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Research Update:

Credit Mutuel Group And Core Entities Affirmed At 'A/A-1'; Credit Mutuel Arkea Outlook To Negative On Intragroup Tensions

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Overview

- We believe Crédit Mutuel Arkea's (CMA's) recently announced plans to launch a consultation process among its mutual branch members about leaving Crédit Mutuel Group points to heightened tensions among the group.
- At the same time, we believe that the intragroup solidarity mechanism among mutual members, which underpins the core status of CMA, remains unchallenged.
- We are revising the outlook on CMA to negative from stable and affirming the 'A/A-1' ratings.
- We are also affirming our 'A/A-1' ratings on the group's other entities.
- The negative outlook on CMA reflects the increased likelihood of the entity's exit from the group.
- The outlook on Crédit Mutuel Group and its other core entities remains stable.

Rating Action

On Jan. 23, 2018, S&P Global Ratings revised to negative from stable its outlook on France-based Crédit Mutuel Arkéa (CMA), a core entity of Crédit Mutuel Group. We affirmed the 'A/A-1' issuer credit ratings on CMA.

We also affirmed our 'A/A-1' issuer credit ratings on Caisse Centrale du Crédit Mutuel (CCCM) and the following core entities of the group: Banque Federative du Crédit Mutuel (BFCM), Crédit Industriel et Commercial (CIC), Caisse Fédérale du Crédit Mutuel Nord Europe, Caisse Fédérale du Crédit Mutuel Antilles-Guyane, Caisse Fédérale du Crédit Mutuel de Maine-Anjou Basse Normandie, and Caisse Fédérale du Crédit Mutuel Océan. The outlook on these entities remains stable.

In addition, we affirmed the issue ratings on debt instruments issued by these entities.

Rationale

The revision of the outlook on CMA to negative from stable reflects our view of heightened intragroup tensions based on CMA's announcement on Jan. 19, 2018, that it will launch an internal consultation process among its local mutual branch members about CMA's senior management project to leave the

group. An exit scenario is not our base case, but we believe that its likelihood has increased.

We base our ratings on the various entities that are part of CMG, including CMA, on our consolidated analysis of CMG. The group 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 would be equally forthcoming to all mutual group members, irrespective of any other consideration, including some recurring elevated intragroup tensions between some members. The feature underpins our classification of these entities as core to the group, leading us to align our ratings on these entities with our 'a' assessment of the group credit profile.

Intragroup tensions have elevated since CMA started legal actions against the group central organ in October 2014. We note that CMA's public communication has been increasingly explicit over this period on its search of greater autonomy within the group, and eventually of an independent status. Currently, strategies for resolving this internal conflict are unclear, in our view, and we assume these tensions will likely persist in the coming months.

CMA's exit of the group is not our central scenario for the moment because we understand that only a change of French law would allow CMA to operate as an independent mutual group, and we are not aware that this legal process has started. In our opinion, as long as there is no tangible sign that CMA's affiliation to the group central organ--or its access to intragroup solidarity mechanism--are jeopardized, CMA's core group status remains applicable. In addition, we note that CMA has continued to perform well in this context.

We do not believe that CMA's recent actions constrain the other group constituents' performance or introduce contagion risk. In our view, the regional entities within the group operate with a high degree of autonomy, and we haven't observed that CMA's intentions to become an independent entity have materially affected the group's functioning, financial performance, or operational effectiveness. CMA's total assets represent about 10%-15% of the group total assets, and its departure from the group would not fundamentally modify our assessment of the overall group credit standing, everything else remaining equal.

Outlook

Crédit Mutuel Arkéa

The negative outlook on CMA reflects our opinion that CMA's search for an exit strategy from Crédit Mutuel Group to acquire independent status could put CMA's core group membership under pressure.

For the moment, we are not aware of any tangible sign that CMA's access to Crédit Mutuel Group's overall financial solidarity mechanism is being challenged or could be lost in the near future. We understand that there is no change in the access to the intragroup solidarity mechanism among mutual members. Any indication that this access has vanished would prompt us to reconsider CMA's core group membership and the equalization of our ratings on CMA with the 'a' group credit profile. We could lower our ratings on CMA by more than one notch if we believed that CMA were no longer a core member of Crédit Mutuel Group, everything else being equal. A reassessment of CMA's group status would lead us to lower our long- and short-term ratings on CMA and, in turn, our issue ratings on CMA's senior nonpreferred debt and Tier 2 regulatory capital instruments, among the entity's other debt instruments.

We would revise the outlook on CMA to stable if intragroup tensions around governance issues and the likelihood of an exit from CMG were to reduce significantly.

Crédit Mutuel Group

The outlook on Crédit Mutuel Group is stable, reflecting our views that CMG's sound financial performance and controlled growth of risk assets over the next two years will enable a moderate strengthening of its risk-adjusted capital (RAC) ratio and simultaneously build up its stock of additional loss-absorbing capacity (ALAC) through the issuance of eligible subordinated eligible instruments and potentially a new class of senior nonpreferred debt. Pending clarification of future regulatory requirements and the group's future issuing plan, we will likely incorporate one notch of uplift for ALAC support into our ratings, and, at the same time, remove the one-notch adjustment for additional factors.

We could lower our ratings if we observed the group engaging in more rapid growth of risk assets than we anticipate, organically or via acquisitions, or if there was no sign of willingness to gradually build-up a buffer of bail-in-able securities commensurate with our expectations for the rating level. We could also lower the ratings if governance proved deficient and led to exacerbated intragroup tensions, further challenging the functioning of the group and damaging the reputation of the group and its members.

At this stage, we believe an upgrade is remote because it would require substantial improvement in business diversity and a capital policy in line with those of 'A+' rated peers in Europe, both of which are not part of our central scenario over the coming two years.

Ratings Score Snapshot

Caisse Centrale du Crédit Mutuel

Issuer credit rating A/Stable/A-1

SACP	a-
Anchor	bbb+
Business Position	Strong (+1)
Capital and Earnings	Adequate (0)
Risk Position	Adequate (0)
Funding and Liquidity	Average and (0) Adequate
Support	0
ALAC Support	0
GRE Support	0
Group Support	0
Sovereign Support	0
Additional Factors	+1

Related Criteria

- 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: Bank Hybrid Capital And Nondeferrable Subordinated Debt Methodology And Assumptions, Jan. 29, 2015
- General Criteria: Principles For Rating Debt Issues Based On Imputed Promises, Dec. 19, 2014
- General Criteria: Group Rating Methodology, Nov. 19, 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: Use Of CreditWatch And Outlooks, Sept. 14, 2009
- Criteria - Financial Institutions - Banks: Commercial Paper I: Banks, March 23, 2004

Ratings List

Ratings Affirmed; Outlook Revised To Negative

	To	From
Credit Mutuel Arkea		
Counterparty Credit Rating	A/Negative/A-1	A/Stable/A-1
Senior Unsecured	A	A

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Senior Subordinated	BBB+	BBB+
Subordinated	BBB	BBB
Junior Subordinated	BB+	BB+
Commercial Paper	A-1	A-1

Ratings Affirmed; Outlook Remains Stable

Banque Federative du Credit Mutuel
Credit Industriel et Commercial
Caisse Federale du Credit Mutuel de Maine-Anjou Basse Normandie
Caisse Federale du Credit Mutuel Ocean
Caisse Federale du Credit Mutuel Nord Europe
Caisse Federale du Credit Mutuel Antilles-Guyane
Caisse Centrale du Credit Mutuel
Counterparty Credit Rating A/Stable/A-1

Banque Federative du Credit Mutuel
Credit Mutuel Arkea
Caisse Federale du Credit Mutuel de Maine-Anjou Basse Normandie
Caisse Federale du Credit Mutuel Ocean
Caisse Federale du Credit Mutuel Nord Europe
Caisse Federale du Credit Mutuel Antilles-Guyane
Caisse Centrale du Credit Mutuel
Certificate Of Deposit
Foreign Currency A/A-1
Local Currency A

Banque Federative du Credit Mutuel
Senior Unsecured A
Senior Unsecured A-1
Subordinated BBB
Junior Subordinated BB+
Certificate Of Deposit A-1
Commercial Paper A-1

Caisse Federale du Credit Mutuel Nord Europe
Senior Unsecured A
Subordinated BBB
Junior Subordinated BB+
Commercial Paper A-1

Arkea Banque Entreprises et Institutionnels
Certificate Of Deposit A-1

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Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed

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