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Research Update:

Outlook On CCF Revised To Stable On Completed Acquisition; My Money Bank Outlook Still Negative; Ratings Affirmed

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Overview

- The CCF group successfully integrated the domestic retail activities of HSBC in France and completed an IT migration without significant client attrition in the first six months. The acquired retail franchise and the €7 billion cash contribution strengthened the group's funding and liquidity metrics. The granular and stable deposit base has in our view stabilized CCF's funding profile.
- We therefore revised to stable from negative our outlook on the group's main operating company, CCF, and its nonoperating holding company, CCF Holding, and affirmed the 'BBB-/A-3' ratings on CCF and the 'BB+/B' ratings on CCF Holding.
- The stable outlook on CCF reflects our expectation that the transformation of the group will create a business model with higher operating efficiency and sustained although modest profitability over the next two years while keeping a risk-adjusted capital ratio above 15% and resilient asset quality metrics.
- At the same time, despite a voluntary staff departure plan and other cost-saving initiatives focused on efficiency gains, pronounced operating headwinds may raise questions around specialist lender My Money Bank's strategic fit in the CCF group.
- We therefore maintained a negative outlook and affirmed the 'BBB-/A-3' ratings on My Money Bank.

Rating Action

On July 18, 2024, S&P Global Ratings took the following rating actions on subsidiaries of the CCF group:

- We revised to stable from negative the outlook on the group's main subsidiary, CCF, and its nonoperating holding company CCF Holding; and affirmed the 'BBB-/A-3' long- and short-term issuer credit ratings on CCF and the 'BB+/B' long- and short-term issuer credit ratings on CCF

Holding.

- We also affirmed the 'BBB-/A-3' issuer credit ratings on My Money Bank. The outlook is still negative.
- At the same time, we affirmed the 'B-' rating on the group's additional tier 1 (AT1) notes and our 'B' rating on the tier 2 note issued by CCF Holding.

Rationale

The outlook revision to stable reflects our expectation that the CCF group will firmly execute on the integration of retail and wealth management activities acquired from HSBC CE in France. Since the acquisition at the start of 2024, the group has smoothly incorporated the acquired business' operations, including completion of the customer transition and IT migration. Commercial activity at CCF is gradually resuming both on home loans and wealth management, and the group has started to capitalize on its open architecture to expand and diversify its wealth and life insurance product offering by signing partnership with renowned asset managers. The group reported higher volumes of new financings and net inflows in wealth management for the first half of 2024.

We assume the acquisition's main benefits will stem from a lower cost base, even though the transaction provides additional revenue that will support the transition. In our view, management's experience, capturing that of the CEO who joined in early 2023 and of other recent additions to leadership, underpins the capacity to carry out the group's transformation. Furthermore, the CCF group will benefit from the amortization of the acquired loan book fair value adjustment over the next years and the substantial liquidity buffers obtained as part of the deal terms. Moreover, the expected cost reduction from the group's voluntary staff departure plan and other initiatives at My Money Bank, alongside gains from the group's strengthened funding structure, should support the group's profitability, if successful.

The acquired retail deposit franchise has improved the funding structure and liquidity position of the group. Positively, the deposit base at CCF has remained stable, standing at €19.7 billion at end-May 2024, and comprises a mix of current accounts and regulated and unregulated saving deposits. In our view, the deposits at CCF are granular, and we expect the bank to leverage its franchise by attracting new customers with home loans as an anchor product. In addition, CCF enjoys a premium customer base with a high share of long relationships with the bank. We now consider CCF's funding profile as neutral rating factor.

The deal terms with HSBC led to the substitution of €7 billion of home loans with cash, providing the group with €10 billion of liquidity at closing. This materially strengthened the liquidity position, with a regulatory liquidity coverage ratio at 833% at end-March 2024. The group is progressively deploying this excess liquidity to an investment portfolio (hedged against interest rate risk at instrument level), and we expect the CCF group will gradually use these funds to support the growth of its financing activities. As such, we project the loan-to-deposit ratio will trend toward 100%-110% in the next two years from 72% at end-March 2024.

We expect the group to maintain a risk-adjusted capital (RAC) ratio above 15% throughout the integration. The group is well capitalized post-acquisition thanks to the capital contribution of €1.3 billion at the deal's closing. The CCF group's CET1 ratio stood at 17.1% at end-March 2024 versus 12.4% at end-2023, and we calculate S&P Global Ratings' RAC ratio at 17.7% at end-March 2024. In June, the group issued €225 million of AT1 notes, including €100 million to refinance its outstanding AT1. This is supporting the group's capital trajectory and allows it to accommodate, in our view, the sizable transformation at CCF and My Money Bank. We therefore expect the RAC ratio to remain just slightly above 15% throughout the integration. In our view, the group will present a weak earnings profile in 2024-2026. It could improve, however, if CCF group transforms itself successfully and CCF's loan and wealth management activities produce positive core earnings.

CCF's low-risk home loans portfolio results in enhanced credit risk indicators post-acquisition. The acquisition of the collateralized home loan portfolio partly mitigates the higher credit risk in the CCF group's specialized finance business. The reported non-performing loan (NPL) ratio stood at 3.2% at end-March 2024 compared with 5.0% at end-2023. The cost of risk decreased to 25 basis points (bps) from 50 bps over the same period. The group's specialized finance activity hosted at My Money Bank, representing 69% of the total NPLs, remains a pocket of risk for the group. My Money Bank also bears higher-risk commercial real estate (CRE) activity (less than 10% of the group's total loan book) and single-name concentration risk. The share of 90-days-past-due loans in My Money Bank's CRE portfolio increased to 8.4% in 2023 from 3.2% in 2022 and we expect asset quality to remain under pressure until the market fully stabilizes.

A simplified group structure could be credit positive for CCF Holding's hybrid capital instruments. CCF group is contemplating merging CCF Holding, its non-operating holding company (NOHC), into CCF, the main operating company. The decision is likely to take place in 2025. The proposed verticalization of the group, putting CCF on top, could prompt us to raise by up to two notches our issue ratings on CCF Holding's hybrids.

My Money Bank's strategic importance to the group remains uncertain. The acquisition of HSBC's retail activity in France has reduced the contribution of My Money Bank's historical consumer finance and debt consolidation business to the group. In our view, there are no significant business synergies with CCF. Following cessation of its CRE activity the outstanding specialized finance activities remain a pocket of risk, notably in a more challenging operating environment. The ongoing voluntary staff departure plan at My Money Bank will focus on improving its operating efficiency and the end of its in-house deposit activity will back its profitability. But this does not rule out a potential gradual weakening of the bank's strategic importance, in our opinion.

Outlook

CCF and CCF Holding

The stable outlook on CCF and CCF Holding reflects our expectation that, over the next two years, the group will successfully transform CCF such that the retail business model has sound operating efficiency (management's guidance of a cost to income ratio below 65%) and sustained profitability (guidance of a return on equity above 10%), while maintaining the RAC ratio above 15% and sustaining asset quality metrics. At the same time, we assume the group will maintain a strong compliance and risk control framework.

Downside scenario. We could lower the ratings on CCF and CCF Holding if the group's transformation weakens the group's financial profile, specifically due to the significant execution risks that could undermine reaching a sustained business model. Furthermore, a deterioration of the operating environment in France could delay the return to profitability.

Upside scenario. We could take a positive rating action if the group returned to a consolidated profit with a RAC ratio comfortably above 15%, while maintaining a sound asset quality.

My Money Bank

Our negative outlook on the 'BBB-' long-term rating on My Money Bank reflects the challenges its business model is facing in the current operating environment and the execution risks related to the change the bank is undergoing in the next two years. This, if unsuccessful, could affect the entity's strategic fit in the broader CCF group.

Downside scenario. We could take a negative rating action on My Money Bank if, contrary to our current expectation, its strategic importance to the group diminishes, thereby questioning its core group status.

Upside scenario. We could revise the outlook to stable if My Money Bank's stand-alone profitability improves to a level more commensurate with peers' and its integration in the CCF group and the group's long-term commitment of support is confirmed.

Ratings Score Snapshot

	To	From
Issuer Credit Rating		
CCF	BBB-/Stable/A-3	BBB-/Negative/A-3
CCF Holding	BB+/Stable/B	BB+/Negative/B
My Money Bank	BBB-/Negative/A-3	BBB-/Negative/A-3
Group SACP*	bbb-	bbb-
Anchor	bbb+	bbb+
Business position	Constrained(-2)	Constrained(-2)
Capital and earnings	Strong(+1)	Strong(+1)
Risk position	Moderate(-1)	Moderate(-1)
Funding and liquidity	Adequate and adequate (0)	Moderate and adequate (-1)
Comparable ratings analysis	0	+1
Support	0	0
ALAC support	0	0
GRE support	0	0
Group support	0	0
Sovereign support	0	0
Additional factors	0	0

Related Criteria

- Criteria | Financial Institutions | General: Risk-Adjusted Capital Framework Methodology, April 30, 2024
- General Criteria: Hybrid Capital: Methodology And Assumptions, March 2, 2022
- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Dec. 9, 2021
- Criteria | Financial Institutions | General: Financial Institutions Rating Methodology, 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: Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- French Banks Face Increased Volatility Amid Policy Uncertainty, July 10, 2024
- CCF Rated 'BBB-/A-3' After HSBC French Retail Banking Acquisition; Outlook Negative, Jan. 2, 2024
- Banking Industry Country Risk Assessment: France, Dec. 13, 2023
- My Money Bank, Nov. 21, 2023
- Research Update: My Money Bank Off CreditWatch; 'BBB-/A-3' Ratings Affirmed; Outlook Negative, July 18, 2023
- My Money Bank Placed On CreditWatch Negative On Less Certain Acquisition Of HSBC CE's Retail Business In France, April 19, 2023

Ratings List

Ratings Affirmed	
My Money Bank	
Issuer Credit Rating	BBB-/Negative/A-3
CCF Holding	
Subordinated	B
Junior Subordinated	B-

Ratings Affirmed; Outlook Action

	To	From
CCF Holding		
Issuer Credit Rating	BB+/Stable/B	BB+/Negative/B
CCF		
Issuer Credit Rating	BBB-/Stable/A-3	BBB-/Negative/A-3