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Banque Federative du Credit Mutuel

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Banque Federative du Credit Mutuel

Credit Highlights

Global Scale Ratings
Issuer Credit Rating
A/Stable/A-1
Resolution Counterparty Rating
A+/--/A-1

Key strengths

- Core member of the Group Crédit Mutuel (GCM).
- Strong and stable franchise in France's retail banking and insurance markets, and a successful development strategy in other European countries with Cofidis in consumer credit, with Targobank in Germany in consumer finance, leasing, factoring.
- Solid financial profile and solvency thanks to the almost full retention of the group's net income.

Key risks

- Profitability challenge in the highly competitive French domestic retail market and the low-interest-rate environment.
- Sound asset quality, with a prudent forward looking provisioning in 2020, that is nevertheless vulnerable to a deterioration of the domestic economy that could weaken financial performance over the next two years.
- Good cost efficiency in a French context, but only average compared with European peers' in the Benelux and Nordics.

Banque Fédérative du Crédit Mutuel (BFCM) is a core subsidiary of the group Credit Mutuel Group (GCM). We equalize our rating on BFCM with that on GCM. BFCM is not a mutual bank per se but, given its strategic importance to the banking group, we consider that under stressed circumstances it would benefit from the full support of CMAF. This is now reinforced since BFCM was officially affiliated to Conféderation Nationale du Crédit Mutuel (CNCM) in September 2020, thereby integrating the scope of GCM's solidarity mechanism. BFCM plays a critical role as the funding arm, central organ, and substantial part of Crédit Mutuel Alliance Fédérale (CMAF), itself the largest subgroup of regional federations of cooperative banks that form GCM.

CMAF entered the pandemic from a position of strength, given its strong bancassurance business model, solid capital position, good efficiency and profitability in a French banking system context, and sound asset base. The bank's diversified business mix from its retail, SME, and insurance focus supports its quality of earnings, makes revenue predictable, and shows relative resiliency to material economic worsening as demonstrated during the pandemic. We continue to see profitability challenges in the highly competitive French domestic retail market and from the low-interest-rate environment for domestic banks.

CMAF started well in 2021 with €1.926 million in net income (group share). Overall, CMAF's first-half 2021 results were resilient and showed a strong rebound from the abrupt pandemic-led slowdown in 2020 for the banking sector. This was driven by solid reported revenue, up 16.1% versus first-half 2020 and 5.6% higher than first half 2019. It includes a strong contribution from specialized business lines (private banking, corporate and investment banking, capital markets and private equity). Revenue was also supported by the rebound in insurance, with revenues up by 60.2%, supported by the recovery of the financial markets over the last 12 months, and the one-off negative impact of €179 million in first half of 2020 of the support granted to policyholders in 2020, particularly in the form of the prime de relance mutualiste.

Outlook

The stable outlook on Banque Fédérative du Crédit Mutuel (BFCM) mirrors that on the French cooperative banking group Crédit Mutuel (GCM) and reflects S&P Global Ratings' expectation that BFCM will remain a core subsidiary of GCM. The rating on BFCM is therefore at the level of our 'a' assessment of GCM's group credit profile (GCP), and any change in the GCP would trigger a similar rating action on BFCM.

We would lower our ratings on BFCM if we were to lower our ratings on GCM. A change in BFCM's importance for GCM is extremely unlikely, due to BFCM's role in funding and issuing regulatory financial instruments for large parts of the group. Alternatively, a positive rating action would result from a similar change for GCM.

The stable outlook on GCM and its core banking entities balances a degree of pressure on the group SACP with the potential for future ALAC uplift. We also assume that existing challenges around group 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 on GCM, and also BFCM, in the next 24 months if we observe the group engaging in more rapid growth in risky assets than we initially anticipated, organically or via acquisitions, or if GCM's ability to cover normalized credit losses weakens more abruptly than we currently expect.

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

Upside scenario

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

Rationale

The ratings on BFCM reflect our view of its critical role as the funding arm, central organ, and substantial part of Crédit Mutuel Alliance Fédérale (CMAF; formerly Credit Mutuel – CM11 Group), itself the largest subgroup of regional federations of cooperative banks that form GCM. According to our group rating methodology, we view BFCM as a core entity of the larger GCM. We therefore align our ratings on BFCM with the GCP of 'a' and do not determine an SACP for CMAF or BFCM. Due to BFCM's role as a funding vehicle and its links with CMAF, this report essentially covers CMAF's consolidated figures, which include those of BFCM due to its full consolidation in CMAF's accounts.

From the 18 regional federations of cooperative banks--organized on a territorial basis--that form GCM, 13 have gradually gathered to form CMAF. The two latest entities to join, on Jan. 1, 2020, are Crédit Mutuel Antilles Guyane and Crédit Mutuel Massif Central. Credit Mutuel Nord Europe (CMNE), representing around 3% of assets of the overall GCM, will join Credit Mutuel Alliance Federale at the beginning of 2022, and then comprise 14 out of 18 regional federations of the group.

At end-2020, CMNE had 515 branches (297 in France and 218 in Belgium) and around 4,000 employees operating in the North of France, Belgium, and Luxembourg. This combination is likely to result in gains in economies of scale and regulatory cost savings for CMNE, which has historically had a high cost-to-income ratio. The combination with CMNE will further strengthen CMAF's asset management franchise with the integration of CMNE's La Française Group, and broaden the geographical footprint of CMAF to include Belgium. The asset management subsidiary managed about €56 billion in assets as of June 2021. CMAF has strengthened its country strategy and inter-business line synergies with country managers, already in place for Germany and to be nominated for Spain and Belgium.

According to our estimates, CMAF represents about 80% of GCM's total assets and net result, and operates all business lines in the mutual perimeter. It is therefore the backbone of GCM. In addition to its critical role as sole issuing vehicle for the CMAF subgroup, BFCM operates as a banking entity, consolidating subsidiaries not part of the mutual perimeter (that is, principally foreign operations, factoring, receivables management, finance leasing, fund management, employees' savings, insurance and real estate).

Over the years, BFCM has also developed expertise in payment systems and other digitally advanced services, which it provides to other group entities. Also active in financial markets, BFCM provides centralized refinancing for CMAF's entities. CMAF, which consolidates BFCM, is therefore a large group. It generated net profit of more than €2.5 billion and had an asset base of almost €800 billion in 2020. Last year, BFCM's assets amounted to nearly €630 billion (80% of CMAF) and it reported €10.3 billion of revenues (72% of CMAF), and these proportions are unlikely to change much in 2021. For these reasons, we regard BFCM as core to the group, and our view is unlikely to change in the near future.

GCM largely relies on a decentralized pyramidal organizational model. A distinctive feature is that the mandate of the organization's upper levels is only to fulfil missions not already undertaken by other parts of the group. This allows for close relationships with local customers, a key advantage in retail banking. The financial solidarity mechanism, set out in French law, is in our view the overarching feature ensuring the group's overall cohesiveness. Article L511-30 of the French banking law designates the Confederation Nationale du Credit Mutuel (CNCM) as the central body, which entails responsibilities for the liquidity and solvency of the overall group. This explains our consolidated approach to assessing the group's creditworthiness, our view on its financial strengths, and our rating approach for the main entities, including BFCM.

CMAF benefits from a strong retail banking franchise thanks to its dual retail network: the 13 Crédit Mutuel federations leveraging on the powerful Credit Mutuel brand and Crédit Industriel et Commercial (CIC). As such, retail activities represented about two-thirds of CMAF's operating income after loss provisions at year-end 2020. The subgroup can use the network of local cooperative banks to market the products and services of BFCM's specialized subsidiaries, which pay commissions in return for deal flow. Facing limited growth prospects in its domestic retail banking activities and pressure on net interest margins due to low interest rates, CMAF remains committed to its dynamic diversification strategy, particularly its geographic diversification in consumer finance and insurance.

The subgroup revised its 2019-2023 strategic plan last year. The updated strategic plan focuses on four key priorities: omnichannel customer focus and accelerating digital transformation, engagement in today's world, innovative multiservice banking solutions, and a solid mutualist model. In terms of financial objectives, CMAF targets returning to 2019 levels by 2023 at the latest in the following indicators:

- Net banking income: €14.6 billion;
- Cost-to-income ratio: 61%;
- Net profit: exceeding €3.1 billion;
- Profitability from regulatory assets: between 1.2% and 1.4%;
- Common Equity Tier 1 (CET 1) ratio: between 17% and 18%.

The subgroup has also demonstrated its ability to build on its retail bancassurance model and expand into ancillary business such as technology, remote surveillance, and telecommunications. In July 2021, CMAF announced that it had reached an agreement on a strategic and industrial partnership in remote surveillance with BNP Paribas. The partnership involves the acquisition of BNP's remote surveillance business by CMAF's Euro Protection Surveillance (EPS) unit, while BNP enters into EPS as a minority investor. EPS leads the French remote surveillance market with around 600,000 subscribers as of July 2021. The announcement follows a similar transaction in December 2020 when CMAF sold its telecommunications business (Euro-Information Telecom) to Bouygues Telecom for €530 million (plus €140 million-€325 million variable) and signed an exclusive distribution agreement with the telecoms giant. In our view, these opportunistic and timely moves illustrate management's willingness to adapt its portfolio of activities and the group's agile strategy in the field of technology. We cannot rule out small opportunistic acquisitions with a modest impact on the group's capital ratios.

CMAF is also continuing non-strategic asset divestment, with the full disposal of FLOA (ex-Banque du Groupe Casino), CMAF's joint venture in web and mobile payment solutions with Groupe Casino, to BNP Paribas for a total consideration of €258 million. The exit from FLOA is expected to bring €129 million to CMAF. The mutualist bank will remain present in the buy-now pay-later and split-payments markets through its consumer finance subsidiary, Cofidis.

In 2020, approximately 75% of CMAF's net banking income (NBI) was generated domestically, with Germany being the second largest market (13% of NBI). It serves its customers via about 4,000 branches, and operates a universal banking model through various subsidiaries:

- The 13 Crédit Mutuel federations, which have about 7.5 million retail customers across many French regions. This retail bancassurance network also distributes telecom and remote surveillance products to customers.
- Assurance du Crédit Mutuel (GACM), the subgroup's insurance company, with a balanced source of revenues between life and non-life products. It is an important source of fees and commissions for the group, supporting the resilience of operating revenues in the low-interest-rate environment. The insurance subgroup's overall contribution to CMAF's results amounted to €543 million in 2020, down sharply from €873 million in 2019, reflecting the group's mutualist solidary actions during the pandemic. Commissions paid to the distribution networks rose by 3.3% to €1.6 billion. Over the past two years, distributor networks have also played a key role in the insurance business' growth. In the first six months of 2021, insurance revenues rebounded significantly by 60% compared to the previous year, hit by the impacts of the pandemic, to €1,119 million. GACM's contribution to overall half-year profits was similar to

levels seen in 2019.

- CIC complements CMAF's retail and insurance offering in the domestic market, with a focus on small businesses, corporates, and professionals. CIC banking network loan portfolio amounted to €169.5 billion as of mid-2021, a year on year rise of 6.2%, while total loans including CIC's specialized business lines represented €212.3 billion. CIC contributes slightly to the international diversification of the corporate retail banking business and private banking, with about 30 foreign representation offices.
- Targobank in Germany builds on the activities of Citibank Deutschland, which it acquired in 2008. The entity also integrated General Electric's German factoring and leasing activities in 2017. With 3.6 million retail and business customers and an expanding loan book of €21.3 billion at mid-2021, Targobank is one of Germany's market leaders in consumer credit and factoring. As such, banking business has been strong, with 3% growth in loans and 6% in deposits compared to end-2020, supported by further developments in its online banking solutions. Targobank is the main source of the subgroup's geographic diversification.
- Cofidis is a domestic leading consumer finance business in which the group purchased a controlling stake in 2009. In 2020, CMAF increased its stake to 80%. To boost its business, Cofidis worked on digital solutions and was one of the first lenders to completely digitize the loan agreement process. It also has an e-commerce partnership with Amazon until 2023. The unit has around 10 million customers in Europe. Cofidis is active in France, but its second largest market is Portugal, followed by Spain, Belgium, and Italy.

We consider that CMAF displays a solid financial profile, with key financial metrics broadly in line with those of the larger GCM. On June 30, 2021, CMAF reported a fully loaded common equity tier 1 ratio of 18.3%, which we view as sound. On the same date, CMAF reported a nonperforming loan ratio of 2.76% in line with group's target, a provision coverage ratio of 51.0% (IFRS9 Stage 3 only), and a liquidity coverage ratio of 170.9% compared with 165.2% at year-end 2020 (average calculation method).

With its strong bancassurance model, we forecast margin pressure to continue for CMAF, but we expect fees and commissions to continue to perform well. We also anticipate that nonperforming loans will remain below 3.5%. So far, the number of defaults remains very low due to the support measures implemented by authorities to support the local economy. In the first half of 2021, the cost of risk shrank substantially to €188 million (compared to €1,046 million last year). In full-year 2020, cost of risk stood at 58 basis points. High levels of provisioning included provisions in anticipation of a future worsening of risk under IFRS9 rules (Stage 1 and Stage 2) of €1,354 million, more than half of the cost of risk during the year. For 2022, we expect the cost of risk to remain elevated amid the uncertainties of the phase-out of support measures.

Key Statistics

Table 1

Credit Mutuel Alliance Federale--Key Figures

	--Year ended Dec. 31--				
(Mil. €)	**2021***	**2020**	**2019**	**2018**	**2017**
Adjusted assets	697,029.0	660,156.0	583,797.0	540,523.0	512,517.0
Customer loans (gross)	437,736.0	429,025.0	392,980.0	378,994.0	351,958.0
Adjusted common equity	46,210.0	43,785.0	41,358.0	38,241.0	24,390.0

Table 1

Credit Mutuel Alliance Federale--Key Figures (cont.)					
	--Year ended Dec. 31--				
(Mil. €)	**2021***	**2020**	**2019**	**2018**	**2017**
Operating revenues	7,958.0	14,225.0	14,574.0	14,135.0	13,675.0
Noninterest expenses	4,736.0	8,867.0	8,940.0	8,714.0	8,458.0
Core earnings	2,149.0	2,171.7	3,091.6	2,964.1	2,428.1
Return on average common equity	8.1	5.1	6.7	6.8	5.9
Tier 1 capital ratio	18.5	18.0	17.6	17.0	17.0
Net interest income/operating revenues	43.8	49.6	45.5	43.9	41.8
Cost to income ratio	59.5	62.3	61.3	61.6	61.9
Preprovision operating income/average assets	0.8	0.7	0.8	0.8	0.8
Core earnings/average managed assets	0.5	0.3	0.4	0.5	0.4
Growth in customer loans	4.1	9.2	3.7	7.7	4.0
New loan loss provisions/average customer loans	0.1	0.6	0.3	0.2	0.3
Gross nonperforming assets/customer loans + other real estate owned	2.8	2.9	3.1	3.1	3.3
Loan loss reserves/gross nonperforming assets	75.9	76.9	69.9	70.0	59.7
Core deposits/funding base	64.3	67.1	62.7	60.5	61.0
Customer loans (net)/customer deposits	110.2	110.5	123.7	132.5	129.0

*2021 data is for the six months to end June. Sources: Company data, S&P Global Ratings.

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
- General Criteria: Guarantee Criteria, Oct. 21, 2016
- Criteria | Financial Institutions | Banks: Bank Rating Methodology And Assumptions: Additional Loss-Absorbing Capacity, April 27, 2015
- Criteria | Financial Institutions | Banks: Quantitative Metrics For Rating Banks Globally: Methodology And Assumptions, July 17, 2013
- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9, 2011
- Criteria | Financial Institutions | Banks: Banks: Rating Methodology And Assumptions, Nov. 9, 2011
- Criteria | Financial Institutions | Banks: Commercial Paper I: Banks, March 23, 2004

Related Research

- Various Rating Actions On French Banks As Easing Macroeconomic Downside Risk Is Dampened By Structural Profit Pressure, June 24, 2021
- Credit Mutuel Group, Nov. 25, 2019
- Banking Industry Country Risk Assessment: France, Aug. 26, 2020

Ratings Detail (As Of November 22, 2021)*		
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+
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
Sovereign Rating		
France		AA/Stable/A-1+
Related Entities		
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
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

Ratings Detail (As Of November 22, 2021)*(cont.)	
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
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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