MOODY'S
INVESTORS SERVICE

CREDIT OPINION
29 October 2018

Update

RATINGS

Banque Federative du Credit Mutuel

Domicile	France
Long Term CRR	Aa2
Type	LT Counterparty Risk Rating - Fgn Curr
Outlook	Not Assigned
Long Term Debt	Aa3
Type	Senior Unsecured - Fgn Curr
Outlook	Stable
Long Term Deposit	Aa3
Type	LT Bank Deposits - Fgn Curr
Outlook	Stable

Please see the ratings section at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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Banque Federative du Credit Mutuel

Semiannual update

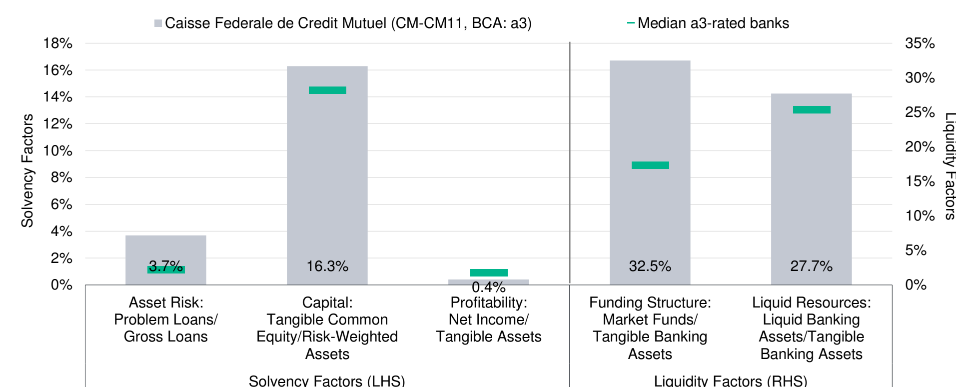
Summary

Given its role as issuing vehicle and holding company of the operating subsidiaries of Credit Mutuel-CM11 (CM-CM11), Banque Federative du Credit Mutuel's (BFCM) Baseline Credit Assessment (BCA) of a3 is aligned with our assessment of the standalone creditworthiness of CM-CM11. The a3 BCA incorporates CM-CM11's resilient earnings and low risk profile based upon its strong retail bancassurance franchise and commercial banking business built around a large branch network in France. It also reflects its strong solvency. The group's ability to retain the bulk of its annual profits, as allowed by its mutual structure, provides it with additional flexibility to build up a strong capital base, which makes it easier to absorb unexpected losses or adjust to further capital needs prompted by regulatory changes. Liquidity and funding are sound.

Although we assume that BFCM benefits from an affiliate-backed support from Groupe Credit Mutuel (GCM), this does not result in any rating uplift because its BCA is at the same level as our assessment of GCM's standalone creditworthiness.

BFCM's long-term senior unsecured debt and deposit ratings of Aa3 with a stable outlook reflect (1) the Adjusted BCA of a3; (2) the application of our Advanced Loss Given Failure (LGF) analysis, resulting in two notches of uplift from the adjusted BCA, stemming from GCM's significant volume of senior debt and junior deposits; and (3) government support uplift of one notch, reflecting a moderate probability of government support in view of GCM's systemic importance to the domestic economy.

Exhibit 1
Rating Scorecard - Key Financial Ratios



Source: Moody's Financial Metrics

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Credit strengths

» Large domestic activities providing resilient earnings

» Relatively low-risk profile of Credit Mutuel-CM11

» Solid loss-absorption capacity owing to high capital adequacy of CM-CM11

» Reliance on wholesale funding, mitigated by funding structure and liquidity buffer

Credit challenges

» Pressure on profitability from the low interest rate environment

Rating outlook

The outlook on BFCM's Aa3 deposit and senior unsecured ratings is stable because we do not expect any significant change in the bank's and GCM's creditworthiness in the near term given the stable environment in which the bank operates.

Factors that could lead to an upgrade

» BFCM's adjusted BCA could be upgraded in the case of more positive trends in net interest margins, which is unlikely over the outlook horizon.

» Its deposit and senior unsecured ratings could be upgraded if GCM's liability structure results in lower loss-given-failure for these liabilities through higher subordination.

Factors that could lead to a downgrade

» BFCM's adjusted BCA could be downgraded in the case of (1) a material weakening in GCM's underlying profitability, chiefly as a result of asset quality deterioration or a structural increase in the cost of funding; (2) a weakening liquidity position or funding profile; (3) an unexpected weakening of the banks' fundamentals prompted by the split between Credit Mutuel Arkea (Aa3 on review for downgrade) and the rest of GCM; or (4) a material weakening in the operating environment in France.

» BFCM 's deposit and senior unsecured ratings could be downgraded as a result of (1) a deterioration in the standalone financial strength of GCM, resulting in lower adjusted BCA; or (2) a change in GCM's liability structure, resulting in higher loss-given-failure.

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on www.moodys.com for the most updated credit rating action information and rating history.

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Key indicators

Exhibit 2
Caisse Federale de Credit Mutuel (Consolidated Financials) [1]

	6-18[2]	12-17[2]	12-16[2]	12-15[2]	12-14[2]	CAGR/Avg.[3]
Total Assets (EUR million)	660,457	611,236	597,568	559,471	530,980	6.4[4]
Total Assets (USD million)	771,121	733,971	630,286	607,751	642,514	5.4[4]
Tangible Common Equity (EUR million)	33,591	32,390	30,420	28,092	26,171	7.4[4]
Tangible Common Equity (USD million)	39,219	38,894	32,086	30,516	31,668	6.3[4]
Problem Loans / Gross Loans (%)	3.1	3.4	4.0	4.2	4.4	3.8[5]
Tangible Common Equity / Risk Weighted Assets (%)	-	16.3	14.7	14.6	14.4	15.0[6]
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	27.6	29.8	34.6	35.6	37.8	33.1[5]
Net Interest Margin (%)	1.0	1.0	1.0	1.0	1.1	1.0[5]
PPI / Average RWA (%)	-	2.8	2.5	2.6	2.4	2.6[6]
Net Income / Tangible Assets (%)	0.5	0.4	0.4	0.5	0.5	0.4[5]
Cost / Income Ratio (%)	62.4	60.0	62.1	62.0	63.1	61.9[5]
Market Funds / Tangible Banking Assets (%)	33.6	32.5	30.6	34.4	35.0	33.2[5]
Liquid Banking Assets / Tangible Banking Assets (%)	27.6	27.7	28.2	28.3	28.1	28.0[5]
Gross Loans / Due to Customers (%)	123.0	120.3	122.5	122.9	125.4	122.8[5]

[1] All figures and ratios are adjusted using Moody's standard adjustments. [2] Basel III - fully-loaded or transitional phase-in; IFRS. [3] May include rounding differences due to scale of reported amounts. [4] Compound Annual Growth Rate (%) based on time period presented for the latest accounting regime. [5] Simple average of periods presented for the latest accounting regime. [6] Simple average of Basel III periods presented.
Source: Moody's Financial Metrics

Profile

BFCM is owned by 11 regional federations of the cooperative Groupe Credit Mutuel. These 11 regional federations - together with BFCM - make up the CM-CM11 group, the largest sub-group within the wider GCM, which accounts for around 80% of its consolidated total assets, loan book and deposits.

Being fully integrated within CM-CM11, both strategically and operationally, BFCM fulfills a key role as (1) the main issuing vehicle of CM-CM11, and hence, an important liquidity provider to the group members; and (2) the owner of the group's specialised subsidiaries, such as Cofidis for consumer finance or Groupe des Assurances du Credit Mutuel for insurance.

Please refer to our report Groupe Credit Mutuel: Mutual support guarantee in a fragmented group drives our ratings approach, published on 5 July 2018, for a more comprehensive analysis of Groupe Credit Mutuel's structure and rating construction.

Detailed credit considerations

Solid domestic activities will continue to generate resilient earnings despite the low interest rate environment

CM-CM11, which includes the group's cooperative bank network in addition to BFCM, is predominantly focused on domestic retail banking, small and medium-sized enterprise banking and the French insurance sector. Including Credit Industriel et Commercial's (Aa3/Aa3 stable, baa1) network, a large subsidiary of BFCM, the group's geographical coverage is nationwide, with particularly high market shares exceeding 30% in the east of France. The concentration on relatively low-risk sectors enables the group to deliver resilient and predictable earnings.

CM-CM11 also operates in the European consumer credit market (Targobank in Germany, and Cofidis in France, Spain, Portugal and Belgium), bringing geographical and business diversification to a portfolio historically focused on French residential loans. We believe these high-margin activities have improved CM-CM11's overall profitability. CM-CM11 has also developed alternative services (mobile phones, home tele-monitoring, etc.), which are sold through its banking networks. While rather marginal, these activities provide CM-CM11 with alternative earnings sources, leveraging its retail networks.

CM-CM11's bottom-line profits have been very stable since 2009, despite pressure on its interest margins over the past few years. Over the past two years, the low-interest-rate environment has affected the interest income of the retail banking business, particularly

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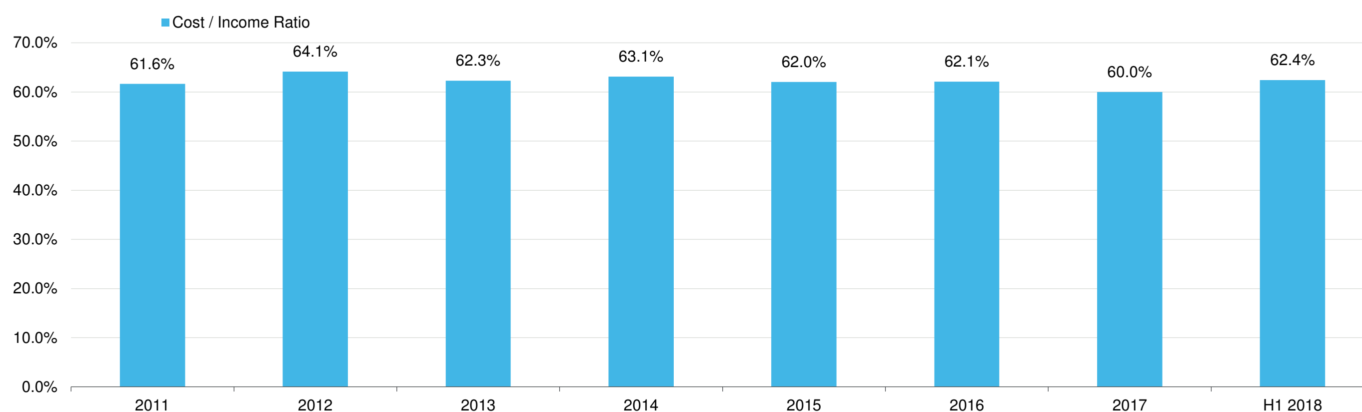
through material volumes of renegotiations of home loans by the borrowers. This negative impact was nonetheless offset by the strong performance of consumer finance and further decrease in credit costs.

Exhibit 3

Efficiency remained broadly stable despite margin pressure due to the low interest rate environment

Cost / Income ratio (%)



Source: Moody's, bank reports.

We reflect the bank's earnings stability in one-notch positive adjustment on CM-CM11's Profitability score to baa3. We believe that the resilience of the group's earnings stems from its business mix and an optimal deployment of the bancassurance model, which substantially diversify its income streams and reduce reliance on interest income.

CM-CM11 has a relatively low-risk profile

As reflected in the assigned Asset Risk score of a2, the group has a low-risk profile, characterised by its large exposures to the domestic residential market (around 50% of its loan book).

Although the cost of risk remains low at 19 bps of outstanding loans in the first half of 2018 (H1 2017: 23 bps), loans to small and medium-sized enterprises could be affected in a downturn. Consumer credit, representing around 10% of the group's consolidated loan portfolio, generates non-negligible credit losses, which could also worsen in a more difficult economic environment. Nonetheless, the high net interest margins of consumer credit activities provide ample room to absorb some deterioration in credit costs.

Overall, credit costs have consistently represented less than 25% of CM-CM11's pre-provision income since 2011 and less than 20% since 2015.

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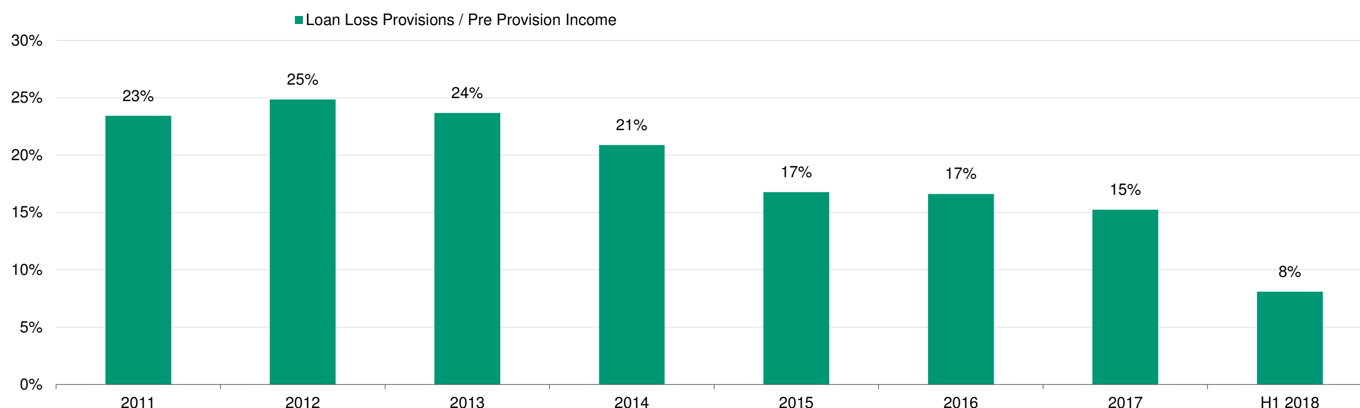
Exhibit 4
Credit costs decreased in proportion of profits
Loan loss provisions / Pre provision income (%)



Source: Moody's, bank reports.

Credit Mutuel-CM11 has a strong capital base

The Capital score of aa2 assigned to CM-CM11 is driven by its high capital ratio, adequate leverage and ability to retain the vast majority of profits to consistently increase its capital base, as facilitated by the cooperative ownership structure.

CM-CM11's fully loaded Common Equity Tier 1 ratio at end-June 2018 was 16.3% versus a fully-loaded Supervisory Review and Evaluation Process (SREP) requirement of 8.5%[1]. Its Tier 1 leverage ratio was 5.7% at end-June 2018. While we believe that all French bancassurers' and hence CM-CM11's risk-weighted capital ratio is somewhat boosted by the so-called Danish compromise[2], its leverage measured by tangible common equity (TCE) as a percentage of total assets[3] including insurance assets was a relatively sound 5.6% at end-June 2018.

CM-CM11's capital adequacy, which benefits from high level of profit retention (historically exceeding 90%), is also bolstered by the issuance of cooperative shares, which we view as high-quality capital. The return on these instruments, which qualify as core capital (Common Equity Tier 1) under the Capital Requirements Regulation (CRR), is capped by law at the average yield of the bonds issued by French private companies plus a maximum of 2% that can be added at the discretion of the bank. This has resulted in particularly low distributions over the past three years because of low interest rates. In addition, cooperative shareholders have historically reinvested a very high share of dividends into newly issued cooperative shares, further strengthening CM-CM11's capital base. This ability to retain the vast majority of annual profits provides CM-CM11 with additional flexibility to build up a strong capital base and makes it easier to absorb unexpected losses or adjust to further capital needs prompted by regulatory changes.

Funding structure and liquidity buffer mitigate reliance on wholesale funding

CM-CM11's loan-to-deposit ratio was 120% at end-June 2018 which is in line with that of its large French peers raising the majority of their deposits in France. While material progress has been achieved since 2010, mainly through the re-intermediation of off-balance-sheet customers' savings and the introduction of an internal policy requiring loan growth to be funded by new deposits, we believe that room for further improvement on an organic basis is limited. CM-CM11 will therefore remain reliant on wholesale funding.

CM-CM11's reliance on confidence-sensitive funding is mitigated by the term structure of its debt, built in a way so as to minimize funding gaps (i.e. shortfall of funding over assets) on all maturity buckets from three months up to five years. In practice, the bank had no funding gap at year-end 2017 on any maturity bucket based on a static balance sheet[4] (assets and liabilities maturing in accordance with their contractual maturities and no additional asset origination and debt issuance).

CM-CM11 had a comfortable liquidity buffer at year-end 2017, ensuring the risk of a disruption of wholesale funding is adequately covered. The high quality liquid asset (HQLA) portfolio, 72% of which were deposits with the central bank, covered 117% of wholesale debt maturing within 12 months. Including other assets eligible for the European Central Bank (ECB) refinancing, the coverage of wholesale debt with a residual maturity of less than 12 months was 182%.

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CM-CM11's liquidity coverage ratio (LCR) was 127% at end-June 2018.

Support and structural considerations

Affiliate support

We assign an adjusted BCA of a3 to BFCM. Although BFCM does not fall under the legal scope of GCM's solidarity mechanisms, the bank is fully integrated within CM-CM11, both strategically and operationally. It also plays a critical role in the group's payment systems. Therefore, an adverse scenario affecting BFCM would likely be negative for CM-CM11's credit strength and, by extension, for GCM. We therefore assume an affiliate-backed support for BFCM from GCM. This does not result in any rating uplift, however, because BFCM's BCA is at the same level as our assessment of GCM's standalone creditworthiness.

Loss Given Failure analysis

GCM and its operating entities in France are subject to the European Union Bank Recovery and Resolution Directive (BRRD), which we consider to be an operational resolution regime. We assume that resolution, if any, would occur at the level of GCM once the said group has reached the point of non-viability. If financial difficulties occur at the level of BFCM, this would be addressed by GCM through affiliate support. Our LGF analysis is, therefore, based on GCM's consolidated liability structure. We also assume residual tangible common equity of 3% and post-failure losses of 8% of tangible banking assets, a 25% run-off in junior wholesale deposits and a 5% run-off in preferred deposits, and assign a 25% probability to deposits being preferred to senior unsecured debt. The proportion of deposits considered junior is 26%. These are in line with our standard assumptions.

» Our LGF analysis indicates a very low loss-given-failure for deposits and senior unsecured debt, leading us to assign a two-notch uplift above the adjusted BCA. This uplift comes from the loss absorption provided by the combination of substantial deposit volume and subordination.

» Our LGF analysis indicates a high loss-given-failure for subordinated and junior securities, leading us to assign a negative adjustment of one notch to the adjusted BCA. This negative adjustment comes from the small volume of such instruments and limited protection from more subordinated instruments and residual equity. We also incorporate additional downward notching for junior subordinated and preference share instruments, reflecting the coupon features.

Government support considerations

We expect a moderate probability of government support for both deposits and senior unsecured debt issued by BFCM because of GCM's systemic importance in France. This results in one notch government support uplift for BFCM's deposit and senior unsecured ratings to Aa3. Subordinated and other junior securities do not benefit from government support given their purpose is to absorb losses.

Prior to our rating action of 23 March, we also assumed a moderate probability of support but this did not result then in any uplift because of the proximity of the French government's ratings (Aa2 stable) to the unsupported creditworthiness of BFCM's senior debt and deposits.

Counterparty Risk Rating (CRR)

Moody's CRRs are opinions of the ability of entities to honour the uncollateralized portion of non-debt counterparty financial liabilities (CRR liabilities) and also reflect the expected financial losses in the event such liabilities are not honoured. CRR liabilities typically relate to transactions with unrelated parties. Examples of CRR liabilities include the uncollateralized portion of payables arising from derivatives transactions and the uncollateralized portion of liabilities under sale and repurchase agreements. CRRs are not applicable to funding commitments or other obligations associated with covered bonds, letters of credit, guarantees, servicer and trustee obligations, and other similar obligations that arise from a bank performing its essential operating functions.

BFCM's CRR is positioned at Aa2/Prime-1.

The CRR for BFCM, prior to government support, is three notches higher than the adjusted BCA of a3, based on the level of subordination to CRR liabilities in the bank's balance sheet, and assuming a nominal volume of such liabilities. The CRR also benefits from one notch of government support, in line with our support assumptions on deposits and senior unsecured debt.

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Counterparty Risk (CR) Assessment

CR Assessments are opinions of how counterparty obligations are likely to be treated if a bank fails, and are distinct from debt and deposit ratings in that they (1) consider only the risk of default rather than both the likelihood of default and the expected financial loss suffered in the event of default, and (2) apply to counterparty obligations and contractual commitments rather than debt or deposit instruments. The CR Assessment is an opinion of the counterparty risk related to a bank's covered bonds, contractual performance obligations (servicing), derivatives (for example, swaps), letters of credit, guarantees and liquidity facilities.

BFCM's CR Assessment is positioned at Aa2(cr)/Prime-1(cr)

Prior to government support, the CR Assessment includes a three-notch uplift above the adjusted BCA of a3 based on the buffer against default provided to the senior obligations represented by the CR Assessment by subordinated instruments.

The CR Assessment also benefits from one notch of government support, in line with our assumptions on deposits and senior unsecured debt. This reflects our view that any support provided by governmental authorities to a bank, which benefits senior unsecured debt or deposits, is very likely to benefit operating activities and obligations reflected by the CR Assessment as well, consistent with our belief that governments are likely to maintain such operations as going concern in order to reduce contagion and preserve a bank's critical functions.

About Moody's Bank Scorecard

Our scorecard is designed to capture, express and explain in summary form our Rating Committee's judgement. When read in conjunction with our research, a fulsome presentation of our judgement is expressed. As a result, the output of our scorecard may materially differ from that suggested by raw data alone (though it has been calibrated to avoid the frequent need for strong divergence). The scorecard output and the individual scores are discussed in rating committees and may be adjusted up or down to reflect conditions specific to each rated entity.

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Rating methodology and scorecard factors

Exhibit 5

Caisse Federale de Credit Mutuel

Macro Factors		
Weighted Macro Profile	**Strong +**	**100%**

Factor	Historic Ratio	Initial Score	Expected Trend	Assigned Score	Key driver #1	Key driver #2
Solvency						
Asset Risk						
Problem Loans / Gross Loans	3.7%	a3	←→	a2	Expected trend	Long-run loss performance
Capital						
TCE / RWA	16.3%	aa2	←→	aa2	Expected trend	Capital retention
Profitability						
Net Income / Tangible Assets	0.4%	ba1	←→	baa3	Earnings quality	Loan loss charge coverage
Combined Solvency Score		a2		a2		
Liquidity						
Funding Structure						
Market Funds / Tangible Banking Assets	32.5%	ba1	←→	baa2	Term structure	
Liquid Resources						
Liquid Banking Assets / Tangible Banking Assets	27.7%	a3	←→	a3	Asset encumbrance	
Combined Liquidity Score		baa2		baa1		
Financial Profile				a3		
Business Diversification				0		
Opacity and Complexity				0		
Corporate Behavior				0		
Total Qualitative Adjustments				0		
Sovereign or Affiliate constraint:				Aa2		
Scorecard Calculated BCA range				a2-baa1		
Assigned BCA				a3		
Affiliate Support notching				--		
Adjusted BCA				a3		

Balance Sheet	**in-scope (EUR million)**	**% in-scope**	**at-failure (EUR million)**	**% at-failure**
Other liabilities	177,785	30.3%	211,932	36.1%
Deposits	334,776	57.1%	300,629	51.2%
Preferred deposits	247,734	42.2%	235,348	40.1%
Junior Deposits	87,042	14.8%	65,281	11.1%
Senior unsecured bank debt	46,002	7.8%	46,002	7.8%
Junior senior unsecured bank debt	500	0.1%	500	0.1%
Dated subordinated bank debt	10,036	1.7%	10,036	1.7%
Equity	17,601	3.0%	17,601	3.0%
Total Tangible Banking Assets	586,700	100%	586,700	100%

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Debt class	De Jure waterfall		De Facto waterfall		Notching		LGF Notching Guidance vs. Adjusted BCA	Assigned LGF notching	Additional notching	Preliminary Rating Assessment
	Instrument volume + subordination	Sub-ordination	Instrument volume + subordination	Sub-ordination	De Jure	De Facto				
Counterparty Risk Rating	23.8%	23.8%	23.8%	23.8%	3	3	3	3	0	aa3
Counterparty Risk Assessment	23.8%	23.8%	23.8%	23.8%	3	3	3	3	0	aa3 (cr)
Deposits	23.8%	4.8%	23.8%	12.6%	2	3	2	2	0	a1
Senior unsecured bank debt	23.8%	4.8%	12.6%	4.8%	2	1	2	2	0	a1
Junior senior unsecured bank debt	4.8%	4.7%	4.8%	4.7%	-1	-1	-1	-1	0	baa1
Dated subordinated bank debt	4.7%	3.0%	4.7%	3.0%	-1	-1	-1	-1	0	baa1
Non-cumulative bank preference shares	3.0%	3.0%	3.0%	3.0%	-1	-1	-1	-1	-2	baa3 (hyb)

Instrument class	Loss Given Failure notching	Additional Notching	Preliminary Rating Assessment	Government Support notching	Local Currency Rating	Foreign Currency Rating
Counterparty Risk Rating	3	0	aa3	1	Aa2	Aa2
Counterparty Risk Assessment	3	0	aa3 (cr)	1	Aa2 (cr)	--
Deposits	2	0	a1	1	Aa3	Aa3
Senior unsecured bank debt	2	0	a1	1	Aa3	(P)Aa3
Junior senior unsecured bank debt	-1	0	baa1	0	(P)Baa1	--
Dated subordinated bank debt	-1	0	baa1	0	Baa1	--
Non-cumulative bank preference shares	-1	-2	baa3 (hyb)	0	Baa3 (hyb)	--

[1] Where dashes are shown for a particular factor (or sub-factor), the score is based on non-public information.
Source: Moody's Financial Metrics

Ratings

Exhibit 6

Category	Moody's Rating
BANQUE FEDERATIVE DU CREDIT MUTUEL	
Outlook	Stable
Counterparty Risk Rating	Aa2/P-1
Bank Deposits	Aa3/P-1
Baseline Credit Assessment	a3
Adjusted Baseline Credit Assessment	a3
Counterparty Risk Assessment	Aa2(cr)/P-1(cr)
Senior Unsecured -Fgn Curr	(P)Aa3
Senior Unsecured -Dom Curr	Aa3
Subordinate -Dom Curr	Baa1
Pref. Stock Non-cumulative -Dom Curr	Baa3 (hyb)
Commercial Paper -Dom Curr	P-1
Other Short Term	(P)P-1
CREDIT INDUSTRIEL ET COMMERCIAL	
Outlook	Stable
Counterparty Risk Rating	Aa2/P-1
Bank Deposits	Aa3/P-1
Baseline Credit Assessment	baa1
Adjusted Baseline Credit Assessment	a3
Counterparty Risk Assessment	Aa2(cr)/P-1(cr)
Senior Unsecured	Aa3
Subordinate MTN	(P)Baa1
Commercial Paper -Dom Curr	P-1
Other Short Term	(P)P-1

Source: Moody's Investors Service

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Endnotes

1 Including 4.5% Pillar 1, 1.5% Pillar 2 and 2.5% capital conservation buffer.

2 Since the introduction of the EU's Capital Requirement Directive IV and Capital Requirement Regulation, the exposure of bancassurer's insurance activities is reflected in their risk-weighted assets with a weight of 370%. This results in a higher solvency ratio than fully deducting the capital allocated to insurance activities from the bank's capital base. With the new measures released by the Basel Committee on the calculation of RWA under the framework of Basel III on 7 December 2017, the risk-weight of bancassurer's insurance activities will likely be further reduced to 290% from 370%.

3 Banks' TCE leverage ratio is generally lower than regulatory Tier 1 leverage ratio because the latter includes low-trigger AT1 securities in the numerator whereas the TCE does not. In addition, in line with the European Commission's Delegated Act of 10 October 2014, French bancassurers only include their investments in their insurance subsidiaries instead of total business-related assets in the denominator of the regulatory leverage ratio. Our TCE leverage ratio is based on the bancassurer's total assets, which generally implies a lower ratio.

4 Static funding gaps are based on contractual maturities and incorporate off-balance sheet commitments.

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