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Ratings

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Banque Federative du Credit Mutuel

Primary Credit Analyst:
Nicolas Malaterre, Paris (33) 1-4420-7324; nicolas.malaterre@spglobal.com

Secondary Contact:
Sylvie Dalmaz, PhD, Paris (33) 1-4420-6682; sylvie.dalmaz@spglobal.com

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Major Rating Factors

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

Strengths:	Weaknesses:
• Core member of the Crédit Mutuel Group (CMG). • Strong and stable franchise in France's retail banking and insurance markets, and a successful development strategy in consumer finance in Germany with Targobank. • Solid solvency thanks to its almost full retention of the group's net income.	• Sound profitability, but the recession triggered by the COVID-19 pandemic will weaken financial performance over the next two years. • Good cost efficiency in a French context, but only average compared with European peers'.

Outlook

The negative outlook on Banque Fédérative du Crédit Mutuel (BFCM) mirrors that on the French cooperative banking group Crédit Mutuel (CMG) and reflects S&P Global Ratings' expectation that BFCM will remain a core subsidiary of CMG. The rating on BFCM is therefore at the level of our 'a' assessment of CMG's group credit profile (GCP), and any change in the GCP would trigger a similar rating action on BFCM.

Downside scenario

We would lower our ratings on BFCM if we were to lower our ratings on CMG. A change in BFCM's importance for CMG is extremely unlikely, due to BFCM's role in funding and issuing regulatory financial instruments for large parts of the group.

The negative outlook on the group, and therefore on its core banking entities, reflects our view that economic and industry risks in the French banking market have risen due to the recession that will happen in 2020 as a result of the COVID-19 pandemic. More specifically, we could lower our 'A' issuer credit rating on CMG, and therefore that on BFCM, in the next 12-24 months if the group's stand-alone credit profile (SACP) weakens. This is unless this were offset by a bail-inable cushion of debt instruments commensurate with one notch of uplift for additional loss-absorbing capacity (ALAC). A downward revision of the group's SACP would still result in a negative rating action on the group's subordinated instruments, including its senior nonpreferred notes, since those instruments would not benefit from ALAC uplift.

We could also lower our ratings on CMG, and also BFCM, in the next 12-24 months if we observed the group engaging in more rapid growth of risk assets, leading to a projected risk-adjusted capital (RAC) ratio below 10% at group level.

Upside scenario

We would revise the outlook to stable once the pandemic recedes and prospects for an economic recovery in France become clearer. We would also revise the outlook to stable if the group's buildup of bail-inable buffers offsets a potentially weaker group SACP, while capitalization remains strong.

Rationale

The ratings on BFCM reflect our view of its critical role as the funding arm, central organ, and substantial part of Crédit Mutuel Alliance Fédérale (CMAF; formerly Credit Mutuel – CM11 Group), itself the largest subgroup of regional federations of cooperative banks that form CMG. According to our group rating methodology, we view BFCM as a core entity of the larger CMG. We therefore align our ratings on BFCM with the CGP of 'a' and do not determine a stand-alone credit profile for CMAF or BFCM. Due to BFCM's role as a funding vehicle and its links with CFAF, this report essentially covers CMAF's consolidated figures, which include those of BFCM due to its full consolidation in CMAF's accounts.

From the 18 regional federations of cooperative banks--organized on a territorial basis--that form CMG, 13 have gradually gathered to form CMAF. The two latest entities to join, on Jan. 1, 2020, are Crédit Mutuel Antilles Guyane and Crédit Mutuel Massif Central. According to our estimates, CMAF represents about 80% of CMG's total assets and net result, and operates all business lines in the mutual perimeter. It is therefore the backbone of CMG. In addition to its critical role as sole issuing vehicle for the CMAF subgroup, BFCM operates as a banking entity, consolidating subsidiaries not part of the mutual perimeter (that is, principally foreign operations, factoring, receivables management, finance leasing, fund management, employees savings, insurance and real estate).

Over the years, BFCM has also developed expertise in payment systems and other digitally advanced services, which it provides to other group entities. Also active in financial markets, BFCM additionally provides centralized refinancing for CMAF's entities. CMAF, which consolidates BFCM, is therefore a large group, which generated net profit exceeding €3 billion and had an asset base totaling more than €700 billion in 2019. Last year, BFCM's assets totaled €570 billion (80% of CMAF) and it reported €10.9 billion of revenues (70% of CMAF), and these proportions are unlikely to change much in 2020. For these reasons, we regard BFCM as core to the group, and our view is unlikely to change in the near future.

CMG largely relies on a decentralized pyramidal organizational model. A distinctive feature is that the mandate of the upper levels of the organization is only to fulfil missions not already undertaken by other parts of the group. This allows for close relationships with local customers, a key advantage in retail banking. The financial solidarity mechanism, set out in French law, is in our view the overarching feature ensuring the group's overall cohesiveness. Article L511-30 of the French banking law designates the Confederation Nationale du Credit Mutuel (CNCM) as the central body, which entails responsibilities for the liquidity and solvency of the overall group. This explains our consolidated approach to assessing the group's creditworthiness, our view on its financial strengths, and our rating approach for the 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 CMAF, indirectly from CMG's solidarity mechanism. Consequently, we equalize our rating on BFCM with that on CMG. Our decision is underscored by BFCM's board of directors decision in July 2020 to request its affiliation to the CNCM and thus integrate the scope of CMG's solidarity mechanism. CMAF expects this would take effect by the end of September 2020.

CMAF benefits from a strong retail banking franchise, thanks to its dual retail network: the 13 Crédit Mutuel federations leveraging on the powerful Credit Mutuel brand and Crédit Industriel et Commercial (CIC). As such, retail activities represented about two-thirds of CMAF's operating income after loss provisions at year-end 2019. The subgroup can use the network of local cooperative banks to market the products and services of BFCM's specialized subsidiaries, which pay commissions in return for deal flow. Facing limited growth prospects in its domestic retail banking activities and pressure on net interest margins due to low interest rates, CMAF remains committed to its dynamic diversification strategy, particularly its geographic diversification in consumer finance and insurance.

The subgroup's 2019-2023 strategic plan will be updated soon. Before the pandemic hit, the subgroup had targeted 3% annual revenue growth, supported by increased cross-selling and IT investments to foster its networks. In 2019, CMAF achieved both a rise in its net banking income (+3.5%) and net profit (+5.1%) using its retail bankinsurance strategy.

So far, it has a good track record of business integration with other subgroup entities, such as CIC, Targobank, and Cofidis.

The subgroup has also demonstrated its ability to expand ancillary business such as technology and telecommunications. On June 26, 2020, it entered into an agreement to sell this business to Bouygues Telecom for €530 million, to be paid on closing of the deal, and an additional amount of €140 million-€325 million. In addition, an exclusive long-term distribution partnership with Bouygues Telecom will be set up, offering competitive services to its customers. In our view, this opportunistic and timely move illustrates management's willingness to adapt its portfolio of activities and the group's agile strategy in the field of technology. We cannot rule out small opportunistic acquisitions with a modest impact on the group's capital ratios.

Approximately 75% of CMAF's net banking income (NBI) is generated domestically, with Germany being the second largest market (12% of NBI). It serves its customers via about 4,000 branches, and operates a universal banking model through various subsidiaries:

- The 13 Crédit Mutuel federations, which has about 7.1 million retail customers across many French regions.
- Assurance du Crédit Mutuel (GACM), the subgroup'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, supporting the resilience of operating revenues in the low-interest-rate environment. The insurance subgroup's overall contribution to CMAF's results rose by 3.4% to €873 million in 2019, accounting for slightly more than 25% of its net profit. Commissions paid to the distribution networks rose by 5.3% to €1.6 billion. Over the past two years, distributor networks have also played a key role in the insurance business' growth. The COVID-19 pandemic has had a significant impact on GACM's performance. In the first half of 2020, insurance revenues decreased by 21.1% relative to the previous year. GACM's contribution to overall half-year profits was €218 million, a 57% fall relative to the figure for June 2019 (€505 million). Beyond lower gross premium for life insurances, which is part of a strategy to support an increase in the proportion of unit-linked policies, the sharp fall in the stock markets had a negative impact on GACM's net financial income. Moreover, the group set up a lump-sum bonus payment for comprehensive business insurance policyholders ("the prime de relance mutualiste"), which cost nearly €170 million.
- CIC complements CMAF's retail and insurance offering in the domestic market, with a focus on small businesses, corporates, and professionals. It had a large loan portfolio of €132.9 billion as of year-end 2019. CIC contributes slightly to the international diversification of the corporate retail banking business and private banking, with about 30 foreign representation offices.
- Targobank in Germany builds on the activities of Citibank Deutschland, which it acquired in 2008. The entity also integrated General Electric's German factoring and leasing activities in 2017. With 3.9 million retail and business customers and an expanding loan book of €20 billion at year-end 2019, Targobank is one of Germany's market leaders in consumer credit and factoring. As such, banking business has been robust, with 9% growth in loans and 11.2% in deposits, supported by further developments of its online banking solutions. Targobank is the main source of the subgroup's geographic diversification.
- Cofidis is a domestic leading consumer finance business in which the group purchased a controlling stake in 2009. To boost its business, Cofidis worked on digital solutions and was one of the first lenders to completely digitize the loan agreement process. Cofidis is active in France, but its second largest market is Portugal, followed by Spain, Belgium, and Italy.

We consider that CMAF displays a solid financial profile, with key financial metrics broadly in line with those of the larger CMG. On July 31, 2020, CMAF reported a fully loaded common equity tier 1 ratio of 17.1%, which we view as sound. On the same date, it reported a nonperforming loan ratio of 3.04% in line with group's target, a provision coverage ratio of 52.7% (IFRS9 Stage 3 only), and a liquidity coverage ratio of 159.8% compared with 142.8% at year-end 2019 (average calculation method).

The abrupt slowdown in 2020, induced by the pandemic, has already started to weaken CMAF's financial performance, which should remain comparatively resilient however. We expect margin pressure to continue, but volumes to be less dynamic than in previous years due to reduced business activity in France in early 2020. We also anticipate a deterioration in asset quality, with rising credit losses from small and midsize corporate counterparties in the most vulnerable industries, among them tourism, hospitality and autos. In the first half of 2020, the cost of risk rose substantially, to €1 billion (€584 million higher than during the same period in 2019), leading to an annualized cost of risk of 48 basis points of outstanding loans. This level includes provisions in anticipation of a future worsening of risk under IFRS9 rules (Stage 1 and Stage 2) of €489 million, almost half of the cost of risk in the first six months of the year.

For 2020, we expect the cost of risk to remain elevated and at a similar level as for the first half, since the group continues to make additions to its provisions for proven and nonproven risks. Likewise, the intense market volatility, especially in equity markets in first-quarter 2020, may exert some pressure on the solvency of the subgroup's insurance operations, which should remain strong however.

Credit Mutuel Alliance Federale Key Statistics

	--Fiscal year end Dec. 31--				
Mil. €	**2019**	**2018**	**2017**	**2016**	**2015**
Adjusted assets	583,797	540,523	512,517	506,059	472,638
Customer loans (gross)	392,980	378,994	351,958	338,449	312,515
Adjusted common equity	41,358	38,241	24,390	33,522	31,315
Core earnings	3,092	2,964	2,428	2,774	2,628
%					
Return on average common equity	6.73	6.83	5.88	6.77	6.75
Tier 1 capital ratio	17.60	17.00	17.02	15.70	15.84
Net interest income/operating revenues	45.53	43.93	41.78	42.17	43.25
Noninterest expenses/operating revenues	61.34	61.65	61.85	62.30	61.48
Preprovision operating income/average assets	0.81	0.84	0.85	0.84	0.89
Core earnings/average managed assets	0.45	0.46	0.40	0.47	0.47
Growth in customer loans	3.69	7.68	3.99	8.30	5.69
New loan loss provisions/average customer loans	0.27	0.25	0.25	0.25	0.26
Gross nonperforming assets/customer loans + other real estate owned	3.07	3.05	3.34	3.98	4.15
Loan loss reserves/gross nonperforming assets	69.91	70.04	59.69	63.03	64.56
Core deposits/funding base	62.75	60.58	61.02	59.46	58.24
Customer loans (net)/customer deposits	123.74	132.46	129.04	128.62	131.80

Sources: Company data, S&P Global Ratings.

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
- 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
- Criteria | Financial Institutions | Banks: Commercial Paper I: Banks, March 23, 2004

Related Research

- Group Credit Mutuel Outlook Revised To Negative On Economic Impact Of COVID-19; Ratings Affirmed, April 23, 2020
- Credit Mutuel Group, Nov. 25, 2019

Ratings Detail (As Of September 4, 2020)*		
Banque Federative du Credit Mutuel		
Issuer Credit Rating		A/Negative/A-1
Resolution Counterparty Rating		A+/--/A-1
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+
Issuer Credit Ratings History		
23-Apr-2020	*Foreign Currency*	A/Negative/A-1
12-Oct-2016		A/Stable/A-1

Ratings Detail (As Of September 4, 2020)*(cont.)		
29-Apr-2014		A/Negative/A-1
23-Apr-2020	*Local Currency*	A/Negative/A-1
12-Oct-2016		A/Stable/A-1
29-Apr-2014		A/Negative/A-1
Sovereign Rating		
France		AA/Stable/A-1+
Related Entities		
Caisse Centrale du Credit Mutuel		
Issuer Credit Rating		A/Negative/A-1
Resolution Counterparty Rating		A+/--/A-1
Commercial Paper		
Local Currency		A-1
Senior Unsecured		A
Caisse Federale du Credit Mutuel de Maine-Anjou Basse Normandie		
Issuer Credit Rating		A/Negative/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/Negative/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/Negative/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/Negative/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 September 4, 2020)*(cont.)	
Credit Mutuel 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.