Research Update:

Group Credit Mutuel Outlook Revised To Negative On Economic Impact Of COVID-19; Ratings Affirmed

April 23, 2020

Overview

- Despite the French government's measures to contain the COVID-19 pandemic, the French economy and its domestic banks face an unprecedented challenge, with an expected 8% GDP contraction in 2020.
- In the wake of this crisis, we expect that French banks' business development and earnings, asset quality, and balance-sheet management will be meaningfully affected through end-2020 and into 2021, and we see a possibility that economic and industry risks could increase for the French banking sector.
- Group Credit Mutuel has entered the pandemic from a position of strength--notably its very diverse business model and leading franchises, and solid capital position--but we see increased downside risks to its earnings and asset quality if economic recovery is significantly delayed.
- As a result, we are revising our outlook to negative from stable, and affirming our 'A/A-1' credit ratings, on Group Credit Mutuel's core entities.

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

Rating Action

On April 23, 2020, S&P Global Ratings revised to negative from stable its outlook on France-based Caisse Centrale du Credit Mutuel and rated entities. Banking and insurance entities form Group Credit Mutuel (GCM) and are factored into our consolidated group credit profile (GCP).

At the same time, we affirmed our long- and short-term ratings on Caisse Centrale du Credit Mutuel and its core entities at 'A/A-1' (issuer credit ratings) and 'A+/A-1' (resolution counterparty ratings) together with the ratings assigned to its related entities.

We also affirmed all issue ratings on the debt instruments.

Rationale

Today's rating action follows a review of several Western European banking sectors, including the French one. We revised our trend to negative from stable on our economic risk and industry risk for France's Bank Industry Country Risk Assessment, or BICRA. The anchor for a domestic bank in France remains 'bbb+'. France is in group 3, like the U.S., the U.K., Australia, the Netherlands, and Denmark.

Until the start of March, French banks, like their European counterparts, were fully engaged with the same two key themes that have been paramount in recent years--harmonizing balance sheet strength with solid investor returns, and identifying how to refine business and operating models in the face of the looming risks and opportunities of the digital era. For the short term at least, the COVID-19 pandemic has changed (almost) everything. We are now expecting a close to 8% GDP contraction in France, and 7.3% in the eurozone, before a rebound of about 6% in 2021. Even under this base case, the effects of COVID-19 will be evident for long after the pandemic subsides.

French and European authorities have delivered unprecedented policy responses in the form of monetary, fiscal, and regulatory support to their economies. However, while we expect banks in France to remain broadly resilient in the face of this short-term cyclical shock, we expect that it will have a meaningful impact on asset quality, revenues, profitability, liquidity, and, potentially, capitalization.

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. Nevertheless, 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. We note that the intense market volatility in first-quarter 2020, compounded by low interest rates, could also weaken the solvency of large insurance operations.

We believe the weakening of the group's stand-alone credit profile, currently 'a', could in theory be offset by incorporating one notch of uplift for additional loss-absorbing capacity (ALAC) support into our ratings. Still, the group has so far issued a lower amount of bail-inable debt, unlike all other French banks that are deemed Globally Systemically Important (G-SIBS).

Outlook

The negative outlook on Caisse Centrale du Credit Mutuel and its core banking entities (Group Credit Mutuel or GCM) 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.

Downside scenario

More specifically, we could lower our 'A' issuer credit rating on the banking group's core members in the next 12-24 months if we were to see a weakening of the group SACP, unless this were offset by a bail-inable cushion of debts commensurate with one notch of ALAC uplift. A lower group SACP for GCM would still result in a negative rating action on the group's subordinated instruments, including senior nonpreferred note—since those instruments would not benefit from an ALAC notch.

A weakening of group creditworthiness and lower ratings could result from us revising down our economic and industry risks in the French banking market, and lowering our French banking industry anchor to 'bbb'. 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 RAC ratio of below 10%, or if intragroup tensions with CMA were to heighten once again, challenging the group's function, damaging its reputation, and weakening its operating performance.

Upside scenario

We would revise the outlook to stable once the pandemic recedes and when the prospects of an economic recovery in France become clearer. We would also revise the outlook back to stable if the group built bail-inable buffers offsetting a weaker SACP while maintaining strong capitalization.

Ratings Score Snapshot

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	To	From
Issuer Credit Rating	A/Negative/A-1	A/Stable/A-1
SACP	a	a
Anchor	bbb+	bbb+
Business Position	Strong (+1)	Strong (+1)
Capital and Earnings	Strong (+1)	Strong (+1)
Risk Position	Adequate (0)	Adequate (0)
Funding and Liquidity	Avge and Adequate(0)	Avge and Adequate(0)
Support	(0)	(0)
ALAC Support	(0)	(0)
GRE Support	(0)	(0)
Group Support	(0)	(0)
Sovereign Support	(0)	(0)
Additional Factors	(0)	(0)

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

Related Research

- Negative Rating Actions Taken On Various French Banks On Deepening COVID-19 Downside Risks, April 23, 2020
- How COVID-19 Risks Prompted European Bank Rating Actions, April 23, 2020
- Europe's AT1 Market Faces The COVID-19 Test: Bend, Not Break, April 22, 2020
- How COVID-19 Is Affecting Bank Ratings, April 22, 2020
- Europe Braces For A Deeper Recession In 2020, April 20, 2020
- European Banks' First-Quarter Results: Many COVID-19 Questions, Few Conclusive Answers, April 1, 2020
- COVID-19: The Steepening Cost To The Eurozone And U.K. Economies, March 26, 2020
- COVID-19 Countermeasures May Contain Damage To Europe's Financial Institutions For Now, March 13, 2020
- The Coronavirus Will Shave 50 Basis Points Off Eurozone Growth, March 4, 2020
- Credit Mutuel, Nov. 25, 2019