FitchRatings

28 OCT 2021

Fitch Revises Credit Mutuel Alliance Federale's Outlook to Stable; Affirms IDR at 'A+'

Fitch Ratings - Paris - 28 Oct 2021: Fitch Ratings has revised Credit Mutuel Alliance Federale's (CM Alliance Federale) Outlook to Stable from Negative, while affirming the bank's Long-Term Issuer Default Rating (IDR) at 'A+' and Viability Rating (VR) at 'a+'.

The revision of the Outlook primarily reflects Fitch's view that downside risks to CM Alliance Federale's asset quality, earnings and capitalisation have receded, supported by improved macro-economic prospects in France.

Key Rating Drivers

IDRs, VR

CM Alliance Federale's ratings reflect a stable and consistently profitable retail-and-commercial banking-focused business model. The ratings also consider a low risk appetite, sound asset quality, strong capitalisation and adequate liquidity.

CM Alliance Federale is a subset of the wider Credit Mutuel (CM) cooperative group and accounts for about 80% of CM group's revenue, total assets and equity. Fitch rates CM Alliance Federale in accordance with annex four of its Bank Rating Criteria as a banking group backed by a mutual-support mechanism. Our 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 national mutual-support mechanism between them. We consider the risk of CM Alliance Federale having to provide extraordinary support to other CM group members as a remote possibility, given CM group members' sound credit profiles, and this does not negatively affect the ratings.

CM Alliance Federale has the third-largest retail- and commercial-banking franchise in France, and has well-established market positions in life and non-life insurance. CM Alliance Federale generates most of its revenue domestically but has notable diversification in Germany, where it is primarily active in consumer finance, leasing and factoring. Its strategy is well-articulated and its cooperative status supports a low risk appetite.

CM Alliance Federale 's large portfolio of low-risk French home loans and limited risk concentrations have resulted in contained loan impairment charges (LICs) through the cycle (2008-1H21: 35bp of average gross loans). At 2.8%, CM Alliance Federale 's end-June 2021 impaired loan ratio remained higher than that of similarly-rated northern European peers, but we believe the bank's fairly high coverage by loan loss allowances (LLAs) mitigates downside risks. CM Alliance Federale 's asset quality has been resilient to the crisis and we expect the impaired loan ratio will remain close to 3% in 2021 and 2022. This is despite the moderate impaired loan inflows from the bank's SME loan portfolio that we believe will materialise in 2022 as state-support measures will be fully withdrawn.

Operating profitability has steadily improved over the past 10 years as CM Alliance Federale integrated a growing number of local Credit Mutuel (CM) federations while maintaining a better cost efficiency than larger French peers. Diversification in earnings benefits from CM Alliance Federale 's insurance and consumer-lending activities. We expect operating profit/risk-weighted assets (RWAs) to improve to at least 2% over 2021-2022 (2020: 1.3%) as activity picks up across CM Alliance Federale 's main businesses.

CM Alliance Federale 's strong capitalisation underpins its ratings and compares favourably with most French and European banks. This owes to the group's prudent capital planning and limited pay-outs to cooperative shareholders. The group's end-June 2021 fully loaded common equity Tier 1 (CET1) ratio and Basel leverage ratio of 18.3% and 7.2%, respectively, provide ample buffer above regulatory requirements.

CM Alliance Federale benefits from a large and stable deposit base, originating mainly from its domestic branch networks. The bank's liquidity improved over 2020 and 1H21 from inflows of customer deposits and large drawings under the ECB's targeted long-term refinancing operations. CM Alliance Federale had a large buffer of cash, central-bank placements and high-quality liquid assets (20% of total assets excluding insurance) at end-June 2021, which comfortably covered short-term funding and long-term debt falling due in the next 12 months.

Its 'a' score for funding and liquidity results in a Short-Term IDR of 'F1', which is the lower of two possible Short-Term IDRs mapping to a 'A+' Long-Term IDR.

SUBSIDIARIES

Fitch assigns common VRs to CM Alliance Federale and its subsidiaries, BFCM and CIC. Neither subsidiaries are 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 national-support mechanism. BFCM made up 80% of CM Alliance Federale's consolidated assets at end-June 2021 (the other 20% related to local CM banks). 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 45% of group assets. It is one of the group's two retail and commercial networks in France and hosts the group's modest 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.

SUPPORT RATINGS AND SUPPORT RATING FLOORS

CM Alliance Federale's, BFCM's and CIC's Support Ratings (SR) of '5' and Support Rating Floors (SRF) 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 the CM group's systemic importance.

DERIVATIVE COUNTERPARTY RATING, DEPOSITS AND SENIOR PREFERRED DEBT

BFCM's and CIC's long-term deposits and senior preferred (SP) debt ratings are one notch above CM Alliance Federale's Long-Term IDR to reflect the protection that would accrue to their depositors and SP 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, will 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 SP debt, representing about 24% of its RWAs at end-June 2021, which it can contribute to CM group's eligible liabilities and own funds. We expect CM Alliance Federale will continue to meet its share of CM group's MREL without recourse to SP debt.

BFCM's Derivative Counterparty Rating (DCR) is at 'AA-(dcr)', in line with equally-ranking SP debt and deposits.

The short-term deposit and SP debt ratings of 'F1+' for BFCM and CIC are the only short-term rating option mapping to 'AA-' long-term ratings.

SENIOR NON-PREFERRED DEBT

BFCM's senior non-preferred (SNP) long-term debt rating is in line with BFCM's Long-Term IDR because we view the probability of default on the SNP debt the same as that of the bank.

SUBORDINATED AND JUNIOR 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 higher risk of non-performance (an additional two notches) relative to CM Alliance Federale's VR.

RATING SENSITIVITIES

Factors that could, individually or collectively, lead to positive rating action/upgrade:

An upgrade would require a significant strengthening of CM Alliance Federale's franchise and increased geographic and business diversification, while further significantly improving operating profit/RWAs and 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.

Factors that could, individually or collectively, lead to negative rating action/downgrade:

The ratings could be downgraded on a sustained reduction of the bank's operating profitability/RWAs 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%.

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

SUBSIDIARIES

BFCM's and CIC's ratings are sensitive to changes in the ratings of CM Alliance Federale and changes to BFCM's and CIC's role and integration within the group, which we do not expect.

SRs and SRFs

An upgrade of CM Alliance Federale's, BFCM's and CIC's SRs and upward revision of the relevant SRFs would be contingent on a positive change in the French sovereign's propensity to support domestic banks. While not impossible, this is highly unlikely, in Fitch's view.

DCR, DEPOSIT RATINGS AND SENIOR DEBT

The SP and SNP debt, deposit ratings and DCRs are sensitive to CM Alliance Federale's Long-Term IDR or could be downgraded if Fitch no longer expects CM Alliance Federale to meet its share of the CM group's MREL exclusively with SNP debt and more junior instruments.

SUBORDINATED AND JUNIOR SUBORDINATED DEBT

The ratings of the subordinated debt and deeply subordinated debt issued by BFCM are primarily sensitive to a change in CM Alliance Federale's VR.

Best/Worst Case Rating Scenario

International scale credit ratings of Financial Institutions and Covered Bond issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of four notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit https://www.fitchratings.com/site/re/10111579

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

ESG Considerations

Unless otherwise disclosed in this section, the 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. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg

Fitch Ratings Analysts

Rafael Quina
Director
Primary Rating Analyst
+33 1 44 29 91 81
Fitch Ratings Ireland Ltd 28 avenue Victor Hugo Paris 75116

Lukas Rollmann
Associate Director
Secondary Rating Analyst
+33 1 44 29 91 22

Christian Scarafia
Managing Director
Committee Chairperson
+44 20 3530 1012

Media Contacts

Louisa Williams
London
+44 20 3530 2452
louisa.williams@thefitchgroup.com

Rating Actions

ENTITY/DEBT	RATING			RECOVERY	PRIOR
Credit Mutuel Alliance Federale	LT IDR	A+	Affirmed		A+
	ST IDR	F1	Affirmed		F1

ENTITY/DEBT	RATING			RECOVERY	PRIOR
	Viability	a+	Affirmed		a+
	Support	5	Affirmed		5
	Support Floor	NF	Affirmed		NF
Banque Federative du Credit Mutuel S.A.	LT IDR	A+	Affirmed		A+
	ST IDR	F1	Affirmed		F1
	Viability	a+	Affirmed		a+
	Support	5	Affirmed		5
	Support Floor	NF	Affirmed		NF
	DCR	AA-(dcr)	Affirmed		AA-(dcr)
• junior subordinated	LT	BBB	Affirmed		BBB
• Senior non-preferred	LT	A+	Affirmed		A+
• subordinated	LT	A-	Affirmed		A-
• long-	LT	AA-	Affirmed		AA-

ENTITY/DEBT	RATING			RECOVERY	PRIOR
term deposits					
• Senior preferred	LT	AA-	Affirmed		AA-
• short-term deposits	ST	F1+	Affirmed		F1+
• Senior preferred	ST	F1+	Affirmed		F1+
Credit Industriel et Commercial	LT IDR	A+	Affirmed		A+
	ST IDR	F1	Affirmed		F1
	Viability	a+	Affirmed		a+
	Support	5	Affirmed		5
	Support Floor	NF	Affirmed		NF
• long-term deposits	LT	AA-	Affirmed		AA-

ENTITY/DEBT	RATING			RECOVERY	PRIOR
• Senior preferred	LT	AA-	Affirmed		AA-
• short-term deposits	ST	F1+	Affirmed		F1+
• Senior preferred	ST	F1+	Affirmed		F1+

RATINGS KEY	OUTLOOK	WATCH
POSITIVE		
NEGATIVE		
EVOLVING		
STABLE		

Applicable Criteria

Bank Rating Criteria (pub.28 Feb 2020) (including rating assumption sensitivity)

Additional Disclosures

Solicitation Status

Endorsement Status

Credit Industriel et Commercial	EU Issued, UK Endorsed
Credit Mutuel Alliance Federale	EU Issued, UK Endorsed

Disclaimer

Copyright

attorneys with respect to legal and tax matters. Further, ratings and forecasts of financial and other information are inherently forward-looking and embody assumptions and predictions about future events that by their nature cannot be verified as facts. As a result, despite any verification of current facts, ratings and forecasts can be affected by future events or conditions that were not anticipated at the time a rating or forecast was issued or affirmed.

The information in this report is provided "as is" without any representation or warranty of any kind, and Fitch does not represent or warrant that the report or any of its contents will meet any of the requirements of a recipient of the report. A Fitch rating is an opinion as to the creditworthiness of a security. This opinion and reports made by Fitch are based on established criteria and methodologies that Fitch is continuously evaluating and updating. Therefore, ratings and reports are the collective work product of Fitch and no individual, or group of individuals, is solely responsible for a rating or a report. The rating does not address the risk of loss due to risks other than credit risk, unless such risk is specifically mentioned. Fitch is not engaged in the offer or sale of any security. All Fitch reports have shared authorship. Individuals identified in a Fitch report were involved in, but are not solely responsible for, the opinions stated therein. The individuals are named for contact purposes only. A report providing a Fitch rating is neither a prospectus nor a substitute for the information assembled, verified and presented to investors by the issuer and its agents in connection with the sale of the securities. Ratings may be changed or withdrawn at any time for any reason in the sole discretion of Fitch. Fitch does not provide investment advice of any sort. Ratings are not a recommendation to buy, sell, or hold any security. Ratings do not comment on the adequacy of market price, the suitability of any security for a particular investor, or the tax-exempt nature or taxability of payments made in respect to any security. Fitch receives fees from issuers, insurers, guarantors, other obligors, and underwriters for rating securities. Such fees generally vary from US$1,000 to US$750,000 (or the applicable currency equivalent) per issue. In certain cases, Fitch will rate all or a number of issues issued by a particular issuer, or insured or guaranteed by a particular insurer or guarantor, for a single annual fee. Such fees are expected to vary from US$10,000 to US$1,500,000 (or the applicable currency equivalent). The assignment, publication, or dissemination of a rating by Fitch shall not constitute a consent by Fitch to use its name as an expert in connection with any registration statement filed under the United States securities laws, the Financial Services and Markets Act of 2000 of the United Kingdom, or the securities laws of any particular jurisdiction. Due to the relative efficiency of electronic publishing and distribution, Fitch research may be available to electronic subscribers up to three days earlier than to print subscribers.

For Australia, New Zealand, Taiwan and South Korea only: Fitch Australia Pty Ltd holds an Australian financial services license (AFS license no. 337123) which authorizes it to provide credit ratings to wholesale clients only. Credit ratings information published by Fitch is not intended to be used by persons who are retail clients within the meaning of the Corporations Act 2001

Fitch Ratings, Inc. is registered with the U.S. Securities and Exchange Commission as a Nationally Recognized Statistical Rating Organization (the "NRSRO"). While certain of the NRSRO's credit rating subsidiaries are listed on Item 3 of Form NRSRO and as such are authorized to issue credit ratings on behalf of the NRSRO (see https://www.fitchratings.com/site/regulatory), other credit rating subsidiaries are not listed on Form NRSRO (the "non-NRSROs") and therefore credit ratings issued by those subsidiaries are not issued on behalf of the NRSRO. However, non-NRSRO personnel may participate in determining credit ratings issued by or on behalf of the NRSRO.

Endorsement policy

Fitch's international credit ratings produced outside the EU or the UK, as the case may be, are endorsed for use by regulated entities within the EU or the UK, respectively, for regulatory purposes, pursuant to the terms of the EU CRA Regulation or the UK Credit Rating Agencies (Amendment etc.) (EU Exit) Regulations 2019, as the case may be. Fitch's approach to endorsement in the EU and the UK can be found on Fitch's Regulatory Affairs page on Fitch's website. The endorsement status of international credit ratings is provided within the entity summary page for each rated entity and in the transaction detail pages for structured finance transactions on the Fitch website. These disclosures are updated on a daily basis.