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Banque Federative du Credit Mutuel

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Table Of Contents

Major Rating Factors

Outlook

Rationale

Related Criteria

Related Research

Banque Federative du Credit Mutuel

Major Rating Factors

Global Scale Ratings
Issuer Credit Rating A/Stable/A-1
Resolution Counterparty Rating A+/-/A-1

Strengths:	Weaknesses:
<ul style="list-style-type: none">• Core membership within Crédit Mutuel Group.• Strong and stable franchise in French retail banking and insurance market.• Low risk profile and predictable revenue generation.	<ul style="list-style-type: none">• Alongside its peers, the challenges of adapting over the medium term to persistent low interest rates.• Moderate growth potential and competition in the French domestic banking market.

Outlook

The stable outlook on Banque Fédérative du Crédit Mutuel (BFCM) mirrors that on the French cooperative banking group Crédit Mutuel. BFCM acts as the funding arm of Crédit Mutuel Allinace Fédérale (formerly named Credit Mutuel – CM11 Group), the largest subgroup of regional federations of cooperative banks that form Crédit Mutuel Group (CMG). We consider BFCM to be a core entity to the group and we believe that this core status will remain unchanged in the next two years.

We would raise or lower our ratings on BFCM if we were to raise or lower our ratings on CMG.

The stable outlook on all CMG entities except Crédit Mutuel Arkéa (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 risk-adjusted capital (RAC) ratio, while maintaining a low risk appetite. It 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 substantial improvement in business diversity and a capital policy in line with the group's 'A+' rated peers in Europe, both of which are not part of our central scenario over the coming two years. To consider a positive action we would need first to obtain more visibility on the future of CMA, since we view the uncertainty about the group's cohesiveness as limiting potential rating upside for the group credit profile.

Rationale

The ratings on BFCM are based on our view of BFCM's core position as the funding arm of the French regional retail banking group Crédit Mutuel Alliance Fédérale, also a core entity of CMG, in our view. We therefore align our ratings on BFCM with the group's supported group credit profile (GCP) of 'a'.

From the 18 regional federations of cooperative banks organized on a territorial basis that form CMG, 11 have gradually gathered to form Crédit Mutuel Alliance Fédérale. This part of CMG represented about 76% of the group's

total assets and 81% of net results at the end of 2017, operating in lines of business integral to CMG. The mutual banks of Crédit Mutuel Alliance Fédérale inter-federation own BFCM via the Caisse Fédérale du Crédit Mutuel (CFCM). BFCM operates as the refinancing arm for the group and as the holding company controlling specialized companies. BFCM has also developed expertise in payment systems and retail banking technology, which it provides to other Crédit Mutuel entities. BFCM also provides centralized refinancing for the Crédit Mutuel Alliance Fédérale and is active in financial markets as an issuer of financial instruments.

CMG largely relies on a decentralized pyramidal organizational model. A distinctive feature is the subsidiarity principle, according to which the mandate of the upper levels of the organization is only to fulfil missions not already undertaken by the other parts of the group. This allows for close relationships with local customers, a key advantage in retail banking. We consider that this decentralized organization allows for significant autonomy between stakeholders in making strategic choices, which can elevate intra-group tensions in case of conflicting strategies. The financial solidarity mechanism, set out in French law, is in our view the overarching feature ensuring the overall cohesiveness of the group. It explains our consolidated approach to assessing the group's creditworthiness, and our view on its financial strengths, as well as our rating approach to the group main entities, including BFCM.

BFCM is not a mutual bank per se but, due to its strategic importance, we believe that under stressed circumstances it would benefit from the support of Crédit Mutuel Alliance Fédérale, indirectly from CMG's solidarity mechanism.

Crédit Mutuel Alliance Fédérale benefits from a strong local franchise in domestic retail banking, thanks to its dual retail network through 11 Crédit Mutuel federations and Crédit Industriel et Commercial (CIC). Its bancassureur business model relies on cross-selling strategies, using technology, and industrialization of processes. Specialized subsidiaries are key to the group's diversification strategy in retail banking, domestically and internationally. The group uses the network of local cooperative banks to market the products and services of BFCM's specialized subsidiaries, which pay commission in return for deal flow.

Facing limited growth prospects in its domestic banking activities, and reducing net interest margins, Crédit Mutuel Alliance Fédérale has embarked on a dynamic diversification strategy, particularly in consumer finance outside France, with a good track record of business integration so far. It also stands as a successful bancassurer in France. The main components of the group are:

- The 11 Crédit Mutuel federations services about 7 million clients leveraging about 2,000 branches and a loan portfolio of €171 billion at year-end 2017. Crédit Mutuel Alliance Fédérale continues increasing its influence inside CMG. In June 2018, Crédit Mutuel Massif Central decided to leave Credit Mutuel Arkéa to join Credit Mutuel Alliance Fédérale by January 2019.
- Assurance du Crédit Mutuel (ACM) is the group's insurance company, with a balanced source of revenues between life and non-life products. It is an important source of fees and commissions for the group, contributing to the resilience of operating revenues in the low-interest-rate environment, with a contribution to the group's net banking income of €989 million during the first half of 2018.
- CIC was acquired in 1998 by Crédit Mutuel Centre-Est Europe. With 1,941 branches, and a loan portfolio of €117.5 billion, CIC complements Credit Mutuel Alliance Fédérale's retail offering in the domestic market. Its corporate and investment banking activities, although modest (representing less than 20% of 2017 revenues), complement the retail banking offering of mutual banks, notably with a corporate banking offering and international coverage (35

foreign representation offices). In July 2017, BFCM purchased 6% of CIC during a public offering, increasing its participation to 99.17%, before delisting the company in August. The operation was conducted to simplify CMG's structure and cast aside regulatory and administrative constraints related to stock market listing.

- Targobank in Germany builds on the activities of Citibank Deutschland acquired in 2008. Germany is the second-largest market for the group, with 3.8% of the group's retail clients and a growing loan book of €14.2 billion at the end of June 2018.
- Cofidis, a leading consumer finance business in which the group purchased a controlling stake in 2009, operates mainly in France but is also present in Belgium, Spain, Italy, Portugal, the Czech Republic, Hungary, and Slovakia.

In July 2016, BFCM completed the acquisition of General Electric leasing and factoring activities in France and Germany. This acquisition adds a portfolio of about €10 billion, with a good match to the group's existing business lines. We believe that the one-off impact of this acquisition on regulatory capital ratios, estimated at less than 100 basis points, is also limited over time thanks to the group's capacity to generate capital internally.

We consider that Crédit Mutuel Alliance Fédérale displays a solid financial profile. As of the end of June , 2018, it reported a fully loaded common equity tier 1 ratio of 16.3%. As of June 30, 2018, Crédit Mutuel Alliance Fédérale reported a nonperforming loan ratio of 3.14%, with a high provision coverage ratio at 70%, and a liquidity coverage ratio (LCR) of 127% (compared with 131% at year-end 2017). It also posted a net result of €1.548 billion for the first half of 2018 (versus €1.316 billion for the first half of 2017). Crédit Mutuel Alliance Fédérale has no performance problems and, thanks to its low risk profile and predictable revenue base, we expect the group to continue to display a similar financial profile.

Table 1

Banque Federative du Credit Mutuel Alliance Fédérale Key Statistics					
	--Year ended Dec. 31--				
(Mil. €)	2018*	2017	2016	2015	2014
Adjusted assets	535,496	512,517	506,059	472,638	449,389
Customer loans (gross)	366,394	351,958	338,449	312,515	295,695
Core earnings	1,542	2,428	2,774	2,628	2,432
(%)					
Return on average common equity	7.2	5.9	6.8	6.7	7.1
Tier 1 capital ratio	N/A	17.0	15.7	15.8	15.4
Net interest income/operating revenues	43.0	41.8	42.2	43.2	46.7
Noninterest expenses/operating revenues	61.9	61.9	62.3	61.5	62.7
Preprovision operating income/average assets	0.8	0.8	0.8	0.9	0.9
Core earnings/average managed assets	0.5	0.4	0.5	0.5	0.5
Growth in customer loans	8.2	4.0	8.3	5.7	4.5
New loan loss provisions/average customer loans	0.2	0.3	0.3	0.3	0.3
Gross nonperforming assets/customer loans + other real estate owned	3.1	3.3	4.0	4.2	4.4
Loan loss reserves/gross nonperforming assets	70.0	59.7	63.0	64.6	64.8
Core deposits/funding base	59.6	61.0	59.5	58.2	56.4

Table 1

Banque Federative du Credit Mutuel Alliance Fédérale Key Statistics (cont.)					
	--Year ended Dec. 31--				
(Mil. €)	2018*	2017	2016	2015	2014
Customer loans (net)/customer deposits	131.4	129.0	128.6	131.8	136.8

*On June 30, 2018. N/A--Not applicable.

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

- Credit Mutuel Group, Dec. 17, 2018
- Credit Mutuel Group Affirmed At 'A/A-1'; Outlook Stable; Credit Mutuel Arkea Outlook Remains Neg On Intragroup Tensions, Oct. 24, 2018
- 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
- 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

Ratings Detail (As Of December 21, 2018)

Banque Federative du Credit Mutuel

Issuer Credit Rating	A/Stable/A-1
Resolution Counterparty Rating	A+/--/A-1
Certificate Of Deposit	
<i>Local Currency</i>	A-1
Commercial Paper	
<i>Local Currency</i>	A-1
Junior Subordinated	BB+
Senior Subordinated	BBB+
Senior Unsecured	A
Senior Unsecured	A-1
Senior Unsecured	A/A-1
Subordinated	BBB

Issuer Credit Ratings History

12-Oct-2016	<i>Foreign Currency</i>	A/Stable/A-1
29-Apr-2014		A/Negative/A-1
20-Jun-2013		A/Stable/A-1
12-Oct-2016	<i>Local Currency</i>	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+
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Related Entities

Caisse Centrale du Credit Mutuel

Issuer Credit Rating	A/Stable/A-1
Resolution Counterparty Rating	A+/--/A-1
Commercial Paper	
<i>Local Currency</i>	A-1
Senior Unsecured	A

Credit Industriel et Commercial

Issuer Credit Rating	A/Stable/A-1
Resolution Counterparty Rating	A+/--/A-1
Commercial Paper	
<i>Local Currency</i>	A-1

Ratings Detail (As Of December 21, 2018) (cont.)

Senior Unsecured	A
Short-Term Debt	A-1
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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