy.

Credit concentration in BPCE’s core business of commercial banking could prove to be problematic in the future, as over 20% of the credit risk is in real estate. Measures are underway to lower this risk, but a sudden departure of the current monetary policy by the ECB might prove challenging. In addition, BPCE focuses very heavily on the French market, as more than 4/5th of its operating income comes from France proper. However, with the election of Emmanuel Macron, immediate risks for the French economy seem to have been mitigated.

Overall, profitability and income is still the strong suit of BPCE. Returns on assets and equity are higher than those of its peers, with only the Net Interest Margin disappointing. The capital quality is satisfactory, and capital ratios have improved at a steady pace in the observed years. Asset quality is by and large satisfactory, as well, reflecting the generally improved state of the French economy. Liquidity figures are, despite being well above regulatory requirements, comparatively worse than those of its peers, are satisfactory as well.

In a conducted scenario analysis, a best case development would lead to a slight improvement in the rating, while in a worst case development, the rating would slip significantly. The ratings of bank capital and (preferred) senior unsecured debt would behave similarly due to our rating mechanics. These ratings are especially sensitive to changes in total equity and the bank capital and debt structure in general.

Ratings Detail

Bank ratings

The bank ratings are dependent on a host of quantitative and qualitative factors. An improvement in either sub-category may result in a higher rating score.

LT Issuer / Short-Term / Outlook **A- / L2 / Stable**

Bank Capital and Debt Instruments Ratings

The ratings for bank capital and debt instruments are inter alia dependent on subordination and relative size of the instrument class, based on the long-term issuer rating of the bank.

'preferred' senior unsecured debt: **BBB+**
Tier 2 (T2): **BB+**
Tier 1 (AT1): **BB**

Ratings Detail and History

Ratings		
Bank Capital and Debt Instruments		
'preferred' senior unsecured	03 January 2018	BBB+
Tier 2	03 January 2018	BB+
Tier 1	03 January 2018	BB
Bank Issuer Rating History		
LT Issuer / Short-Term / Outlook	03 January 2018	A- / L2 / Stable

Figure 8: Ratings

Regulatory

Creditreform Rating AG was neither commissioned by the rating object nor by any other third parties for the rating. The analysis took place on a voluntary basis by Creditreform Rating AG and is to be described in the regulatory sense as an unsolicited rating.

The rating is based on publicly available information and internal evaluation methods for the rated bank. The quantitative analysis is based mainly on the latest annual accounts, interim reports, other investor relations information of the bank, and calculated key figures by S&P Global Market Intelligence. Subject to a peer group analysis were 20 competing institutes.

The information and documents processed satisfied the requirements according to the rating system of Creditreform Rating AG published on the website www.creditreform-rating.de. The rating was carried out on the basis of the rating methodology for unsolicited bank ratings as well as the methodology for the rating of bank capital and unsecured debt instruments.

On 3 January 2018, the rating was presented by the analysts to the rating committee and adopted in a resolution.

The rating result was communicated to Groupe BPCE and the preliminary rating report was made available to it. There was no change in the rating score.

The rating is subject to one-year monitoring from the creation date (see cover sheet). Within this period, the rating can be updated. At the latest after one year, a follow-up is required to maintain the validity of the rating.

In 2011 Creditreform Rating AG was registered within the European Union according to EU Regulation 1060/2009 (CRA-Regulation). Based on the registration Creditreform Rating AG (CRA) is allowed to issue credit ratings within the EU and is bound to comply with the provisions of the CRA-Regulation.

Conflict of Interests

No conflicts of interest were identified during the rating process that might influence the analyses and judgements of the rating analysts involved or any other natural person whose services are placed at the disposal or under the control of Creditreform Rating AG and who are directly involved in credit rating activities or approving credit ratings and rating outlooks.

In case of providing ancillary services to the rated entity, CRA will disclose all ancillary services in the credit rating report.

Rules on the Presentation of Credit Ratings and Rating Outlooks

The approval of credit ratings and rating outlooks follows our internal policies and procedures. In line with our policy "Rating Committee," all credit ratings and rating outlooks are approved by a rating committee based on the principle of unanimity.

To prepare this credit rating, CRA has used following substantially material sources:

1. External service provider for aggregated data base

2. Website of the rated bank

3. Annual Report

4. Abridged version of the annual report

There are no other attributes and limitations of the credit rating or rating outlook other than displayed on the CRA website. Furthermore CRA considers satisfactory the quality and extent of information available on the rated entity. In regard to the rated entity Creditreform Rating AG regarded available historical data as sufficient.

Between the disclosure of the credit rating to the rated entity and the public disclosure no amendments were made to the credit rating.

The "Basic data" information card indicates the principal methodology or version of methodology that was used in determining the rating, with a reference to its comprehensive description.

In case where the credit rating is based on more than one methodology or where reference only to the principal methodology might cause investors to overlook other important aspects of the credit rating, including any significant adjustments and deviations, Creditreform Rating AG explains this fact in the credit rating and indicates how the different methodologies or these other aspects are taken into account in the credit rating. This information is integrated in the credit rating report.

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The date at which the credit rating was released for distribution for the first time and when it was last updated including any rating outlooks is indicated clearly and prominently in the "Basic data" card as a "Rating action"; first release is indicated as "initial rating", other updates are indicated as an "update", "upgrade or downgrade", "not rated", "confirmed", "selective default" or "default".

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