

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

BANKING ORGANIZATIONS

DBRS Ratings GmbH (DBRS Morningstar) 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 ratings remains Stable. CL's intrinsic assessment (IA) was confirmed at AA (low). The Company's Support Assessment remains SA3. A full list of rating actions is included at the end of this press release.

KEY RATING CONSIDERATIONS

The confirmation of the ratings takes into account the Company's strong franchise and leading position in the home loan guarantees market in France; its low risk profile, supported by conservative underwriting and significant expertise in the recovery of doubtful exposures; the strong capital position, and the shareholders' commitment to maintain its solvency in 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.

RATING DRIVERS

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

A downgrade of the ratings would result from a severe deterioration in CL's asset quality and/or a weakening of its capital cushions.

RATING RATIONALE

Franchise Combined Building Block (BB) Assessment: Good/Moderate

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-2021, CL's outstanding portfolio of home loan guarantees stood at EUR 413 billion, equivalent to around one-third of all home loans outstanding in France. CL's strong franchise reflects its leading position in the market and is 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: Strong/Good

CL has a good track record of generating consistent earnings. Although we recognise profit maximisation is not its strategic goal, the retention of earnings supports the group's capital generation. The Company's revenues and earnings are driven, on the one hand, by

the volume of guarantees put in place and, on the other hand by the investment return on its funds, predominantly composed of net interest income earned on bank deposits and other low risk investments. CL's 2021 net profit was up 21.2% year-on-year (YoY) to EUR 120.1 million. The main driver was a 3.0% increase in net interest income due to higher available cash outstandings and lower outstandings of subordinated securities as well the reimbursement in early 2021 of an outstanding Tier 2 instrument. Fee and commissions were up 6.4% YoY, in line with an increase in guarantees put in place in 2021. In 2021 costs rose slightly, up 2.7% YoY at EUR 56.8 million due to higher variable staff costs in the context of higher activity, but the cost-to-income ratio remained very low in DBRS Morningstar's view at 25.5%, compared to 27.5% in 2020. 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. Despite concentration in the French home loans market, DBRS Morningstar views CL's risk profile as low, supported by the conservative underwriting standards, advanced risk monitoring procedures, and strong expertise in the recovery of overdue loans. In DBRS Morningstar's opinion, CL's position as the leading guarantor of home loans and its longstanding expertise in the French market represent an advantage in assessing risks.

The quality of CL's book compares well with the French market. 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. The share of doubtful exposures for the overall portfolio remained on a downward trend, reaching 0.40% at end-2021, down from 0.50% at end-2020, benefiting from the improvement in risk profile and the sale of doubtful loans. The share of doubtful exposures in CL's guarantee portfolio remained substantially below that observed in the broader French market. The credit risk of CL's investment portfolio (EUR 10.5 billion at end-2021) is also low. The management of the investment portfolio is subject to strict counterparty limits and stress tests. CL has also a policy of collateralisation of its investments. 50% of bank placements were collateralised and 99.5% of the investment portfolio was invested in parties internally ranked in the A range or higher.

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

DBRS Morningstar views CL's approach to the management of liquidity risk as conservative. The liquidity risk represents the risk of the inadequacy of its liquid placements 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 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: Good/Moderate

In DBRS Morningstar's opinion, CL's capital base represents a sufficient 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 resources are large enough to cope with very adverse scenarios, including significant deterioration in the domestic economic environment and in the housing market. In addition, CL benefits from its shareholders' commitment to maintain its solvency in case of stress.

DBRS Morningstar views CL's capital levels as solid. During 2021, the CET1 ratio strengthened to 19.3%, reflecting mainly a EUR 290 million increase in the MGF, which was EUR 6.6 billion at end-2021 and a reduction in doubtful loans and expected loss. The Total Capital ratio stood at 24.72%, down 23 bps as the completion of the process of gradual de-recognition of Tier 1 subordinated securities under "grandfathering" and the non-renewal of certain equity loans was offset by the issuance of subordinated Tier 2 notes. At these levels, CL's CET1 and Total Capital ratios are well above the Pillar 1 capital requirements based on risk-weighted

assets (RWAs) for CET1 capital and Total Capital of 7% and 10.5%, respectively.

Pillar 2 requirements represent the effective floor for CL's regulatory Total Capital, given they are much higher than the Pillar 1 requirement. CL is obliged to maintain total capital of at least 2% of its guarantee outstandings, equivalent to EUR 8.3 billion at end-2021. Historically, CL has maintained a relatively small capital cushion over the relatively demanding Pillar 2 requirements. At end-2021, the regulatory total capital represented 2.1% of guarantee outstandings and the cushion above the total capital requirement was EUR 455 million.

Further details on the Scorecard Indicators and Building Block Assessments can be found at <https://www.dbrsmorningstar.com/research/397808>

ENVIRONMENTAL, SOCIAL, GOVERNANCE CONSIDERATIONS

There were no Environmental/ Social/ Governance factors that had a significant or relevant effect on the credit analysis

A description of how DBRS Morningstar considers ESG factors within the DBRS Morningstar analytical framework can be found in the DBRS Morningstar Criteria: Approach to Environmental, Social, and Governance Risk Factors in Credit Ratings at <https://www.dbrsmorningstar.com/research/396929/dbrs-morningstar-criteria-approach-to-environmental-social-and-governance-risk-factors-in-credit-ratings>.

Notes:

All figures are in EUR unless otherwise noted.

The principal methodology is the Global Methodology for Rating Banks and Banking Organisations (19 July 2021) <https://www.dbrsmorningstar.com/research/381742/global-methodology-for-rating-banks-and-banking-organisations>. Other applicable methodologies include the DBRS Morningstar Criteria: Approach to Environmental, Social, and Governance Risk Factors in Credit Ratings (17 May 2022) <https://www.dbrsmorningstar.com/research/396929/dbrs-morningstar-criteria-approach-to-environmental-social-and-governance-risk-factors-in-credit-ratings>

The sources of information used for this rating include Morningstar Inc., Company Documents and Crédit Logement 2021 Annual Report. DBRS Morningstar considers the information available to it for the purposes of providing this rating to be of satisfactory quality.

DBRS Morningstar does not audit the information it receives in connection with the 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. DBRS Morningstar's outlooks and ratings are under regular surveillance.

For further information on DBRS Morningstar historical default rates published by the European Securities and Markets Authority (ESMA) in a central repository, see: <https://cerep.esma.europa.eu/cerep-web/statistics/defaults.xhtml>. DBRS Morningstar understands further information on DBRS Morningstar historical default rates may be published by the Financial Conduct Authority (FCA) on its webpage: <https://www.fca.org.uk/firms/credit-rating-agencies>.

The sensitivity analysis of the relevant key rating assumptions can be found at: <https://www.dbrsmorningstar.com/research/397807>

This rating is endorsed by DBRS Ratings Limited for use in the United Kingdom.

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For more information on this credit or on this industry, visit www.dbrsmorningstar.com.

Ratings

Crédit Logement, SA

Date Issued	Debt Rated	Action	Rating	Trend	Attributes
01-Jun-22	Long-Term Issuer Rating	Confirmed	AA (low)	Stb	EU U
01-Jun-22	Short-Term Issuer Rating	Confirmed	R-1 (middle)	Stb	EU U
01-Jun-22	Subordinated Debt	Confirmed	A	Stb	EU U

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