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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	Strong / +1
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	0

Issuer Credit Rating

A/Stable/A-1

Resolution Counterparty Rating

A+/--/A-1

Major Rating Factors

Strengths:	Weaknesses:
• Solid recurring earnings from its 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.	• In line with the rest of the industry, low interest rates weigh on net interest margins, heightening the need to further improve efficiency. • Persisting internal tensions and relative uncertainty around the group perimeter as Credit Mutuel Arkea (CMA), one of the regional banks forming the group, explores ways to exit. As of today, it has not altered the group's financial performance. • Lower diversification, outside retail banking and insurance in France, compared to similarly and higher rated peers.

Outlook: Stable

The stable outlook balances our expectation that the group will maintain its solid balance sheet, asset quality, and business development in retail banking and insurance, against persisting pressures on profitability in a low-interest-rate environment, as for other European peers. This is less of a credit issue for cooperative groups than for listed ones, due to their generally low payout ratios and lower cost of capital. In our outlook, we also assume that the existing challenges with CMA around group cohesion will not represent a structural issue, but rather an area of relative uncertainty, as has been the case so far.

Downside scenario

We could lower our ratings in the next 24 months if:

- We observed the group engaging in more rapid growth of risk assets than we initially anticipated, organically or via acquisitions, leading to a projected RAC ratio remaining below 10%.
- The group did not cope with the challenge of adjusting its retail banking and insurance business strategy to the evolving interest-rate environment, leading to rapidly declining margins or weaker efficiency.
- Intragroup tensions with CMA were to heighten once again, challenging the group's function, damaging its reputation, and weakening its operating performance.

Upside scenario

At this stage, we believe an upgrade in the next two years is remote, because our base scenario assumes that the group will not issue sufficient bail-in-able instruments to benefit from one notch of uplift for ALAC in the next two years. If this were to happen in the next two years, we would then--as we do for every banking group--consider whether the group's lower geographic and business diversity than 'A+' rated peers--and the lingering uncertainties surrounding CMA's future within the group--makes the group's creditworthiness comparable with that of such peers.

Rationale

We base our ratings on our consolidated analysis of Credit Mutuel Group (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), 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 long-term issuer credit ratings.

CMG demonstrates sound financial performance and has strengthened its balance sheet and solvency in previous years. We expect it will continue to do so, despite a less benign environment on the horizon. The group will face profitability pressures in its retail and insurance businesses due to ultra-low interest rates. However, we believe that the strength of its franchises in these two segments--and its predictable revenue streams and low payout ratio resulting from its cooperative structure--will allow the group to continue to build capital internally, while expanding its core business.

CMG also benefits from the low-risk nature of its core French retail banking activities and a good track record of expansion into the riskier consumer finance segment. That said, it also demonstrates lower diversity in its loan portfolio than peers. Domestic residential mortgages represent about half of CMG's total customer loans, but are naturally granular and generated much lower losses throughout the credit cycle. Finally, 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 of the group, we determine CMG's group SACP at 'a'. CMG has started to issue senior nonpreferred notes, but we do not expect its bail-in-able buffer to be large enough to provide additional loss absorbing capacity (ALAC) over the outlook horizon to protect senior creditors. This is why the group does not benefit from ALAC notching.

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 economic risk score for France is '3'. Our view of economic risk reflects the generally resilient domestic economic conditions. We deem the French economy to be stable and wealthy, benefiting from an increasing population. Partly offsetting these strengths, in our view, are France's relatively high general government debt that could hampered the economy's resilience to adverse external developments, as well as its persistent current account deficits and still-high unemployment, although the latter is now declining. We expect 1.3% GDP growth in France in 2019, with the economic environment remaining relatively supportive for French banks, although less benign than in 2017 and 2018. Domestic credit growth is on an upward trajectory, outpacing other European countries, but not to an extent that would indicate a significant credit bubble, in our view. Historically low interest rates have fueled loan production in the housing market and prices rose by more than 3.3% in 2018, albeit with wide geographic disparities. We expect the market will regulate itself closer to long-term averages in the next few years (we forecast nominal house prices to increase by 3.4% in 2019 then come down to 2.0% in 2022). We project French banks' credit losses on domestic operations will slightly increase in 2019 and 2020 from record lows of about 17 basis points (bps) in 2018. We believe, however, that the banking sector will maintain sound domestic asset quality.

Regarding industry risk, banks are operating in a less favorable environment, with low interest rates compounded by regulated-rate savings that constrain revenue generation. That said, diverse business models at large banks, low credit risk, and market-share stability should help banks preserve their overall revenue, although retail revenue will likely reduce further. Cost efficiency is a weakness for French banks compared with their European peers, notably due to a still-dense branch network, the dominance of cooperative banking groups--which have fewer incentives to maximize profits than listed ones--and very low margins on some products such as housing loans. 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 heavy reliance on wholesale funding is partly attributable to households' propensity to save in nonbank saving and regulated savings. It also benefits from the depth of the domestic financial market, among other factors.

Table 1

Credit Mutuel Group Key Figures

	--Year-ended Dec. 31--				
(Mil. €)	**2018**	**2017**	**2016**	**2015**	**2014**
Adjusted assets	643,917	608,183	597,969	550,922	523,565
Customer loans (gross)	468,263	443,887	425,451	396,278	375,267
Adjusted common equity*	37,157	33,945	29,619	39,736	36,876
Operating revenues	17,680	17,407	16,728	16,304	15,411
Noninterest expenses	11,332	11,069	10,675	10,311	9,860
Core earnings	3,559	3,057	3,436	3,165	3,005

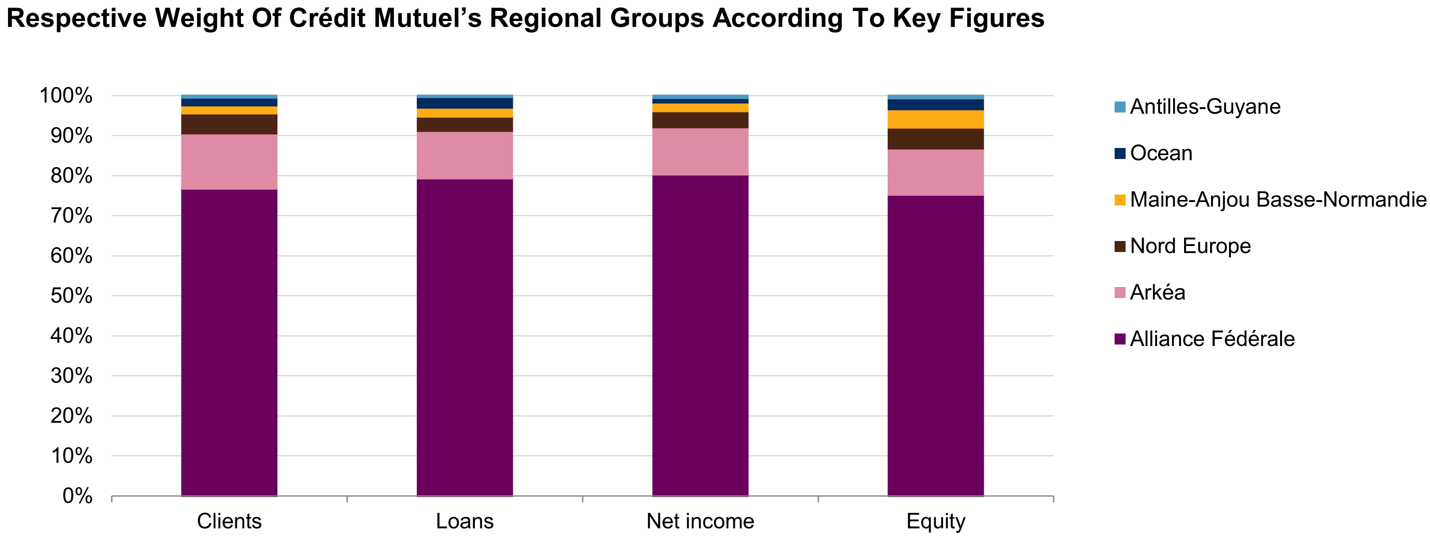
*From 2016, we deduct investments in insurance and minority equity holdings (see "Risk-Adjusted Capital Framework Criteria Update", published July 20, 2017).

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

We view CMG's leading retail and insurance franchise in its domestic market, consistent with its longstanding focus on domestic retail banking, as 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, which is part of Crédit Mutuel Alliance Fédérale (renamed from CM11 Group on Nov. 9, 2018).

CMG has a one-third market share of the professional segment of French banking and provides commercial banking products and services to large French companies. CMG is also at the forefront of insurance in France, with more than 15 million policyholders (risk and life segments). This historically strong competitive position in insurance supports its revenue stability, especially when interest rates are low and customer loyalty is high. The insurance business is therefore an important rating strength. The group does not exhibit strong profitability metrics but its earnings have been extremely stable over the past few years, only dented by marginal one-off costs, compared with larger and more complex banking groups. The customer-centric business model, the absence of cyclical business in the mix, and the low risk appetite means that the group generally outperforms peers in times of stress. Lastly, we believe lower returns pose fewer strategic and business-model challenges to cooperative groups than to listed groups because the former typically enjoy a lower cost of capital given their capacity to issue affordable cooperative shares.

Chart 1

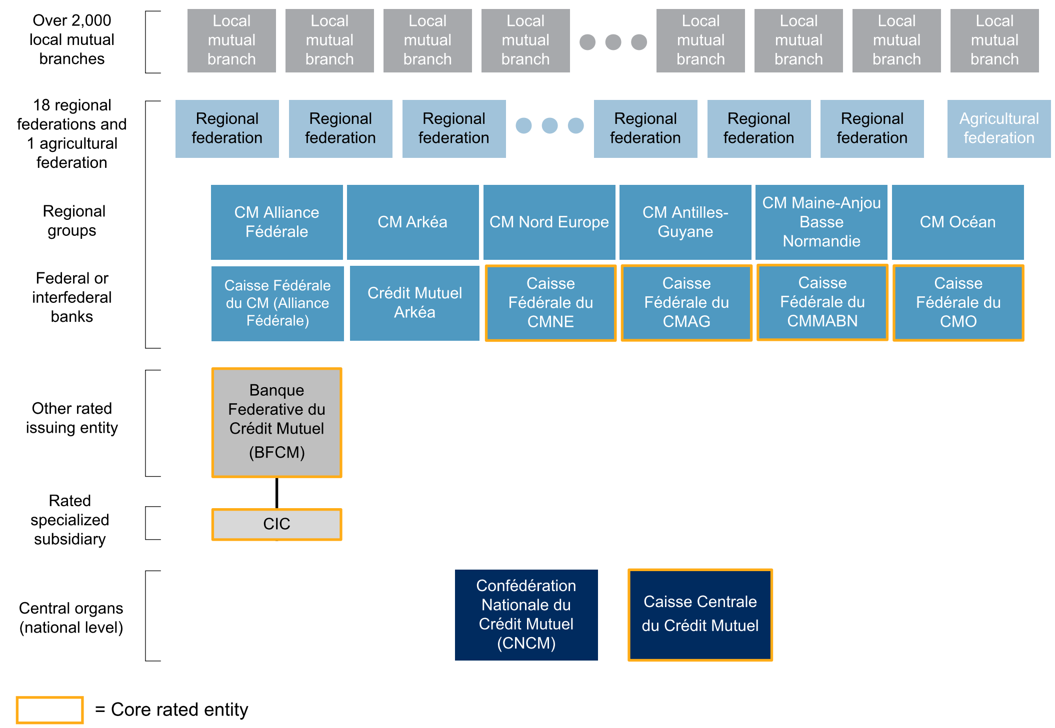


Source: Crédit Mutuel; S&P Global Ratings

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 comprises 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 and one federation specialized in agribusiness. Some federations have joined together. The largest interfederal subgroup by far is Crédit Mutuel Alliance Fédérale (more than three-quarters of CMG's total assets), consisting of 11 federations, 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

Simplified Overview of Crédit Mutuel Group



CM--Crédit Mutuel.

With 74% of consolidated revenues in 2018 (and roughly the same expected for 2019) generated from retail banking and 18% from asset management and insurance, CMG has good recurrence of 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. Nondomestic activities represent about 20% of the group net banking revenues in 2018. The group has a reasonably advanced and efficient digital strategy, and some of the online banks within the group (like Fortuneo, a subsidiary of CMA) are successful.

We withdrew our rating on CMA on May 31, 2019 (see "Credit Mutuel Arkea 'A/A-1' Ratings Affirmed, Then Withdrawn At The Bank's Request"). 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 that these tensions have not so far altered the group's financial performance or strategy.

Table 2

Credit Mutuel Group Business Position					
	--Year-ended Dec. 31--				
(%)	**2018**	**2017**	**2016**	**2015**	**2014**
Total revenues from business line (currency in millions)	17,708	17,429	16,772	16,336	15,469
Commercial & retail banking/total revenues from business line	73.9	73.7	73.8	75.3	76.4
Corporate finance/total revenues from business line	6.1	6.6	6.5	6.5	6.0
Insurance activities/total revenues from business line	12.6	13.6	12.2	12.8	13.9
Asset management/total revenues from business line	4.6	4.8	4.6	4.6	4.5
Other revenues/total revenues from business line	2.9	1.3	2.9	0.8	(0.7)
Investment banking/total revenues from business line	6.1	6.6	6.5	6.5	6.0
Return on average common equity	6.6	5.8	6.7	6.6	7.0

Capital and earnings: Steady capital strengthening on the back of resilient earnings and limited dividend payouts

CMG will continue to generate core capital thanks to resilient earnings and we expect our capital ratio to also rise steadily, due to the low payout ratio. CMG's earnings, despite the less-benign operating conditions, remain supported by the strength of CMG's retail and insurance businesses and low risk profile. Credit growth will certainly be higher in 2019 than we had previously expected, compensating for lower interest rates and reflecting more dynamic credit demand in France. However, while the group keeps expanding its core business, we believe it will also continue to strengthen its already solid solvency. We consider its capital base to be high quality given that it exclusively comprises core Tier 1 capital, with hybrids benefitting from intermediate capital equity content representing 2.5% of total adjusted capital (TAC) as of end-2018.

CMG's S&P Global Ratings-adjusted RAC ratio before diversification and concentration adjustments was 9.76% at end-2018, and we expect it will be marginally above 10.0% over the next two years. In our view, the pace of improvement should be slower than in previous years because of margin pressure being only partially offset by dynamic loan growth, but the upward trajectory is unlikely to change.

Our capital projections factor in the following assumptions:

- An average annual increase in adjusted risk-weighted assets (RWAs) of 5.5% over 2019-2020, as credit demand (housing loans in particular) remains high in the context of low interest rates and the group continues to organically expand, mainly in retail banking activities in low-risk European countries.
- Annual profits of €3.4 billion-€3.5 billion in 2019 and 2020, below the €3.5 billion achieved in 2018, a stable efficiency ratio of about 65%, and a low cost of risk of below 30 bps.
- A low dividend payout ratio below 10%.
- A stable solvency position at the insurance businesses despite pressure from the interest-rate environment.

- No significant acquisitions.

The significant increase of our RAC ratio between 2017 and 2018, from 8.62% to 9.76%, results from various positive factors, in addition to earnings retention:

- A capital management action at the insurance entity Groupe Assurances du Crédit Mutuel (GACM), with an exceptional dividend in 2018 that reduced the banking parent's investment in its insurance business, and consequently reduced the deduction from group capital we perform when we calculate TAC.
- Our assessment of the insurance capital shortfall/excess at an 'A' stress level, which had a lower negative impact in 2018 than in 2017. Our measure of the insurer's capital now incorporates subordinated debt issued by Suravenir Assurances subscribed by the banking parent under our latest hybrids criteria (these were not eligible for capital content previously) and the merger between GACM and Nord Europe Assurance (NEA). We will monitor how the shortfall, notably in life insurance, evolves in the lower-for-longer interest rate environment. If its insurance businesses need to be recapitalized by banking parents to maintain adequate solvency, this would pressure the RAC ratio.
- More-granular data on corporate and retail exposures, which led us for example to classify housing exposures such as loans guaranteed by Credit Mutuel Habitat in residential mortgages previously reported in the "other retail" category, resulting in a lower risk weight charge.

The reported CET1 ratio was 17.5% on Dec. 31, 2018, one of the highest for a universal bank in Europe, 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. We consider that CMG has material exposure to insurance risk through its insurance subsidiaries (GACM and Suravenir Assurances).

The group's cost efficiency is among the best of its domestic peers, reflecting bank and insurance synergies. Still, when compared with retail banking peers in the Nordics or the Benelux region, CMG demonstrates lower cost efficiency, and therefore lags behind in terms of profitability. Nevertheless, the group's returns over the past decade, including during the 2008 financial crisis, have been stable, with a return on equity (RoE) of 6.5% in the last few years. We expect the RoE to decline only marginally to around 6.0% in 2019-2020, due to inevitable margin pressure and limited cost reductions.

Although CMG will face more headwinds from lower-for-longer interest rates, we do not foresee any major significant downside risks to profitability for the next two years given the strong contribution from insurance activities and the consistently low average cost of risk. Moreover, the group's foray into side businesses have meant it can take advantage of technology to boost 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.

Table 3

Credit Mutuel Group Capital And Earnings					
	--Year-ended Dec. 31--				
(%)	**2018**	**2017**	**2016**	**2015**	**2014**
Tier 1 capital ratio	17.9	17.9	16.3	16.4	16.1

Table 3

Credit Mutuel Group Capital And Earnings (cont.)

	--Year-ended Dec. 31--				
(%)	**2018**	**2017**	**2016**	**2015**	**2014**
S&P Global Ratings' RAC ratio before diversification	9.76	8.62	8.1	8.4	8.3
S&P Global Ratings' RAC ratio after diversification	10.29	9.22	8.6	10.2	9.9
Adjusted common equity/total adjusted capital	97.5	96.7	95.6	96.1	96.2
Net interest income/operating revenues	42.7	40.9	41.2	43.4	46.7
Fee income/operating revenues	24.9	24.3	23.5	23.8	23.0
Market-sensitive income/operating revenues	5.5	7.7	10.4	6.9	3.8
Noninterest expenses/operating revenues	64.1	63.6	63.8	63.2	64.0
Preprovision operating income/average assets	0.8	0.8	0.8	0.8	0.8
Core earnings/average managed assets	0.4	0.4	0.4	0.4	0.4

Table 4

Credit Mutuel Group RACF [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 & central banks	135,858,270	4,101,512	3	3,061,194	2
Of which regional governments and local authorities	10,293,105	2,099,927	20	372,764	4
Institutions and CCPs	46,527,794	8,630,443	19	8,387,313	18
Corporate	145,043,925	90,898,052	63	108,880,797	75
Retail	348,466,326	67,685,251	19	157,436,945	45
Of which mortgage	222,671,948	26,957,313	12	61,236,540	28
Securitization§	6,998,353	822,376	12	3,630,806	52
Other assets†	8,806,263	7,433,482	84	18,187,706	207
Total credit risk	691,700,931	179,571,116	26	299,584,760	43
Credit valuation adjustment					
Total credit valuation adjustment	--	840,398	--	0	--
Market Risk					
Equity in the banking book	7,015,601	20,595,873	294	58,435,901	833
Trading book market risk	--	3,271,649	--	4,907,473	--
Total market risk	--	23,867,522	--	63,343,374	--
Operational risk					
Total operational risk	--	24,249,850	--	27,709,983	--
(€ 000s)	**Exposure**	**Basel III RWA**	**Average Basel II RW (%)**	**S&P Global RWA**	**% of S&P Global RWA**
Diversification adjustments					
RWA before diversification	--	272,037,661	--	390,638,118	100
Total Diversification/ Concentration Adjustments	--	--	--	(20,015,878)	(5)
RWA after diversification	--	272,037,661	--	370,622,240	95

Table 4

Credit Mutuel Group RACF [Risk-Adjusted Capital Framework] Data (cont.)

(€ 000s)	Tier 1 capital	Tier 1 ratio (%)	Total adjusted capital	S&P Global RAC ratio (%)
Capital ratio				
Capital ratio before adjustments	48,700,000	17.9	38,128,680	9.76
Capital ratio after adjustments‡	48,700,000	17.9	38,128,680	10.29

*Exposure at default. §Securitization Exposure includes the securitization tranches deducted from capital in the regulatory framework. †Exposure and S&P Global Ratings' risk-weighted assets for equity in the banking book include minority equity holdings in financial institutions. ‡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 2018', S&P Global Ratings.

Risk position: Primarily focused on retail banking activities in France

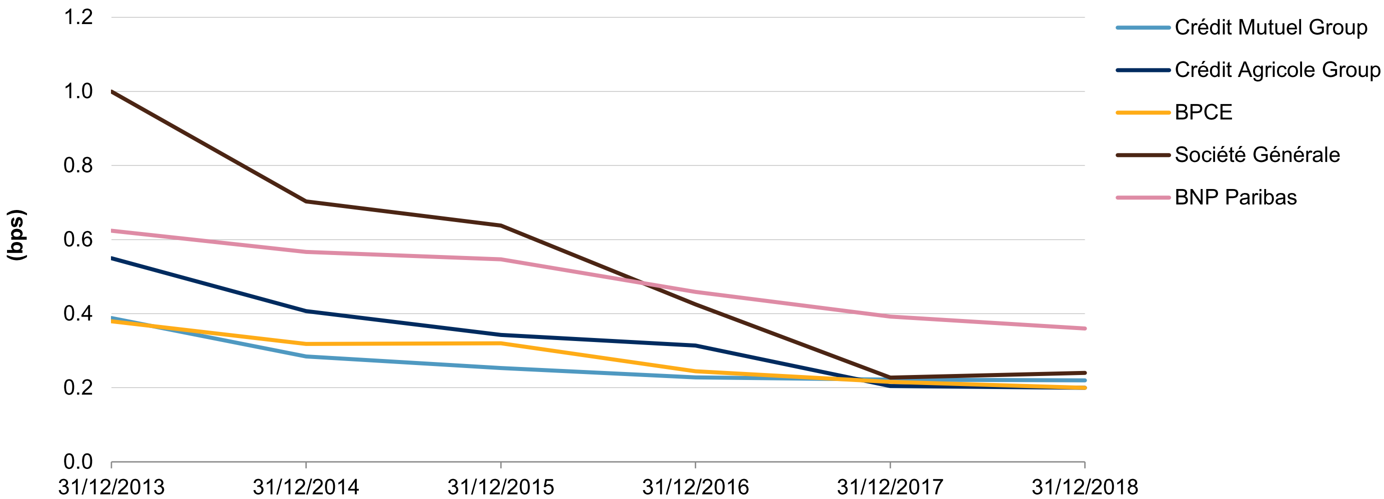
Our assessment of CMG's risk position as adequate reflects the group's domestic focus on low-risk retail activities, its expansion into consumer finance, its fairly low involvement in capital-market activities or other cyclical businesses, and the more limited diversity of its loan portfolio compared with other large domestic peers.

Domestic residential mortgages represent about half of CMG's total customer loans, but are naturally granular and generated much lower losses throughout the credit cycle. We expect nonperforming loans to remain below 3% by 2020, the coverage of bad loans by reserves to remain at 65%-70%, and the cost of risk at about 25 basis points (bps), which are good metrics in our view. 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.

Credit consumer portfolios--with Cofidis and Targobank--constitute about 5% of total net customer loans. Targobank Spain accounted for €2.2 billion and Targobank Germany €14.7 billion at end-2018.

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.

CMG's exposure to interest rates mainly derives from its long-term fixed-rate loans in French retail. Like its French peers, CMG relies on its asset-liability management to measure its exposure to and hedge against interest rate risk.

We think the group manages non-financial risks well. Such risks could always emerge, however, as we saw in other European countries in 2018. The group's modest international presence and the very low risk appetite given its cooperative status tend to reduce financial-crime-related or litigation risks. As a retail bank, the bank is exposed to potential conduct risks or risks related to misselling to retail clients, but we view its lending practices as nonaggressive. Energy transition poses some challenges to CMG but, as a predominantly retail bank, its lending to carbon-intensive companies or sectors is smaller than banks with large corporate books and commodities finance businesses. Still, retail banks are also challenged to reach carbon-neutrality on their housing loans books and CMG considers this priority for the next few years.

Table 5

Credit Mutuel Group Risk Position

	--Year-ended Dec. 31--				
(%)	**2018**	**2017**	**2016**	**2015**	**2014**
Growth in customer loans	5.5	4.3	7.4	5.6	3.9
Total diversification adjustment/S&P Global Ratings' RWA before diversification	(5.1)	(6.4)	(6.2)	N/A	(16.6)

Table 5

Credit Mutuel Group Risk Position (cont.)

	--Year-ended Dec. 31--				
(%)	**2018**	**2017**	**2016**	**2015**	**2014**
Total managed assets/adjusted common equity (x)	22.9	24.0	26.8	18.6	19.2
New loan loss provisions/average customer loans	0.2	0.2	0.2	0.3	0.3
Net charge-offs/average customer loans	0.1	0.0	0.0	0.1	0.3
Gross nonperforming assets/customer loans + other real estate owned	3.1	3.3	3.9	4.1	4.3
Loan loss reserves/gross nonperforming assets	69.8	59.9	62.4	63.9	64.2

N.A.--Not available. N/A--Not applicable. N.M.--Not meaningful.

Funding and liquidity: Closing the gap with international peers

The group's funding and liquidity is neutral to our group SACP. CMG has improved its funding and liquidity position since 2010. CMG's stable funding ratio and broad liquid asset ratio stood at 95.3% and 0.90x, respectively, at year-end 2018, and we do not anticipate these metrics will change much in 2019 or 2020. These ratios are 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 this ratio at 126% on Dec. 31, 2018 (compared to 180% at year-end 2008) and we think it will remain close to this in 2020. The average for the four other large French banks was about 120% at year-end 2018. CMG has a large and increasing core deposit base that stood at €364 billion at year-end 2018 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 €30.9 billion at year-end 2018 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 €117.3 billion at the end of 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%. In our opinion, CMG's liquidity position would provide flexibility under prolonged market stress and benefits from a large and granular deposit base and conservative risk management. In particular, we consider that the bank benefits from the flexibility to mobilize unencumbered housing loans assets to access central banks in case of need.

Table 6

Credit Mutuel Group Funding And Liquidity

	--Year-ended Dec. 31--				
(%)	**2018**	**2017**	**2016**	**2015**	**2014**
Core deposits/funding base	62.8	63.2	61.9	60.7	58.5
Customer loans (net)/customer deposits	126.0	126.2	125.7	130.5	135.7

Table 6

Credit Mutuel Group Funding And Liquidity (cont.)

	--Year-ended Dec. 31--				
(%)	**2018**	**2017**	**2016**	**2015**	**2014**
Long-term funding ratio	80.4	79.7	77.8	78.0	77.5
Stable funding ratio	95.3	96.0	94.9	94.6	93.2
Short-term wholesale funding/funding base	21.3	22.1	24.1	23.9	24.5
Broad liquid assets/short-term wholesale funding (x)	0.9	0.9	0.9	0.9	0.9
Net broad liquid assets/short-term customer deposits	(6.6)	(5.0)	(5.5)	(4.3)	(6.5)
Short-term wholesale funding/total wholesale funding	57.0	59.6	62.9	60.3	58.5
Narrow liquid assets/3-month wholesale funding (x)	1.5	1.6	1.6	N/A	N/A

N.A.--Not available. N/A--Not applicable. N.M.--Not meaningful.

Support: No ALAC notch on the back of a strong capital and earning position

We do not factor ALAC uplift into our rating. Credit Mutuel Alliance Fédérale, CMG's largest subgroup, issued its first senior nonpreferred notes earlier this year. However, we do not believe the group will issue enough bail-in-able debt to benefit from a notch of ALAC over the outlook horizon.

The group is not subject to Total Loss Absorbing Capital (TLAC) rules and already discloses a very high level of common equity in its capital structure, so the incentive to issue senior nonpreferred debt or other subordinated instruments to meet MREL requirements is less than for other large French banking groups in our view. CMG stated that it meets MREL requirement comfortably, including senior preferred issues.

We expect that the ALAC buffer will remain well below 4% in the next two years, short of a 5% threshold that would be commensurate with one notch of ALAC uplift. This is why the upgrade of the group SACP in October 2019 did not result in a parallel raising of the long-term rating.

Additional rating factors: None

We have withdrawn our previous one notch of uplift to CMG's SACP, and our ratings, because we now consider the group rating strengths are well captured in the 'a' group SACP.

Ratings on hybrid securities

In our credit analysis of hybrid debt issued by an entity we regard as a core member of a group--as is the case for BFCM and CMNE--we assess whether the cohesiveness and integration within the group is strong enough to provide support to instruments such as 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.

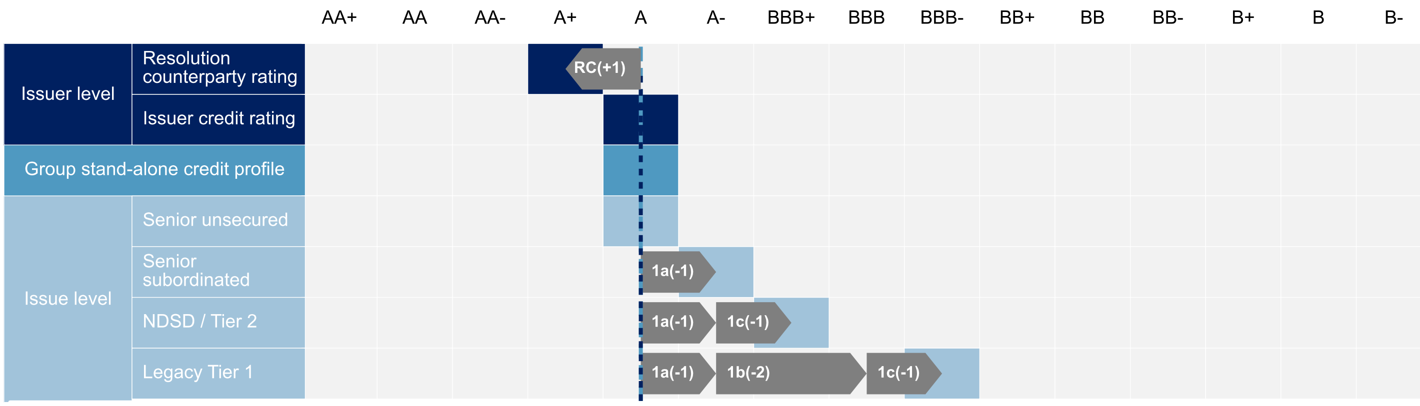
We then make the following negative adjustments to issuer credit ratings (ICRs) to derive the issue ratings:

- 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.

As such, we rate the senior nonpreferred notes 'A-' and the Tier 2 contingent capital instruments 'BBB+' (see chart 4).

Chart 4

Banque Fédérative du Credit Mutuel + Caisse Fédérale du Crédit Mutuel Nord Europe: Notching



Key to notching

-----	Group stand-alone credit profile
------	Issuer credit rating
RC	Resolution counterpartyliabilities (senior secured debt)
1a	Contractual subordination
1b	Discretionary or mandatory nonpayment clause and whether the regulator classifies it as regulatory capital
1c	Mandatory contingent capital clause or equivalent

Note: The number-letter labels in the table above are in reference to the notching steps we apply to hybrid capital instruments, as detailed in table 3 of our “Hybrid Capital: Methodology And Assumptions” criteria, published on July 1, 2019.
AT1--Additional Tier 1. NDSD--Non-deferrable subordinated debt.dill

Related Criteria

- General Criteria: Hybrid Capital: Methodology And Assumptions, July 1, 2019
- General Criteria: Group Rating Methodology, July 1, 2019
- 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
- General Criteria: Principles For Rating Debt Issues Based On Imputed Promises, Dec. 19, 2014
- 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

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 November 25, 2019)*

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
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		
Banque Federative du Credit Mutuel		
Issuer Credit Rating		A/Stable/A-1
Resolution Counterparty Rating		A+/--/A-1

Ratings Detail (As Of November 25, 2019)*(cont.)	
Commercial Paper	
Local Currency	A-1
Junior Subordinated	BBB-
Senior Subordinated	A-
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 Nord Europe	
Issuer Credit Rating	A/Stable/A-1
Resolution Counterparty Rating	A+/--/A-1
Commercial Paper	
Local Currency	A-1
Junior Subordinated	BBB-
Senior Unsecured	A
Subordinated	BBB+
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
Commercial Paper	
Local Currency	A-1
Senior Unsecured	A
Short-Term Debt	A-1
Credit Industriel et Commercial, New York Branch	
Commercial Paper	
Local Currency	A-1

Ratings Detail (As Of November 25, 2019)*(cont.)	
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.