S&P Global Ratings

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Credit Mutuel Group

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Credit Mutuel Group

SACP	a	+	Support	0	+	Additional Factors	0

Anchor	bbb+	
Business Position	Strong	+1
Capital and Earnings	Strong	+1
Risk Position	Adequate	0
Funding	Average	0
Liquidity	Adequate	

ALAC Support	0
GRE Support	0
Group Support	0
Sovereign Support	0

Issuer Credit Rating
A/Stable/A-1
Resolution Counterparty Rating
A+/--/A-1

Credit Highlights

Overview

Key strengths	Key risks
Solid recurring earnings from a strong franchise in French retail banking and insurance.	Profitability challenge in the highly competitive French domestic retail market amid the pandemic and the low-interest-rate environment.
A low risk appetite and good record of controlled growth in complementary business segments and territories.	Only average cost efficiency compared with European peers', although good in a French context.
High quality of core capital and supportive internal capital generation.	Lower diversification outside retail banking and insurance in France, compared with similarly and higher-rated peers.

The ratings on Credit Mutuel Group (CMG) entities are based on the consolidated analysis of the group. S&P Global Ratings views the following entities as core to the CMG: Caisse Centrale du Crédit Mutuel, Banque Federative du Crédit Mutuel (BFCM), Crédit Industriel et Commercial (CIC), Caisse Fédérale du Crédit Mutuel Nord Europe (CMNE), Caisse Fédérale du Crédit Mutuel de Maine-Anjou Basse Normandie, and Caisse Fédérale du Crédit Mutuel Océan.

CMG operates under a cooperative banking status organized according to the provisions of the French Monetary and Financial Code. Cooperative group members are eligible to benefit from a financial solidarity mechanism organized by statutory provisions. We consider that this overarching feature ensures the overall financial cohesiveness of the group. It supports our expectation that extraordinary group support, directly or indirectly, would be equally forthcoming to all mutual group members, irrespective of any other consideration, including some recurring elevated intragroup tensions between some members. This underpins our classification of these entities as core to the group and, therefore, the alignment of our ratings on these entities with the 'a' group credit profile (GCP).

CMG's mutualist status and resilient bancassurance model make it one of the strongest banking groups in France. The high proportion of recurring revenue has provided the group with more stable earnings than peers', with limited one-off items. Nevertheless, as for other French peers, the low-interest-rate environment and competitive French banking market will continue to put pressure on profitability. The group, which is less diversified in geographies or segments, maintains average cost efficiency compared with European peers', although good among French peers. In our view, lower cost of capital resulting from the group's cooperative banking status and strong local footprint should allow CMG to maintain its strong position in the competitive French banking market.

The group has capacity to absorb pressure from lower business volumes and higher loan impairment. CMG has a solid capital position and sound assets, and we expect asset quality to hold up relatively well. Housing loans, which form a large part of the loan book, should continue to perform well, while the small business/entrepreneurs and larger corporate portfolios (mostly operated by subsidiary CIC) may deteriorate moderately. The group's risk profile is low, thanks to its focus on retail bancassurance activities and modest risk appetite, while low payouts to cooperative members result in one of the largest buffers above the capital requirement among its peers.

The bank is slowly building up bail-in-able debt that could in the future result in ALAC uplift. Compared with other French banks classified as globally systemically important banks (G-SIBS), the group has understandably issued a lower amount of bail-in-able debt so far, since it was not subject to the total loss-absorbing capacity (TLAC) rules published by the Financial Stability Board (FSB) for G-SIBs. Therefore, we do not incorporate at this stage an uplift for additional loss-absorbing capacity (ALAC) because we do not expect the bank's ALAC ratio to near 5% in 2021 or 2022, but later.

Outlook: Stable

The stable outlook reflects the balance between a degree of pressure on the group SACP with the potential for future ALAC uplift. We also assume that existing challenges regarding the group's cohesion will not represent a structural weakness, but rather an area of relative uncertainty, as has been the case so far.

Downside scenario

We could take a negative action in the next 24 months if we observe the group engaging in more rapid growth in risky assets than we initially anticipate, organically or via acquisitions, or if CMG's ability to cover normalized credit losses weakens more abruptly than we currently expect.

This would lead us to revise our group SACP assessment downward and lower our ratings on the hybrid capital and senior nonpreferred notes. Whether we also lower the long-term issuer credit rating would depend on CMG's progress in building a sufficient cushion of bail-in-able debt.

Upside scenario

We could raise the long-term issuer credit rating if we expect CMG to build an ALAC buffer sustainably above 5% and the group SACP remains robust. An upgrade would also depend on our view that the group's overall creditworthiness is comparable with that of 'A+' rated peers.

Key Metrics

Credit Mutuel Group--Key Ratios And Forecasts

	--Fiscal year ended Dec. 31--				
(%)	**2019a**	**2020a**	**2021f**	**2022f**	**2023f**
Growth in operating revenue	4.0	(1.0)	(0.3)-(0.4)	1.2-1.4	2.8-3.5
Growth in customer loans	6.7	8.3	4.5-5.5	5.0-6.1	4.1-5.0
Growth in total assets	9.2	9.7	2.3-2.8	2.6-3.2	2.2-2.6

Credit Mutuel Group--Key Ratios And Forecasts (cont.)

	--Fiscal year ended Dec. 31--				
(%)	**2019a**	**2020a**	**2021f**	**2022f**	**2023f**
Net interest income/average earning assets (NIM)	1.4	1.4	1.2-1.3	1.1-1.3	1.1-1.3
Cost to income ratio	63.1	62.0	62.7-65.9	63.2-66.4	62.5-65.7
Return on average common equity	6.7	5.1	4.9-5.4	4.7-5.2	4.9-5.4
Return on assets	0.6	0.4	0.4-0.5	0.4-0.4	0.4-0.5
New loan loss provisions/average customer loans	0.2	0.5	0.3-0.3	0.2-0.3	0.2-0.2
Gross nonperforming assets/customer loans	3.0	2.8	3.0-3.3	3.2-3.5	3.0-3.4
Net charge-offs/average customer loans	0.0	0.0	0.1-0.1	0.1-0.1	0.0-0.0
Risk-adjusted capital ratio	10.1	10.1	10.0-10.5	10.0-10.5	10.1-10.6

All figures are S&P Global Ratings-adjusted. a--Actual. f--Forecast. NIM--Net interest margin.

Anchor:'bbb+' Reflecting Predominantly Domestic Exposures

Our anchor for a commercial bank operating predominantly in France like CMG is 'bbb+'. This is based on an economic risk score of '3' and an industry risk score of '4' on a scale of 1-10 ('1' denotes the lowest risk and '10' the highest), and is on par with the scores for banking sectors in the U.S., the U.K., Australia, the Netherlands, and Denmark, among others.

Since June 2021, trends for economic risk and industry risk have been stable. Macroeconomic risks linked to the pandemic have eased with the roll out of vaccines, but structural-profitability and efficiency challenges for French banks remain, exacerbated by prolonged low interest rates, intense competition, revenue erosion, and high costs.

The rebound of the French economy since restrictions were lifted has been strong, both in terms of GDP and employment. We envisage 6.2% GDP growth in 2021 after a 8% contraction in 2020, with unemployment staying below the 2019 level and trending toward 8% in 2024. French banks proved better prepared for the COVID-19 pandemic than the 2008-2009 financial crisis, buffered by domestic and European authorities' unprecedented support to the local economy. A significant component of the fiscal support package entails increasing debt for the sovereign and many businesses, which may result in increased vulnerabilities. We project domestic nonperforming assets (NPAs) to increase in the coming months to 3.5% of domestic assets by year-end 2022 as fiscal stimulus is phased out, particularly in sectors most affected by lockdowns, and customer consumption patterns change.

Regarding industry risk, although the French market is highly concentrated, we expect modest profitability for domestic activities, with a gradual erosion of revenue resulting from low interest rates, despite positive credit growth. Cost efficiency is a weakness for French banks compared with their European peers, notably due to still-dense branch networks, the dominance of cooperative banking groups--which have fewer incentives to maximize profits than listed ones--and very low margins on some products, such as housing loans. Efficiency efforts in domestic retail activities are behind other banking markets, for example on adjusting branches. They also face the challenge of streamlining their universal banking operations through digitalization and developing fee-generating activities. The universal banking model of most French banks implies some reliance on wholesale markets, exposing the banking sector to market shocks. Increasing funding costs would exacerbate profitability challenges. The system's relatively large reliance on wholesale funding is partly attributable to households' propensity to save in nonbank savings and regulated savings.

Business Position: A Strong Domestic Franchise In Retail Banking And Insurance Underpins Revenue Stability

We view CMG's leading retail and insurance operations in France as a rating strength. Although less geographically diverse than European banks of similar size, it operates a generally low risk business, which produces extremely predictable earnings over the cycle.

In aggregate, the group has the third-largest retail-banking network in France through mutual branches and specialized subsidiaries active in retail banking, with the largest being CIC, which is part of the largest regional subgroup, Crédit Mutuel Alliance Fédérale. CMG's share of the professional segment exceeds 30%, and it provides commercial banking products and services to large French companies.

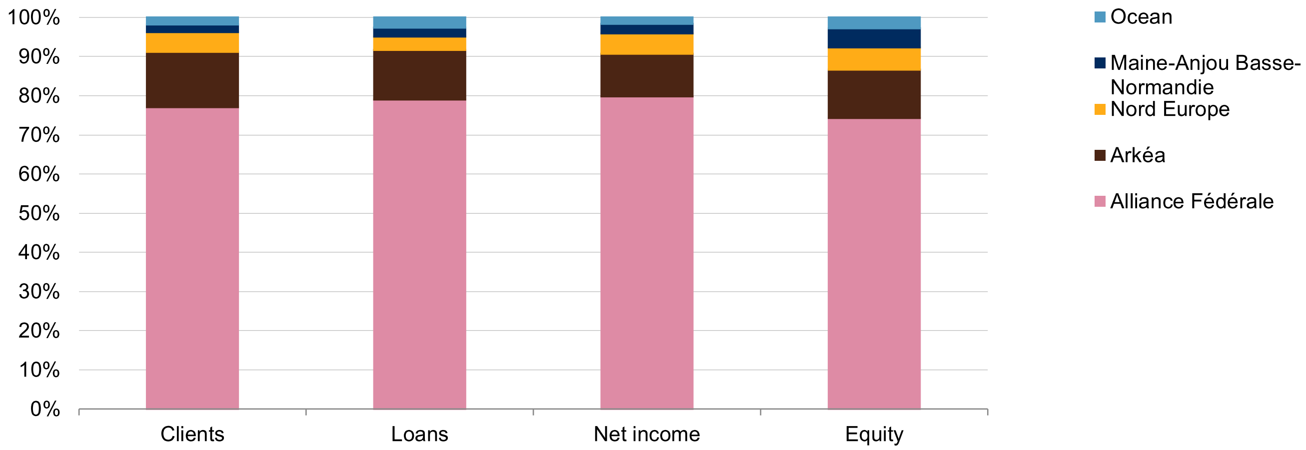
CMG is also at the forefront of insurance in France, with more than 16 million policyholders (risk and life segments). This historically strong competitive position in insurance supports revenue stability, especially when interest rates are low and customer loyalty is high. The insurance business is therefore an important rating strength and still an area of development for the group.

Typical for a cooperative group, CMG does not exhibit strong profitability metrics, but its earnings have been extremely stable over the past decade, only dented by marginal one-off costs, compared with larger, more complex banking groups. The group's customer-centric business model, absence of cyclical business, and low risk appetite mean that it generally outperforms peers in times of stress. In addition, we believe lower returns pose fewer strategic and business-model challenges to cooperative groups than to listed groups because the former typically enjoy a lower cost of capital, given their capacity to issue affordable cooperative shares.

The group operates with a cooperative banking status according to the provisions of the French Monetary and Financial Code. Its unique decentralized cooperative structure comprises about 2,000 local mutual branches owned locally by end subscribers known as sociétaires. Branches are linked to regional federations on a territorial basis. There are 18 federations in total and one federation specialized in agribusiness. Some federations have joined together. The largest interfederal subgroup by far is Crédit Mutuel Alliance Fédérale (about 75% of CMG's total assets and net income), consisting of 13 federations, followed by CMA then CMNE. Consolidation is still ongoing. CMNE, representing around 3% of assets of the overall CMG, will join Credit Mutuel Alliance Fédérale at the beginning of 2022, reuniting 14 of the 18 regional federations.

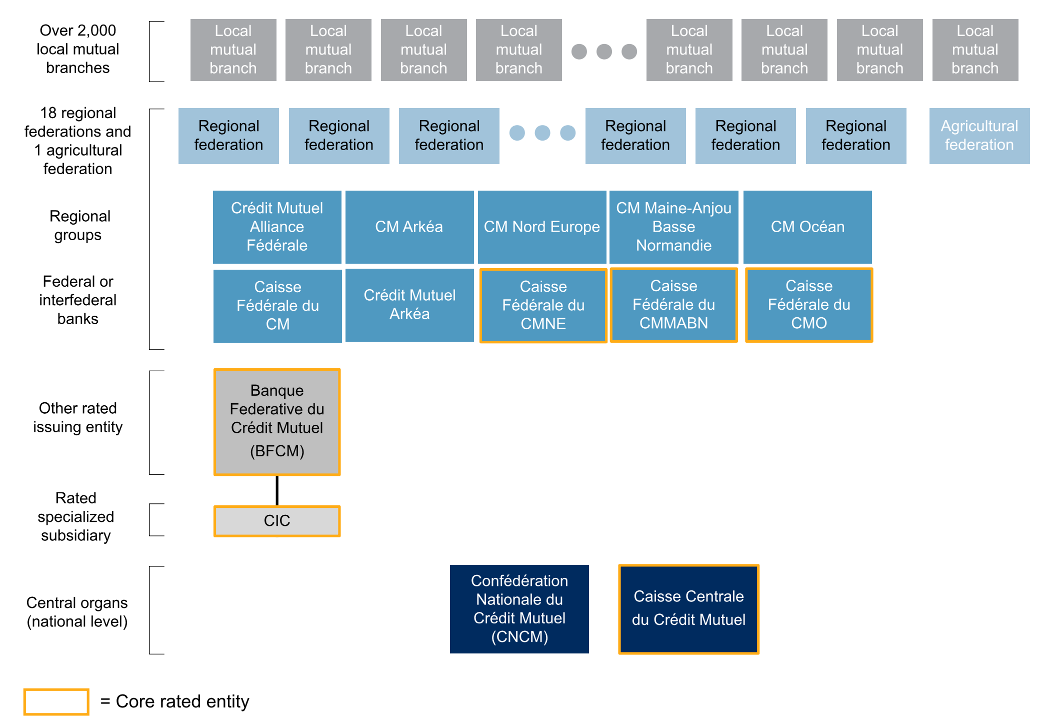
Chart 1

Respective Weight Of Crédit Mutuel's Regional Groups According To Key Figures
As of Dec. 31, 2020



Nord Europe will join Alliance Fédérale on Jan. 1, 2022. Source: Crédit Mutuel; S&P Global Ratings.

Simplified Overview of Crédit Mutuel Group



CM--Crédit Mutuel.

By law, local branches have to be affiliated with a central governing body, the Confédération Nationale du Crédit Mutuel (CNCM), established for regulatory purposes. Banque Fédérative du Crédit Mutuel's affiliation with the CNCM at the end of September 2020 and the general decision issued by CNCM in January 2020 (DCG No. 1 of 2020) confirm the cohesiveness and strength of CMG's solidarity mechanism.

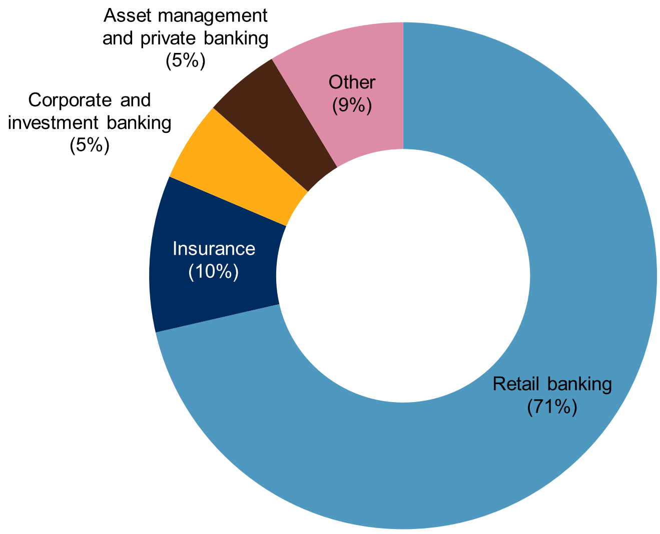
With 71% of consolidated revenue in 2020 generated from retail banking, 15% from asset management, private banking and insurance, and 5% from corporate and investment banking, CMG has good recurring business volumes, which support business stability. That said, the pandemic exacerbated most of the issues French banks face, such as prolonged low interest rates, intense competition, erosion of revenue from profitable activities, and high costs related to digitalization. In this context, we expect CMG's net interest income to remain under pressure, only partly offset by growth in fees and commissions.

We forecast the insurance business to recover in 2021, thanks to good commercial momentum, including higher penetration of unit-linked life insurance products, following a turbulent 2020 due to lockdown measures and significant volatility in the stock markets. Moreover, the group set up a lump-sum bonus payment for comprehensive business insurance policyholders ("the prime de relance mutualiste") in 2020. The latter was part of a number of exceptional measures to support businesses and professionals from the detrimental effect of lockdowns.

Chart 3

Most Of CMG's Revenue Comes From Retail And Insurance

Revenue from business lines



Source: S&P Global Ratings.

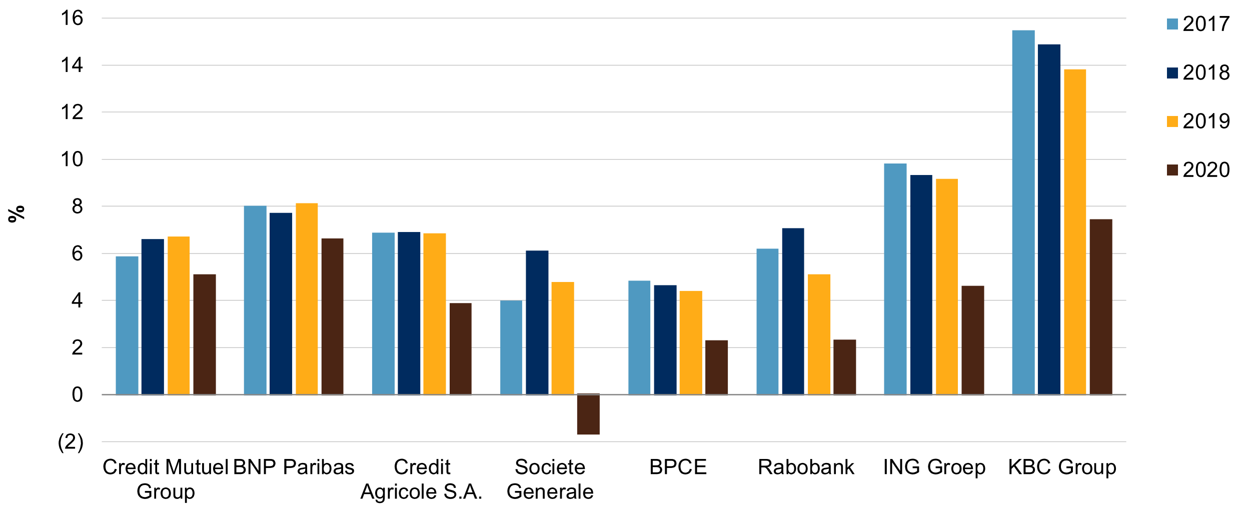
We expect that the group will focus primarily on organic growth. Although less diversified by geography than other large French banking groups, some years ago CMG embarked on a strategy of gradual expansion in neighboring countries, and, for some entities, higher-margin businesses. Its main subsidiaries--comprising network banks--were acquired primarily in Belgium, Germany, and Spain. Crédit Mutuel Alliance Fédérale acquired Germany-based consumer finance institution Targobank, which now provides factoring and leasing solutions, and also bought a controlling stake in Cofidis S.A., a consumer-finance specialist operating in seven European countries.

We do not rule out opportunistic transactions in the future, similar to Crédit Mutuel Alliance Fédérale's acquisition of General Electric Capital's leasing and factoring activities in France and Germany, a portfolio of about €10 billion of assets. Nondomestic activities represented about 20% of the group's net banking revenue in 2020.

The group has a reasonably advanced and efficient digital strategy, and some of its online banks (like Fortuneo, a subsidiary of CMA) are successful. CMG has long had a proactive approach to technology, offering its customers innovative solutions, using for example IBM's Watson technology to improve services, while also simplifying the work of account managers. Arkéa Banking Services is well placed in private-label banking services in the business-to-business market. In 2020, AXA Banque France teamed up with them, and a similar contract for running the IT network of HSBC's French retail operations once private equity Cerberus takes over. At the same time, CMG also continued to expand its retail branch network and proximity to customers, at a time when other banks closed branches. In the future, we think this will nevertheless require CMG to find ways to lower costs in a more pronounced way, in particular if revenue comes under increased pressure.

Chart 4

CMG's ROE Is Lower Than Some Peers, But Its Mutualist Status Allows For Lower Cost Of Capital
Return on average common equity



Source: S&P Global Ratings.

Capital And Earnings: Capital To Remain Stable Alongside Strong Earnings Retention

In line with other cooperative groups, CMG retains most of its earnings, which in turn supports capital buildup, even when loan growth is dynamic. Although CMG is less profitable than listed peers when measured by the return on equity (ROE), the volatility of its earnings is typically lower. Despite the pandemic, we expect CMG's risk-adjusted capital (RAC) ratio before diversification to increase slightly and remain above 10% in 2021 and 2022, compared with 10.1% in 2020. CMG's earnings remain supported amid tougher operating conditions by the strength of its retail and insurance businesses, and its low risk profile.

We consider CMG's capital base to be high quality, given that it comprises only core Tier 1 capital, with hybrids benefitting from intermediate capital equity content representing about 1.1% of total adjusted capital (TAC) as of end-2020.

Our projections of stable capital factor in the following assumptions:

- An average annual increase in adjusted risk-weighted assets (RWAs) of 4.5%-5.5% over 2021-2022 as the group continues to expand organically, mainly in retail banking in low-risk European countries.
- A cost of risk of €1.5 billion in 2021-2021 since the group is likely to benefit from the economic rebound. We do not anticipate a significant release of provisions, with the group maintaining a prudent provisioning policy for future risks, anticipating possible asset-quality deterioration.
- Slightly increasing expenses in 2021 and 2022, with the cost-to-income ratio remaining at about 65%.
- Our operating revenue projections in 2021 incorporate the impact of low interest rates. Our 2020 operating revenue figure includes the sale of EI Telecom to Bouygues Telecom.
- Net income of €3.3 billion in 2021 and 2022, below the €3.8 billion achieved in 2019. These projections when looking at the strong activity rebound in first-half 2021 are prudent and incorporate views that led to our review of industry risk for the French banking sector.
- A stable solvency position at the insurance businesses, despite pressure from the low-interest-rate environment.
- No significant acquisitions.

CMG's reported common equity tier 1 ratio was 18.7% on Dec. 31, 2020, one of the highest for a universal bank in Europe; and the leverage ratio was 7.6%. The main factor explaining the difference between our RAC ratio and CMG's regulatory capital ratios relates to the higher risk weights that we apply to mortgage lending, relatively large equity stakes in the banking book, and insurance activities. We consider that CMG has material exposure to insurance risk through its insurance subsidiaries (GACM and Suravenir Assurances).

The group's cost efficiency is among the best of its domestic peers, reflecting bank and insurance synergies. Still, compared with retail banking peers in the Nordics or Belgium, or Netherlands, CMG demonstrates lower cost efficiency and therefore lower profitability. Nevertheless, the group's returns over the past decade, including during the 2008 financial crisis, have been stable, with the ROE slightly higher than 6.5% before the pandemic. We expect the ROE to remain pressured at 4.75%-5.25% in 2021-2022.

CMG will face more headwinds from lower-for-longer interest rates, and historically benefitted from the strong contribution from insurance activities and consistently low average cost of risk. The group's foray into side businesses also means it can take advantage of technology to boost cross-selling opportunities in the retail segment. We also note various initiatives to expand the scope and contribution of non-interest revenue, from mobile banking to electronic payments.

Risk Position: Primarily Focused On Retail Banking In France

Our assessment of CMG's risk position reflects the group's domestic focus on low-risk retail activities and its fairly low involvement in capital-market activities or other cyclical businesses. Still, we note some pockets of risk, stemming for example from the group's expansion into consumer finance in previous years and its concentration of exposures in France.

Domestic residential mortgages represent about half of CMG's total customer loans, but are naturally granular, collateralized, and have generated extremely low and stable losses throughout the credit cycle. Residential property prices could stagnate, or even moderately decline in some French cities and regions, amid the recession triggered by the pandemic. However, the main risk for CMG is a rise in unemployment, which would weaken borrowers' solvency. We note that residential real estate loans are at fixed rates, affordability ratios have improved due to the low interest rates, and CMG, like other French banks, uses strict debt-to-income and debt service ratios. Overall, we expect losses in the residential real estate segment to remain very low.

At the group level, we expect NPAs to remain below 3.5% of total loans by 2022, the coverage of bad loans by reserves to remain at 70%-80%, and the cost of risk to slowly return to the long-term average of 20 basis points (bps) to 25 bps by 2022-2023. In 2021, we forecast the cost of risk to almost halve, following 51 bps in 2020. So far, as is the case for peers, the number of defaults remains very low due to support measures implemented by French authorities to support the economy. Still, because these measures are finite, the bank has booked forward-looking additional provisions to cover future losses within the business sectors identified as the most vulnerable during the pandemic. These highly exposed sectors include tourism, the automotive industry (excluding auto manufacturers), distribution (clothing), transportation, and vehicle rental (light only), all of which account for a total exposure of about €14 billion. This is a small fraction of the loan book.

Consumer finance portfolios--with Cofidis, Targobank, and Financo--constitute about 9.6% of total net customer loans as of Dec. 31, 2020. Targobank operates predominantly in the very low risk German market, which is typified by low household debt and unemployment. The bank's loan portfolio, including corporate customers, totaled €21.3 billion as of June 30, 2021. Cofidis offers riskier products, like revolving loans or credit cards, but its overall size is modest, with €13.3 billion of retail loans outstanding on that date. These activities carry structurally higher credit risk, but margins are wider.

The group is a major bancassurance provider in France and is exposed to insurance risk. Lockdowns had contrasting effects on its various insurance policy portfolios. As a large player offering many insurance lines, the fall in auto, home, and health care claims was largely offset by an increase in unemployment and death claims. That said, insurance activities have recovered sharply since the lifting of lockdown measures, and the strong penetration of unit-linked products and successful cross-selling from the bancassurance model are set to underpin business growth, despite solvency risks related to the prolonged period of low interest rates and volatility in equity markets.

CMG's exposure to interest rates mainly derives from its long-term fixed-rate French retail loan portfolio. Like its French peers, CMG relies on asset-liability management to measure its exposure to and hedge against interest rate risk.

We think the group manages non-financial risks well. Such risks could always emerge, however, as we've seen in other European countries. The group's modest international presence and its local and regional entrenchment, due to its cooperative status, tend to reduce financial-crime-related or litigation risks. As a retail bank, CMG is exposed to potential conduct risks or risks related to misselling to retail clients, but we view its lending practices as nonaggressive and its track record is very good in that domain.

Funding And Liquidity: Closing The Gap With International Peers

The group's funding and liquidity is neutral to our group SACP assessment. CMG has improved its funding and liquidity position since 2010. Its stable funding ratio and broad liquid asset ratio stood at 102.8% and 1.24x, respectively, at year-end 2020, up sharply from 2019 due to significantly higher customer deposits, favorable borrowing conditions (TLTROs), and abundant liquidity in financial markets. Its large retail banking network, and loyal and very granular deposit base, are strong qualitative mitigating factors to our funding and liquidity metrics being somewhat below those of other large retail-oriented European banks.

The group has made efforts to roll out stricter management of resources and improved its funding metrics. The loan-to-deposit ratio has been decreasing steadily in recent years. The growth in deposits led to a new improvement in the loan-to-deposit ratio, which we estimate at 111% on Dec. 31, 2020, compared with 180% at year-end 2008. CMG has a large and increasing core deposit base that stood at €479 billion at year-end 2020 and was collected mainly by the regional banks and CIC. Deposits are granular and stable, thanks to the strong retail franchise of the regional banks and the Crédit Mutuel brand.

We adjust our funding and liquidity metrics to exclude the portion of regulated deposits centralized at the state institution Caisse des Dépôts et Consignations. Centralized deposits amounted to €44 billion at year-end 2020 and cannot be used to fund loans. We consider that CMG's access to European Central Bank funding is opportunistic, as is the case for most of its French and European banking peers.

Wholesale funding will remain an important part of the group's funding. Annual medium- and long-term (MLT) funding needs have amounted to €15 billion-€20 billion in recent years, with the portfolio of MLT debt amounting to €140 billion at the end of 2020 (comprising interbank market securities, negotiable debt securities, and bonds). This figure is nearly equally spread between secured and unsecured debt instruments. CMG has limited funding needs in U.S. dollars, most of which are at Crédit Mutuel Alliance Fédérale. As of June 30, 2021, Banque Fédérative of Crédit Mutuel, part of the largest subgroup, had issued almost 80% of its annual program, raising €8.4 billion in different formats (37% senior preferred, 27% covered bonds, 30% nonpreferred, and 6% NEU MTN).

The group continues to improve its liquidity position to comply with the regulatory liquidity coverage ratio. We expect that this ratio will fluctuate but remain well above 100%; it stood at 172.5% on Dec. 31, 2021. In our opinion, CMG's liquidity position would provide flexibility under prolonged market stress and benefits from a large and granular deposit base and conservative risk management. In particular, we consider that the bank benefits from flexibility to mobilize unencumbered housing loan assets to access central banks if needed.

Environmental, Social, And Governance

Environmental, social, and governance (ESG) factors for CMG are broadly in line with those of the industry and country peers. Social factors are important due to changing customer preferences and increased regulatory focus on banks' business conduct, including how they treat customers. This is an area of particular attention for the group, especially in its consumer finance business, which caters to a typically more fragile clientele, and in the management of its large branch network. As is the case for its peers in France, Cofidis operates in a consumer friendly jurisdiction, with a usury rate and strict laws on over-indebtedness, both of which limit predatory lending practices, such as we have seen in other countries.

Digitalization and changing customer preferences are key risks for all banks. Building on strict rules in terms of IT security and privacy, the bank uses private cloud networks located in France, with backups in Germany. The group displays a highly decentralized organizational model. Its local cooperative banks are credit institutions whose equity capital is held by members who are also customers. These entrenched local roots support the group's focus on sustainability and its leading position among retail and small and midsize enterprise clients.

The intragroup tensions between Crédit Mutuel Arkéa (the second-largest grouping of regional federations, representing about 15% of CMG's total assets) and the group's central governance body (Confédération Nationale du Crédit Mutuel) are unusual in large banking groups. So far, it has not weighed on the group's operational effectiveness or financial performance, which is why we do not yet consider these tensions to be credit relevant.

From an environmental standpoint, the group could be vulnerable to evolving norms and legislation that may affect the credit quality of its loan exposures and securities investments (including in insurance). The group has set financing exclusions on certain sectors and companies that could have a negative impact on humans or the environment. Given its relatively small portfolio of large corporates, transition risks to a greener economy are manageable in our view. Still, retail banks are also challenged to achieve carbon neutrality on their housing loan books, and CMG considers this a priority for the next few years.

Support: No ALAC Uplift At This Stage

This is because, in our view, a sustainable buffer above 5% remains distant. We believe a weakening of the group's SACP, currently at 'a', could in theory be offset by incorporating one notch of uplift for ALAC support into our ratings. At this stage, a scenario leading to an ALAC buffer sustainably above 5%, commensurate with one notch of uplift, while maintaining strong capitalization, is remote, although we note an acceleration in issuance plans.

As we do for CMG's peers, we will consider progress in the build-up of ALAC together with the group's financial performance and resilience in 2021, and whether prevailing forecasts still support France's economic recovery as currently expected. We may also decide that the GCP for CMG is more stable than that of French peers, even if trends remain negative for the domestic banking system.

We do not currently factor ALAC uplift into our rating. Crédit Mutuel Alliance Fédérale, CMG's largest subgroup issued its first senior nonpreferred notes in 2019. We estimate that the ALAC buffer will increase to around 4.3% by end-2021, and in 2022 will approach but stay below our 5% threshold for one notch of ALAC uplift.

We believe the group has a credible strategy to issue bail-in-able instruments over time. Still, it is not subject to TLAC rules and is not under any time constraints. It already has a large amount of common equity in its capital structure, so the incentive to issue senior nonpreferred debt or other subordinated instruments to meet the minimum requirement for eligible liabilities and own funds (MREL) is lower than for other large French banking groups in our view. CMG stated that it meets the MREL comfortably, including senior preferred issues.

At year-end 2020, we estimate the ALAC buffer at 3.7%.

Additional Rating Factors

We consider the group's rating strengths to be well captured in the 'a' group SACP, and do not apply an additional rating factor.

Group Structure, Rated Subsidiaries, And Hybrids

Ratings on hybrid securities

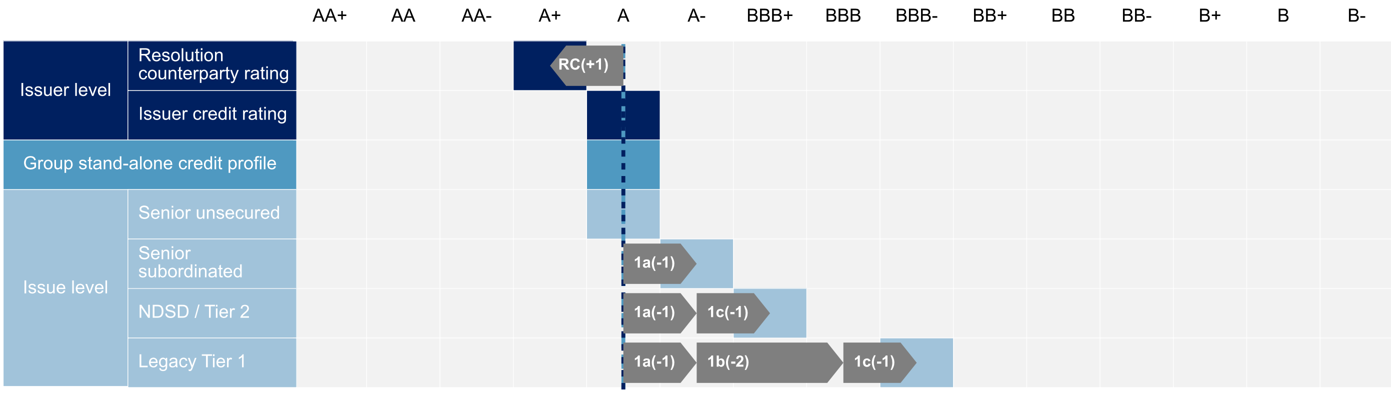
In our credit analysis of hybrid debt issued by an entity we regard as a core member of a group--as is the case for BFCM and CMNE--we assess whether the cohesiveness and integration within the group is strong enough to provide support to instruments such as senior nonpreferred notes or subordinated notes issued by core subgroups. In CMG's case the financial solidarity mechanism under French law is, in our view, the overarching feature ensuring CMG's overall cohesiveness.

We then deduct notches from the long-term issuer credit ratings (ICR) to derive the issue rating:

- One notch, because the senior nonpreferred and Tier 2 notes are contractually subordinated. In line with our approach for rating senior nonpreferred notes in France or Tier 3 instruments in some other countries, we deduct one notch when an instrument is subordinated to senior unsecured debt, even if the debt is not labeled subordinated.
- One notch for Tier 2 instruments because they contain a contractual write-down clause.

As such, we rate the senior nonpreferred notes 'A-' and the Tier 2 contingent capital instruments 'BBB+'.

Banque Fédérative du Credit Mutuel + Caisse Fédérale du Crédit Mutuel Nord Europe: Notching



Key to notching

- - - - - Group stand-alone credit profile
- - - - - - Issuer credit rating

RC	Resolution counterpartyliabilities (senior secured debt)
1a	Contractual subordination
1b	Discretionary or mandatory nonpayment clause and whether the regulator classifies it as regulatory capital
1c	Mandatory contingent capital clause or equivalent

Note: The number-letter labels in the table above are in reference to the notching steps we apply to hybrid capital instruments, as detailed in table 3 of our "Hybrid Capital: Methodology And Assumptions" criteria, published on July 1, 2019.
NDSD--Non-deferrable subordinated debt.

Resolution Counterparty Ratings (RCRs)

We have assigned RCRs to entities within the group because we assess the resolution regime to be effective in France and the bank as likely to be subject to a resolution that entails a bail-in if it reaches nonviability. An RCR is a forward-looking opinion of the relative default risk of certain senior liabilities that may be protected from default through an effective bail-in resolution process for the issuing financial institution. We position the long-term RCR up to one notch above the long-term ICR when the ICR ranges from 'BBB-' to 'A+'.

Key Statistics

Table 1

Credit Mutuel Group--Key Figures

	--Year ended Dec. 31--				
(Mil. €)	**2020**	**2019**	**2018**	**2017**	**2016**
Adjusted assets	785,566.0	701,169.0	643,917.0	608,183.0	597,969.0
Customer loans (gross)	541,178.0	499,577.0	468,263.0	443,887.0	425,451.0
Adjusted common equity	41,779.0	39,867.0	37,157.0	33,945.0	29,619.0
Operating revenues	18,205.0	18,380.0	17,680.0	17,407.0	16,728.0
Noninterest expenses	11,280.0	11,597.0	11,332.0	11,069.0	10,675.0
Core earnings	3,124.0	3,846.0	3,559.0	3,057.0	3,436.0

Table 2

Credit Mutuel Group--Business Position

	--Year ended Dec. 31--				
(Mil. €)	**2020**	**2019**	**2018**	**2017**	**2016**
Total revenues from business line (mil. €)	18,209.0	18,397.0	17,708.0	17,429.0	16,772.0
Retail banking/total revenues from business line	72.8	72.4	73.9	73.7	73.8
Commercial and retail banking/total revenues from business line	72.8	72.4	73.9	73.7	73.8
Corporate finance/total revenues from business line	5.2	5.6	6.1	6.6	6.5
Insurance activities/total revenues from business line	10.2	12.2	12.6	13.6	12.2
Asset management/total revenues from business line	4.9	4.7	4.6	4.8	4.6
Other revenues/total revenues from business line	6.8	5.1	2.9	1.3	2.9
Investment banking/total revenues from business line	5.2	5.6	6.1	6.6	6.5
Return on average common equity	5.1	6.7	6.6	5.8	6.7

Table 3

Credit Mutuel Group--Capital And Earnings

	--Year ended Dec. 31--				
(Mil. €)	**2020**	**2019**	**2018**	**2017**	**2016**
Tier 1 capital ratio	18.8	18.6	17.9	17.9	16.3
S&P Global Ratings’ RAC ratio before diversification	10.1	10.1	9.8	8.6	8.1
S&P Global Ratings’ RAC ratio after diversification	10.7	10.6	10.3	9.2	8.6
Adjusted common equity/total adjusted capital	98.9	98.2	97.5	96.7	95.6
Net interest income/operating revenues	46.0	43.3	42.7	40.9	41.2
Fee income/operating revenues	24.1	23.7	24.9	24.3	23.5
Market-sensitive income/operating revenues	0.7	5.1	5.5	7.7	10.4
Cost to income ratio	62.0	63.1	64.1	63.6	63.8
Preprovision operating income/average assets	0.7	0.8	0.8	0.8	0.8
Core earnings/average managed assets	0.3	0.4	0.4	0.4	0.4

RAC--Risk-adjusted capital.

Table 4

Credit Mutuel Group--Risk-Adjusted Capital Framework Data

Mil. €	**Exposure***	**Basel III RWA**	**Average Basel III RW(%)**	**S&P Global Ratings' RWA**	**Average S&P Global Ratings' RW (%)**
Credit risk					
Government and central banks	220.9	4.8	2.2	3.4	1.6
Of which regional governments and local authorities	10.1	2.1	20.5	0.4	3.6
Institutions and CCPs	41.8	8.3	19.8	8.0	19.1
Corporate	166.6	103.1	61.9	130.8	78.5
Retail	400.9	74.9	18.7	161.9	40.4
Of which mortgage	276.2	29.7	10.8	76.2	27.6
Securitization§	6.1	1.3	20.8	1.4	22.4
Other assets†	10.5	8.8	84.0	14.4	136.8
Total credit risk	846.9	201.3	23.8	319.9	37.8

Table 4

Credit Mutuel Group--Risk-Adjusted Capital Framework Data (cont.)

Credit valuation adjustment					
Total credit valuation adjustment	--	0.6	--	0.0	--
Market risk					
Equity in the banking book	7.9	20.8	263.6	64.8	821.8
Trading book market risk	--	3.0	--	4.5	--
Total market risk	--	23.8	--	69.2	--
Operational risk					
Total operational risk	--	24.4	--	28.7	--
	Exposure	**Basel III RWA**	**Average Basel II RW (%)**	**S&P Global Ratings' RWA**	**% of S&P Global Ratings' RWA**
Diversification adjustments					
RWA before diversification	--	298.4	--	417.8	100.0
Total diversification/ Concentration adjustments	--	--	--	-22.7	(5.4)
RWA after diversification	--	298.4	--	395.1	94.6
		Tier 1 capital	**Tier 1 ratio (%)**	**Total adjusted capital**	**S&P Global Ratings' RAC ratio (%)**
Capital ratio					
Capital ratio before adjustments		56.2	18.8	42.3	10.1
Capital ratio after adjustments‡		56.2	18.8	42.3	10.7

*Exposure at default. §Securitization exposure includes the securitization tranches deducted from capital in the regulatory framework. †Exposure and S&P Global Ratings' risk-weighted assets for equity in the banking book include minority equity holdings in financial institutions. ‡Adjustments to tier 1 ratio are additional regulatory requirements (e.g. transitional floor or pillar 2 add-ons). RWA--Risk-weighted assets. RW--Risk weight. RAC--Risk-adjusted capital. Sources: Company data as of Dec. 31, 2020, S&P Global Ratings.

Table 5

Credit Mutuel Group--Risk Position

	--Year ended Dec. 31--				
(Mil. €)	**2020**	**2019**	**2018**	**2017**	**2016**
Growth in customer loans	8.3	6.7	5.5	4.3	7.4
Total diversification adjustment/S&P Global Ratings' RWA before diversification	(5.4)	(4.9)	(5.1)	(6.4)	(6.2)
Total managed assets/adjusted common equity (x)	24.5	23.4	22.9	24.0	26.8
New loan loss provisions/average customer loans	0.5	0.2	0.2	0.2	0.2
Net charge-offs/average customer loans	0.0	0.0	0.1	0.0	0.0
Gross nonperforming assets/customer loans + other real estate owned	2.8	3.0	3.1	3.3	3.9
Loan loss reserves/gross nonperforming assets	78.1	69.7	69.8	59.9	62.4

RWA--Risk-weighted assets.

Table 6

Credit Mutuel Group--Funding And Liquidity

	--Year ended Dec. 31--				
(Mil. €)	**2020**	**2019**	**2018**	**2017**	**2016**
Core deposits/funding base	67.4	64.3	62.8	63.2	61.9

Table 6

Credit Mutuel Group--Funding And Liquidity (cont.)					
	--Year ended Dec. 31--				
(Mil. €)	**2020**	**2019**	**2018**	**2017**	**2016**
Customer loans (net)/customer deposits	110.8	121.2	126.0	126.2	125.7
Long-term funding ratio	82.0	79.2	80.4	79.7	77.8
Stable funding ratio	102.8	94.7	95.3	96.0	94.9
Short-term wholesale funding/funding base	19.5	22.6	21.3	22.1	24.1
Broad liquid assets/short-term wholesale funding (x)	1.2	0.9	0.9	0.9	0.9
Net broad liquid assets/short-term customer deposits	17.9	(9.1)	(7.9)	(5.0)	(5.5)
Short-term wholesale funding/total wholesale funding	59.6	63.0	57.0	59.6	62.9
Narrow liquid assets/3-month wholesale funding (x)	2.3	1.8	1.5	1.6	1.6

Related Criteria

- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Hybrid Capital: Methodology And Assumptions, July 1, 2019
- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Financial Institutions | General: Methodology For Assigning Financial Institution Resolution Counterparty Ratings, April 19, 2018
- 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
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- Criteria | Financial Institutions | Banks: Bank Rating Methodology And Assumptions: Additional Loss-Absorbing Capacity, April 27, 2015
- Criteria | Financial Institutions | Banks: Assessing Bank Branch Creditworthiness, Oct. 14, 2013
- Criteria | Financial Institutions | Banks: Quantitative Metrics For Rating Banks Globally: Methodology And Assumptions, July 17, 2013
- Criteria | Financial Institutions | Banks: Banks: Rating Methodology And Assumptions, Nov. 9, 2011
- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9, 2011
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011
- Criteria | Financial Institutions | Banks: Commercial Paper I: Banks, March 23, 2004

Related Research

- France 'AA/A-1+' Ratings Affirmed; Outlook Stable, Oct. 2, 2021

- Banking Industry Country Risk Assessment Update: September 2021, Sept. 30, 2021
- Top 100 Banks: Capital Ratios Show Resilience To The Pandemic, Sept. 28, 2021
- Climate Risk Vulnerability: Europe's Regulators Turn Up The Heat On Financial Institutions, Aug. 2, 2021
- 2021 EU Bank Stress Test: More Demanding, Better Resilience, Aug. 2, 2021
- Global Financing Conditions: Bond Issuance Remains Strong Despite An Expected Modest Contraction, July 26, 2021
- Global Banks Show Tantalizing Signs Of Stability, Says Report, July 22, 2021
- EMEA Financial Institutions Monitor 3Q2021: Resilience Amid The Search For Stronger Profitability, July 16, 2021
- Various Rating Actions On French Banks As Easing Macroeconomic Downside Risk Is Dampened By Structural Profit Pressure, June 24, 2021

Anchor Matrix

Industry Risk	Economic Risk									
	1	2	**3**	4	5	6	7	8	9	10
1	a	a	a-	bbb+	bbb+	bbb	-	-	-	-
2	a	a-	a-	bbb+	bbb	bbb	bbb-	-	-	-
3	a-	a-	bbb+	bbb+	bbb	bbb-	bbb-	bb+	-	-
4	bbb+	bbb+	**bbb+**	bbb	bbb	bbb-	bb+	bb	bb	-
5	bbb+	bbb	bbb	bbb	bbb-	bbb-	bb+	bb	bb-	b+
6	bbb	bbb	bbb-	bbb-	bbb-	bb+	bb	bb	bb-	b+
7	-	bbb-	bbb-	bb+	bb+	bb	bb	bb-	b+	b+
8	-	-	bb+	bb	bb	bb	bb-	bb-	b+	b
9	-	-	-	bb	bb-	bb-	b+	b+	b+	b
10	-	-	-	-	b+	b+	b+	b	b	b-

Ratings Detail (As Of October 22, 2021)*

Caisse Centrale du Credit Mutuel		
Issuer Credit Rating		A/Stable/A-1
Resolution Counterparty Rating		A+/--/A-1
Commercial Paper		
Local Currency		A-1
Senior Unsecured		A
Issuer Credit Ratings History		
24-Jun-2021	*Foreign Currency*	A/Stable/A-1
23-Apr-2020		A/Negative/A-1
12-Oct-2016		A/Stable/A-1
24-Jun-2021	*Local Currency*	A/Stable/A-1
23-Apr-2020		A/Negative/A-1
12-Oct-2016		A/Stable/A-1

Ratings Detail (As Of October 22, 2021)*(cont.)	
Sovereign Rating	
France	AA/Stable/A-1+
Related Entities	
Banque Federative du Credit Mutuel	
Issuer Credit Rating	A/Stable/A-1
Resolution Counterparty Rating	A+/--/A-1
Commercial Paper	
Local Currency	A-1
Junior Subordinated	BBB-
Senior Subordinated	A-
Senior Unsecured	A
Senior Unsecured	A-1
Senior Unsecured	A/A-1
Subordinated	BBB+
Caisse Federale du Credit Mutuel de Maine-Anjou Basse Normandie	
Issuer Credit Rating	A/Stable/A-1
Resolution Counterparty Rating	A+/--/A-1
Commercial Paper	
Local Currency	A-1
Senior Unsecured	A
Caisse Federale du Credit Mutuel Nord Europe	
Issuer Credit Rating	A/Stable/A-1
Resolution Counterparty Rating	A+/--/A-1
Commercial Paper	
Local Currency	A-1
Junior Subordinated	BBB-
Senior Unsecured	A
Subordinated	BBB+
Caisse Federale du Credit Mutuel Ocean	
Issuer Credit Rating	A/Stable/A-1
Resolution Counterparty Rating	A+/--/A-1
Commercial Paper	
Local Currency	A-1
Senior Unsecured	A
Credit Industriel et Commercial	
Issuer Credit Rating	A/Stable/A-1
Resolution Counterparty Rating	A+/--/A-1
Commercial Paper	
Local Currency	A-1
Senior Unsecured	A
Short-Term Debt	A-1
Credit Industriel et Commercial, New York Branch	
Commercial Paper	
Local Currency	A-1

Ratings Detail (As Of October 22, 2021)*(cont.)	
Credit Mutuel Home Loan SFH	
Senior Secured	AAA/Stable

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.

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