Fitch Ratings

Banks
Universal Commercial Banks
France

Credit Mutuel Alliance Federale

Update

Key Rating Drivers

Business Profile, Capital Drive Ratings: Credit Mutuel Alliance Federale's (CM Alliance Federale) ratings reflect a stable and profitable retail-and commercial-banking business model. The group leverages on strong franchises in French bancassurance and in consumer finance, and seeks to further diversify into insurance, wealth and asset management and corporate banking. The ratings also factor in sound asset quality, a lower risk appetite and stronger capitalisation than most French banks'. Stable funding and conservative liquidity also support the ratings.

Cooperative Banking Group: CM Alliance Federale is part of the wider Credit Mutuel (CM) cooperative group. Fitch rates CM Alliance Federale as a banking group backed by a mutual-support mechanism. We distinguish CM Alliance Federale from the CM group as CM Alliance Federale's large size would make it difficult for other CM group members to support it, despite the additional mutual support mechanism between them.

A Leading Bancassurer in France: CM Alliance Federale has the third-largest retail- and commercial-banking franchise in France, and has well-established market positions in life and non-life insurance. CM Alliance Federale generates most of its revenue domestically, but has notable diversification in Germany, where it is primarily active in consumer finance, leasing and factoring. Its strategy is well-articulated, conservative and sets credible long-term goals.

Conservative Risk Profile: CM Alliance Federale's cooperative status supports a low risk appetite and conservative underwriting standards in key lending products. The group has limited tolerance for traded market risks compared with larger French peers.

Resilient Asset Quality: CM Alliance Federale's 2.5% impaired loans ratio at end-June 2022 remained higher than that of similarly rated European peers. However, the bank's high coverage by loan loss allowances and lower exposure to vulnerable corporate sectors and borrowers mitigate downside risks. The current economic downturn will moderately weaken CM Alliance Federale's asset quality, and we expect the bank's impaired loans ratio to increase to about 3% by end-2023 due to increasing impaired loans formation.

Sound Profitability and Cost Efficiency: CM Alliance Federale's operating profit/risk-weighted assets (RWAs) will likely fall below 2% in 2023 (1H22: 2.1%) on reduced insurance income and investment results, and cost inflation. The bank's profitability had steadily improved over the past 10 years as it integrated a growing number of CM federations, while maintaining better cost efficiency than larger French peers.

Strong Capitalisation: CM Alliance Federale's strong capitalisation underpins its ratings and compares favourably with most peers', due to prudent capital planning and limited pay-outs to cooperative owners. Its fully loaded common equity Tier 1 (CET1) ratio of 18.2% at end-June 2022 provides an ample buffer above regulatory requirements, despite a material drop of 60bp in 1H22. We project the bank will maintain its CET1 ratio at about 18% in 2022 and 2023.

Stable Funding, Conservative Liquidity: CM Alliance Federale benefits from a large and stable deposit base, originating mainly from its domestic branch networks, although it has a loans/deposits ratio that is slightly above that of large French peers. The bank's liquidity management is conservative. Its large buffer of cash, central-bank placements and high-quality liquid assets (about 18% of total assets excluding insurance) at end-June 2022 comfortably covers short-term funding needs and long-term debt falling due in the next 12 months.

Ratings

Credit Mutuel Alliance Federale	
Long-Term IDR	A+
Short-Term IDR	F1
Viability Rating	a+
Government Support Rating	ns
Sovereign Risk (France)	
Long-Term Foreign- and Local-Currency IDR	AA
Country Ceiling	AAA
Outlooks	
Long-Term Foreign-Currency IDR	Stable
Sovereign Long-Term Foreign- and Local-Currency IDRs	Negative

Applicable Criteria

Bank Rating Criteria (September 2022)

Related Research

Fitch Affirms Credit Mutuel Alliance Federale at 'A+'; Outlook Stable (October 2022)
Global Economic Outlook (December 2022)
Banks' Rising Rates: Focus Shifting to Asset Quality from Revenue (September 2022)
Western European Banks Outlook 2023 (December 2022)

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Rating Sensitivities

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade

The ratings could be downgraded on the combination of a sustained reduction of the bank's operating profitability/RWAs below 1.5%, deterioration in the CET1 ratio to below 14% and an increase in the impaired loans ratio to persistently materially above 3%.

A weakening in the creditworthiness of other CM group members, although not expected, could also negatively affect CM Alliance Federale's ratings, particularly if this erodes the group's reputation and franchise.

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

An upgrade would require a significant strengthening of CM Alliance Federale's franchise and increase in geographic and business diversification, while further improving operating profit/RWAs to consistently above 2.5% and maintaining a conservative risk appetite. A sustainable improvement in the impaired loans ratio to 1% or lower, which is unlikely given the current ratio, would also be rating-positive.

Other Debt and Issuer Ratings

Rating Level	Rating
Banque Federative du Credit Mutuel S.A. (BFCM)	
Deposits	AA-/F1+
Senior preferred debt	AA-/F1+
Senior non-preferred debt	A+
Subordinated Tier 2	A-
Legacy Tier 1	BBB
Credit Industriel et Commercial (CIC)	
Deposits	AA-/F1+
Senior preferred debt	AA-/F1+

Source: Fitch Ratings

Short-Term IDR

CM Alliance Federale's 'a+' score for funding and liquidity results in a Short-Term Issuer Default Rating (IDR) of 'F1', which is the lower of two possible Short-Term IDRs mapping to an 'A+' Long-Term IDR.

Derivative Counterparty Rating (DCR), Deposits and Senior Debt

BFCM's and CIC's long-term deposits and senior preferred debt ratings are one notch above CM Alliance Federale's Long-Term IDR to reflect the protection that would accrue to their depositors and senior preferred creditors from CM Alliance Federale's sizeable equity and more junior debt buffers in a resolution. For the same reasons, we rate BFCM's senior non-preferred debt in line with the Long-Term IDR.

The total minimum requirement for own funds and eligible liabilities (MREL) is set at the level of the CM group at 20.99% of RWAs. As the CM group does not have a central debt-issuance entity, each of the CM sub-groups, including CM Alliance Federale, will need to have own funds and eligible liabilities above this threshold for the CM group to comply with MREL. We estimate that CM Alliance Federale had eligible liabilities and own funds, excluding senior preferred debt, representing about 25% of its RWAs at end-June 2022. We expect CM Alliance Federale will continue to meet its share of the CM group's MREL without recourse to senior preferred debt.

BFCM's and CIC's 'F1+' short-term deposit and senior preferred debt ratings are the only options mapping to their 'AA-' long-term ratings. BFCM's DCR of 'AA-(dcr)' is in line with equally ranking senior preferred debt and deposit ratings.

Subordinated and Junior Subordinated Debt

We rate BFCM's subordinated Tier 2 debt two notches below CM Alliance Federale's Viability Rating (VR) for loss severity as we expect recoveries to be poor for this type of debt in the event of a bank failure or resolution. Deeply subordinated legacy Tier 1 securities are rated four notches below CM Alliance Federale's VR to reflect the high loss severity risk of these securities (two notches from the VR), and a higher risk of non-performance (an additional two notches) relative to CM Alliance Federale's VR.

Significant Changes from Last Review

Selective Expansion in Germany Improves Business Model Diversification

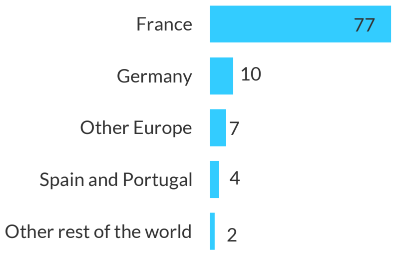
Fitch believes that the recent refocusing of CM Alliance Federale's international development in Germany and the sale of some small activities in Spain, such as insurance and consumer credit, will help improve the group's business-model stability. CM Alliance Federale is less internationally active than most of its larger French peers, but it is also more focused on and has a sound record in Germany.

Fitch expects the revenue contribution of the German business at CM Alliance Federale to grow further over the longer term, following stability over the past four years. The group already generates about 23% of its net banking income outside France, of which 10% is in Germany compared with less than 5% at larger French banks. These operations are fairly profitable, as they contributed to just over 8% of the group's net profit in 1H22, despite a fierce local competitive environment and margin pressure in consumer lending.

The group has expanded in Germany through acquisitions and steady organic growth over the last 15 years. It is primarily active in the country in highly-profitable consumer credit, through Targobank Germany, and in leasing and factoring through Targo Commercial Finance. Targobank Germany's recent integration of the German business of Banque Europeenne du Credit Mutuel, a subsidiary active in corporate banking and with real estate professionals, will result in a streamlined and more efficient structure, paving the way for further business growth.

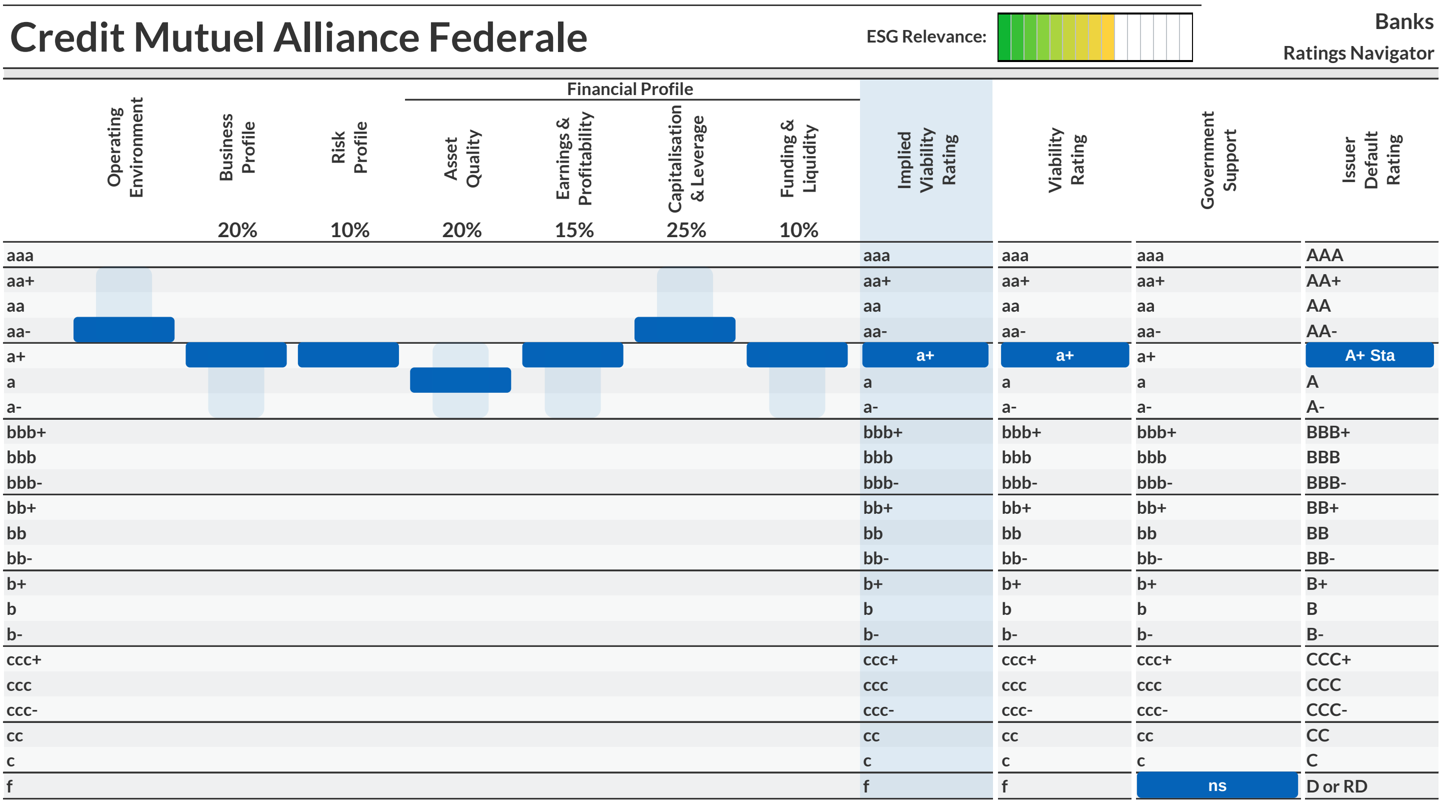
Fitch views CM Alliance Federale as firmly positioned to roll out its bancassurance business model in Germany given its strong cooperative culture, conservative risk appetite and ample financial flexibility. However, it will continue to face fierce competition from local incumbents and a less favourable macroeconomic environment in 2023 due to a persisting energy crisis.

Net Revenue Split by Country (%)
1H22



Source: Fitch Ratings, CM Alliance Federale

Ratings Navigator



The Key Rating Driver (KRD) weightings used to determine the implied VR are shown as percentages at the top. In cases where the implied VR is adjusted upwards or downwards to arrive at the VR, the KRD associated with the adjustment reason is highlighted in red. The shaded areas indicate the benchmark-implied scores for each KRD.

Financials

Financial Statements

	30 Jun 22		31 Dec 21	31 Dec 20	31 Dec 19
	6 months - interim (USDm) Reviewed - unqualified	6 months - interim (EURm) Reviewed - unqualified	Year end (EURm) Audited - unqualified	Year end (EURm) Audited - unqualified	Year end (EURm) Audited - unqualified
Summary income statement					
Net interest and dividend income	4,091	3,939.0	7,158.0	7,069.0	6,645.0
Net fees and commissions	2,355	2,267.0	4,098.0	3,650.0	3,599.0
Other operating income	2,443	2,352.0	4,649.0	3,506.0	4,332.0
Total operating income	8,889	8,558.0	15,905.0	14,225.0	14,576.0
Operating costs	5,429	5,227.0	9,137.0	8,867.0	8,942.0
Pre-impairment operating profit	3,460	3,331.0	6,768.0	5,358.0	5,634.0
Loan and other impairment charges	488	470.0	699.0	2,377.0	1,061.0
Operating profit	2,972	2,861.0	6,069.0	2,981.0	4,573.0
Other non-operating items (net)	47	45.0	-838.0	582.0	79.0
Tax	804	774.0	1,704.0	968.0	1,507.0
Net income	2,215	2,132.0	3,527.0	2,595.0	3,145.0
Other comprehensive income	374	360.0	164.0	2.0	579.0
Fitch comprehensive income	2,588	2,492.0	3,691.0	2,597.0	3,724.0
Summary balance sheet					
Assets					
Gross loans	513,274	494,149.0	452,954.0	428,052.0	392,068.0
- Of which impaired	12,841	12,363.0	11,723.0	12,497.0	12,079.0
Loan loss allowances	10,044	9,670.0	9,195.0	9,612.0	8,445.0
Net loans	503,229	484,479.0	443,759.0	418,440.0	383,623.0
Interbank	66,239	63,771.0	59,277.0	54,109.0	39,184.0
Derivatives	2,597	2,500.0	6,130.0	7,268.0	7,510.0
Other securities and earning assets	198,881	191,471.0	193,221.0	196,584.0	195,299.0
Total earning assets	770,946	742,221.0	702,387.0	676,401.0	625,616.0
Cash and cash due from banks	108,338	104,301.0	121,181.0	99,575.0	71,171.0
Other assets	21,716	20,907.0	20,338.0	20,002.0	21,732.0
Total assets	901,000	867,429.0	843,906.0	795,978.0	718,519.0
Liabilities					
Customer deposits	468,062	450,622.0	425,183.0	408,812.0	336,803.0
Interbank and other short-term funding	129,303	124,485.0	128,475.0	110,762.0	108,796.0
Other long-term funding	89,183	85,860.0	79,404.0	74,928.0	75,468.0
Trading liabilities and derivatives	9,736	9,373.0	7,360.0	5,927.0	6,057.0
Total funding and derivatives	696,284	670,340.0	640,422.0	600,429.0	527,124.0
Other liabilities	145,186	139,776.0	149,251.0	144,951.0	143,222.0
Preference shares and hybrid capital	1,217	1,172.0	1,022.0	1,023.0	1,026.0
Total equity	58,314	56,141.0	53,211.0	49,575.0	47,147.0
Total liabilities and equity	901,000	867,429.0	843,906.0	795,978.0	718,519.0
Exchange rate		USD1 = EUR0.96274	USD1 = EUR0.884173	USD1 = EUR0.821963	USD1 = EUR0.89015

Source: Fitch Ratings, Fitch Solutions, CM Alliance Federale

Key Ratios

	30 Jun 22	31 Dec 21	31 Dec 20	31 Dec 19
Ratios (annualised as appropriate %)				
Profitability				
Operating profit/risk-weighted assets	2.1	2.5	1.3	2.0
Net interest income/average earning assets	1.1	1.0	1.1	1.1
Non-interest expense/gross revenue	61.1	57.4	62.3	61.4
Net income/average equity	7.9	6.9	5.4	6.9
Asset quality				
Impaired loans ratio	2.5	2.6	2.9	3.1
Growth in gross loans	9.1	5.8	9.2	6.0
Loan loss allowances/impaired loans	78.2	78.4	76.9	69.9
Loan impairment charges/average gross loans	0.2	0.2	0.5	0.3
Capitalisation				
Common equity Tier 1 ratio	18.2	18.8	17.8	17.3
Fully loaded common equity Tier 1 ratio	18.2	18.8	17.8	17.3
Tangible common equity/tangible assets	6.0	5.9	5.7	5.9
Basel leverage ratio[a]	6.6	7.6	7.0	6.5
Net impaired loans/common equity Tier 1	5.4	5.5	6.9	9.3
Funding and liquidity				
Gross loans/customer deposits	109.7	106.5	104.7	116.4
Liquidity coverage ratio	179.2	182.0	170.2	153.7
Customer deposits/total non-equity funding	67.8	66.9	68.5	64.4
Net stable funding ratio	118.5	125.6	n.a.	n.a.

[a] CM Alliance Federale's end-2020 and end-2021 Basel leverage ratios included the benefit from the temporary exclusion of eurosystem central bank deposits. When excluding this temporary exemption, the leverage ratios were 5.9% and 6.2%, respectively.
Source: Fitch Ratings, Fitch Solutions, CM Alliance Federale

Support Assessment

Commercial Banks: Government Support	
Typical D-SIB GSR for sovereign's rating level (assuming high propensity)	A or A-
Actual jurisdiction D-SIB GSR	ns
Government Support Rating	ns
Government ability to support D-SIBs	
Sovereign Rating	AA/ Negative
Size of banking system	Negative
Structure of banking system	Negative
Sovereign financial flexibility (for rating level)	Positive
Government propensity to support D-SIBs	
Resolution legislation	Negative
Support stance	Neutral
Government propensity to support bank	
Systemic importance	Neutral
Liability structure	Neutral
Ownership	Neutral

The colours indicate the weighting of each KRD in the assessment.
Higher influence Moderate influence Lower influence

No Reliance on Sovereign Support

CM Alliance Federale's, BFCM's and CIC's Government Support Ratings of 'no support' reflect Fitch's view that, although possible, sovereign support cannot be relied on. Legislative, regulatory and policy initiatives, including the implementation of the EU's Bank Recovery and Resolution Directive, have substantially reduced the likelihood of sovereign support for EU commercial banks in general, in our view. This implies that senior creditors would probably be required to participate in losses, if necessary, instead of the bank receiving sovereign support, despite the CM group's systemic importance.

Subsidiaries and Affiliates

Fitch assigns a group VR to CM Alliance Federale and its subsidiaries, BFCM and CIC, which are core banks for the group. This is because the two subsidiaries are large and highly integrated domestic banks. Their credit profiles cannot be disentangled from that CM Alliance Federale and we view their failure risk as substantially the same as the group as a whole. Neither subsidiary is affiliated to CM Alliance Federale's central body Caisse Federale de CM, but BFCM has been affiliated to the CM group's central body since September 2020 and as such it could benefit from the national-support mechanism.

BFCM made up 77% of CM Alliance Federale's consolidated assets at end-June 2022 (the other 23% was related to local CM banks). BFCM is the group's main issuing vehicle on financial markets and it coordinates the group's subsidiaries. CIC is owned by BFCM and accounts for about 46% of group assets. It is one of the group's two retail and commercial networks in France and hosts the group's modest corporate- and investment-banking activities. BFCM and CIC are highly integrated with CM Alliance Federale in management, systems, capital and liquidity.

As a result of the above, the IDRs of BFCM and CIC are equalised with those of CM Alliance Federale.

BFCM's and CIC's ratings will move in tandem with those of CM Alliance Federale, unless Fitch ceases to view BFCM and CIC as core banks within the group, which we do not expect given their role and importance within CM Alliance Federale.

Environmental, Social and Governance Considerations

Overall ESG

5	
4	
3	
2	
1	

How relevant are E, S and G issues to the overall credit rating?

5	Highly relevant, a key rating driver that has a significant impact on the rating on an individual basis. Equivalent to "higher" relative importance within Navigator.
4	Relevant to rating, not a key rating driver but has an impact on the rating in combination with other factors. Equivalent to "moderate" relative importance within Navigator.
3	Minimally relevant to rating, either very low impact or actively managed in a way that results in no impact on the entity rating. Equivalent to "lower" relative importance within Navigator.
2	Irrelevant to the entity rating but relevant to the sector.
1	Irrelevant to the entity rating and irrelevant to the sector.

Environmental (E)

General Issues	Score	Impact	Sector-Specific Issues	Reference
GHG Emissions & Air Quality	1		n.a.	n.a.
Energy Management	1		n.a.	n.a.
Water & Wastewater Management	1		n.a.	n.a.
Waste & Hazardous Materials Management; Ecological Impacts	1		n.a.	n.a.
Exposure to Environmental Impacts	2		Impact of extreme weather events on assets and/or operations and corresponding risk appetite & management; catastrophe risk; credit concentrations	Business Profile (incl. Management & governance); Risk Profile; Asset Quality

E Scale: 5, 4, 3, 2, 1

Social (S)

General Issues	Score	Impact	Sector-Specific Issues	Reference
Human Rights, Community Relations, Access & Affordability	2		Services for underbanked and underserved communities: SME and community development programs; financial literacy programs	Business Profile (incl. Management & governance); Risk Profile
Customer Welfare - Fair Messaging, Privacy & Data Security	3		Compliance risks including fair lending practices, mis-selling, repossession/foreclosure practices, consumer data protection (data security)	Operating Environment; Business Profile (incl. Management & governance); Risk Profile
Labor Relations & Practices	2		Impact of labor negotiations, including board/employee compensation and composition	Business Profile (incl. Management & governance)
Employee Wellbeing	1		n.a.	n.a.
Exposure to Social Impacts	2		Shift in social or consumer preferences as a result of an institution's social positions, or social and/or political disapproval of core banking practices	Business Profile (incl. Management & governance); Financial Profile

S Scale: 5, 4, 3, 2, 1

Governance (G)

General Issues	Score	Impact	Sector-Specific Issues	Reference
Management Strategy	3		Operational implementation of strategy	Business Profile (incl. Management & governance)
Governance Structure	3		Board independence and effectiveness; ownership concentration; protection of creditor/stakeholder rights; legal /compliance risks; business continuity; key person risk; related party transactions	Business Profile (incl. Management & governance); Earnings & Profitability; Capitalisation & Leverage
Group Structure	3		Organizational structure; appropriateness relative to business model; opacity; intra-group dynamics; ownership	Business Profile (incl. Management & governance)
Financial Transparency	3		Quality and frequency of financial reporting and auditing processes	Business Profile (incl. Management & governance)

G Scale: 5, 4, 3, 2, 1

The highest level of ESG credit relevance is a score of '3'. This means ESG issues are credit neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg

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