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Research Update:

Credit Mutuel Group Outlook To Stable On Expected Improvements To Balance Sheet And Resilient Earnings; 'A/A-1' Affirmed

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Overview

- We believe Crédit Mutuel Group (Crédit Mutuel) will continue strengthening its balance sheet and additional loss-absorption capacity (ALAC).
- Separately, we conclude that elevated intragroup tensions are likely to persist, but are unlikely to weigh on the group's operational effectiveness or financial performance.
- We continue to view the group's main entities as core, as they are bound by solidarity agreements.
- We are therefore revising the outlook on Caisse Centrale du Crédit Mutuel (CCCM), the central refinancing bank of Crédit Mutuel, and Crédit Mutuel's principal core operating entities to stable from negative and affirming our 'A/A-1' ratings on CCCM.
- The stable outlook reflects our view that Crédit Mutuel will likely build up its ALAC buffer through retained earnings and the issuance of eligible capital instruments over the next three to four years, while maintaining its solid earnings profile.

Rating Action

On Oct. 12, 2016, S&P Global Ratings revised to stable from negative the outlook on France-based Caisse Centrale du Crédit Mutuel (CCCM) and Crédit Mutuel Group's (Crédit Mutuel's) core entities: Banque Federative du Crédit Mutuel (BFCM), Crédit Industriel et Commercial (CIC), Caisse Fédérale du Crédit Mutuel Nord Europe, Crédit Mutuel Arkea, Caisse Fédérale du Crédit Mutuel Antilles-Guyane, Caisse Fédérale du Crédit Mutuel de Maine-Anjou Basse Normandie, and Caisse Fédérale du Crédit Mutuel Océan. We also affirmed our 'A/A-1' long- and short-term counterparty credit ratings on these entities.

Additionally, we affirmed the issue ratings on subordinated and hybrid capital instruments issued by these entities.

Rationale

The outlook revision reflects the continuation of Crédit Mutuel's solid financial performance and our views of its positive transition toward strengthening further its balance sheet and building stronger loss-absorption

capacity.

We believe that Crédit Mutuel will continue to generate core capital, thanks to resilient earnings stemming from its leading position in retail banking and insurance in France, low dividends, status as a cooperative group, and controlled growth of risk assets. Credit growth was higher than we previously expected in 2015 and the first half of 2016. Higher credit volumes compensated for lowering interest rates and also reflect more dynamic credit demand. That said, we expect that the growth of risk assets will slow in the coming years after a rapid increase of about 8% in 2016. We believe that Crédit Mutuel will further increase already very solid regulatory capital ratios, with a common equity tier 1 (CET1) ratio above 15% (assuming no major regulatory change), and that the S&P Global Ratings' risk-adjusted capital (RAC) ratio before diversification and concentration adjustments will continue to increase in the next two years up to 8.75%-9.25%, from 8.40% at end-2015.

Our projection is based on the following assumptions:

- On average a 4.5% annual increase in S&P Global Ratings' risk-weighted assets (RWA) over 2016-2018, as credit demand remains high in a low interest rate environment and the group continues to expand, mainly in retail banking activities in low-risk European countries.
- Annual profits of about €3 billion on average, thanks to a controlled reduction of net interest margin, good contribution of insurance activities, stable operating expenses, and a low cost of risk.
- A low dividend payout ratio (below 10%), reflecting Crédit Mutuel's cooperative status.
- No significant acquisitions in our base-case scenario.

A strengthening of the capital position will contribute to the buildup of Crédit Mutuel's additional loss-absorption capacity (ALAC) buffer. However, for the time being, everything else remaining equal, we believe that our projections of core capital strengthening and the group's planned issuance of eligible subordinated instruments would not be sufficient to reach the 4% threshold for us to incorporate a notch of uplift for ALAC support. We estimate that the ALAC buffer will be in the range of 3.25%-3.75% in the next two years. We use a 4.0% threshold for Crédit Mutuel, as opposed to the usual 5.0%, because we qualitatively adjust for the portion of Crédit Mutuel's insurance operations that we expect would be outside the scope of required bail-in capitalization.

However, we believe the ALAC buffer could be boosted by the issuance of senior nonpreferred debt, a forthcoming new asset class under discussion in France. We understand that the French authorities will allow French banks to fill part of their minimum required eligible liabilities with this asset class. The legal regime of this asset class is not yet in place, so we do not factor such issues in our projection, but we do recognize the group's needs to issue a limited amount of such notes to meet our ALAC threshold, compared to some other French banks.

We continue to reflect the positive development of Crédit Mutuel increasing

its ALAC buffer by incorporating an additional factor adjustment above the 'a-' stand-alone credit profile (SACP) into our ratings, and as a result are affirming our long- and short-term counterparty credit ratings on Crédit Mutuel at 'A/A-1'.

Pending regulatory clarification, and an update of Crédit Mutuel's future issuance plans, we believe that we will likely incorporate one notch of ALAC uplift into our rating within the next two years and at the same time remove the one-notch adjustment for additional factors.

Separately, we believe that elevated intragroup tensions between Crédit Mutuel Arkéa (the second-largest grouping of regional federations, with about 15% of Crédit Mutuel's total assets) and the group's central governance body (Confédération National du Crédit Mutuel) are likely to continue in the coming quarters, but are unlikely to weigh meaningfully on the group's operational effectiveness or financial performance. In our views, ongoing developments, or changes in the governance structure, have resulted in a status quo. Beyond tensions around intragroup governance issues, the maintenance of an effective solidarity mechanism is the paramount factor driving our view of the group's entities as core. We do not see concrete evidences that this mechanism would not function in case of need.

We also affirmed the ratings on core rated entities of the group (see list below).

We affirmed the issue ratings on subordinated and hybrid capital instruments issued by these entities, because we continue to assess Crédit Mutuel's SACP at 'a-'.

Outlook

Crédit Mutuel Group

The stable outlook reflects our views that Crédit Mutuel's sound financial performance and controlled growth of risk assets over the next two years will allow it to moderately strengthen its RAC ratio and simultaneously build up its ALAC through the issuance of subordinated eligible instruments and potentially the new class of senior nonpreferred debt to be created. We believe that Crédit Mutuel is building up ALAC over an extended three-to-four-year ramp-up period. Pending clarification of future regulatory requirements and the group's issuing plan, we will likely incorporate one notch of uplift for ALAC support into our ratings and at the same time remove the one-notch adjustment for additional factors.

We could lower our ratings if we observed Crédit Mutuel engaging in more rapid growth of risk assets than we anticipate, organically or via acquisitions, or if there was no sign of willingness to gradual build-up ALAC, as we measure it. We could also lower the ratings if exacerbated intragroup tensions were to add further complexity to the functioning of the group or trigger a more aggressive risk appetite, and damage the group's reputation.

At this stage, we believe that rating upgrade is remote, as it would require substantial improvement in business diversity, which we do not foresee over the outlook horizon.

Banque Fédérative du Crédit Mutuel

The stable outlook on Banque Fédérative du Crédit Mutuel (BFCM), the funding arm of the French retail banking group CM11-CIC, and core entity of Crédit Mutuel in our views, mirrors that on Crédit Mutuel. We would raise or lower our ratings on BFCM if we were to raise or lower our ratings on Crédit Mutuel.

Crédit Mutuel Arkéa

The stable outlook on Crédit Mutuel Arkéa (CMA), the funding arm of Crédit Mutuel Arkéa group, and core entity of Crédit Mutuel in our view, mirrors that on Crédit Mutuel.

We would raise our ratings on CMA if we were to raise our ratings on the group.

We would lower our ratings on CMA if we were to lower our ratings on Crédit Mutuel. We would likely lower our ratings on CMA if we were to believe that CMA's core status to Crédit Mutuel is no longer warranted.

Ratings Score Snapshot

Caisse Centrale du Crédit Mutuel

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

Related Criteria And Research

Related Criteria

- General Criteria: S&P Global Ratings' National And Regional Scale Mapping Tables - June 01, 2016
- Criteria - Financial Institutions - Banks: Bank Hybrid Capital And Nondeferrable Subordinated Debt Methodology And Assumptions - January 29, 2015
- 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 - December 19, 2014
- General Criteria: National And Regional Scale Credit Ratings - September 22, 2014
- General Criteria: Group Rating Methodology - November 19, 2013
- Legal Criteria: Guarantee Criteria--Structured Finance - May 07, 2013
- Criteria - Financial Institutions - Banks: Quantitative Metrics For Rating Banks Globally: Methodology And Assumptions - July 17, 2013
- Criteria - Financial Institutions - Banks: Revised Market Risk Charges For Banks In Our Risk-Adjusted Capital Framework - June 22, 2012
- Criteria - Financial Institutions - Banks: Banks: Rating Methodology And Assumptions - November 09, 2011
- Criteria - Financial Institutions - Banks: Banking Industry Country Risk Assessment Methodology And Assumptions - November 09, 2011
- Criteria - Financial Institutions - Banks: Bank Capital Methodology And Assumptions - December 06, 2010
- Criteria - Financial Institutions - Banks: Methodology For Mapping Short- And Long-Term Issuer Credit Ratings For Banks - May 04, 2010
- General Criteria: Use Of CreditWatch And Outlooks - September 14, 2009
- Criteria - Financial Institutions - Banks: Commercial Paper I: Banks - March 23, 2004

Related Research

- For France's Largest Banks, Capital Will Remain A Neutral Rating Factor, Despite Continuous Improvement - August 25 2016

Ratings List

Outlook Action; Ratings Affirmed

To

From

Caisse Centrale du Credit Mutuel

Credit Mutuel Arkea

Credit Industriel et Commercial

Caisse Federale du Credit Mutuel de Maine-Anjou Basse Normandie

Caisse Federale du Credit Mutuel Ocean

Caisse Federale du Credit Mutuel Nord Europe

Caisse Federale du Credit Mutuel Antilles-Guyane

Banque Federative du Credit Mutuel

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Counterparty Credit Rating A/Stable/A-1 A/Negative/A-1

N.B. This list does not include all ratings affected.

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Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.globalcreditportal.com and at spcapitaliq.com. All ratings affected by this rating action can be found on the S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column. Alternatively, call one of the following S&P Global Ratings numbers: Client Support Europe (44) 20-7176-7176; London Press Office (44) 20-7176-3605; Paris (33) 1-4420-6708; Frankfurt (49) 69-33-999-225; Stockholm (46) 8-440-5914; or Moscow 7 (495) 783-4009.

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