



Fitch Affirms CM11 at 'A+'; Stable Outlook

Link to Fitch Ratings' Report: CM11 - Rating Action Report (<https://www.fitchratings.com/site/re/898793>)

Fitch Ratings-Paris-23 May 2017: Fitch Ratings has affirmed CM11's Long-Term Issuer Default Rating (IDR) at 'A+', Short-Term IDR at 'F1' and Viability Rating (VR) at 'a+'. The Outlook on the Long-Term IDR is Stable.

In addition, Fitch has assigned a 'A+(dcr)' Derivative Counterparty Rating (DCR) to Banque Federative du Credit Mutuel (BFCM), which is a notable derivative counterparty within CM11, as part of its roll-out of DCRs to significant derivative counterparties in western Europe and the US.

The rating actions are part of a periodic portfolio review of the large French cooperative banking groups rated by Fitch. A full list of rating actions is available in the related Rating Action Report.

KEY RATING DRIVERS

IDRS, VR AND SENIOR DEBT

The ratings of CM11 reflect the group's balanced business model focussed on retail and commercial banking, combined with a healthy franchise and established insurance operations in France, low-risk appetite and strong capitalisation. The ratings also factor in slightly higher impaired loans as a proportion of gross loans than the average for similarly rated peers and resilient profitability.

CM11 is mainly active in France, where it is the third-largest cooperative banking group. Abroad, it is expanding in consumer finance primarily in Germany. It is also deploying its bancassurance model in Spain. As with its domestic and European peers, CM11 is suffering from the low-interest-rate environment and strong competitive pressure, in particular in housing lending in France, resulting in declining retail banking revenue. However, this is mitigated by the diversification of the group's activities. Higher-risk but higher-margin consumer finance activity supports net interest income.

Despite an increase in consumer finance, which Fitch views as higher risk, we believe CM11's risk appetite remains fairly modest. The loan portfolio is mainly concentrated in France with a large portion of low-risk housing loans, while consumer finance accounts for around 10% of customer loans. CM11's impaired loans-to-gross loans ratio is slightly higher than the average for similarly rated peers and a material part of the group's impaired loans relates to the consumer finance portfolio. However, impaired consumer loans are adequately reserved in Fitch's view.

CM11 is largely funded by deposits, mostly from retail customers, providing it with a stable funding source. Short-term wholesale funding is at an acceptable level, and CM11 maintains regular access to the secured and unsecured debt markets.

The group has significantly improved its liquidity. Central bank deposits and high quality liquid assets covered short-term funding and wholesale funding maturing over the next 12 months at end-2016. Liquidity management is prudent but CM11's liquidity profile is not exceptionally strong, compared with similarly rated European peers. Hence the Short-Term IDR of 'F1' is the lower of the two possible Short-Term IDRs for an 'A+' Long-Term IDR.

Capitalisation is a rating strength for the group. At end-2016, the fully loaded common equity Tier 1 (CET1) ratio was 15%, which provides a substantial buffer above the 8.5% Supervisory Review and Evaluation Process (SREP) requirement expected for 2019. The Fitch core capital ratio has been maintained at around a solid 14% over the past four years. The group's capitalisation is supported by a modest dividend payout ratio explained by CM11's cooperative structure. Capital management has been focused on maintaining high levels of core capital, meaning that CM11 has a lower volume of junior debt instruments than similarly rated peers.

SUPPORT RATING AND SUPPORT RATING FLOOR

CM11's and Credit Industriel et Commercial's (CIC) Support Ratings (SRs) of '5' and Support Rating Floors (SRFs) of 'No Floor' reflect Fitch's view that senior creditors can no longer rely on receiving full extraordinary support from the sovereign if the group becomes non-viable. The EU's Bank Recovery and Resolution Directive and the Single Resolution Mechanism for eurozone banks provide a framework for resolving banks that is likely to require senior creditors participating in losses, if necessary, instead of or ahead of a bank receiving sovereign support.

SUBSIDIARIES

CIC is CM11's largest subsidiary, representing around half of group assets. CIC's main business is domestic retail and commercial banking. It also runs the group's limited capital market activities. It is highly integrated with its parent in terms of management, balance sheet fungibility and systems, meaning the subsidiary's and parent's credit profiles are highly correlated. CM11 and CIC therefore share common VRs and IDRs.

BFCM's IDRs and senior debt ratings are aligned with those of CM11 based on our opinion that BFCM is a core subsidiary of CM11 as the group's main issuing vehicle. It manages the group's liquidity and coordinates the group's subsidiaries. We do not assign a VR to BFCM as it is difficult to analyse this entity meaningfully in its own right.

Fitch has assigned a 'A+(dcr)' DCR to BFCM, which is a notable derivative counterparty within CM11. The DCR is at the same level as BFCM's Long-Term IDR because derivative counterparties in France have no definitive preferential status over other preferred senior obligations in a resolution scenario.

Subordinated debt and deeply subordinated debt issued by BFCM are notched down from CM11's VR in accordance with Fitch's assessment of each instrument's respective non-performance and relative loss severity risk profiles.

We rate subordinated Tier 2 debt one notch below CM11's VR to reflect below-average recoveries for this type of debt. Legacy deeply subordinated Tier 1 securities are rated four notches below CM11's VR to reflect the higher-than-average loss severity risk of these securities (two notches from the VR) as well as a higher risk of non-performance (an additional two notches).

The long-term ratings of the debt issued by Banque Europeenne du Credit Mutuel (BECM) guaranteed by BFCM are aligned with BFCM's Long-Term IDR of 'A+'. This reflects Fitch's view that BFCM is highly likely to honour its commitment as guarantor if required, as the guarantee is unconditional, irrevocable and timely.

Fitch has assigned a 'F1' short-term rating to the commercial paper (CP) issued under BECM's EUR600 million French CP programme guaranteed by BFCM, aligned with the Short-Term IDR of BFCM for the same reason.

RATING SENSITIVITIES IDRS, VR AND SENIOR DEBT

The Stable Outlook on CM11's Long-Term IDR reflects our expectations that the group will continue to maintain a fairly modest risk appetite, strong capitalisation, adequate asset quality and a sound liquidity position.

A material deterioration of CM11's capital position, which currently provides a strong buffer, could lead to negative rating pressure, although this is not expected. In addition, a weakening of the liquidity position, or a marked deterioration in the risk profile, potentially from a stronger-than-expected expansion in consumer lending or in peripheral European countries, could lead to pressure on the VR. A weakening in the creditworthiness of other entities of Credit Mutuel that are not part of CM11 could also have a negative impact on the ratings, as they could eventually present a burden on its capitalisation.

Upgrade potential is limited given the current high ratings. This would be contingent on a demonstration of exceptionally strong and stable financial metrics, in particular stronger profitability and lower impaired loan ratios, but also a track record of stronger liquidity.

SUPPORT RATING AND SUPPORT RATING FLOOR

An upgrade of CM11's and CIC's SRs and upward revision to the SRFs would be contingent on a positive change in the French sovereign's propensity to support its banks. While not impossible, this is highly unlikely in Fitch's view.

SUBSIDIARIES

BFCM's and CIC's ratings are sensitive to changes in the ratings of CM11 and changes to the subsidiaries' importance to the group.

BFCM's DCR is currently aligned with the bank's Long-Term IDR and is therefore primarily sensitive to changes to the bank's Long-Term IDR.

The ratings of the subordinated debt and hybrid capital instruments issued by BFCM are primarily sensitive to a change in CM11's VR. The ratings of the legacy deeply subordinated Tier 1 securities are also sensitive to Fitch changing its assessment of the probability of their non-performance relative to the risk captured in CM11's VR.

The ratings of the debt issued by BECM guaranteed by BFCM are primarily sensitive to changes in BFCM's IDRs.

Contact:

Primary Analysts

Francois-Xavier Deucher, CFA (all entities except CIC)

Director

+33 1 44 29 92 72

Fitch France S.A.S.

60 rue de Monceau

75008 Paris

Olivia Perney Guillot (CIC)

Senior Director
+33 1 44 29 91 74
Fitch France S.A.S.
60 rue de Monceau
75008 Paris

Secondary Analyst
Julien Grandjean
Associate Director
+33 1 44 29 91 41

Committee Chairperson
Bridget Gandy
Managing Director
+44 20 3530 1095

Media Relations: Francoise Alos, Paris, Tel: +33 1 44 29 91 22, Email: francoise.alos@fitchratings.com; Peter Fitzpatrick, London, Tel: +44 20 3530 1103, Email: peter.fitzpatrick@fitchratings.com.

Additional information is available on www.fitchratings.com

Applicable Criteria

Global Bank Rating Criteria (pub. 25 Nov 2016) (<https://www.fitchratings.com/site/re/891051>)

Additional Disclosures

Dodd-Frank Rating Information Disclosure Form (<https://www.fitchratings.com/site/dodd-frank-disclosure/1024099>)

Solicitation Status (<https://www.fitchratings.com/site/pr/1024099#solicitation>)

Endorsement Policy (<https://www.fitchratings.com/regulatory>)

ALL FITCH CREDIT RATINGS ARE SUBJECT TO CERTAIN LIMITATIONS AND DISCLAIMERS. PLEASE READ THESE LIMITATIONS AND DISCLAIMERS BY FOLLOWING THIS LINK:

[HTTPS://WWW.FITCHRATINGS.COM/UNDERSTANDINGCREDITRATINGS](https://www.fitchratings.com/understandingcreditratings)

(<https://www.fitchratings.com/understandingcreditratings>). IN ADDITION, RATING DEFINITIONS AND THE TERMS OF USE OF SUCH RATINGS ARE AVAILABLE ON THE AGENCY'S PUBLIC WEB SITE AT WWW.FITCHRATINGS.COM (<https://www.fitchratings.com>). PUBLISHED RATINGS, CRITERIA, AND METHODOLOGIES ARE AVAILABLE FROM THIS SITE AT ALL TIMES. FITCH'S CODE OF CONDUCT, CONFIDENTIALITY, CONFLICTS OF INTEREST, AFFILIATE FIREWALL, COMPLIANCE, AND OTHER RELEVANT POLICIES AND PROCEDURES ARE ALSO AVAILABLE FROM THE CODE OF CONDUCT SECTION OF THIS SITE. DIRECTORS AND SHAREHOLDERS RELEVANT INTERESTS ARE AVAILABLE AT [HTTPS://WWW.FITCHRATINGS.COM/SITE/REGULATORY](https://www.fitchratings.com/site/regulatory) (<https://www.fitchratings.com/site/regulatory>). FITCH MAY HAVE PROVIDED ANOTHER PERMISSIBLE SERVICE TO THE RATED ENTITY OR ITS RELATED THIRD PARTIES. DETAILS OF THIS SERVICE FOR RATINGS FOR WHICH THE LEAD ANALYST IS BASED IN AN EU-REGISTERED ENTITY CAN BE FOUND ON THE ENTITY SUMMARY PAGE FOR THIS ISSUER ON THE FITCH WEBSITE. Copyright © 2017 by Fitch Ratings, Inc., Fitch Ratings Ltd. and its subsidiaries. 33 Whitehall Street, NY, NY 10004. Telephone: 1-800-753-4824, (212) 908-0500. Fax: (212) 480-4435. Reproduction or retransmission in whole or in part is prohibited except by permission. All rights reserved. In issuing and maintaining its ratings and in making other reports (including forecast information), Fitch relies on factual information it receives from issuers and underwriters and from other sources Fitch believes to be credible. Fitch conducts a reasonable investigation of the factual information relied upon by it in accordance with its ratings methodology, and obtains reasonable verification of that information from independent sources, to the extent such sources are available for a given security or in a given jurisdiction. The manner of Fitch's factual investigation and the scope of the third-party verification it obtains will vary depending on the nature of the rated security and its issuer, the requirements and practices in the jurisdiction in which the rated security is offered and sold and/or the issuer is located, the availability and nature of relevant public information, access to the management of the issuer and its advisers, the availability of pre-existing third-party verifications such as audit reports, agreed-upon procedures letters, appraisals, actuarial reports, engineering reports, legal opinions and other reports provided by third parties, the availability of independent and competent third-party verification sources with respect to the particular security or in the particular jurisdiction of the issuer, and a variety of other factors. Users of Fitch's ratings and reports should understand that neither an enhanced factual investigation nor any third-party verification can ensure that all of the information Fitch relies on in connection with a rating or a report will be accurate and complete. Ultimately, the issuer and its advisers are responsible for the accuracy of the information they provide to Fitch and to the market in offering documents and other reports. In issuing its ratings and its reports, Fitch must rely on the work of experts, including independent auditors with respect to financial statements and attorneys with respect to legal and tax matters. Further, ratings and forecasts of financial and other information are inherently forward-looking and embody assumptions and predictions about future events that by their nature cannot be verified as facts. As a result, despite any verification of current facts, ratings and forecasts can be affected by future events or conditions that were not anticipated at the time a rating or forecast was issued or affirmed.

The information in this report is provided "as is" without any representation or warranty of any kind, and Fitch does not represent or warrant that the report or any of its contents will meet any of the requirements of a recipient of the report. A Fitch rating is an opinion as to the creditworthiness of a security. This opinion and reports made by Fitch are based on established criteria and methodologies that Fitch is continuously evaluating and updating. Therefore, ratings and reports are the collective work product of Fitch and no individual, or group of individuals, is solely responsible for a rating or a report. The rating does not address the risk of loss due to risks other than credit risk, unless such risk is specifically mentioned. Fitch is not engaged in the offer or sale of any security. All Fitch reports have shared authorship. Individuals identified in a Fitch report were involved in, but are not solely responsible for, the opinions stated therein. The individuals are named for contact purposes only. A report providing a Fitch rating is neither a prospectus nor a substitute for the information assembled, verified and presented to investors by the issuer and its agents in connection with the sale of the securities. Ratings may be changed or withdrawn at any time for any reason in the sole discretion of Fitch. Fitch does not provide investment advice of any sort. Ratings are not a recommendation to buy, sell, or hold any security. Ratings do not comment on the adequacy of market price, the suitability of any security for a particular investor, or the tax-exempt nature or taxability of payments made in respect to any security. Fitch receives fees from issuers, insurers, guarantors, other obligors, and underwriters for rating securities. Such fees generally vary from US\$1,000 to US\$750,000 (or the applicable currency equivalent) per issue. In certain cases, Fitch will rate all or a number of issues issued by a particular issuer, or insured or guaranteed by a particular insurer or guarantor, for a single annual fee. Such fees are expected to vary from US\$10,000 to US\$1,500,000 (or the applicable currency equivalent). The assignment, publication, or dissemination of a rating by Fitch shall not constitute a consent by Fitch to use its name as an expert in connection with any registration statement filed under the United States securities laws, the Financial Services and Markets Act of 2000 of the United Kingdom, or the securities laws of any particular jurisdiction. Due to the relative efficiency of electronic publishing and distribution, Fitch research may be available to electronic subscribers up to three days earlier than to print subscribers.

For Australia, New Zealand, Taiwan and South Korea only: Fitch Australia Pty Ltd holds an Australian financial services license (AFS license no. 337123) which authorizes it to provide credit ratings to wholesale clients only. Credit ratings information published by Fitch is not intended to be used by persons who are retail clients within the meaning of the Corporations Act 2001

Solicitation Status

Fitch Ratings was paid to determine each credit rating announced in this Rating Action Commentary (RAC) by the obligator being rated or the issuer, underwriter, depositor, or sponsor of the security or money market instrument being rated, except for the following:

Endorsement Policy - Fitch's approach to ratings endorsement so that ratings produced outside the EU may be used by regulated entities within the EU for regulatory purposes, pursuant to the terms of the EU Regulation with respect to credit rating agencies, can be found on the EU Regulatory Disclosures (<https://www.fitchratings.com/regulatory>) page. The endorsement status of all International ratings is provided within the entity summary page for each rated entity and in the transaction detail pages for all structured finance transactions on the Fitch website. These disclosures are updated on a daily basis.