Research Update:

My Money Bank Off CreditWatch; 'BBB-/A-3' Ratings Affirmed; Outlook Negative

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Overview

- On June 14, 2023, HSBC and My Money Group (MMG) agreed on amendments to the initial terms of the sale of HSBC Continental Europe's retail business in France to MMG.
- This acquisition will be transformative, requiring a lengthy and complex restructuring and producing multiyear losses in a more challenging operating environment, but could lead to a business model with sustained profitability and stable funding, if well executed.
- We also see profitability headwinds in My Money Bank's existing activities in a higher interest rate environment and risks in its professional real estate portfolio.
- We affirmed our 'BBB-/A-3' ratings on My Money Bank and our 'BB+/B' ratings on Promontoria MMB, and removed them from CreditWatch with negative implications, where we placed them April 19, 2023.
- The negative outlook reflects the uncertainty around the transformation of the acquired retail activities from HSBC, challenges in the group's specialized finance activities that impair the earnings profile amid a more challenging environment, and MMG keeping a strong capital trajectory with a risk-adjusted capital ratio largely above 15%.

Rating Action

On July 18, 2023, S&P Global Ratings affirmed its 'BBB-/A-3' long- and short-term issuer credit ratings on My Money Bank (MMB) and the 'BB+/B' long- and short-term issuer credit ratings on Promontoria MMB, MMB's holding company. The ratings were removed from CreditWatch, where we placed them with negative implications April 19, 2023.

We also lowered the long-term issue rating on Promontoria MMB's additional Tier 1 (AT1) notes to 'B-' from 'B' and Tier 2 notes to 'B' from 'B+'.

Rationale

We resolved the CreditWatch with negative implications following new deal amendments that will ensure a regulatory common equity tier 1 (CET1) ratio above 15% at closing. The amendments agreed between HSBC and MMG on June 14, 2023, are expected to solve the regulatory pro forma capital shortfall at MMG after the acquisition produced by the fair-value accounting of both assets and liabilities in a higher-interest-rate environment. HSBC Continental Europe (HSBC CE) will now retain a portfolio of €7 billion of home loans which was originally part of the transaction, with HSBC CE including an equivalent amount of cash in the transaction. We assume that the injection of €7 billion of cash will be managed to limit the risk of unrealized losses and significantly improves the group's liquidity position. Also, HSBC agreed to adjust its contribution to the transaction with a capital injection that could represent up to €1.8 billion while MMG's private equity owner Cerberus will contribute €225 million at closing. As a result, we expect MMG's pro forma CET1 ratio to be above 15% at the end of 2023. The transaction is expected to close on Jan. 1, 2024, subject to regulatory approvals, but we do not exclude a delay into 2024.

We expect MMG's specialized finance activities to underperform with a weaker profitability and with higher credit risk over the next two years. MMG reported an operating profit before tax of €1 million at year-end 2022 compared with a profit of €18 million a year before (excluding acquisition-related impacts). The reduction stems primarily from a higher cost of risk (25 million in 2022 compared to 2 million in 2021) as MMG increased its forward-looking provisions in an inflationary environment. We expect commercial activity at MMG to deteriorate over 2023, driven by the French usury rate (the maximum that lending institutions are allowed to charge when granting a home loan) constraining margins on debt consolidation activity and lower commercial real estate origination in a more difficult environment, and financing costs to increase as its intermediated deposits are progressively repriced at higher rates, leading to a weaker operating performance. We expect MMG to address its high cost base in its specialized financing activity to reach higher efficiency with a cost-to-income ratio at 88.5% at year-end 2022, which is elevated compared with peers. Additionally, we expect MMG's cost of risk to increase over 2023 due to precautionary provisioning on its professional mortgages exposures (PM). We consider the PM portfolio, which is less granular and concentrated in France's larger cities, to be a material pocket of risk if the dynamics on the real estate market deteriorate.

We expect MMG's transformative acquisition to result in weak earnings through 2025. MMG is engaged in a transformative acquisition with a lengthy and costly restructuring with elevated nonrecurring charges. After the acquisition, the group will need to transform the acquired retail activity and return to a profitable path, which implies optimizing the cost base while investing in client retention and developing new sources of revenue. The elevated transition costs on the acquired portfolio will weigh on the group's profitability and in turn will weigh on the capital trajectory of MMG. We expect the risk-adjusted capital (RAC) ratio, including additional hybrid capital issuance, to be at 15.5% over the next two years, compared with a RAC ratio of 19.2% at end-2022. The group's earnings prospects and capital buildup appear impaired through 2025. Its quality of capital, with 21% of total adjusted capital comprising hybrids at year-end 2022, is weaker than peers'.

We now reflect the support to the rating of the HSBC transition in a one notch of positive adjustment to MMG's overall creditworthiness. This one notch of comparable rating analysis (CRA) adjustment reflects that in our base-case we expect MMG to successfully manage the transformation to achieve a viable business model with sustained profitability, while maintaining strong capitalization and stabilizing funding profile through the retail deposit franchise. Alternatively, we could remove this CRA adjustment if MMG's creditworthiness weakens against our base-case expectations.

We have lowered our ratings on Promontoria MMB's hybrid capital instruments. The increased risks to the hybrid capital holders from MMG's weaker earnings capacity, moderate maximum distributable amount (MDA) headroom, and overall lower capital and earnings position led us to lower the issue ratings on Promontoria MMB's additional tier 1 and tier 2 instruments by one notch. We notch down the hybrids issued by the non-operating holding company Promontoria MMB from the 'BB+' issuer credit rating by deducting

- Five notches for the AT1 instrument to reflect the contractual subordination, the notes' regulatory Tier 1 capital status and a mandatory contingent capital clause;
- Four notches for the Tier 2 instrument with a going-concern trigger to reflect the contractual subordination, mandatory contingent capital clause and the expected 301-700 basis points cushion between the CET1 ratio and the going-concern trigger ratio of 7% in the next 12-24 months.

Outlook

The negative outlook reflects our view of the execution risks in a transformative acquisition with a complex and lengthy restructuring that will weigh on MMG's profitability over the next two years, as well as the weaker profitability in its core specialized finance activity and the potential risk in its PM portfolio.

Downside scenario

We could take a negative rating action if the acquisition does not take place.

We could also lower the ratings on MMB and Promontoria MMB if the planned acquisition significantly weakens the group's creditworthiness. Specifically, this transformational acquisition carries significant execution risks that could cause the group to incur elevated nonrecurring charges and so undermine its business profile.

In addition, we could lower the ratings if MMG's solvency weakened unexpectedly, such that its projected RAC ratio falls below 15%. This could occur if there were delays in the transformation that depress its capitalization.

We could also take a negative rating action on MMB if its strategic importance to the group diminishes after the transaction.

Upside scenario

We could revise the outlooks on MMB and Promontoria MMB to stable if the group returned to a consolidated profit with a RAC ratio above 15% with a comfortable buffer and diversifies its funding profile through stable retail deposits. A prerequisite would be a successful execution of the acquisition and full operational ability immediately after the deal closes.

Ratings Score Snapshot

	To	From
Issuer Credit Rating	**BBB-/Negative/A-3**	**BBB-/Watch Neg/A-3**
SACP	bbb-	bbb-
Anchor	bbb+	bbb+
Business position	Constrained(-2)	Constrained(-2)
Capital and earnings	Strong(+1)	Very Strong(+2)
Risk position	Moderate(-1)	Moderate(-1)
Funding and liquidity	Moderate and adequate (-1)	Moderate and adequate (-1)
Comparable ratings analysis	+1	0
Support	0	0
ALAC support	0	0
GRE support	0	0
Group support	0	0
Sovereign support	0	0
Additional factors	0	0

SACP--Stand-alone credit profile.

ESG credit indicators: E-2, S-2, G-2

Related Criteria

- 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
- Criteria | Financial Institutions | General: Risk-Adjusted Capital Framework Methodology, July 20, 2017
- 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

- Economic Outlook Eurozone Q3 2023: Short-Term Pain, Medium-Term Gain, June 26, 2023
- Research Update: My Money Bank Placed On CreditWatch Negative On Less Certain Acquisition Of HSBC CE's Retail Business In France, April 19, 2023
- French Banks 2023 Outlook: Withstanding The Slowdown, Jan. 30, 2023
- My Money Bank, Dec. 16, 2022

Ratings List

Downgraded; CreditWatch Action

	To	From
Promontoria MMB		
Subordinated	B	B+/Watch Neg
Junior Subordinated	B-	B/Watch Neg

Ratings Affirmed; CreditWatch/Outlook Action

	To	From
Promontoria MMB		
Issuer Credit Rating	BB+/Negative/B	BB+/Watch Neg/B
My Money Bank		
Issuer Credit Rating	BBB-/Negative/A-3	BBB-/Watch Neg/A-3
Commercial Paper	A-3	A-3/Watch Neg

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