PRESS RELEASE

MAY 30, 2023

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 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 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 residential lending market. Financial guarantees are the most popular form of collateral in France, securing close to 60% of all outstanding French home loans. At end-2022, CL's outstanding portfolio of home loan guarantees stood at EUR 430 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: 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 2022 net profit was stable year-on-year (YoY) at EUR

120.4 million compared to EUR 120.1 million in 2021. Net interest income remained stable, as the average available cash outstanding was up almost 2% which compensated for less favorable funding conditions for subordinated securities due to the rise in interest rates. The 3.8% decrease in gross commissions was in line with a decrease in guarantees put in place in 2022, as inflation affected the borrowers' purchasing power, and combined with higher rates reduced demand for home loans in H2 2022. Costs were slightly down 1.0% YoY at EUR 56.2 million, as lower administrative costs offset higher staff costs in the context of inflation. The cost-to-income ratio remained very low in DBRS Morningstar's view at 26.0% in 2022 (2021: 25.6%). 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 its conservative underwriting standards, advanced risk monitoring procedures, and strong expertise in the recovery of past due 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 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, DBRS Morningstar notes that a steady decline in interest rates on French home loans in recent years, driven by renegotiations and repurchases has had a positive impact on the affordability of home loans guaranteed by CL. However, interest rates have been rapidly rising in 2022, resulting in an average lending rate in France of 2.34% at end-2022 compared to 1.06% a year earlier. The lengthening of loan durations continued in H2 2022, reaching an average of 246 months at the end of the year, a historical high. Nevertheless, longer durations no longer seem sufficient to offset the increase in housing prices and still high down payments required. This has led to a slowdown in the market in H2 2022, also exacerbated by lower purchasing power for borrowers amidst current inflationary pressures. Despite this change in credit conditions, the share of doubtful exposures for the overall portfolio continued to decline and was 0.38% at end-2021 down from 0.40% at end-2021. Moreover, 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 10.6 billion at end-2022) is also low. The management of the investment portfolio is subject to strict counterparty limits and stress tests. 50% of bank placements were collateralised and 99.5% of the investment portfolio had an internal rating 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 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: 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 capital cushions 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.

Since 2007, CL had been authorized to use an Internal Rating Model to calculate the minimum Pillar 1 requirement for the credit risk of the guarantees portfolio. However, EBA guidance prompted CL to revise its internal rating model, which became effective since 31 December 2022. The new model resulted in higher expected losses, and therefore a higher amount deducted from CET1 Equity which is offset by the fact that CL no longer needs to deduct NPLs from equity. However, the new model incurs more unexpected losses and therefore higher capital needs. On top of this, RWAs are higher because of the new model. As a result, CL reported a CET ratio of 11.9% compared to 19.3% in 2021. Whilst the ratio is lower than in previous years, it remains well above the Pillar 1 capital requirements of 7% and is less volatile in the face of extreme stress-test scenarios. The Total Capital ratio stood at 15.4% 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 8.6 billion at end-2022. Historically, CL has maintained a relatively small capital cushion over the relatively demanding Pillar 2 requirements. At end-2022, the regulatory total capital represented 2.1% of guarantee outstandings and the cushion above the total capital requirement was around EUR 300 million.

Further details on the Scorecard Indicators and Building Block Assessments can be found at https://www.dbrsmorningstar.com/research/414616

ENVIRONMENTAL, SOCIAL, GOVERNANCE CONSIDERATIONS
There were no Environmental/ Social/ Governance factor(s) 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 (17 May 2022)

Notes:
All figures are in EUR unless otherwise noted.

The principal methodology is the Global Methodology for Rating Banks and Banking Organisations https://www.dbrsmorningstar.com/research/398692 (23 June 2022). In addition DBRS Morningstar uses the DBRS Morningstar Criteria: Approach to Environmental, Social, and Governance Risk Factors in Credit Ratings https://www.dbrsmorningstar.com/research/396929/dbrs-morningstar-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://www.dbrsmorningstar.com/about/methodologies

The sources of information used for this rating include Morningstar Inc. and Company Documents and Crédit Logement 2022 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. For further information on DBRS Morningstar 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 rating assumptions can be found at: https://www.dbrsmorningstar.com/research/414618

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

Lead Analyst: Arnaud Journois, Vice President - Global FIG
Rating Committee Chair: William Schwartz - Senior Vice President - Credit Practices Group
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DBRS Ratings GmbH
Neue Mainzer Straße 75
60311 Frankfurt am Main Deutschland
Tel. +49 (69) 8088 3500
Geschäftsführer: Detlef Scholz
Amtsgericht Frankfurt am Main, HRB 110259

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
30-May-23	Long-Term Issuer Rating	Confirmed	AA (low)	Stb	EU U
30-May-23	Short-Term Issuer Rating	Confirmed	R-1 (middle)	Stb	EU U
30-May-23	Subordinated Debt	Confirmed	A	Stb	EU U

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Contacts

Arnaud Journois
Vice President - Global Financial Institutions Group
+49 69 8088 3526
arnaud.journois@dbrsmorningstar.com

William Schwartz
Senior Vice President - Credit Practices Group
+1 212 806 3233
william.schwartz@dbrsmorningstar.com

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