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Credit Mutuel Group

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Credit Mutuel Group

SACP	a-
Anchor	bbb+
Business Position	Strong +1
Capital and Earnings	Adequate 0
Risk Position	Adequate 0
Funding	Average 0
Liquidity	Adequate 0

\+

Support	0
ALAC Support	0
GRE Support	0
Group Support	0
Sovereign Support	0

\+

Additional Factors	+1

Issuer Credit Rating
A/Stable/A-1

Resolution Counterparty Rating
A+/--/A-1

Major Rating Factors

Strengths:	Weaknesses:
• Solid recurring earnings from a strong franchise in French retail banking and insurance. • A low risk appetite and a good record of controlled growth in complementary business segments and territories. • High quality of core capital and supportive internal capital generation.	• Elevated internal tensions and relative uncertainty around the group perimeter as Crédit Mutuel Arkéa (CMA), one of the regional banks forming the group, explores ways to exit. • Pressure on earnings due to persistently low interest rates. • Low diversification outside retail banking and insurance in France.

Outlook: Stable

S&P Global Ratings' stable outlook on all Crédit Mutuel Group (CMG) entities except CMA reflects our view that the group's sound financial performance and controlled growth of risk assets over the next two years will allow it to moderately strengthen its solvency, while maintaining a low risk appetite. The outlook also assumes that the existing challenges around group cohesion will not represent a structural weakness for the group, but rather an area of relative uncertainty, as has been the case thus far.

We will likely incorporate one notch of uplift for additional loss-absorbing capacity (ALAC) support into our ratings during the next two years, and would simultaneously 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 ratings.

We could also lower the ratings if exacerbated intragroup tensions were to challenge the functioning of the entire group, damaging the reputation of the group and its members, and dampening earnings prospects.

At this stage, we believe an upgrade is remote because it would require a substantial improvement in business diversity and a capital policy in line with the group's 'A+' rated peers in Europe, neither of which are part of our central scenario over the coming two years. To consider a positive rating action, we would first need to get more visibility on the future of CMA, since we view the uncertainty around the group's cohesiveness as limiting the potential rating upside for the group credit profile.

Outlook: Negative

The negative outlook on CMA, a constituent of CMG representing about 10%-15% of the group's total assets, reflects our view that there is a one-in-three likelihood that we could lower our ratings by more than one notch if CMA's access to protecting financial mechanisms attached to group membership were compromised. Such actions would affect our long- and short-term issuer ratings on CMA, as well as our issue ratings on its senior nonpreferred debt and hybrid capital instruments. We would update our ratings on CMA if CMA takes further steps toward breaking away from the group.

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.

Rationale

We base our ratings on our consolidated analysis of CMG. We view the following entities as core to the group: Caisse Centrale du Crédit Mutuel, Banque Federative du Crédit Mutuel (BFCM), Crédit Industriel et Commercial (CIC), Caisse Fédérale du Crédit Mutuel Nord Europe (CMNE), CMA, 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 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, directly or indirectly, would be equally forthcoming to all mutual group members, irrespective of any other consideration, including some recurring elevated intragroup tensions between some members. It underpins our classification of these entities as core to the group and therefore, the alignment of our ratings on these entities with the 'a' group credit profile (GCP). Although we do not see intragroup tensions as resulting in a structural weakness for CMG, we view such uncertainty about the group's cohesiveness as limiting potential upside for its credit profile.

CMG continues to demonstrate sound financial performance, and we anticipate growth of risk assets over the next two years that allows for moderate strengthening of its solvency, alongside a low risk appetite. We view positively the group's leading position and robust franchise in the French retail market and the material contribution of its insurance activities. We expect capital to strengthen moderately, with a projected risk-adjusted capital (RAC) ratio of about 9% by the end of 2019, thanks to limited income distribution as a mutual group and sound performance. CMG benefits from the low risk nature of its core French retail banking activities, a good track record of expansion into the riskier consumer finance segment, and also the lower diversity of its loan portfolio than that of peers. We consider that the group has soundly improved its funding and liquidity position, although it still lags behind international peers.

Based on our consolidated view on the group, we determine CMG's unsupported GCP at 'a-'. We incorporate into our ratings one notch of uplift because we consider that CMG is in a positive transition phase on the back of a possible gradual buildup of a larger buffer of bail-in-able debt.

Anchor: 'bbb+' reflecting predominantly domestic exposures

CMG predominantly operates in France. This market tends to represent 90% of its customer lending portfolio, and this is unlikely to change rapidly and materially, in our view, in the coming two years.

Our '3' economic risk score for France reflects our view that its economy is stable and wealthy, with low private-sector credit risk and a growing population. In our view, the economy's resilience to adverse external developments has been reduced by a relatively high public debt burden, elevated unemployment that we project to decline only slowly, and decreased external competitiveness of the corporate sector. We expect GDP growth in France of 1.6% in 2018, with the economy now in a more mature phase of the cycle. Domestic credit growth is on an upward trajectory, outpacing other European countries, but in our view, not at a magnitude that would indicate a significant credit bubble.

On the housing market, low interest rates have fueled loan issuance (including renegotiations in 2017), but the market is now likely to regulate itself back closer to long-term averages for the next two years--around a 2% nominal price increase in 2019 after 2.7% in 2018. We anticipate that credit losses will remain very low in 2018-2019, increasing from the recent record low of an estimated 18 basis points (bps) in 2017. We project stable economic risk.

Our '3' industry risk score reflects our view that banks are operating in a less favorable environment, with low interest rates compounded by regulated-rate savings constraining prospective revenues. Still, a strong and diverse business model, low credit risk, and operating in a concentrated mature market should help banks to preserve their revenues. However, we consider there is room for improvement in cost efficiency, which is a relative weakness for French banks compared with their European peers, notably due to a still-dense branch network.

In our industry risk assessment, we also consider the sustained pace of growth of household credit, mostly granted at fixed rates, particularly in relation to the effect on banks' balance sheet structures. The system's relatively large reliance on wholesale funding is partly attributable to households' propensity to save in non-bank institutions and regulated savings accounts. The system also benefits, among other things, from the depth of the domestic financial market. We project stable industry risk.

Table 1

Credit Mutuel Group Key Figures

	--Year-ended Dec. 31--				
(Mil. €)	**2017**	**2016**	**2015**	**2014**	**2013**
Adjusted assets	608,183	597,969	550,922	523,565	492,288
Customer loans (gross)	443,887	425,451	396,278	375,267	361,330
Adjusted common equity*	33,945	29,619	39,736	36,876	33,611
Operating revenues	17,407	16,728	16,304	15,411	15,261
Noninterest expenses	11,069	10,675	10,311	9,860	9,665
Core earnings	3,057	3,436	3,165	3,005	2,713

*From 2016, we deduct investments in insurance and minority equity holdings (see "Risk-Adjusted Capital Framework Criteria Update," published July 20, 2017).

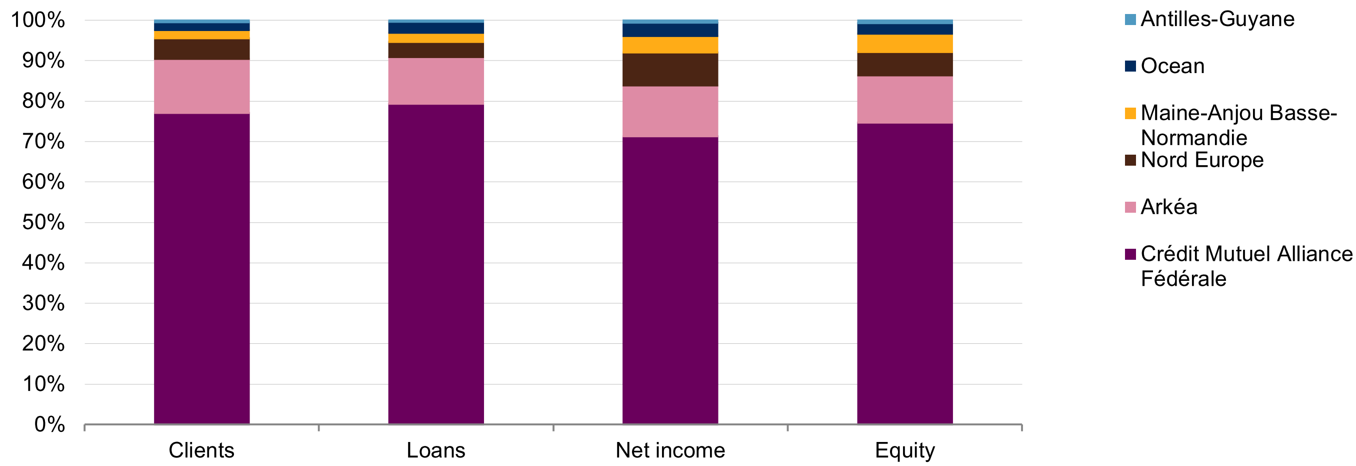
Business position: Strong domestic franchise in retail banking and insurance underpins revenue stability, despite intragroup tensions

We consider that CMG's leading retail franchise in its domestic market, consistent with its longstanding focus on domestic retail banking, is a rating strength. In aggregate, the group has the third-largest retail-banking network in France through mutual branches and specialized subsidiaries active in retail banking, with the largest being CIC, part of Crédit Mutuel Alliance Fédérale (renamed from CM11 Group on Nov. 9, 2018).

CMG has a market share of one-third of the professional segment of the French banking market, and provides commercial banking products and services to large French companies. CMG is also at the forefront of the insurance segment in France, with more than 15 million policyholders (risk and life segments). This strong competitive position in insurance supports the stability of revenues, especially when interest rates are low, and is an important rating strength. The group's earnings have been extremely stable over the past years, only dented by marginal one-off costs, compared with larger and more complex banking groups.

Chart 1

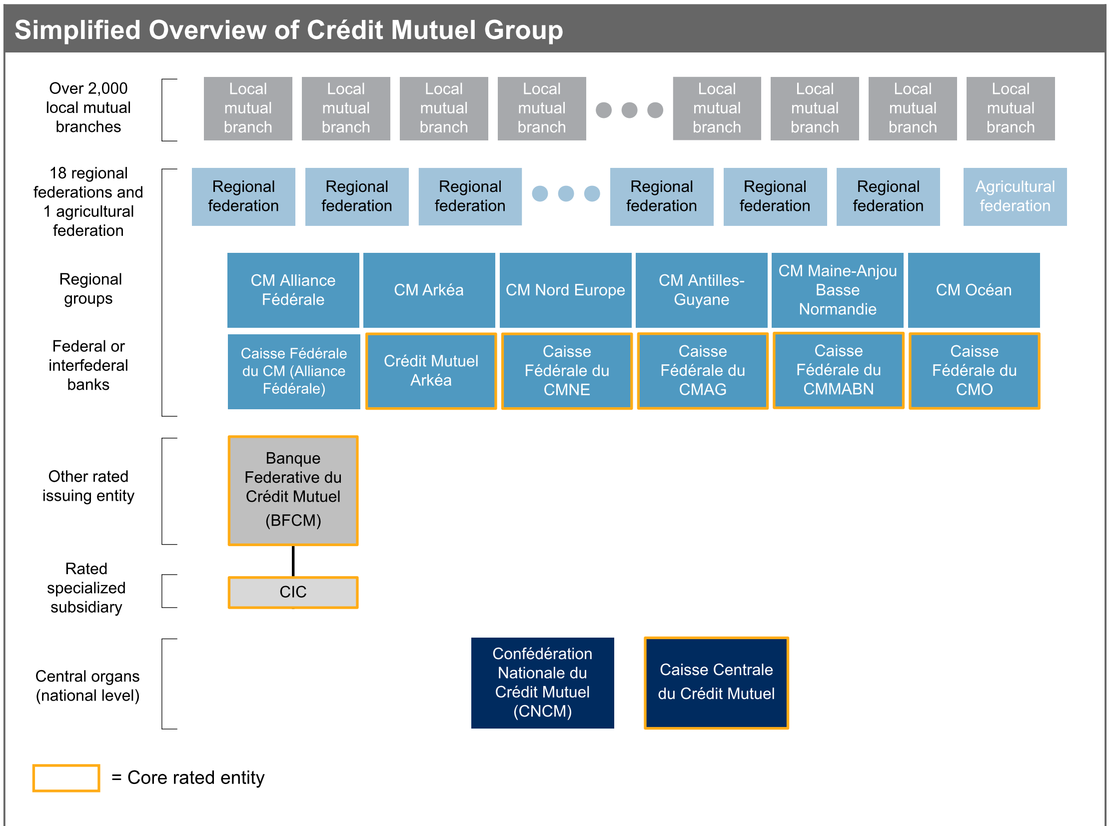
Respective Weight Of Crédit Mutuel's Regional Groups According To Key Figures



Source: Based on public regional figures.

The group operates under a cooperative banking status organized according to the provisions of the French Monetary and Financial Code. Its unique decentralized cooperative structure is made up of about 2,100 local mutual branches owned locally by end subscribers known as sociétaires. Branches are linked to regional federations on a territorial basis. There are 18 federations in total, plus one federation specialized in agribusiness. Some federations have joined together to form other cohesive parts. The largest interfederal subgroup, consisting of 11 federations, is by far Crédit Mutuel Alliance Fédérale (more than 75% of CMG's total assets), followed by CMA, then CMNE (see chart 2). By law, local branches have to be affiliated to a central governing body, the Confédération Nationale du Crédit Mutuel, established for regulatory purposes.

Chart 2



CM--Crédit Mutuel.

With 74% of consolidated revenues in 2017 generated from retail banking and 18% from asset management and insurance, CMG has good recurrence in business volumes, which supports business stability.

We expect that the group will focus primarily on organic growth. Although less diversified by geography than other large French banking groups, some years ago CMG embarked on a strategy of gradual geographical diversification in neighboring countries, and, for some entities, in higher-margin businesses. Crédit Mutuel Alliance Fédérale acquired Germany-based consumer finance bank Targobank and also bought a controlling stake in Cofidis S.A., a consumer-finance specialist operating in seven European countries.

We do not rule out some opportunistic moves in the future, similar to Crédit Mutuel Alliance Fédérale's acquisition of General Electric Capital's leasing and factoring activities in France and Germany, a portfolio of about €10 billion of assets, or CMA's acquisition of Keytrade in Belgium. At this stage though, the contribution of non-domestic activities remains modest.

We revised the outlook on CMA to negative on Jan. 23, 2018, following the launch of an internal consultation to seek approval from its local branches to further explore an exit strategy (see "Credit Mutuel Group And Core Entities Affirmed At 'A/A-1';Credit Mutuel Arkea Outlook To Negative On Intragroup Tensions," published on RatingsDirect).

We believe that intragroup tensions between CMA and the rest of the group could continue in the coming months. We continue to see an exit from the group as a long and complex move from an operational perspective, although not impossible. In the meantime, CMA will continue to operate within the group, alongside other members. We note the heightened tensions and consider there remains a one-in-three likelihood that we could lower our ratings on CMA in the next 12-24 months. We also note that these tensions have not so far altered the subgroups' financial performance or strategy.

Table 2

Credit Mutuel Group Business Position

	--Year ended Dec. 31--				
(%)	**2017**	**2016**	**2015**	**2014**	**2013**
Total revenues from business line (currency in millions)	17,429	16,772	16,336	15,469	15,267
Retail banking/total revenues from business line	73.7	73.75	75.25	76.39	77.88
Commercial & retail banking/total revenues from business line	73.7	73.75	75.25	76.39	77.88
Corporate finance/total revenues from business line	6.61	6.51	6.52	5.95	6.86
Insurance activities/total revenues from business line	13.62	12.2	12.78	13.9	12.54
Asset management/total revenues from business line	4.76	4.59	4.63	4.47	4.37
Other revenues/total revenues from business line	1.31	2.95	0.81	(0.71)	(1.66)
Investment banking/total revenues from business line	6.61	6.51	6.52	5.95	6.86
Return on average common equity (%)	5.84	6.74	6.64	7.02	6.83

Capital and earnings: Adequate and rising on the back of resilient earnings and limited dividend payouts

Our assessment of CMG's capital and earnings reflects our view that CMG will continue to steadily generate core capital, thanks to resilient earnings. We believe that earnings are supported by CMG's leading position in retail banking and insurance in France, and by its capital position thanks to strong and regular retention of earnings and the controlled growth of risk assets. Credit growth is higher than we had previously expected, compensating for lower interest rates and reflecting more dynamic credit demand.

We believe that CMG will further increase its already very solid regulatory capital ratios, with a common equity tier 1 (CET1) ratio above 17% at the end of 2017 (assuming no major regulatory change). We expect that the S&P Global Ratings' RAC ratio before diversification and concentration adjustments will increase to about 9% by year-end 2019, from 8.6% at year-end 2017, at a lower pace than we previously anticipated.

Our projection is based on the following assumptions:

- An average annual increase in adjusted risk-weighted assets (RWAs) of 4%-5% over 2018-2019, as credit demand remains high in the context of low interest rates and the group continues to grow organically, mainly in retail banking activities in low-risk European countries.
- Annual profits of about €3.3 billion-€3.5 billion in 2018 and 2019, thanks to a controlled reduction of the net interest margin and volume loan growth offsetting pressure from low rates; a good contribution from insurance activities; a stable efficiency ratio of about 63%-65%; and a low cost of risk.
- A low dividend payout ratio (below 10%), reflecting CMG's cooperative status.

- No significant acquisitions in our base-case scenario.

The reported CET1 ratio was 17.4% on Dec. 31, 2017, and the leverage ratio stood at 6.6%. The main factor explaining the difference between our RAC ratio and CMG's regulatory capital ratios relates to the higher risk weights that we apply to mortgage lending, relatively large equity stakes in the banking book, and insurance activities.

CMG's financial performance has remained remarkably stable in past few years, and is unlikely to deviate from this in the next two years, in our view. We consider that the group has strong earnings power, and its cost efficiency is among the best of its domestic peers. Still, when compared with retail banking peers in the Nordics or the Benelux region (Belgium, the Netherlands, and Luxembourg), CMG demonstrates lower cost efficiency, and therefore lags behind in terms of profitability. Pressure stemming from the persistently low interest rates, combined with the active renegotiation of mortgage lending in France, constrains the group's capacity to further increase revenues.

However, we do not foresee any major downside risks for CMG's profitability metrics for the next two years, given the mainly retail and domestic nature of the group's commercial banking activities, the strong contribution from insurance activities, and the consistently low average cost of risk. Moreover, the group's foray into side businesses and its leading position in the insurance segment offer cross-selling opportunities in the retail segment. We also note various initiatives to expand the scope and contribution of non-interest revenues, from mobile banking to electronic payments.

We consider that CMG has material exposure to insurance risk through its insurance subsidiaries (including Groupe Assurances du Crédit Mutuel [GACM] and Suravenir). Compared to many other bancassurance groups, we understand that in the case of GACM, CMG has no intention to optimize regulatory capital at the insurance subsidiary's level, and therefore GACM's solvency ratios tend to be higher than peers'. GACM's Solvency II ratio stood at 234% at end-2017.

Table 3

Credit Mutuel Group Capital And Earnings

	--Year-ended Dec. 31--				
(%)	**2017**	**2016**	**2015**	**2014**	**2013**
Criteria reflected in RAC ratios	2017 RAC Criteria	2017 RAC Criteria	2010 RAC Criteria	2010 RAC Criteria	2010 RAC Criteria
Tier 1 capital ratio	17.9	16.3	16.4	16.1	14.9
S&P RAC ratio before diversification	8.6	8.1	8.4	8.3	7.6
S&P RAC ratio after diversification	9.2	8.6	10.2	9.9	9.2
Adjusted common equity/total adjusted capital	96.7	95.6	96.1	96.2	95.4
Net interest income/operating revenues	40.9	41.2	43.4	46.7	50.2
Fee income/operating revenues	24.3	23.5	23.8	23	23.2
Market-sensitive income/operating revenues	7.7	10.4	6.9	3.8	1.8
Noninterest expenses/operating revenues	63.6	63.8	63.2	64	63.3
Preprovision operating income/average assets	0.8	0.8	0.8	0.8	0.9
Core earnings/average managed assets	0.4	0.4	0.4	0.4	0.4

Table 4

Caisse Centrale du Credit Mutuel Risk-Adjusted Capital Framework Data

(€ 000s)	Exposure*	Basel III RWA	Average Basel III RW (%)	S&P Global RWA	Average S&P Global RW (%)
Credit risk					
Government and central banks	133,597,972	2,821,916	2	2,560,709	2
Of which regional governments and local authorities	9,673,337	1,943,213	20	358,615	4
Institutions and CCPs	50,313,900	8,081,378	16	9,327,564	19
Corporate	137,648,537	83,168,853	60	105,682,103	77
Retail	329,882,276	65,128,344	20	178,670,398	54
Of which mortgage	147,196,618	19,304,634	13	42,137,338	29
Securitization§	5,246,354	702,352	13	4,433,646	85
Other assets†	7,771,815	6,927,713	89	17,187,892	221
Total credit risk	664,460,854	166,830,556	25	317,862,312	48
Credit valuation adjustment					
Total credit valuation adjustment	--	957,695	--	0	--
Market risk					
Equity in the banking book	7,194,889	19,924,677	277	58,097,042	807
Trading book market risk	--	2,625,400	--	3,938,101	--
Total market risk	--	22,550,077	--	62,035,143	--
Operational risk					
Total operational risk	--	21,527,759	--	27,131,036	--
(€ 000s)		**Basel III RWA**		**S&P Global RWA**	**% of S&P Global RWA**
Diversification adjustments					
RWA before diversification		254,681,488		407,028,491	100
Total diversification/concentration adjustments		--		(26,126,207)	(6)
RWA after diversification		254,681,488		380,902,284	94
(€ 000s)		**Tier 1 capital**	**Tier 1 ratio (%)**	**Total adjusted capital**	**S&P Global RAC ratio (%)**
Capital ratio					
Capital ratio before adjustments		45,578,000	17.9	35,103,329	8.6
Capital ratio after adjustments‡		45,578,000	17.9	35,103,329	9.2

*Exposure at default. §Securitisation exposure includes the securitization tranches deducted from capital in the regulatory framework. †Other assets includes Deferred Tax Assets (DTAs) not deducted from ACE. ‡Adjustments to Tier 1 ratio are additional regulatory requirements (e.g. transitional floor or Pillar 2 add-ons). RWA--Risk-weighted assets. RW--Risk weight. RAC--Risk-adjusted capital. Sources: Company data as of Dec. 31, 2017, S&P Global.

Risk position: Primarily focused on retail banking activities in France

Our assessment of CMG's risk position as adequate reflects the group's domestic focus on low-risk retail activities, expansion into consumer finance, a fairly low proportion of capital-market activities, and the lower diversity of its loan portfolio compared with other large domestic peers.

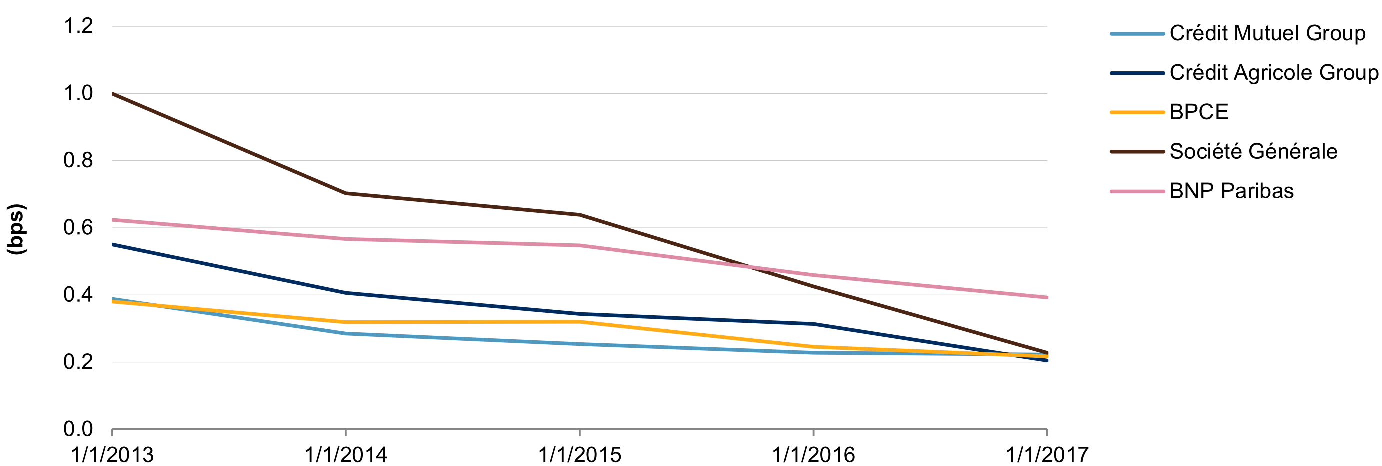
We estimate that CMG's nonperforming loans (NPLs) represented 3.3% of gross outstanding loans at year-end 2017, broadly similar to levels achieved since 2009, but trending down. Compared with 2.4% in 2007, the higher percentage of NPLs reflects the integration of higher-risk credit consumer portfolios--with Cofidis and Targobank constituting about 5% of total net customer loans. Targobank Spain accounted for €2.2 billion and Targobank DE €13.4 billion at end-2017.

NPLs are adequately covered, in our view, at 60% at year-end 2017. The group's total cost of risk to outstanding loans has been on a declining trend, reflecting dynamic loan production, low interest rates, and the resilient French economy. We expect that the cost of risk will remain low, at below 30 bps, in the coming two years. We observe that this measure is marginally stronger than for most of the group's peers due to the focus on low-risk retail banking.

In our view, credit risk is well spread by economic sector. Domestic residential mortgages represent about one-half of CMG's total customer loans, but are naturally granular, and generated much lower losses throughout the credit cycle.

Chart 3

Comparison Of Cost Of Credit Risk Among Large French Banks*



*New loan loss provisions divided by average customer loans. bps--Basis points. Source: S&P Global Ratings, banks' financial presentations.

We also consider the sustained pace of growth of household credits, mostly granted at fixed rates. Like its French peers, CMG relies on its asset-liability management to measure its exposure to and hedge against the interest rate risk that results from the cost of resources increasing while the interest received from its loan book is largely frozen.

Finally, we note that the European Banking Authority (EBA) stress tests published on Nov. 2, 2018, confirm CMG's solidity and financial strength. With a CET1 ratio at 13.2%, the bank shows the strongest ratio in an adverse scenario among its domestic peers and the strongest banks in the eurozone.

Table 5

Credit Mutuel Group Risk Position

	--Year-ended Dec. 31--				
(%)	**2017**	**2016**	**2015**	**2014**	**2013**
Growth in customer loans	4.3	7.4	5.6	3.9	2.8
Total diversification adjustment / S&P RWA before diversification	(6.4)	(6.2)	(18.0)	(16.6)	(17.4)
Total managed assets/adjusted common equity (x)	23.9	26.8	18.6	19.2	19.6
New loan loss provisions/average customer loans	0.2	0.2	0.3	0.3	0.4
Net charge-offs/average customer loans	0.3	0.3	0.3	0.3	0.3
Gross nonperforming assets/customer loans + other real estate owned	3.3	3.9	4.1	4.3	4.4
Loan loss reserves/gross nonperforming assets	59.9	62.4	63.9	64.2	66.1

Funding and liquidity: Closing the gap with international peers

In our opinion, the group's funding is average and its liquidity is adequate. CMG has improved its funding and liquidity position since 2010. CMG's stable funding ratio and broad liquid asset ratio stood at 95.9% and 0.93x, respectively, at year-end 2017, and we do not expect volatile metrics for a group like CMG. This is broadly on par with domestic peers, but weaker than for other large retail-oriented European peers.

The group has made efforts to roll out stricter management of resources and has improved its funding metrics. The loan-to-deposit ratio has been decreasing steadily in recent years. We estimate that this ratio stood at 126.2% on Dec. 31, 2017, compared to 180% at year-end 2008, and should remain close to this figure. The average for the four other large French banks was about 115% at year-end 2017. CMG has a large and increasing core deposit base, which stood at €345 billion at year-end 2017 and was collected mainly by the regional banks and CIC.

We adjust our funding and liquidity metrics to exclude the portion of regulated deposits centralized at the state institution Caisse des Dépôts et Consignations. Centralized deposits amounted to €27.1 billion at year-end 2017 and cannot be used to fund loans. We consider that CMG's access to European Central Bank funding is opportunistic.

Annual medium- and long-term (MLT) funding needs have amounted to €15 billion-€20 billion in recent years, for a portfolio of MLT debt amounting to €113.1 billion at the end of June 2018. This figure is nearly equally spread between secured and unsecured debt instruments. CMG has limited funding needs in U.S. dollars, most of which are at Crédit Mutuel Alliance Fédérale.

The group continues to improve its liquidity position to comply with the regulatory liquidity coverage ratio. We expect that this ratio will fluctuate but remain well above 100%.

Table 6

Credit Mutuel Group Funding And Liquidity

	--Year-ended Dec. 31--				
(%)	**2017**	**2016**	**2015**	**2014**	**2013**
Core deposits/funding base	63.15	61.86	60.68	58.51	59.98
Customer loans (net)/customer deposits	126.17	125.67	130.53	135.70	135.21
Long term funding ratio	79.72	77.77	78.04	77.51	79.62
Stable funding ratio	95.96	94.91	94.65	93.22	93.13

Table 6

Credit Mutuel Group Funding And Liquidity (cont.)					
	--Year-ended Dec. 31--				
(%)	2017	2016	2015	2014	2013
Short-term wholesale funding/funding base	22.07	24.14	23.93	24.47	22.10
Broad liquid assets/short-term wholesale funding (x)	0.93	0.91	0.92	0.89	0.90
Net broad liquid assets/short-term customer deposits	(4.98)	(5.47)	(4.30)	(6.45)	(5.18)
Short-term wholesale funding/total wholesale funding	59.55	62.88	60.34	58.52	54.72
Narrow liquid assets/3-month wholesale funding (x)	1.63	1.57	N/A	N/A	N/A

N/A--Not applicable.

Support: High systemic importance, but uncertain support for banks in France, and in the process of building ALAC

We do not factor in ALAC uplift into our rating. CMG falls short of our previous expectations with regard to the buildup of minimum requirement for own funds and eligible liabilities (MREL). CMG has completed little new issuance so far, unlike other French and many European players. However, as the amounts to raise are modest for a group like CMG, we still believe that over time it will build up a large enough cushion to benefit from ratings uplift, and so we continue to include one notch of uplift into our ratings. Once the bank finds out its MREL requirements and shares its funding plan, we will likely include uplift for the group's ALAC.

We calculate that CMG's ALAC ratio was 3.7% of its adjusted RWAs at year-end 2017, and estimate that the ALAC buffer will be in the range of 4.15%-4.4% at year-end 2019, relying mostly on capital buildup, and only taking into account the minimum amount of new bail-in-able debt. That said, since the gap is minor, we expect ALAC will exceed the threshold once the MREL requirement is known.

Additional rating factors

We have added one notch of uplift to CMG's GCP and our ratings, because we consider that the group is in a positive transition phase on the back of moderately increasing capitalization and ALAC, and has rating strengths that we do not yet capture in the ratings, but that we could capture in the next two years.

In line with the approach we follow for peers adapting to regulatory requirements, we may incorporate one notch of ALAC uplift into our ratings when CMG stars to implement its issuance plans, and, at the same time, remove the one-notch adjustment for additional factors.

Ratings on hybrid securities

In our credit analysis of hybrid debt issued by an entity that we regard as a core member of a group, as is the case for BFCM, CMA, and CMNE, we assess whether the cohesiveness and integration within the group is strong enough to provide support to those instruments, such as the senior nonpreferred notes or subordinated notes issued by core subgroups. In CMG's case, the financial solidarity mechanism under French law is, in our view, the overarching feature ensuring CMG's overall cohesiveness. Furthermore, the issuer credit ratings (ICRs) on the aforementioned listed entities benefit from a transitional notch that we include in our assessment of the GCP.

We then make the following negative adjustments to the ICRs to derive the issue ratings:

- One notch, because the senior nonpreferred and Tier 2 notes are contractually subordinated. In line with our approach for rating senior nonpreferred notes in France or Tier 3 instruments in some other countries, we deduct one notch when an instrument is subordinated to senior unsecured debt, even if it is not labeled subordinated.
- One notch for Tier 2 instruments because they contain a contractual write-down clause.
- We remove the benefit of the transitional notch, which, by its nature, can only provide uplift to ratings on senior preferred instruments.

As such, we rate the senior nonpreferred notes 'BBB+' and the Tier 2 contingent capital instruments 'BBB'.

Resolution Counterparty Ratings (RCRs)

We have assigned RCRs to entities within the group as we assess the resolution regime to be effective in France and the bank is likely to be subject to a resolution that entails a bail-in if it reaches nonviability. An RCR is a forward-looking opinion of the relative default risk of certain senior liabilities that may be protected from default through an effective bail-in resolution process for the issuing financial institution. We position the long-term RCR up to one notch above the long-term ICR when the ICR ranges from 'BBB-' to 'A+'.

Related Criteria

- 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: 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: Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9, 2011
- Criteria - Financial Institutions - Banks: Banks: Rating 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

Related Research

- Risk-Adjusted Capital (RAC) Ratios For The Top 50 Western European Banks, Oct. 17, 2018
- Top 100 Banks: Banks Are On Track To Withstand A Credit Cycle Turn, Oct. 1, 2018
- Credit Mutuel Group, Feb. 2, 2018
- Banking Industry Country Risk Assessment: France, July 11, 2018
- Resolution Counterparty Ratings Jurisdiction Assessment For France Completed, June 11, 2018
- The Resolution Story For Europe's Banks: The Clock Is Ticking, April 25, 2018
- Proposed Backstop For The Eurozone Bank Resolution Fund Is Potentially Ratings-Positive, April 24, 2018
- The Adoption Of IFRS 9 And Bank Ratings, Feb. 19, 2018
- On This Year's Menu For French Banks: Digitalization And Efficiency Gains, Feb. 13, 2018
- Creditor Insurance Policies: The End Of Easy Money For French Bancassurers, Jan. 22, 2018

Anchor Matrix

Industry Risk	Economic Risk									
	1	2	**3**	4	5	6	7	8	9	10
1	a	a	a-	bbb+	bbb+	bbb	-	-	-	-
2	a	a-	a-	bbb+	bbb	bbb	bbb-	-	-	-
3	a-	a-	**bbb+**	bbb+	bbb	bbb-	bbb-	bb+	-	-
4	bbb+	bbb+	bbb+	bbb	bbb	bbb-	bb+	bb	bb	-
5	bbb+	bbb	bbb	bbb	bbb-	bbb-	bb+	bb	bb-	b+
6	bbb	bbb	bbb-	bbb-	bbb-	bb+	bb	bb	bb-	b+
7	-	bbb-	bbb-	bb+	bb+	bb	bb	bb-	b+	b+
8	-	-	bb+	bb	bb	bb	bb-	bb-	b+	b
9	-	-	-	bb	bb-	bb-	b+	b+	b+	b
10	-	-	-	-	b+	b+	b+	b	b	b-

Ratings Detail (As Of December 17, 2018)	
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
Issuer Credit Ratings History	
12-Oct-2016 *Foreign Currency*	A/Stable/A-1
29-Apr-2014	A/Negative/A-1
20-Jun-2013	A/Stable/A-1

Ratings Detail (As Of December 17, 2018) (cont.)	
12-Oct-2016 *Local Currency*	A/Stable/A-1
29-Apr-2014	A/Negative/A-1
20-Jun-2013	A/Stable/A-1
Sovereign Rating	
France	AA/Stable/A-1+
Related Entities	
Arkea Home Loans SFH	
Senior Secured	AAA/Stable
Arkea Public Sector SCF	
Senior Secured	AAA/Stable
Banque Federative du Credit Mutuel	
Issuer Credit Rating	A/Stable/A-1
Resolution Counterparty Rating	A+/--/A-1
Certificate Of Deposit	
Local Currency	A-1
Commercial Paper	
Local Currency	A-1
Junior Subordinated	BB+
Senior Subordinated	BBB+
Senior Unsecured	A
Senior Unsecured	A-1
Senior Unsecured	A/A-1
Subordinated	BBB
Caisse Federale du Credit Mutuel Antilles-Guyane	
Issuer Credit Rating	A/Stable/A-1
Resolution Counterparty Rating	A+/--/A-1
Commercial Paper	
Local Currency	A-1
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 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

Ratings Detail (As Of December 17, 2018) (cont.)	
Commercial Paper	
Local Currency	A-1
Senior Unsecured	A
Short-Term Debt	A-1
Credit Mutuel Arkea	
Issuer Credit Rating	A/Negative/A-1
Resolution Counterparty Rating	A+/--/A-1
Commercial Paper	
Local Currency	A-1
Junior Subordinated	BB+
Senior Subordinated	BBB+
Senior Unsecured	A
Short-Term Debt	A-1
Subordinated	BBB
Credit Mutuel-CIC 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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