

Morningstar DBRS Confirms Crédit Logement's Long-Term Issuer Rating at AA (low); Stable Trend

BANKING ORGANIZATIONS

DBRS Ratings GmbH (Morningstar DBRS) has confirmed Crédit Logement's (CL or the Company) Long-Term Issuer Rating at AA (low) and the Short-Term Issuer Rating at R-1 (middle). The Trend on all credit ratings remains Stable. CL's Intrinsic Assessment (IA) was confirmed at AA (low). The Company's Support Assessment remains SA3. A full list of credit rating actions is included at the end of this press release.

KEY CREDIT RATING CONSIDERATIONS

The confirmation of the credit ratings takes into account the Company's strong franchise and leading position in the home loan guarantee market in France. It also incorporates CL's low risk profile, supported by conservative underwriting and significant expertise in the recovery of doubtful exposures; a strong capital position, and the shareholders' commitment to maintain its solvency in the case of stress. CL's shareholders are major French banking groups, with Credit Agricole Group (AA (low) Stable), Société Générale (A (high), Stable), and BNP Paribas (AA (low), Stable) being the three largest shareholders.

CREDIT RATING DRIVERS

An upgrade of the credit ratings is unlikely in the short to medium term. However, a material improvement in earnings, a significant strengthening of capital cushions, combined with maintenance of the low risk profile could result in an upgrade.

A downgrade of the credit ratings would result from a severe deterioration credit quality of CL's guarantee or investment portfolio and/or a weakening of its capital cushions.

CREDIT RATING RATIONALE

Franchise Combined Building Block (BB) Assessment: Good

CL is the leading issuer of financial guarantees in the French home loans market. Financial guarantees are the most popular form of collateral in France, securing close to 60% of all outstanding French home loans. At end-2023, CL's outstanding portfolio of home loan guarantees was EUR 421 billion, equivalent to around one-third of all home loans outstanding in France. CL's strong franchise is further supported by the expertise and capabilities that it has developed over many decades. Additionally, CL's market position and distribution capacity benefit from cooperation with the major French banking groups, which are also its shareholders.

Earnings Combined Building Block (BB) Assessment: Good

Although profit maximisation is not a strategic goal, CL has a good track record in generating consistent earnings. Revenues are predominantly composed of commissions paid by borrowers and net interest income earned on bank deposits and other low risk investments. As a result, the Company's revenues and earnings are driven by the volume of guarantees put in place and the investment return on its funds. For 2023, net profit declined by 14% year-on-year (YoY) to EUR 103.7 million, adversely affected by

a 48% drop of new guarantees put in place. As a result, net fee and commission income dropped by 25% YoY to EUR 115.4 million. The drop in new guarantees put in place reflects the sharply increased borrowing rates and well as a higher proportion of equity requested by banks. This was only partly offset by a 22.5% increase in net interest income to EUR 71.3 million. Costs increased by 2.4% YoY to EUR 56.2 million, driven by higher administrative costs and higher expenses for depreciation and amortisation. As a result, the cost-to-income ratio deteriorated to 29% from 26% a year earlier, but remained very low. The cost of risk on the guarantees portfolio is covered by the Mutual Guarantee Fund (MGF) and booked directly to equity.

Risk Combined Building Block (BB) Assessment: Strong

CL's risk profile primarily reflects the credit risk of its French home loan guarantees portfolio, which amounted to EUR 421 billion at end-2023. Despite a concentration in the French home loans market, Morningstar DBRS views CL's risk profile as low, supported by conservative underwriting standards, advanced risk monitoring procedures, and strong expertise in the recovery of overdue loans.

The enhancement of internal risk management systems combined with a benign credit environment has had a positive effect on the quality of new guarantees in recent years. In addition, Morningstar DBRS notes that a steady decline in interest rates on French home loans for an extended period of time had resulted in loan refinancing at lower rates, improving household finances over the longer term. As a result, the share of doubtful exposures for the overall portfolio remained low at 0.39%, almost unchanged YoY. The share of doubtful exposures in CL's guarantee portfolio is substantially below that observed in the broader French market. Moreover, the doubtful exposure compares to a guarantee fund representing 1.66% of total exposure, covering doubtful exposures by more than four times. Overall, Morningstar DBRS views that the increase in the average lending rate in France to 4.24% at end-2023 compared to 1.06% at end-2021 and the lengthening of average loan durations, reaching an historical high of 248 months will only have a limited impact on CL's portfolio quality.

Another important element of CL's risk profile is the credit risk of its investment portfolio of EUR 10.4 billion at end-2023. The management of the investment portfolio is subject to strict counterparty limits and stress tests. CL also has a policy of collateralisation of its investments. In Morningstar DBRS's opinion, given the structure of placements and CL's investment policy, the credit risk of the investment portfolio is low.

Funding and Liquidity Combined Building Block (BB) Assessment: Strong

Morningstar DBRS views CL's approach to the management of liquidity risk as conservative. The liquidity risk represents the risk of having on-hand liquidity to cover creditor claims, especially in a scenario where such claims were to rise abruptly and persist over a prolonged period of time. The Company maintains a substantial buffer of high quality placements (assets) and runs regular stress tests, which assume a significant increase in losses on CL's guarantee portfolio. An important feature, which is a positive from the point of view of CL's liquidity management is that, based on the agreements with its bank shareholders, CL can delay the payment of claims for up to two years in the case of an extremely challenging market environment.

Capitalisation Combined Building Block (BB) Assessment: Strong

In Morningstar DBRS' opinion, CL's capital base represents a satisfactory buffer to withstand a significant increase in defaults in CL's portfolio of home loan guarantees. CL's regular stress tests indicate that the Company's capital cushions are large enough to cope with very adverse scenarios, including significant deterioration in the domestic economic environment and in the housing market. An important feature of CL is that it benefits from its shareholders' commitment to maintain its solvency in case of stress. CL is subject to the French prudential regulations for financial companies ("Sociétés de Financement"), which allows for the treatment of the MGF as Common Equity Tier 1 (CET1) capital. Expected credit losses are deducted from CET1 capital. CL reports a CET1 ratio of 11.9% at end-2023, flat YoY and well above the Pillar 1 capital requirements of 7%. The Total Capital ratio stood at 15.2% at end-2023 compared to a requirement of 10.5%. Pillar 2 requirements represent the effective floor for CL's regulatory Total Capital, given that they are much higher than the Pillar 1 requirement. In addition, CL is obliged to maintain total capital of at least 2% of guarantee outstandings, equivalent to EUR 8.4 billion at end-2023. Historically, CL has maintained a relatively small capital cushion over the relatively demanding Pillar 2 requirements. At end-2023, the regulatory total capital represented 2.1% of guarantee outstandings

and the cushion above the total capital requirement was around EUR 600 million.

Further details on the Scorecard Indicators and Building Block Assessments can be found at <https://www.dbrsmorningstar.com/research/433317>.

ENVIRONMENTAL, SOCIAL, AND GOVERNANCE CONSIDERATIONS

There were no Environmental, Social, or Governance factor(s) that had a relevant or significant effect on the credit analysis.

A description of how Morningstar DBRS considers ESG factors within the Morningstar DBRS analytical framework can be found in the Morningstar DBRS Criteria: Approach to Environmental, Social, and Governance Risk Factors in Credit Ratings (23 January 2024) <https://dbrs.morningstar.com/research/427030/morningstar-dbrs-criteria:-approach-to-environmental,-social,-and-governance-risk-factors-in-credit-ratings>

Notes:

All figures are in Euros unless otherwise noted.

The principal methodology is the Global Methodology for Rating Banks and Banking Organisations (15 April 2024) <https://dbrs.morningstar.com/research/431155/global-methodology-for-rating-banks-and-banking-organisations> In addition Morningstar DBRS uses the Morningstar DBRS Criteria: Approach to Environmental, Social, and Governance Risk Factors in Credit Ratings (23 January 2024) <https://dbrs.morningstar.com/research/427030/morningstar-dbrs-criteria:-approach-to-environmental,-social,-and-governance-risk-factors-in-credit-ratings> in its consideration of ESG factors.

The credit rating methodologies used in the analysis of this transaction can be found at: <https://dbrs.morningstar.com/about/methodologies>.

The sources of information used for these credit ratings include Morningstar Inc. and company documents. Other sources include Morningstar Inc. and Company Documents and Crédit Logement 2023 Annual Report. Morningstar DBRS considers the information available to it for the purposes of providing these credit ratings to be of satisfactory quality.

Morningstar DBRS does not audit the information it receives in connection with the credit rating process, and it does not and cannot independently verify that information in every instance.

The conditions that lead to the assignment of a Negative or Positive trend are generally resolved within a 12-month period. Morningstar DBRS's outlooks and credit ratings are under regular surveillance.

For further information on Morningstar DBRS historical default rates published by the European Securities and Markets Authority (ESMA) in a central repository, see: <https://registers.esma.europa.eu/cerep-publication>. For further information on Morningstar DBRS historical default rates published by the Financial Conduct Authority (FCA) in a central repository, see <https://data.fca.org.uk/#/ceres/craStats>.

The sensitivity analysis of the relevant key credit rating assumptions can be found at: <https://www.dbrsmorningstar.com/research/433316>.

These credit ratings are endorsed by DBRS Ratings Limited for use in the United Kingdom.

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Initial Rating Date: June 05, 2014

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For more information on this credit or on this industry, visit dbrs.morningstar.com.

Ratings

Crédit Logement, SA

Date Issued	Debt Rated	Action	Rating	Trend	Attributes
28-May-24	Long-Term Issuer Rating	Confirmed	AA (low)	Stb	EU U
28-May-24	Short-Term Issuer Rating	Confirmed	R-1 (middle)	Stb	EU U
28-May-24	Subordinated Debt	Confirmed	A	Stb	EU U

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