MOODY'S
RATINGS

Rating Action: Moody's Ratings assigns first-time Baa2 issuer rating to CCF; Outlook stable

10 Dec 2024

BCA and Adjusted BCA of baa3 assigned

Paris, December 10, 2024 -- Moody's Ratings (Moody's) today assigned first-time long-term and short-term deposit and issuer ratings of Baa2 and Prime-2 respectively to the French retail bank CCF. The outlook on the long-term deposit and issuer ratings is stable. In addition, we assigned both a Baseline Credit Assessment (BCA) and an Adjusted BCA of baa3 to CCF. Our analysis reflects the overall strength of the Groupe CCF, based on CCF Holding S.A.S. (CCF Holding)'s consolidated accounts which include CCF and specialty finance lender My Money Bank S.A. (MMB). My Money Group, the owner of MMB and acquiror of the French retail banking activities of HSBC Continental Europe in 2024, became Groupe CCF, organized around two lines of business, retail banking and wealth management with CCF and specialty finance with MMB. We also assigned a Ba1 rating to the €100 million Tier 2 subordinated debt and a Ba3(hyb) rating to the €225 million Additional Tier 1 (AT1) securities issued by CCF Holding. Lastly, we assigned long-term and short-term Counterparty Risk Assessments of A3(cr)/Prime-2(cr) and long-term and short-term Counterparty Risk Ratings of Baa1/Prime-2 to CCF.

RATINGS RATIONALE

RATINGS RATIONALE FOR CCF

CCF's long-term deposit and issuer ratings of Baa2 reflect (1) the bank's BCA of baa3; (2) one notch of uplift from our Advanced Loss Given Failure (LGF) analysis because of the moderate loss-given-failure of these instruments; and (3) no rating uplift resulting from our expectation of a low probability of government support in view of CCF's lack of systemic importance in France (Aa2 negative).

The baa3 BCA reflects the bank's (1) domestic retail banking focus with a low risk profile overall despite some pockets of higher specialty finance risk, (2) robust capitalisation which we expect to decrease primarily due to investments in the

transformation of the group, but also loan growth, (3) structurally weak profitability, although Groupe CCF is engaged in a transformation to improve its operational efficiency, (4) sound funding structure driven by granular and stable retail deposits, (5) strong liquidity post CCF acquisition to be largely converted into a high-quality investment portfolio and (6) execution risks linked to the planned transformation and the development of the franchise in a competitive environment.

Groupe CCF's focus on residential housing loans and secured debt refinancing of retail loans results in a very granular loan book and a low risk profile overall, despite some pockets of higher-risk assets including MMB's professional mortgages (commercial real estate), the run-off of Banque des Caraïbes and to a lesser extent the consumer credit activity. Groupe CCF's annualized cost of risk was 25 basis points (bps) in H1 2024, which we expect to be broadly indicative of full year numbers, and the problem loan ratio was 3.5% at end-June 2024 under our calculations. Going forward, we expect the problem loan ratio and the cost of risk to progressively decrease as the proportion of residential mortgages increases, professional mortgages are derisked and the run-off of Banque des Caraïbes is completed.

Groupe CCF's capitalisation, determined at CCF Holding's consolidated level, is robust and offers substantial buffers above minimum regulatory capital requirements. Groupe CCF's Common Equity Tier 1 (CET1) ratio was 17.7% at end-June 2024, much above the 9.4% minimum CET1 capital requirement under the Supervisory Requirement and Evaluation Process (SREP). The Tier 1 leverage ratio was a high 6.7% at end-June 2024, including the €225 million Additional Tier 1 (AT1) securities issued in June. We expect the CET1 ratio to decrease to a level closer to 13% in the next two years due to the investments in the transformation of the group and the restart of loan growth.

Groupe CCF's profitability is structurally weak as a result of a high cost structure, as well as relatively weak revenues due to a low client equipment rate of its affluent customer base and low-yielding assets at CCF. In addition, the activities currently identified as non-core may weigh on net results in the short term, as additional provisioning linked to derisking and portfolio sales will likely occur. We expect that the group will engage in a broad transformation over 2024-2026 which will involve significant investments. Although this is expected to result initially in significant net losses in 2024 and 2025, profitability should improve thereafter. The bank aims at lowering its cost-to-income ratio to between 70% and 75% by the end of 2026, excluding transformation costs, from close to 100% in H1 2024. On the revenue side, CCF expects to develop its new open architecture to attract wealth and life insurance clients through partnerships with the best global asset managers and insurers. We also expect that CCF will increase its revenue and profitability as the bank gradually deploys the uninvested excess cash and due from banks stemming from the terms of the acquisition from HSBC Continental Europe.

Groupe CCF's substantial excess funding resources versus its present lending

engagements result in a sound funding structure. The group benefits from highly granular and stable deposits, essentially coming from CCF's acquisition, and representing 82% of funding sources at end-June 2024. Both MMB and CCF also issue covered bonds, which represented the remainder of funding sources (18%) at end-June. Despite the long-term nature of home loans, a large portion of Groupe CCF's engagements, the group reported a highly-liquid balance sheet at end-June 2024. As the CCF acquisition brought much more deposits than loans, the loan-to-deposit ratio was only 79% at end-June 2024. As a result, liquid assets made of cash, due from banks and a growing investment portfolio represented 31% of tangible assets at the same date. The group will progressively invest over the next 3-4 years the excess cash brought by the CCF transaction into a high-quality investment portfolio, as new lending will not absorb all excess cash in the medium term. The group reported very strong regulatory measures of funding and liquidity with a Net Stable Funding Ratio (NSFR) of 180% and a Liquidity Coverage Ratio (LCR) of 649% at end-June 2024.

We assigned a negative qualitative adjustment of one notch under corporate behaviour to the baa2 financial profile, resulting in a BCA of baa3. This negative adjustment reflects the execution risks induced by the business transformation underway and the challenges of relaunching the CCF franchise in a very competitive environment.

Our Advanced LGF analysis indicates that depositors and senior unsecured debt holders would suffer low losses in a resolution scenario, which results into an uplift of one notch for both the deposit and issuer ratings. We have adopted a forward-looking view in our LGF analysis.

RATINGS RATIONALE FOR CCF HOLDING'S TIER 2 AND AT1 INSTRUMENTS

We assigned a Ba1 rating to CCF Holding's €100 million Tier 2 subordinated notes due 2041. Our Advanced LGF analysis indicates that the holders of these notes would suffer high losses in resolution, which results into a Ba1 rating, positioned one notch below CCF's baa3 Adjusted BCA.

We also assigned a Ba3(hyb) to CCF Holding's €225 million perpetual AT1 securities issued in June 2024. They rank junior to all senior unsecured and subordinated obligations of the group and senior only to its ordinary shares. Coupons may be cancelled on a non-cumulative basis at the issuer's option, and on a mandatory basis subject to the availability of distributable items and regulatory discretion. The principal of the security will be written down if CCF Group's CET1 ratio falls below 5.125%. The Ba3(hyb) rating, positioned three notches below CCF's Adjusted BCA of baa3, incorporates (1) one negative notch from our Advanced LGF analysis indicating that the holders of these securities would suffer high losses in resolution and (2) two additional negative notches due to the risk of coupon payment skip and principal write-down.

STABLE OUTLOOK

The outlook on CCF's long-term deposit and issuer ratings is stable. This factors in our expectation that asset quality will remain broadly stable and that the transformation, although weighing on profits and capital in the short term, will enhance the group's operational efficiency in the medium term.

ESG CONSIDERATIONS

The assigned ratings also incorporate our assessment of Groupe CCF's environmental, social and governance (ESG) considerations. We assess Groupe CCF's exposure to governance risks as high, reflecting the execution risks induced by the on-going transformation of the group and the development of a new franchise in a competitive environment. However, those risks are partly mitigated by the conservative financial strategy and risk management of the bank. The bank notably wants to reduce its professional mortgage activity, which entails some large exposures to the cyclical commercial real estate sector. We reflect these governance weaknesses in a one-notch negative adjustment for corporate behaviour and in a Governance Issuer Profile Score (IPS) of G-4 under our ESG framework. Consequently, we assigned Groupe CCF an ESG Credit Impact Score of CIS-4, which indicates a discernable impact of ESG factors on the assigned ratings.

FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

CCF's BCA could be upgraded if the group reported structural improvement in its profitability while asset risk, capital and liquidity remained strong. The upgrade would in turn result in a similar upgrade of the bank's long-term deposit and issuer ratings.

Although unlikely in the short term, an upgrade of the long-term deposit and issuer ratings could result from lower loss given failure if the bank added substantial volume of subordinated debt issuance.

CCF's BCA could be downgraded if (1) its profitability remained intrinsically weak, without material improvements in the bank's operating efficiency, (2) its asset quality deteriorated, for instance in the activities identified as non-core (Banque des Caraïbes and professional mortgages), (3) its solvency and liquidity positions weakened, or (4) if material execution risks from the bank's transformation plans were to materialize.

A downgrade of the long-term deposit and issuer ratings would occur if the bank issued lower-than-expected Tier 2 subordinated debt, resulting into higher loss given failure for these instruments.

PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Banks published in November 2024 and available at https://ratings.moodys.com/rmc-documents/432741 .

Alternatively, please see the Rating Methodologies page on https://ratings.moodys.com for a copy of this methodology.

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found on https://ratings.moodys.com/rating-definitions .

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At least one ESG consideration was material to the credit rating action(s) announced and described above. Moody's general principles for assessing environmental, social and governance (ESG) risks in our credit analysis can be found at https://ratings.moodys.com/documents/PBC_1355824 .

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