

Credit Mutuel Alliance Federale

Update

Key Rating Drivers

Stable Business Model: Credit Mutuel Alliance Federale's (CM Alliance Federale) ratings reflect a stable, consistently profitable retail and commercial banking-focused business model. They also consider a low risk appetite, sound asset quality, strong capitalisation and adequate liquidity.

Rated on Standalone Basis: CM Alliance Federale is part of the wider Credit Mutuel (CM) cooperative group. Fitch rates CM Alliance Federale as a banking group backed by a mutual-support mechanism. The agency's ratings distinguish CM Alliance Federale from CM group as CM Alliance Federale's large size would make it difficult for other CM group members to support it, despite the additional mutual support mechanism between them.

Resilient Asset Quality: CM Alliance Federale's 2.6% impaired loan ratio at end-2021 remained higher than that of similarly rated European peers, but Fitch believes the bank's high coverage by loan loss allowances and lower exposure to vulnerable sectors mitigate downside risks. CM Alliance Federale's asset quality has been resilient and we expect the impaired loan ratio will remain below 3% in 2022. This is despite the moderate impaired loan inflows from the bank's SME loan portfolio that we believe will materialise in 2022.

Recovering Profitability: Operating profitability has steadily improved over the past 10 years as CM Alliance Federale has integrated a growing number of local CM federations while maintaining better cost efficiency than larger French peers. Earnings diversification benefits from CM Alliance Federale's insurance and consumer-lending activities. We expect operating profit/risk-weighted assets (RWAs) to reach at least 2% over 2022 (2021: 2.5%) as activity remains above 2020 levels across CM Alliance Federale's main businesses.

Strong Capitalisation: CM Alliance Federale's strong capitalisation underpins its ratings and compares favourably with most French and European banks. This is owing to the group's prudent capital planning and limited pay-outs to cooperative shareholders. The group's end-2021 fully loaded common equity Tier 1 (CET1) ratio and Basel leverage ratio of 18.8% and 7.6%, respectively, provide ample buffer above regulatory requirements.

Rating Sensitivities

Broader Franchise, Diversification: An upgrade would require a significant strengthening of CM Alliance Federale's franchise and increased geographic and business diversification, as well as significant improvements in operating profit/RWAs while maintaining a conservative risk appetite. A sustainable improvement in the impaired loan ratio to 1% or lower, which is unlikely given the current ratio, would also be rating positive.

Weaker Asset Quality, Profitability: The ratings could be downgraded on a sustained reduction of the bank's operating profit/RWAs to below 1.5%, and deterioration in the CET1 ratio to below 14%. Asset-quality deterioration would also be rating negative if CM Alliance Federale's impaired loan ratio increases materially above 4%.

Contagion from CM Group Entities: A weakening in the creditworthiness of other CM group members, although not expected, could also negatively affect CM Alliance Federale's ratings.

Ratings

Foreign Currency

Long-Term IDR	A+
Short-Term IDR	F1

Viability Rating a+

Support Rating	5
Support Rating Floor	NF

Sovereign Risk

Long-Term Foreign- and Local-Currency IDRs	AA
Country Ceiling	AAA

Outlooks

Long-Term Foreign-Currency IDR	Stable
Sovereign Long-Term Foreign- and Local-Currency IDRs	Negative

Applicable Criteria

[Bank Rating Criteria \(November 2021\)](#)

Related Research

[Global Economic Outlook \(March 2022\)](#)

[Large French Banks: Deteriorating 2022 Prospects \(March 2022\)](#)

[What Investors Want to Know: Impacts on French Banks from Russia-Ukraine Conflict \(March 2022\)](#)

[Fitch Revises Credit Mutuel Alliance Federale's Outlook to Stable; Affirms IDR at 'A+' \(October 2021\)](#)

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Related Issuer Ratings

Banque Federative du Credit Mutuel S.A.	
Long- and Short-Term IDRs	A+/Stable/F1
Derivative Counterparty Rating	AA-(dcr)
Viability Rating	a+
Support Rating	5
Support Rating Floor	No Floor
Credit Industriel et Commercial	
Long- and Short-Term IDRs	A+/Stable/F1
Viability Rating	a+
Support Rating	5
Support Rating Floor	No Floor

Source: Fitch Ratings

Fitch assigns common Viability Ratings (VRs) to CM Alliance Federale and its subsidiaries, Banque Federative du Credit Mutuel S.A. (BFCM) and Credit Industriel et Commercial S.A. (CIC). Neither subsidiary is affiliated to CM Alliance Federale’s central body Caisse Federale de CM, but BFCM has been affiliated to CM group’s central body since September 2020 and as such it benefits from the CM-wide support mechanism.

BFCM makes up 75% of CM Alliance Federale’s consolidated assets (the other 25% relate to local CM banks) pro forma for the integration of Credit Mutuel Nord Europe. It is the group’s main issuing vehicle on financial markets and it coordinates the group’s subsidiaries. CIC is owned by BFCM and accounts for about 42% of pro forma group assets. It is one of the group’s two retail and commercial networks in France and hosts the group’s small corporate and investment banking activities. BFCM and CIC are highly integrated with CM Alliance Federale in management, systems, capital and liquidity. This means that the subsidiaries’ and CM Alliance Federale’s credit profiles cannot be separated.

Debt Ratings

Deposits and Senior Debt

BFCM’s and CIC’s long-term deposits and senior preferred debt ratings are one notch above CM Alliance Federale’s Long-Term Issuer Default Rating (IDR) to reflect the protection that would accrue to their depositors and senior preferred creditors from CM Alliance Federale’s sizeable equity and resolution debt buffers in a resolution.

The total minimum requirement for own funds and eligible liabilities (MREL) is set at the level of the CM group at 20.99% of RWAs. As CM group does not have a central debt issuance entity, each of the CM sub-groups, including CM Alliance Federale, need to have own funds and eligible liabilities above this threshold for the CM group to comply. We estimate that CM Alliance Federale had eligible liabilities and own funds, excluding senior preferred debt, representing about 24.5% of its RWAs at end-2021. We expect CM Alliance Federale will continue to meet its share of CM group’s MREL without recourse to senior preferred debt.

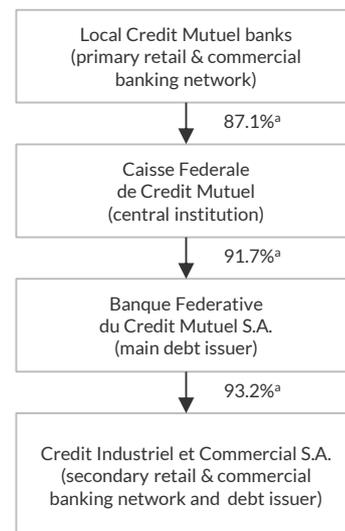
The deposit and senior preferred debt’s short-term ratings of ‘F1+’ for BFCM and CIC map with the ‘AA-’ long-term ratings.

BFCM’s senior non-preferred debt’s long-term rating is in line with BFCM’s Long-Term IDR.

Subordinated Debt

We rate BFCM’s subordinated Tier 2 debt two notches below CM Alliance Federale’s VR for loss severity as we expect recoveries to be poor for this type of debt in the event of a bank failure or resolution. Deeply subordinated legacy Tier 1 securities are rated four notches below CM Alliance Federale’s VR to reflect the high loss severity risk of these securities (two notches from the VR), and a high risk of non-performance (an additional two notches) relative to CM Alliance Federale’s VR.

Simplified Structure Chart



^a Remaining balance owned by other CM Alliance Federale entities
 Source: Fitch Ratings, CM Alliance Federale

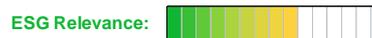
Debt Rating Classes

Debt level	Rating
Banque Federative du Credit Mutuel S.A.	
Deposits	AA-/F1+
Senior preferred	AA-/F1+
Senior non-preferred	A+
Subordinated Tier 2	A-
Legacy Tier 1	BBB
Credit Industriel et Commercial S.A.	
Deposits	AA-/F1+
Senior preferred	AA-/F1+

Source: Fitch Ratings

Ratings Navigator

Credit Mutuel Alliance Federale



Banks
 Ratings Navigator

	Peer Ratings	Operating Environment	Company Profile	Management & Strategy	Risk Appetite	Asset Quality	Earnings & Profitability	Capitalisation & Leverage	Funding & Liquidity	Viability Rating	Support Rating Floor	Issuer Default Rating
aaa										aaa	AAA	AAA
aa+										aa+	AA+	AA+
aa										aa	AA	AA
aa-										aa-	AA-	AA-
a+										a+	A+	A+ Stable
a										a	A	A
a-										a-	A-	A-
bbb+										bbb+	BBB+	BBB+
bbb										bbb	BBB	BBB
bbb-										bbb-	BBB-	BBB-
bb+										bb+	BB+	BB+
bb										bb	BB	BB
bb-										bb-	BB-	BB-
b+										b+	B+	B+
b										b	B	B
b-										b-	B-	B-
ccc+										ccc+	CCC+	CCC+
ccc										ccc	CCC	CCC
ccc-										ccc-	CCC-	CCC-
cc										cc	CC	CC
c										c	C	C
f										f	NF	D or RD

Significant Changes

Strong 2021 Performance

CM Alliance Federale had a very strong performance in 2021 and surpassed all the financial targets set in its 2019-2023 strategic plan. It achieved the lowest cost/income ratio of all French banks at 57% in 2021, a level which also compares favourably with the large European banks average. The group's performance strongly benefited from steady loan growth in retail and commercial banking (55% of group revenue), a strong rebound in its insurance activities (20% of revenue), which had been burdened by ad hoc solidarity pay-outs to policyholders in 2020, and exceptionally strong performances in the smaller private banking and private equity business lines.

This strong performance will however prove difficult to reproduce in 2022 as macroeconomic prospects deteriorate. We expect net interest margin pressure to affect French retail banking, driven by higher rates credited on regulated savings and weaker loan volume prospects than initially anticipated. CM Alliance Federale's geographic (Belgium) and business diversification (asset management) will slightly benefit from the integration of Credit Mutuel Nord Europe from January 2022 onwards, which could support revenue generation.

Weaker Macro Prospects Create Manageable Downside Risks

CM Alliance Federale has no direct exposure to Russia and Ukraine through subsidiaries or joint-ventures, contrary to some of its French banking peers. The group's cross-border exposure to these two countries poses virtually no downside risks for the group's asset quality and earnings. The exposure is almost negligible at EUR93 million (of which EUR51 million are covered by a guarantee from the French development bank) and EUR51 million towards Ukraine and Russian counterparties, respectively. We believe CM Alliance Federale is in a stronger position than some of its domestic peers to absorb downside risks to earnings from weaker macro-economic prospects for European economies.

Fitch has lowered its forecast for economic growth in France and the eurozone to 3% in 2022 from 3.7% and 4.5%, respectively, and we expect knock-on effects from the war in Ukraine and commodity price inflation on business volumes, and heightened asset-quality risks.

Bar Chart Legend

Vertical bars – VR range of Rating Factor
 Bar Colours – Influence on final VR
 Higher influence (Red)
 Moderate influence (Blue)
 Lower influence (Light Blue)
 Bar Arrows – Rating Factor Outlook
 Positive (Up arrow)
 Negative (Down arrow)
 Evolving (Double arrow)
 Stable (Square)

Summary Financials and Key Ratios

	31 Dec 21		31 Dec 20	31 Dec 19	31 Dec 18
	Year end (USDm)	Year end (EURm)	Year end (EURm)	Year end (EURm)	Year end (EURm)
	Audited - unqualified				
Summary income statement					
Net interest and dividend income	8,096	7,158	7,069	6,645	6,217
Net fees and commissions	4,635	4,098	3,650	3,599	3,613
Other operating income	5,258	4,649	3,506	4,332	4,307
Total operating income	17,989	15,905	14,225	14,576	14,137
Operating costs	10,334	9,137	8,867	8,942	8,714
Pre-impairment operating profit	7,655	6,768	5,358	5,634	5,423
Loan and other impairment charges	791	699	2,377	1,061	904
Operating profit	6,864	6,069	2,981	4,573	4,519
Other non-operating items (net)	-948	-838	582	79	44
Tax	1,927	1,704	968	1,507	1,570
Net income	3,989	3,527	2,595	3,145	2,993
Other comprehensive income	185	164	2	579	-326
Fitch comprehensive income	4,175	3,691	2,597	3,724	2,667
Summary balance sheet					
Assets					
Gross loans	512,291	452,954	428,052	392,068	369,790
- Of which impaired	13,259	11,723	12,497	12,079	11,577
Loan loss allowances	10,400	9,195	9,612	8,445	8,109
Net loans	501,892	443,759	418,440	383,623	361,681
Interbank	67,042	59,277	54,109	39,184	36,991
Derivatives	6,933	6,130	7,268	7,510	7,111
Other securities and earning assets	218,533	193,221	196,584	195,299	184,649
Total earning assets	794,400	702,387	676,401	625,616	590,432
Cash and due from banks	137,056	121,181	99,575	71,171	56,696
Other assets	23,002	20,338	20,002	21,732	20,236
Total assets	954,458	843,906	795,978	718,519	667,364
Liabilities					
Customer deposits	480,882	425,183	408,812	336,803	302,295
Interbank and other short-term funding	145,305	128,475	110,762	108,796	112,631
Other long-term funding	89,806	79,404	74,928	75,468	69,255
Trading liabilities and derivatives	8,324	7,360	5,927	6,057	6,762
Total funding and derivatives	724,318	640,422	600,429	527,124	490,943
Other liabilities	168,803	149,251	144,951	143,222	131,799
Preference shares and hybrid capital	1,156	1,022	1,023	1,026	1,027
Total equity	60,182	53,211	49,575	47,147	43,595
Total liabilities and equity	954,458	843,906	795,978	718,519	667,364
Exchange rate		USD1 = EUR0.884173	USD1 = EUR0.821963	USD1 = EUR0.89015	USD1 = EUR0.873057

Source: Fitch Ratings, Fitch Solutions, CM Alliance Federale

Summary Financials and Key Ratios

	31 Dec 21	31 Dec 20	31 Dec 19	31 Dec 18
Ratios (annualised as appropriate)				
Profitability				
Operating profit/risk-weighted assets	2.5	1.3	2.0	2.1
Net interest income/average earning assets	1.0	1.1	1.1	1.1
Non-interest expense/gross revenue	57.4	62.3	61.4	61.9
Net income/average equity	6.9	5.4	6.9	7.1
Asset quality				
Impaired loans ratio	2.6	2.9	3.1	3.1
Growth in gross loans	5.8	9.2	6.0	7.3
Loan loss allowances/impaired loans	78.4	76.9	69.9	70.0
Loan impairment charges/average gross loans	0.2	0.5	0.3	0.2
Capitalisation				
Common equity Tier 1 ratio	18.8	17.8	17.3	16.6
Fully loaded common equity Tier 1 ratio	18.8	17.8	17.3	16.6
Tangible common equity/tangible assets	5.9	5.7	5.9	5.9
Basel leverage ratio ^a	7.6	7.0	6.5	6.1
Net impaired loans/common equity Tier 1	5.5	6.9	9.3	9.8
Funding and liquidity				
Gross loans/customer deposits	106.5	104.7	116.4	122.3
Liquidity coverage ratio	182.0	170.2	153.7	125.8
Customer deposits/total non-equity funding	66.9	68.5	64.4	62.1
Net stable funding ratio	125.6	n.a.	n.a.	n.a.

^aNote: CM Alliance Federale's end-2021 leverage ratio is reported using the temporary allowance to exclude Eurosystem central bank deposits CM Alliance Federale's end-2021 leverage ratio was 5.9% when excluding this temporary allowance (end-2020:6.2%)

Source: Fitch Ratings, Fitch Solutions, CM Alliance Federale

Sovereign Support Assessment

Support Rating Floor	Value		
Typical D-SIB SRF for sovereign's rating level (assuming high propensity)	A or A-		
Actual country D-SIB SRF	NF		
Support Rating Floor:	NF		
Support Factors	Positive	Neutral	Negative
Sovereign ability to support system			
Size of banking system relative to economy			✓
Size of potential problem	✓		
Structure of banking system			✓
Liability structure of banking system		✓	
Sovereign financial flexibility (for rating level)	✓		
Sovereign propensity to support system			
Resolution legislation with senior debt bail-in			✓
Track record of banking sector support		✓	
Government statements of support		✓	
Sovereign propensity to support bank			
Systemic importance		✓	
Liability structure of bank		✓	
Ownership		✓	
Specifics of bank failure		✓	

No Reliance on Sovereign Support

CM Alliance Federale's, BFCM's and CIC's Support Ratings of '5' and Support Rating Floors of 'No Floor' reflect Fitch's view that although possible, sovereign support cannot be relied on. Legislative, regulatory and policy initiatives, including the implementation of the EU's Bank Recovery and Resolution Directive, have substantially reduced the likelihood of sovereign support for EU commercial banks in general, in our view. This implies that senior creditors would probably be required to participate in losses, if necessary, instead of the bank receiving sovereign support, despite CM group's systemic importance.

Environmental, Social and Governance Considerations

FitchRatings Credit Mutuel Alliance Federale

Credit-Relevant ESG Derivation

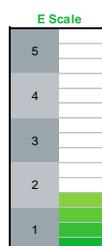
Credit Mutuel Alliance Federale has 5 ESG potential rating drivers

- Credit Mutuel Alliance Federale has exposure to compliance risks including fair lending practices, mis-selling, repossession/foreclosure practices, consumer data protection (data security) but this has very low impact on the rating.
- Governance is minimally relevant to the rating and is not currently a driver.

			Overall ESG Scale	
key driver	0	issues	5	
driver	0	issues	4	
potential driver	5	issues	3	
not a rating driver	4	issues	2	
	5	issues	1	

Environmental (E)

General Issues	E Score	Sector-Specific Issues	Reference
GHG Emissions & Air Quality	1	n.a.	n.a.
Energy Management	1	n.a.	n.a.
Water & Wastewater Management	1	n.a.	n.a.
Waste & Hazardous Materials Management; Ecological Impacts	1	n.a.	n.a.
Exposure to Environmental Impacts	2	Impact of extreme weather events on assets and/or operations and corresponding risk appetite & management; catastrophe risk; credit concentrations	Company Profile; Management & Strategy; Risk Appetite; Asset Quality



How to Read This Page

ESG scores range from 1 to 5 based on a 15-level color gradation. Red (5) is most relevant and green (1) is least relevant.

The Environmental (E), Social (S) and Governance (G) tables break out the individual components of the scale. The right-hand box shows the aggregate E, S, or G score. General Issues are relevant across all markets with Sector-Specific Issues unique to a particular industry group. Scores are assigned to each sector-specific issue. These scores signify the credit-relevance of the sector-specific issues to the issuing entity's overall credit rating. The Reference box highlights the factor(s) within which the corresponding ESG issues are captured in Fitch's credit analysis.

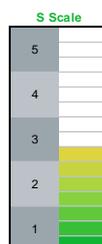
The Credit-Relevant ESG Derivation table shows the overall ESG score. This score signifies the credit relevance of combined E, S and G issues to the entity's credit rating. The three columns to the left of the overall ESG score summarize the issuing entity's sub-component ESG scores. The box on the far left identifies some of the main ESG issues that are drivers or potential drivers of the issuing entity's credit rating (corresponding with scores of 3, 4 or 5) and provides a brief explanation for the score.

Classification of ESG issues has been developed from Fitch's sector ratings criteria. The General Issues and Sector-Specific Issues draw on the classification standards published by the United Nations Principles for Responsible Investing (PRI) and the Sustainability Accounting Standards Board (SASB).

Sector references in the scale definitions below refer to Sector as displayed in the Sector Details box on page 1 of the navigator.

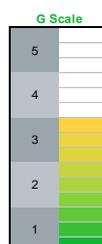
Social (S)

General Issues	S Score	Sector-Specific Issues	Reference
Human Rights, Community Relations, Access & Affordability	2	Services for underbanked and underserved communities: SME and community development programs; financial literacy programs	Company Profile; Management & Strategy; Risk Appetite
Customer Welfare - Fair Messaging, Privacy & Data Security	3	Compliance risks including fair lending practices, mis-selling, repossession/foreclosure practices, consumer data protection (data security)	Operating Environment; Company Profile; Management & Strategy; Risk Appetite
Labor Relations & Practices	2	Impact of labor negotiations, including board/employee compensation and composition	Company Profile; Management & Strategy
Employee Wellbeing	1	n.a.	n.a.
Exposure to Social Impacts	2	Shift in social or consumer preferences as a result of an institution's social positions, or social and/or political disapproval of core banking practices	Company Profile; Financial Profile



Governance (G)

General Issues	G Score	Sector-Specific Issues	Reference
Management Strategy	3	Operational implementation of strategy	Management & Strategy
Governance Structure	3	Board independence and effectiveness; ownership concentration; protection of creditor/stakeholder rights; legal/compliance risks; business continuity; key person risk; related party transactions	Management & Strategy; Earnings & Profitability; Capitalisation & Leverage
Group Structure	3	Organizational structure; appropriateness relative to business model; opacity; intra-group dynamics; ownership	Company Profile
Financial Transparency	3	Quality and frequency of financial reporting and auditing processes	Management & Strategy



CREDIT-RELEVANT ESG SCALE	
How relevant are E, S and G issues to the overall credit rating?	
5	Highly relevant, a key rating driver that has a significant impact on the rating on an individual basis. Equivalent to "higher" relative importance within Navigator.
4	Relevant to rating, not a key rating driver but has an impact on the rating in combination with other factors. Equivalent to "moderate" relative importance within Navigator.
3	Minimally relevant to rating, either very low impact or actively managed in a way that results in no impact on the entity rating. Equivalent to "lower" relative importance within Navigator.
2	Irrelevant to the entity rating but relevant to the sector.
1	Irrelevant to the entity rating and irrelevant to the sector.

CM Alliance Federale's highest level of ESG credit relevance is a score of '3'. This means ESG issues are credit neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity.

The ratings above were solicited and assigned or maintained at the request of the rated entity/issuer or a related third party. Any exceptions follow below.

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