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Ratings

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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
AA-/--/A-1+

Overview

Key strengths	Key risks
Core member of the Crédit Mutuel group (CMG).	Lower diversification outside domestic retail banking and insurance than similarly rated peers.
Strong and stable franchise in France's retail banking and insurance markets, complemented in other European countries by Cofidis in consumer credit, and Targobank in German consumer finance, leasing, and factoring.	Profitability challenge in the highly competitive French retail market and considering the uncertain economic environment.
High quality capital and supportive internal capital generation.	Only average cost efficiency compared with European peers', although best-in-class in a French context.

Crédit Mutuel Alliance Fédérale (CMAF) has a strong bancassurance business model, solid capital position, good cost efficiency in a French banking system context, and sound asset base. CMAF comprises the Banque Fédérative du Crédit Mutuel (BFCM) and its subsidiaries, including Targobank and consumer finance specialist Cofidis. CMAF's business mix resulting from its retail, small and midsize enterprises, and insurance focus, makes revenue predictable, and supports its earnings quality and resilience in difficult economic conditions.

CMAF had a strong 2021 and started well in 2022, with €2.034 million in net income (group share) in the first half. Pro forma the changes in its consolidation perimeter, CMAF reported revenue up 1.8% and expense up 3.0% year-on-year in the first half of 2022. This reflected strong revenue growth in retail banking and consumer lending (7.1%) and in the corporate segment (8.4%). However, it was balanced by a nearly 20% drop in the profit from insurance activities due to the poor standing of the financial markets in this period, and to the high level of claims arising from natural events. The cost of risk was higher than in the first half of 2021, which was essentially due to the provisioning of non-incurred losses but resulted in profit before tax dropping 5.2% year-on-year. We expect CMAF to deliver similar profitability in the second half of 2022, supported by its resilient business model. Although the increase in interest rates will help the net interest margin, we continue to see profitability challenges in the highly competitive French retail market and amid the current global slowdown.

We consider BFCM a core subsidiary of CMG. The group operates under a cooperative status according to the provisions of the French Monetary and Financial Code, whereby cooperative members are eligible to benefit from a financial solidarity mechanism organized by statutory provisions. BFCM was officially affiliated to Confédération Nationale du Crédit Mutuel (CNCM) in 2020, thereby integrating the scope of CMG's solidarity mechanism. BFCM is not a mutual bank but it comprises a substantial part of CMAF and, given its strategic importance to CMG, we consider that it would benefit from the full support of CMAF under stressed circumstances.

The group pursues building up a sizable bail-in-able buffer. We estimate that CMG's additional loss-absorbing capacity (ALAC), most of which stems from instruments issued by BFCM, was about 4.5% of S&P Global Ratings' risk-weighted assets (RWAs) metric as of year-end-2021. We forecast that it will exceed 5.0% by year-end 2023, well above our 3.0% threshold for one notch of ALAC uplift.

Outlook

The stable outlook on BFCM mirrors that on CMG and reflects our expectation that the former will remain a core subsidiary of the group. The long-term rating on BFCM is therefore at the level of our 'a+' assessment of CMG's group credit profile (GCP). We see a change in the bank's strategic importance within CMG as extremely unlikely, due to BFCM's role in funding and issuing regulatory financial instruments for a large part of the group.

We expect CMG to gradually adapt its retail and insurance activities to the competitive French market. We anticipate that over our two-year outlook horizon, the group will continue to deliver resilient profitability, demonstrating the sustainability of its business model. We also expect CMG to maintain a solid capital position, with a risk-adjusted capital (RAC) ratio before diversification comfortably above 10% in 2023-2024, supported by sound earnings and a conservative dividend policy owing to its cooperative structure. We assume that challenges regarding CMG's cohesion will continue to not represent a structural weakness, but rather an area of relative uncertainty. The stable outlook also factors in our expectation that CMG's exposure by geography will not reflect materially higher economic risks under our outlook horizon.

Downside scenario

We could lower the rating on CMG, and at the same time on BFCM, in the next two years if we estimated that the group's retail banking and insurance business strategy was not sustainable in France's competitive banking landscape, which would suggest weaker capital loss-absorption capacity. Our RAC ratio could fall below 10% if internal capital generation could not fund organic capital consumption, because of a sizable acquisition, or following an unexpected sharp lowering of asset quality. This would lead us to lower our ratings on the hybrid capital and senior nonpreferred notes of CMG's core entities.

Upside scenario

We consider an upgrade of BFCM unlikely. One would depend on a higher starting anchor for domestic banks in France, but would also need CMG to enhance its profitability and efficiency to well above levels reported by 'A+' rated peers, while maintaining asset quality and strong solvency.

Rationale

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 fulfill missions not already undertaken by other parts of the group, which favors commercial focus and close relationships with local customers, a key advantage in retail banking. The financial solidarity mechanism, set out in French law, is the overarching feature ensuring the group's overall cohesiveness. Article L511-30 of French banking law designates the CNCM as the central body, which entails responsibilities for the liquidity and solvency of the overall group. This explains our consolidated approach to assessing GCM's creditworthiness and our rating approach for the main entities, including BFCM.

Our ratings on BFCM also reflect our view of its critical role as the funding arm, central organ, and substantial part of CMAF, itself the largest cluster 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 group. We therefore align our ratings on BFCM with CMG's GCP ('a+') and do not determine a group SACP for CMAF, nor for BFCM.

Due to BFCM's role as a funding vehicle and its links with CMAF, this report refers to CMAF's consolidated figures, which incorporates those of BFCM due to its full consolidation in CMAF's accounts. BFCM gathered 77.2% of CMAF's net income in the first half of 2022, and the same percentage of the subgroup's assets as at mid-year.

Out of the 18 regional federations of cooperative banks--organized on a territorial basis--that form GCM, 14 have gradually gathered to form CMAF. The latest entities to join were Crédit Mutuel Antilles Guyane and Crédit Mutuel Massif Central, on Jan. 1, 2020, and Crédit Mutuel Nord Europe (CMNE), representing about 5% of CMG's net income, on Jan. 1, 2022 (see "Ratings On Credit Mutuel Nord Europe And Its Programs Withdrawn After Joining Credit Mutuel Alliance Federale," published Feb. 22, 2022, on RatingsDirect). The combination with CMNE is set to further strengthen CMAF's asset management franchise with the integration of CMNE's La Française Group and will broaden the geographical footprint of CMAF to include Belgium. CMAF has strengthened its country strategy and inter-business line synergies with the nomination of country managers.

We estimate that CMAF represented about 80% of GCM's total assets and net income in 2021 (pro forma the inclusion of CMNE), and is therefore the backbone of GCM. BFCM operates as a banking entity, consolidating subsidiaries that are not part of the mutual perimeter (principally foreign operations, factoring, receivables management, finance leasing, fund management, employees' savings, insurance, and real estate). Over the years, BFCM has developed expertise in payment systems and digitally advanced services, which it supplies to other group entities. The subgroup has demonstrated its ability to build on its retail bancassurance model and expand into ancillary business such as technology, remote surveillance, and telecommunications. Also active in financial markets, BFCM provides centralized refinancing for CMAF's entities.

CMAF benefits from a strong retail banking franchise thanks to its dual retail network: the 14 Crédit Mutuel federations leveraging on the powerful Credit Mutuel brand, and Crédit Industriel et Commercial (CIC). Retail banking activities represented 70% of CMAF's revenue in the first half of 2022. The subgroup uses the network of local banks to market the products and services available from the specialized subsidiaries of BFCM, which pays commissions for the deal flow. Facing intense competition and limited growth prospects in its domestic retail banking activities, CMAF remains committed to its dynamic diversification strategy, particularly by geography, through its consumer finance and insurance businesses.

CMAF revised its 2019-2023 strategic plan in 2020. It focuses on four priorities: omnichannel customer focus and accelerating digital transformation, engagement in today's world, innovative multiservice banking solutions, and a solid mutualist model.

Its financial targets for 2023 include:

- Net banking income: €14.6 billion;
- Cost-to-income ratio: 61%;
- Net profit: exceeding €3 billion;
- Profitability from regulatory assets: 1.2%-1.4%; and
- Common Equity Tier 1 (CET 1) ratio: 17%-18%.

CMAF is continuing non-strategic asset divestment, with the full disposal to BNP Paribas of FLOA, a joint venture in web and mobile payment solutions with Groupe Casino, finalized in January 2022. The mutualist bank will remain present in the buy now pay later and split-payments markets through its consumer finance subsidiary, Cofidis.

In the first half of 2022, about three quarters of CMAF's revenue was generated domestically, with Germany being the second largest market (10%). The subgroup serves its customers via about 4,300 branches in France, and operates a universal banking model through various entities:

- The 14 Crédit Mutuel federations, which had 8.6 million retail customers at mid-2022, across many French regions. This retail bancassurance network also distributes telecom and remote surveillance products.
- CIC, which complements CMAF's retail and insurance offering in the domestic market, with a focus on small businesses, corporates, and professionals. The CIC banking network's loan portfolio amounted to about €171.7 billion as of mid-2022, a year on year rise of 8.3%, while its total loans including specialized business lines reached €231.0 billion. CIC contributes slightly to the international diversification of the corporate retail banking business and private banking, with about 30 foreign representation offices.
- Groupe des Assurances du Crédit Mutuel (GACM), CMAF's insurance arm, with revenue balanced between life and property/casualty products. It provides sizable fees and commissions to the group, supporting the resilience of its operating revenue. Over the first half of 2022, GACM contributed €897 million in revenue and €422 million in net income (€540 million in the first half of 2021). The distribution commissions paid to CMAF's banking networks, which are key parties to the development of the insurance business, amounted to €807 million.
- Germany-based consumer finance institution Targobank (resulting of BCFM's acquisition of Citibank Deutschland activities in 2008), which we see as the main source of CMAF's diversification by geography. With 3.6 million retail and business customers and an expanding loan book of €23.6 billion at mid-2022, it is a forefront player in Germany's consumer credit. Targobank Germany (excluding factoring and leasing) contributed €210 million to CMAF's profit before tax in the first half of 2022. Targobank integrated General Electric's German factoring and leasing activities in 2017.

- Cofidis is a domestic leading consumer finance business in which BFCM purchased a controlling stake in 2009 (since then, CMAF has progressively increased its stake to 80%). At mid-2022, Cofidis had over 10 million customers in Europe and reported €16.7 million in net customer loans. It is active in France, with its second largest market being Portugal, followed by Spain, Belgium, and Italy. Cofidis contributed €90 million to CMAF's net income in the first half of the 2022. 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 in fractional payment.

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, 2022, the subgroup enjoyed a high 18.2% CET1 ratio. CMAF reported nonperforming loans (NPLs) representing 2.5% of its gross customer loans, with a 50.1% coverage considering only credit reserves classified as Stage 3 under International Financial Reporting Standard 9. Its liquidity coverage ratio was 166.8%, obtained by the average calculation method for the first half of 2022. As at September 2022, CMAF had nearly completed its €17 billion-€18 billion annual medium- and long-term funding program.

In the first half of 2022, CMAF reported €8.6 billion in revenue and a net profit (group share) of above €2.0 billion. The cost of risk amounted to €470 million, compared with €188 million in the first half of 2021, but the increase was essentially due to the provisioning of non-incurred losses. Our measure of cost of risk stood at just below 20 basis points (bps) of gross customer loans for the semester.

We expect CMAF to perform well over 2022. Higher interest rates will support revenue despite some adverse effects in the short term, such as the time lag in the repricing of the fixed rate mortgage loan portfolios. Furthermore, the mechanical increase of French usury caps is progressive, while interest rates on regulated deposits have already been revised upward. We expect CMAF's net interest margin to be supported by strong new loan generation, following the nearly 10% growth already achieved during the first half of the year, and notwithstanding our expectation of less dynamic volumes in the second half. Despite the global slowdown, we project that cost of risk will be contained in 2022, although it should stand slightly above the close to 16 bps we estimated for CMAF in 2021. We expect cost of risk to further increase from 2023, but not to exceed 30 bps. Although we do not anticipate either a material increase in CMAF's NPLs to gross customer loans in the second half, we expect the ratio to increase to 2.5%-3.0% in 2023-2024.

Our ALAC ratio on CMG stood at 447 bps at year-end 2021, with more than 70% of this buffer issued by BFCM, and we forecast that the ratio will exceed 5.0% by year-end 2023, well above our 3.0% threshold for one notch of ALAC uplift. Therefore, our group credit profile for CMG, and in turn our issuer credit ratings on its core entities, now incorporate one ALAC notch (for more information, see "Four European Bank Ratings Raised, One Affirmed On ALAC Uplift; Off UCO On Implementation Of Revised FI Criteria," published Dec. 16, 2021 on RatingsDirect).

Key Statistics

Table 1

Crédit Mutuel Alliance Fédérale--Key Figures

		--Year ended Dec. 31--			
(Mil. €)	**YTD June 2022**	**2021**	**2020**	**2019**	**2018**
Adjusted assets	700,413	669,617	627,617	557,610	518,020
Customer loans (gross)	495,602	454,021	429,025	392,980	378,994
Adjusted common equity	50,449	46,790	42,493	39,914	36,867
Operating revenues	8,558	15,905	14,225	14,574	14,135
Noninterest expenses	5,227	9,138	8,867	8,940	8,714
Core earnings	2,100	4,368	2,172	3,092	2,964
Return on average common equity	7.8	6.7	5.1	6.7	6.8
Tier 1 capital ratio	18.2	18.9	18.0	17.6	17.0
Net interest income/operating revenues	45.8	44.9	49.6	45.5	43.9
Fee income/operating revenues	26.5	25.8	25.7	24.7	25.6
Market-sensitive income/operating revenues	3.9	6.0	0.6	5.8	5.7
Cost to income ratio	61.1	57.5	62.3	61.3	61.7
Preprovision operating income/average assets	0.8	0.8	0.7	0.8	0.8
Core earnings/average managed assets	0.5	0.5	0.3	0.5	0.5
Growth in customer loans	18.3	5.8	9.2	3.7	7.7
New loan loss provisions/average customer loans	0.2	0.2	0.6	0.3	0.3
Gross nonperforming assets/customer loans + other real estate owned	2.5	2.6	2.9	3.1	3.1
Loan loss reserves/gross nonperforming assets	78.2	78.4	76.9	69.9	70.0
Core deposits/funding base	65.8	65.1	66.8	62.6	60.4
Customer loans (net)/customer deposits	118.2	113.9	111.4	123.7	132.5
Stable funding ratio	95.9	99.5	99.5	91.2	88.0
Short-term wholesale funding/funding base	25.3	25.9	23.8	27.0	29.2
Short-term wholesale funding/total wholesale funding	74.1	74.1	71.6	72.0	73.6
Broad liquid assets/short-term wholesale funding (x)	1.0	1.1	1.1	0.8	0.7
Broad liquid assets/total assets	18.2	20.4	18.9	15.6	14.7
Broad liquid assets/customer deposits	38.4	44.2	39.9	36.0	35.1
Regulatory liquidity coverage ratio (LCR) (x)	179.2	181.3	165.2	153.7	125.8

YTD--Year to date.

Related Criteria

- General Criteria: Hybrid Capital: Methodology And Assumptions, March 2, 2022
- Criteria | Financial Institutions | General: Financial Institutions Rating Methodology, Dec. 9, 2021
- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, 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: Guarantee Criteria, Oct. 21, 2016
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- Crédit Mutuel Group, Nov. 30, 2022
- Banking Industry Country Risk Assessment Update: November 2022, Nov. 29, 2022
- Economic Outlook Eurozone Q1 2023: Reality Check, Nov. 28, 2022
- Top 50 European Banks: Higher Rates Support Risk-Adjusted Capital Ratios, Nov. 10, 2022
- Banking Industry Country Risk Assessment: France, Oct. 11, 2022
- Rising Recession Risks Cloud Eurozone Banks' Earnings Prospects, Sept. 30, 2022
- When Rates Rise: Not All European Banks Are Equal, June 8, 2022
- Ratings On Credit Mutuel Nord Europe And Its Programs Withdrawn After Joining Credit Mutuel Alliance Federale, Feb. 22, 2022
- Four European Bank Ratings Raised, One Affirmed On ALAC Uplift; Off UCO On Implementation Of Revised FI Criteria, Dec. 16, 2021
- S&P Global Ratings Definitions, Nov. 10, 2021

Ratings Detail (As Of November 30, 2022)*	
Banque Federative du Credit Mutuel	
Issuer Credit Rating	A+/Stable/A-1
Resolution Counterparty Rating	AA-/--/A-1+
Commercial Paper	
Local Currency	A-1
Junior Subordinated	BBB-
Senior Subordinated	A-

Ratings Detail (As Of November 30, 2022)*(cont.)	
Senior Unsecured	A+
Senior Unsecured	A+/A-1
Senior Unsecured	A-1
Subordinated	BBB+
Issuer Credit Ratings History	
16-Dec-2021	A+/Stable/A-1
24-Jun-2021	A/Stable/A-1
23-Apr-2020	A/Negative/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	AA-/--/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	AA-/--/A-1+
Commercial Paper	
Local Currency	A-1
Senior Unsecured	A+
Caisse Federale du Credit Mutuel Ocean	
Issuer Credit Rating	A+/Stable/A-1
Resolution Counterparty Rating	AA-/--/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	AA-/--/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.