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Credit Mutuel Group

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

Secondary Contact:
Francois Moneger, Paris (33) 1-4420-6688; francois.moneger@spglobal.com

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Credit Mutuel Group

SACP	a	+	Support	0	+	Additional Factors	0

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

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

Issuer Credit Rating
A/Negative/A-1

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

Major Rating Factors

Strengths:	Weaknesses:
• Solid recurring earnings from a strong franchise in French retail banking and insurance. • A low risk appetite and a good record of controlled growth in complementary business segments and territories. • High quality of core capital and supportive internal capital generation.	• The recession triggered by the COVID-19 pandemic will weaken financial performance over the next two years. • Only average cost efficiency compared with European peers', although good in a French context. • Lower diversification, outside retail banking and insurance in France, compared with similarly and higher rated peers.

Outlook: Negative

The negative outlook on Caisse Centrale du Crédit Mutuel and its core banking entities (Crédit Mutuel Group or CMG) reflects S&P Global Ratings' 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 pandemic. CMG, like its domestic peers, is likely to see a deterioration of its profitability as asset quality issues mount in a recessionary environment. Still, our main expectation is that of a strong economic rebound in 2021, after a severe contraction in France in 2020.

Downside scenario

We could lower our 'A' issuer credit rating on CMG's core members in the next 12-24 months if the weak economic environment lasts longer that initially thought, notably through 2021, and the bank's financial profile, notably its asset quality, profitability, or capital position, remains durably affected. We could also lower our ratings 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 of below 10% at group level.

A one notch lower group stand-alone credit profile (SACP) ('a-' instead of 'a') would lead to a downgrade if not offset by a cushion of bail-in-able debts, commensurate with one notch of additional loss-absorbing capacity (ALAC) uplift. Such a scenario would still result in a negative rating action on the group's subordinated instruments, including senior nonpreferred notes--since those instruments would not benefit from uplift for ALAC.

Upside scenario

We could revise the outlook to stable once the pandemic recedes and prospects for an economic recovery in France become clearer. Moreover, we could revise the outlook to stable if the group's buildup of bail-in-able buffers is strong enough to offset a potentially weaker group SACP, while maintaining strong capitalization, i.e. a RAC ratio above 10%.

Rationale

We base our ratings on our consolidated analysis of CMG. We view the following entities as core to the group: Caisse Centrale du Crédit Mutuel, Banque Federative du Crédit Mutuel (BFCM), Crédit Industriel et Commercial (CIC), Caisse Fédérale du Crédit Mutuel Nord Europe (CMNE), 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).

The mutualist group entered the pandemic from a position of strength given its strong bancassurance business model, solid capital position, good efficiency in the French context, and sound assets. The group SACP remains 'a', but it is under increasing pressure because of the weaker operating environment, prolonged low interest rates, and intense competition that all exacerbate the pre-existing challenges in the French banking sector. We see now an increased risk that we could revise down our capital assessment because asset quality in the small business/entrepreneurs and larger corporate (mostly operated by subsidiary CIC) portfolios may deteriorate moderately, along with some sectors more affected by COVID-19-related disruptions. Housing loans, which form a large part of the book, should continue to perform well, though.

Compared with other French banks that are classified as Globally Systemically Important (G-SIBS), the group has understandably issued a lower amount of bail-in-able debt so far since it was not subject to the total loss-absorbing capacity (TLAC) rules published by the Financial Stability Board (FSB) for G-SIBs. Therefore, we do not incorporate at this stage an ALAC uplift, as we do not expect the bank's ALAC ratio to near 5% in 2020 or 2021, but later. We recognize that nearing the 5% depends not only on the bank's issuance plans, which we believe are credible, but also on our views of economic risks in France. If we were to revise down our view of economic risks for the French banking sector, whose trend is currently negative, this would inflate the calculation of S&P risk-weighted assets, which we use to calculate the ALAC ratio.

Anchor: 'bbb+' reflecting predominantly domestic exposures

Our anchor for a commercial bank operating predominantly in France like CMG is 'bbb+'. This is based on an economic risk score of '3' and an industry risk score of '3' on a scale of 1-10 ('1' is the lowest risk and '10' is the highest). This is on a par with, among others, the U.S., the U.K., Australia, the Netherlands, and Denmark.

France represents some 90% of CMG's 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 reflects the generally favorable domestic economic conditions for banks. We deem the French economy to be stable and wealthy, with historically moderate private-sector credit risk volatility. Authorities in France, and across many other European countries, have delivered unprecedented policy responses to the pandemic in the form of monetary, fiscal, and regulatory support to their economies. Still, we expect the COVID-19-related short-term shock to be meaningful for banks' asset quality, and profitability. We now foresee a 9% GDP contraction in France in 2020 before a rebound of about 7.7% in 2021. Therefore, the main risk to French banks in the next two years is higher credit losses, which we consider inevitable. We project French banks' credit losses on domestic operations will reach 50 basis points (bps) in 2020. This level remains manageable for banks, and contained when compared with the depth of the economic shock, but it is still more than twice last year's level.

Regarding industry risk, pre-COVID-19, banks were already operating in a less favorable environment, with low interest rates. The pressure on retail margins remains, and is compounded by the high share of expensive regulated-rate savings in the banks' funding base. Still, large French banks have strong and diverse business models and operate in a concentrated and mature market. That said, we see room for improvement in cost efficiency, which is a weakness for most French banks compared with their European peers, notably due to a still-dense branch network, which will require adjustments as has happened in other countries. The system's relatively large reliance on wholesale funding is partly attributable to households' propensity to save in nonbank institutions and regulated savings.

We see negative trends in both our economic risk and industry risk scores. The policy responses taken in France may not avoid permanent economic impact, offsetting damage to household wealth, and various corporate sectors. We note that the external environment remains fragile, and rapidly rising leverage (sovereign and private sector) could lead to higher credit risk in the French economy. Our industry risk assessment could worsen, if we see exacerbated profitability and efficiencies challenges versus some European peers.

Table 1

Credit Mutuel Group--Key Figures

	--Fiscal year ended Dec. 31--				
(Mil. €)	**2019**	**2018**	**2017**	**2016**	**2015**
Adjusted assets	701,169	643,917	608,183	597,969	550,922
Customer loans (gross)	499,577	468,263	443,887	425,451	396,278
Adjusted common equity	39,867	37,157	33,945	29,619	39,736
Operating revenues	18,380	17,680	17,407	16,728	16,304
Noninterest expenses	11,597	11,332	11,069	10,675	10,311
Core earnings	3,846	3,559	3,057	3,436	3,165

Note: 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

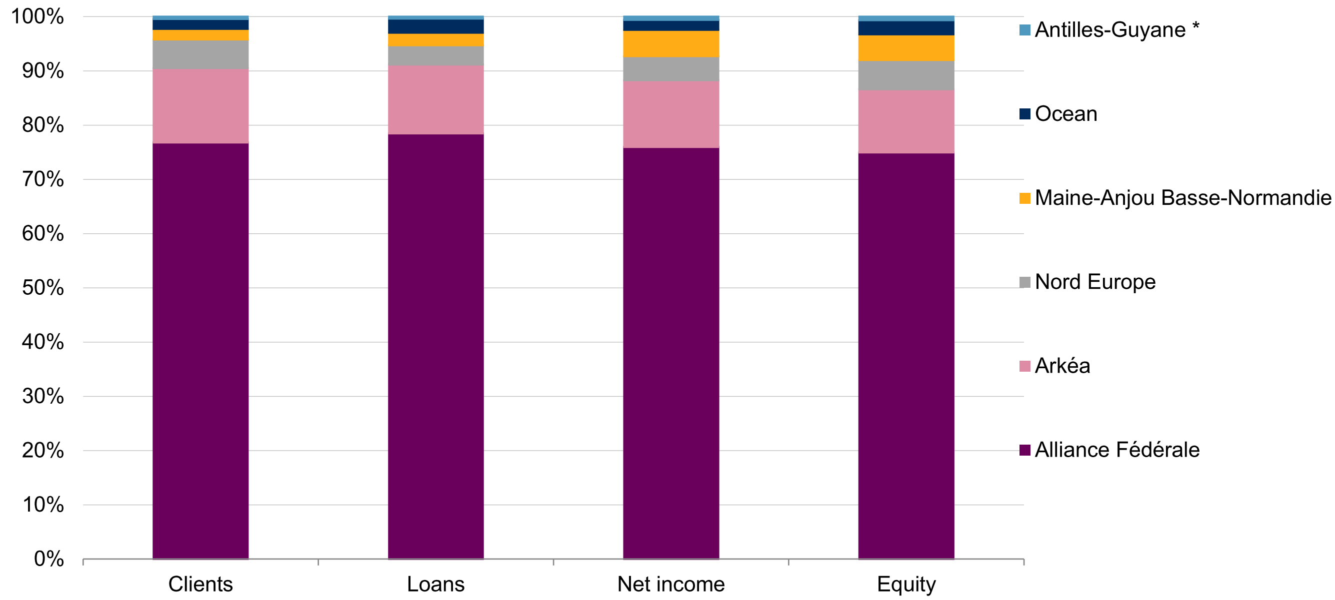
We view CMG's leading retail and insurance franchise in its domestic market as a rating strength. Although less geographically diverse than European banks of similar size, it operates a generally low risk business, which produces extremely predictable earnings over the cycle.

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 the largest regional subgroup, Crédit Mutuel Alliance Fédérale. CMG has an above 30% market share of the professional segment and provides commercial banking products and services to large French companies. CMG is also at the forefront of insurance in France, with more than 16 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.

Typical for a cooperative group, CMG does not exhibit strong profitability metrics, but its earnings have been extremely stable over the past decade, 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

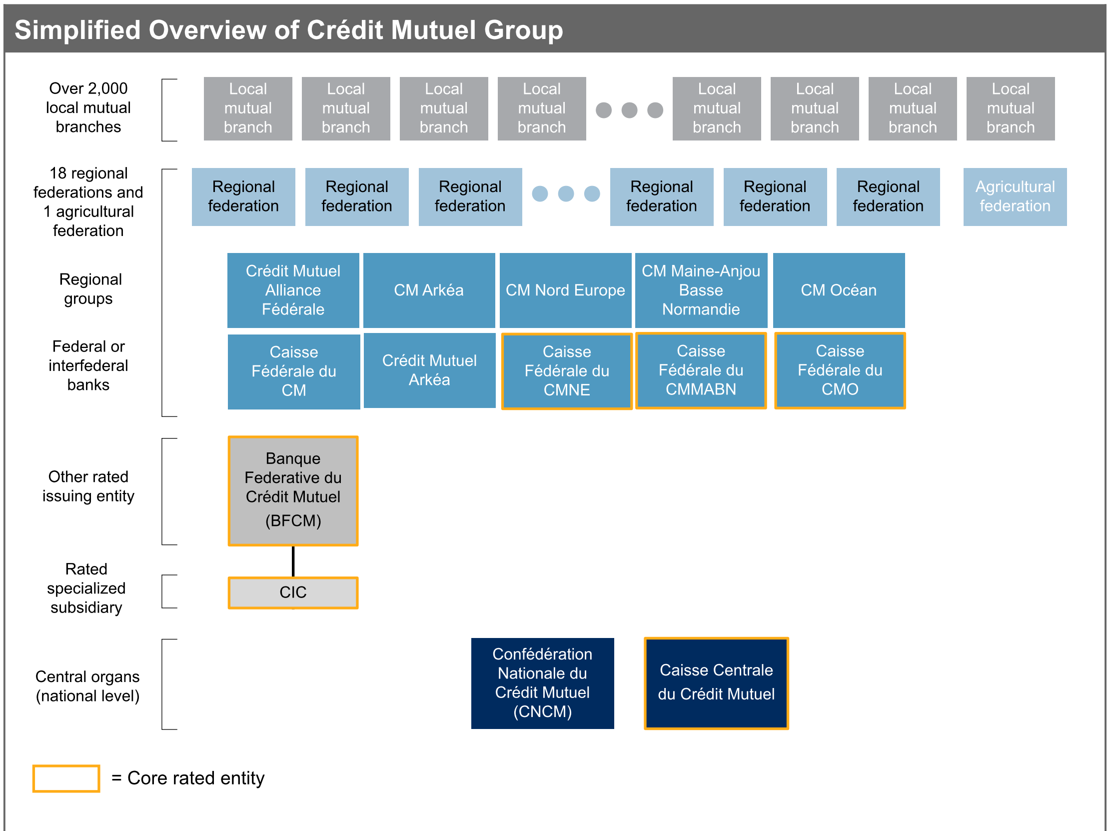
Respective Weight Of Crédit Mutuel's Regional Groups According To Key Figures



Source: Crédit Mutuel, 2019; S&P Global Ratings. *Antilles-Guyane has been part of Alliance Fédérale since Jan. 1, 2020.

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 (about 75% of CMG's total assets and net result), consisting of 13 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 (CNCM), established for regulatory purposes. Banque Fédérative du Crédit Mutuel's affiliation to the CNCM at the end of September 2020 as well as the new "Décision de Caractère Général" issued by CNCM in January 2020 (DCG n1-2020) confirm the cohesiveness and strength of Crédit Mutuel Group's solidarity mechanism.

Chart 2



CM--Crédit Mutuel.

With 74% of consolidated revenue in 2019 generated from retail banking, 17% from asset management, private banking and insurance, and 6% from corporate and investment banking, CMG has good recurrence of business volumes, which supports business stability. The pandemic will take its toll on CMG's activities, including the nonbank ones. We expect for instance the performance of insurance activities to weaken in 2020, with lower gross premium for life insurance, which is part of a strategy to support an increase in the proportion of unit-linked policies, and the sharp fall in the stock markets, which had a negative impact on insurance subsidiary 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"). The latter is part of a number of exceptional steps to support businesses and professionals from the detrimental effect of the lockdown.

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. Its main subsidiaries made up of network banks have been acquired primarily in Belgium, Germany, and Spain. Crédit Mutuel Alliance Fédérale acquired Germany-based consumer finance bank Targobank, which now provides factoring and leasing solutions, 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. Nondomestic activities represent about 20% of the group net banking revenues in 2019. 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.

Finally, CMG has long had proactive approach to technology, offering its customers innovative solutions, using for example IBM's Watson technology to improve services, while also simplifying the work of account managers. Arkéa Banking Services is well placed in private label banking service in the business-to-business market. In 2020, Axa Banque France teamed up with them. At the same time, CMG also continued to expand its retail branch network and proximity to customers, at a time when others decided to close branches. Going forward, we think this will nevertheless require CMG to find ways to lower costs in a more pronounced way, in particular if revenues come more under more pressure.

Table 2

Credit Mutuel Group--Business Position

	--Fiscal year ended Dec. 31--				
(%)	**2019**	**2018**	**2017**	**2016**	**2015**
Total revenues from business line (mil. €)	18,397	17,708	17,429	16,772	16,336
Retail banking/total revenues from business line	72.4	73.9	73.7	73.8	75.3
Commercial & retail banking/total revenues from business line	72.4	73.9	73.7	73.8	75.3
Corporate finance/total revenues from business line	5.6	6.1	6.6	6.5	6.5
Insurance activities/total revenues from business line	12.2	12.6	13.6	12.2	12.8
Asset management/total revenues from business line	4.7	4.6	4.8	4.6	4.6
Other revenues/total revenues from business line	5.1	2.9	1.3	2.9	0.8
Investment banking/total revenues from business line	5.6	6.1	6.6	6.5	6.5
Return on average common equity	6.7	6.6	5.8	6.7	6.6

Capital and earnings: The pandemic is lowering prospects of further capital build up in the next two years

In line with other cooperative groups, CMG retains most of its earnings, which in turn supports capital buildup, even when loan growth is dynamic. Although less profitable than listed peers when measured by return on equity (RoE), volatility of earnings is typically lower. With the pandemic, we expect CMG's RAC ratio before diversification will remain at about 10% in 2020 and 2021, compared with 10.1% in 2019. CMG's earnings, despite the more difficult operating conditions, remain supported by the strength of CMG's retail and insurance businesses and low risk profile.

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 about 2% of total adjusted capital (TAC) as of end-2019.

Our stable capital projections factor in the following assumptions:

- An average annual increase in adjusted risk-weighted assets (RWAs) of 3.5%-4.5% over 2020-2021, as the group continues to organically expand, mainly in retail banking activities in low-risk European countries.

- A cost of risk of €2.4 billion in 2020 since the group is likely to make substantial additions to its provisions for future risks. We forecast loan loss provisions reducing to €1.8 billion in 2021.
- Stable cost expenses in 2020, with a cost-to-income ratio remaining below 70%.
- Net income of €1.9 billion in 2020, and about €2.5 billion in 2021, below the €3.8 billion achieved in 2019. This is a result of the increase in loan loss provisions that will inevitably impact annual profit in the next two years.
- A stable solvency position at the insurance businesses, despite pressure from the interest-rate environment.
- No significant acquisitions.

The reported CET1 ratio was 18.3% on Dec. 31, 2019, one of the highest for a universal bank in Europe, and the leverage ratio stood at 6.9%. 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 minimum requirement for own funds and eligible liabilities (MREL) was set for CMG on a consolidated basis at 23.7% of RWAs or above 8% of total liabilities and own funds (TLOF). The estimated ratio is 37.5% of RWA and 14.2% of TLOF including eligible senior preferred debt.

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 RoE of 6.5% in the past few years. We expect RoE to decline to about 3%-4% in 2020-2021.

CMG will face more headwinds from lower-for-longer interest rates, and historically benefitted from the strong contribution from insurance activities and the consistently low average cost of risk. The group's foray into side businesses also means 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

	--Fiscal year ended Dec. 31--				
(%)	**2019**	**2018**	**2017**	**2016**	**2015**
Tier 1 capital ratio	18.6	17.9	17.9	16.3	16.4
S&P Global Ratings' RAC ratio before diversification	10.1	9.8	8.6	8.1	N/A
S&P Global Ratings' RAC ratio after diversification	10.6	10.3	9.2	8.6	N/A
Adjusted common equity/total adjusted capital	98.2	97.5	96.7	95.6	96.1
Net interest income/operating revenues	43.3	42.7	40.9	41.2	43.4
Fee income/operating revenues	23.7	24.9	24.3	23.5	23.8
Market-sensitive income/operating revenues	5.1	5.5	7.7	10.4	6.9

Table 3

Credit Mutuel Group--Capital And Earnings (cont.)

	--Fiscal year ended Dec. 31--				
(%)	2019	2018	2017	2016	2015
Cost to income ratio	63.1	64.1	63.6	63.8	63.2
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

N/A--Not applicable. RAC--Risk adjusted capital.

Table 4

Credit Mutuel Group--Risk-Adjusted Capital Framework Data

(Mil. €)	Exposure*	Basel III RWA	Average Basel III RW(%)	S&P Global Ratings RWA	Average S&P Global Ratings RW (%)
Credit risk					
Government & central banks	164,459,838.1	4,278,930.4	2.6	3,063,544.4	1.9
Of which regional governments and local authorities	10,516,929.3	2,148,259.6	20.4	378,707.8	3.6
Institutions and CCPs	45,824,173.5	8,185,206.6	17.9	8,249,441.1	18.0
Corporate	153,303,965.6	99,312,612.5	64.8	123,470,263.9	80.5
Retail	372,255,884.4	73,978,225.5	19.9	154,582,804.7	41.5
Of which mortgage	257,691,578.0	29,132,534.0	11.3	71,044,280.9	27.6
Securitization§	6,899,121.5	952,943.8	13.8	1,924,368.0	27.9
Other assets†	10,024,245.4	8,624,981.6	86.0	16,130,850.1	160.9
Total credit risk	752,767,228.5	195,332,900.4	25.9	307,421,272.3	40.8
Credit valuation adjustment					
Total credit valuation adjustment	--	762,201.2	--	0.0	--
Market Risk					
Equity in the banking book	7,663,825.4	20,874,112.7	272.4	64,356,832.6	839.7
Trading book market risk	--	2,253,712.9	--	3,375,903.8	--
Total market risk	--	23,127,825.6	--	67,732,736.4	--
Operational risk					
Total operational risk	--	23,645,675.0	--	28,292,257.4	--
	Exposure	**Basel III RWA**	**Average Basel II RW (%)**	**S&P Global Ratings RWA**	**% of S&P Global Ratings RWA**
Diversification adjustments					
RWA before diversification	--	287,931,503.3	--	403,446,266.1	100.0
Total Diversification/ Concentration Adjustments	--	--	--	(19,804,875.1)	(4.9)
RWA after diversification	--	287,931,503.3	--	383,641,391.0	95.1
		Tier 1 capital	**Tier 1 ratio (%)**	**Total adjusted capital**	**S&P Global Ratings RAC ratio (%)**
Capital ratio					
Capital ratio before adjustments		53,464,636.6	18.6	40,595,771.0	10.1
Capital ratio after adjustments‡		53,464,636.6	18.6	40,595,771.0	10.6

Table 4

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

*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 2019, S&P Global Ratings.

Risk position: Primarily focused on retail banking activities in France

Our assessment of CMG's risk position reflects the group's domestic focus on low-risk retail activities and its fairly low involvement in capital-market activities or other cyclical businesses. Still, we note some pockets of risks, like the group's expansion into consumer finance in the past years and the concentration of exposures in France.

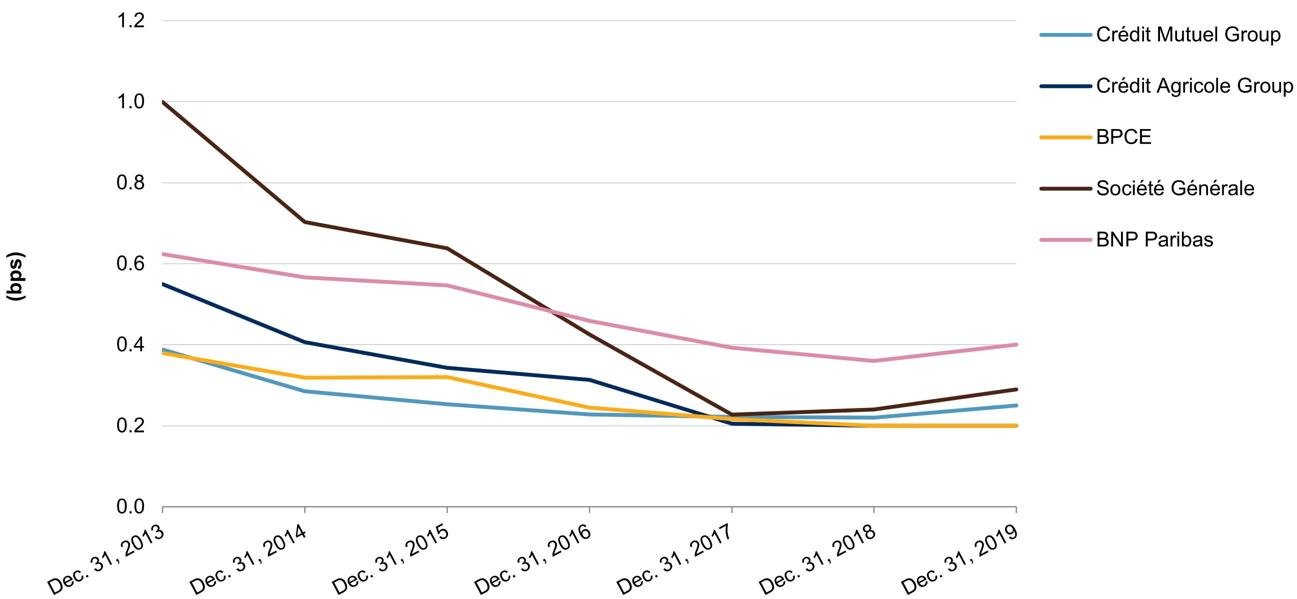
Domestic residential mortgages represent about half of CMG's total customer loans, but are naturally granular, collateralized, and have generated extremely low and stable losses throughout the credit cycle. Residential property prices could stagnate, or even moderately decline in some French cities and regions amid the recession triggered by the pandemic, but the main risk for CMG is rather a rise in unemployment, which would weaken borrowers' solvency. We note that residential real estate loans are fixed-rate, affordability ratios have improved due to the low interest rates and CMG, like other French banks, used strict debt to income and debt service ratios. Overall, we expect losses in the residential real estate segment to remain very low.

At group level, we expect nonperforming loans to remain below 3% by 2021, the coverage of bad loans by reserves to remain at 65%-70%, and the cost of risk at about 50 basis points (bps) in 2020, about 2x that in 2019. So far, like peers, the amount of defaults remains very low due to the support measures implemented by authorities to support the local economy. Still, as these measures are finite, the bank has booked forward-looking additional provisions to cover future losses within the business sectors identified as the most vulnerable during the pandemic. These highly exposed sectors include tourism, the automotive industry (excluding manufacturers), distribution (clothing), transportation, vehicle rental (light only), all of which account for a total exposure of about €10 billion. This is a small fraction of the loan book.

Consumer finance portfolios--with Cofidis and Targobank--constitute about 5% of total net customer loans. Targobank operates predominantly in the very low risk German market, which is typified by low household indebtedness and low unemployment. The bank had, including corporate customers, loans of €20.2 billion in June 2020. Cofidis offers riskier products, like revolving loans or credit cards, but overall size is modest, with retail bank loans outstanding of €12.6 billion. These activities carry structurally higher credit risk, but margins are wider.

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& Global Ratings; banks' financial presentations.

The group is a major bancassureur in France and is exposed to insurance risk. The lockdown had contrasting effects on the different insurance policy portfolios. As a large player operating many insurance lines, we note the fall in auto, home, and healthcare claims was largely offset by the increase in unemployment and death claims. The pandemic will likely continue to affect results in the second half of the year. The low interest rate, which is here to stay, and the volatility in equity markets are also risks for the solvency of insurance operations.

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 the 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. The group's modest international presence and its local and regional entrenchment due to 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 and the bank's track record is very good in that domain.

Table 5

Credit Mutuel Group--Risk Position

	--Fiscal year ended Dec. 31--				
(%)	**2019**	**2018**	**2017**	**2016**	**2015**
Growth in customer loans	6.7	5.5	4.3	7.4	5.6
Total diversification adjustment/S&P Global Ratings' RWA before diversification	(4.9)	(5.1)	(6.4)	(6.2)	N/A
Total managed assets/adjusted common equity (x)	23.4	22.9	24.0	26.8	18.6
New loan loss provisions/average customer loans	0.25	0.22	0.22	0.23	0.25
Net charge-offs/average customer loans	0.04	0.06	0.04	0.04	0.05
Gross nonperforming assets/customer loans + other real estate owned	3.0	3.1	3.3	3.9	4.1
Loan loss reserves/gross nonperforming assets	69.7	69.8	59.9	62.4	63.9

N/A--Not applicable. RWA--Risk weighted assets.

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 94.7% and 0.89x, respectively, at year-end 2019, in line with the previous year and we do not anticipate these metrics will change much in 2020 or 2021. Its large retail banking network, and loyal and very granular deposit base are strong qualitative mitigating factors to our funding and liquidity metrics being somewhat below those of 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. The growth in deposits led to a new improvement in the loan-to-deposit ratio, which estimate at 121% on Dec. 31, 2019 (compared with 180% at year-end 2008). CMG has a large and increasing core deposit base that stood at €404 billion at year-end 2019 and was collected mainly by the regional banks and CIC. Deposits are granular and sticky, thanks to the strong retail franchise of the regional banks and of the Crédit Mutuel brand.

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 €36 billion at year-end 2019 and cannot be used to fund loans. We consider that CMG's access to European Central Bank funding is opportunistic.

Wholesale funding will remain an important part of the group's funding. 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 €125 billion at the end of 2019. 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. As of June 2020, Banque Fédérative of Crédit Mutuel, part of the largest subgroup had issued more than 80% of its annual program, raising €10.4 billion, in different formats (27% senior preferred, 29% covered bonds, 19% nonpreferred, 22% NEU MTN, and 3% with the Caisse de Refinancement de l'Habitat.

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 loan assets to access central banks in case of need.

Table 6

Credit Mutuel Group--Funding And Liquidity					
	--Fiscal year ended Dec. 31--				
(%)	**2019**	**2018**	**2017**	**2016**	**2015**
Core deposits/funding base	64.3	62.8	63.2	61.9	60.7
Customer loans (net)/customer deposits	121.2	126.0	126.2	125.7	130.5
Long-term funding ratio	79.2	80.4	79.7	77.8	78.0
Stable funding ratio	94.7	95.3	96.0	94.9	94.6
Short-term wholesale funding/funding base	22.6	21.3	22.1	24.1	23.9
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	(9.1)	(6.6)	(5.0)	(5.5)	(4.3)
Short-term wholesale funding/total wholesale funding	63.0	57.0	59.6	62.9	60.3
Narrow liquid assets/3-month wholesale funding (x)	1.8	1.5	1.6	1.6	N/A

N/A--Not applicable.

Environmental, social, and governance

Environmental, social, and governance (ESG) factors for CMG are broadly in line with those of the industry and country peers. Social factors are important due to changing customer preferences and increased regulatory focus on banks' business conduct, including how they treat customers. This is an area of particular attention for the group, especially in its consumer finance business, which caters to a typically more fragile clientele, and in the management of its large branch network. Like for peers in France, Cofidis operates in a consumer-friendly jurisdiction, with a usury rate and strict laws on over-indebtedness, both of which limit abusive lending practices we have seen in neighboring countries. Digitalization and changing customer preferences are key risks for all banks. Building on strict rules in terms of IT security and privacy, the bank uses private cloud networks located in France, with backups in Germany. The group displays a highly decentralized organizational model. Its local cooperative banks are credit institutions whose equity capital is held by members who are also customers. These entrenched local roots support the group's focus on sustainability and its leading position within retail and small and midsize enterprise clients.

The intragroup tensions between Crédit Mutuel Arkéa (the second-largest grouping of regional federations, representing about 15% of Crédit Mutuel's total assets) and the group's central governance body (Confédération Nationale du Crédit Mutuel) are unusual in large banking groups. So far, it has not weighed on the group's operational effectiveness or financial performance, which is why we do not yet consider these tensions credit-relevant.

From an environmental standpoint, the group could be vulnerable to evolving norms and legislation that may affect the credit quality of its loan exposures and securities investments (including in insurance). The group has set financing exclusions on certain sectors and companies that could have a negative impact on humans or the environment. Given its relatively small portfolio of large corporates, transition risks to a greener economy are manageable in our view. Still, retail banks are also challenged to reach carbon-neutrality on their housing loan books and CMG considers this a priority for the next few years.

Support: No ALAC uplift at this stage since a buffer above a 5% threshold remains distant while maintaining a strong capital and earnings position

We believe a weakening of the group's SACP, currently 'a', could in theory be offset by incorporating one notch of uplift for additional loss-absorbing capacity (ALAC) support into our ratings. At this stage, a scenario leading to an ALAC buffer commensurate with one notch of uplift, while maintaining strong capitalization, is distant, although we note an acceleration in issuance plans. As for peers, we will consider progress in the build-up of ALAC together with CMG's financial performance and resilience in 2020, and whether prevailing forecasts still support the French economic recovery as currently expected. We may also decide that the GCP for CMG is more stable than French peers', even if trends remain negative for the French banking system.

We do not currently factor ALAC uplift into our rating. Crédit Mutuel Alliance Fédérale, CMG's largest subgroup started issuing its first senior nonpreferred notes in 2019. We estimate that the size of the ALAC buffer will be about 4% by 2021 and still below, although close to, 5% in 2022. This is still short of a 5% threshold that would be commensurate with one notch of ALAC uplift. We believe the group has a credible strategy to issue bail-in-able instruments over time. Still, it is not subject to TLAC rules and is not under any time constraints. It 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 the MREL requirement comfortably, including senior preferred issues.

We consider also the uncertainties in the economic conditions. For example, a worsening of our economic risk for the French banking sector (the trend is currently negative) would result in higher RWAs, the denominator of the ALAC ratio.

As of end of 2019, we estimate the ALAC buffer at 273 bps.

Additional rating factors: None

We consider the group rating strengths are well captured in the 'a' group SACP, and do not apply an additional rating factor.

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.

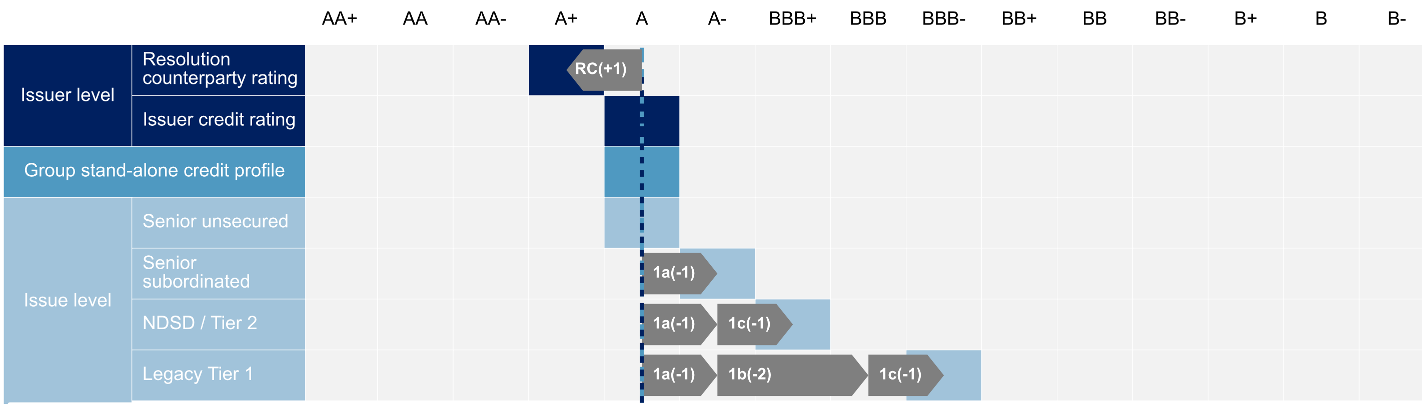
We then make the following negative adjustments to issuer credit ratings (ICRs) to derive the issue ratings:

- 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.

Related Criteria

- General Criteria: Group Rating Methodology, July. 1, 2019
- General Criteria: Hybrid Capital: Methodology And Assumptions, 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
- Banks: Bank Rating Methodology And Assumptions: Additional Loss-Absorbing Capacity, April 27, 2015
- Criteria - Financial Institutions - Banks: Assessing Bank Branch Creditworthiness, Oct. 14, 2013
- Criteria - Financial Institutions - Banks: Quantitative Metrics For Rating Banks Globally: Methodology And Assumptions, July 17, 2013
- Criteria - Financial Institutions - Banks: Banks: Rating Methodology And Assumptions, Nov. 9, 2011
- Criteria - Financial Institutions - Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9, 2011

- Principles Of Credit Ratings, Feb. 16, 2011
- Criteria - Financial Institutions - Banks: Commercial Paper I: Banks, March 23, 2004

Related Research

- Banking Industry Country Risk Assessment: France, Aug. 26, 2020
- Domestic Credit Losses For French Banks Could More Than Double Amid COVID-19 Pandemic, July 10, 2020

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 17, 2020)*

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
Issuer Credit Ratings History		
23-Apr-2020	*Foreign Currency*	A/Negative/A-1
12-Oct-2016		A/Stable/A-1
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		
Banque Federative du Credit Mutuel		
Issuer Credit Rating		A/Negative/A-1

Ratings Detail (As Of November 17, 2020)*(cont.)	
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+
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
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.