FitchRatings

Fitch Affirms CM11 at 'A+'; Stable Outlook

Link to Fitch Ratings' Report: Groupe Credit Mutuel-CM11 - Rating Action Report (https://www.fitchratings.com/site/re/911942)

Fitch Ratings-Paris-14 December 2017: Fitch Ratings has affirmed Groupe Credit Mutuel-CM11's (CM11) Long-Term Issuer Default Rating (IDR) at 'A+', Short-Term IDR at 'F1' and Viability Rating (VR) at 'a+'. The Outlook on the Long-Term IDR is Stable.

A full list of rating actions is available in the related Rating Action Report via the link above.

KEY RATING DRIVERS
IDRS, VR AND SENIOR DEBT
The ratings of CM11 reflect its strong franchise in retail and commercial banking in France and well-established life and non-life insurance operations, a fairly low risk appetite and its strong capitalisation and liquidity. The ratings also factor in a higher impaired loans/gross loans ratio than the average for similarly rated international peers.

CM11 represents about 80% of the wider Credit Mutuel (CM) group and comprises 11 of its 18 regional federations. It is our view that the other entities of CM that are not part of CM11 do not constitute a drag to our ratings of CM11 based on their current financial profile.

CM11 is mainly active in France, where it is the third-largest retail and commercial player. Abroad, it is primarily active in consumer finance and its largest operations are in Germany.

CM11 has a modest risk appetite. Its loan portfolio is mainly concentrated in France and about half is low-risk housing loans. Higher risk consumer finance accounts for about 10% of total lending, a slightly higher proportion than at peers, but is adequately priced. CM11 is also prudent in its lending to professionals and SMEs relative to some French banks.

CM11's impaired loans/gross loans ratio stood at 3.8% at end-June 2017, slightly higher than at its French cooperative peers. It is inflated by a stock of impaired consumer loans, although these appear adequately provisioned. The reserve coverage of impaired loans of above 60% is adequate compared with peers but reflects the higher provisioning needs in consumer finance. French banks generally do not write off impaired loans before they are fully resolved as opposed to some jurisdictions with a swifter write-off policy.

CM11's profitability is resilient despite the low-interest-rate environment. French retail banking revenue has suffered from high housing loan prepayments and rate renegotiations over the last three years. The cost of funding is also negatively impacted by limited flexibility on the remuneration of regulated savings. This has been mitigated by the diversification of the group's activities and loan growth. Higher-risk but higher-margin consumer finance activity supports net interest income. CM11's operating efficiency is also satisfactory.

CM11's capitalisation is solid and in line with similarly rated peers'. The group's fully loaded common equity Tier 1 (CET1) ratio was about 16% at end-June 2017, in line with the Fitch core capital ratio. This provides a substantial buffer above the 8.5% Supervisory Review and Evaluation Process (SREP) requirement expected for 2019. The group's capitalisation is supported by a modest dividend payout ratio explained by CM11's cooperative structure. The bank's leverage ratio was a satisfactory 5.7% at end-June 2017.

CM11's funding benefits from a large and stable deposit base representing about 60% of total funding. This is completed by wholesale funding and recourse to short-term market funding remains at an acceptable level. Liquidity is strong with central bank deposits and high-quality liquid assets comfortably covering short-term funding and wholesale funding maturing over the next 12 months.

CM11's 'F1' is the lower of the two possible Short-Term IDRs mapping to an 'A+' Long-Term IDR because we do not view its liquidity as exceptionally strong compared with similarly rated banks globally.

SUBSIDIARIES
Credit Industriel et Commercial (CIC) is CM11's largest subsidiary, representing about 45% of group assets. CIC's main business is domestic retail and commercial banking. It also runs the group's limited capital market activities. It is highly integrated with its parent in management, systems, capital and liquidity, meaning the subsidiary's and parent's credit profiles are highly correlated. CM11 and CIC therefore share common VRs and IDRs.

Banque Federative du Credit Mutuel's (BFCM) IDRs and senior debt ratings are aligned with those of CM11 based on our opinion that BFCM has a key role in CM11 as the group's main issuing vehicle. It manages the group's liquidity and coordinates the group's subsidiaries. We do not assign a VR to BFCM as it is difficult to analyse this entity meaningfully in its own right.

The long- and short-term ratings of the debt issued by Banque Europeenne du Credit Mutuel (BECM), which is guaranteed by BFCM, are aligned with BFCM's Long- and Short-Term IDRs. This reflects Fitch's view that BFCM is highly likely to honour its commitment as guarantor if required, as the guarantee is unconditional, irrevocable and timely.

DERIVATIVE COUNTERPARTY RATINGS
BFCM's 'A+(dcr)' Derivative Counterparty Rating (DCR) is at the same level as BFCM's Long-Term IDR because derivative counterparties in France have no preferential status over other preferred senior obligations in a resolution scenario.

SUPPORT RATINGS AND SUPPORT RATING FLOORS
CM11's and CIC's Support Ratings (SRs) of '5' and Support Rating Floors (SRFs) of 'No Floor' reflect Fitch's view that senior creditors can no longer rely on receiving full extraordinary support from the sovereign if the group becomes non-viable. The EU's Bank Recovery and Resolution Directive and the Single Resolution Mechanism for eurozone banks provide a framework for resolving banks that is likely to require senior creditors participating in losses, if necessary, instead of or ahead of a bank receiving sovereign support.

SUBORDINATED AND JUNIOR SUBORDINATED DEBT
Subordinated debt and deeply subordinated debt issued by BFCM are notched down from CM11's VR in accordance with Fitch's assessment of each instrument's respective non-performance and relative loss severity risk profiles.

We rate subordinated Tier 2 debt one notch below CM11's VR to reflect below-average recoveries for this type of debt. Legacy deeply subordinated Tier 1 securities are rated four notches below CM11's VR to reflect the higher-than-average loss severity risk of these securities (two notches from the VR) as well as a higher risk of non-performance (an additional two notches).

RATING SENSITIVITIES
IDRS, VR AND SENIOR DEBT
The Stable Outlook on CM11's Long-Term IDR reflects our expectation that the group will maintain a fairly low risk appetite, strong capitalisation, adequate asset quality and sound liquidity.

Marked deterioration in the risk profile, potentially from a stronger-than-expected expansion in consumer lending or in peripheral European countries, could lead to pressure on the ratings. In addition, material deterioration of CM11's capital position, which currently provides a strong buffer, or a weakening of the group's liquidity could lead to negative rating pressure, although this is not expected.

A weakening in the creditworthiness of other entities of CM that are not part of CM11 could also have a negative impact on the ratings, as they could present a burden on its capitalisation.

Upgrade potential is limited given the current high ratings. This would be contingent on a demonstration of exceptionally strong and stable financial metrics, in particular a more active management of the stock of impaired loans, higher capital buffers and a track record of exceptionally strong liquidity.

We do not expect CM11's preferred senior debt ratings to be rated one notch above its Long-Term IDR as the buffer of qualifying junior debt is currently at about 4% and the group has not issued non-preferred senior debt.

SUBSIDIARIES
BFCM's and CIC's ratings are sensitive to changes in the ratings of CM11 and, although not expected, changes to BFCM's role in the group and CIC's integration within the group.

The ratings of the debt issued by BECM, which is guaranteed by BFCM, are primarily sensitive to changes in the latter's IDRs.

DERIVATIVE COUNTERPARTY RATINGS
BFCM's DCR is currently aligned with the bank's Long-Term IDR and is therefore primarily sensitive to changes to the bank's Long-Term IDR.

SUPPORT RATING AND SUPPORT RATING FLOOR
An upgrade of CM11's and CIC's SRs and upward revision to the SRFs would be contingent on a positive change in the French sovereign's propensity to support its banks. While not impossible, this is highly unlikely in Fitch's view.

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 CM11's VR. The ratings of the legacy deeply subordinated Tier 1 securities are also sensitive to Fitch changing its assessment

of the probability of their non-performance relative to the risk captured in CM11's VR.

Contact:
Primary Analyst
Francois-Xavier Deucher, CFA
Director
+33 1 44 29 92 72
Fitch France S.A.S.
60 rue de Monceau
75008 Paris

Secondary Analyst
Julien Grandjean
Associate Director
+33 1 44 29 91 41

Committee Chairperson
Bjorn Norrman
Senior Director
+44 20 3530 1330

Media Relations: Francoise Alos, Paris, Tel: +33 1 44 29 91 22, Email: francoise.alos@fitchratings.com; Peter Fitzpatrick, London, Tel: +44 20 3530 1103, Email: peter.fitzpatrick@fitchratings.com.

Additional information is available on www.fitchratings.com

Applicable Criteria
Global Bank Rating Criteria (pub. 25 Nov 2016) (https://www.fitchratings.com/site/re/891051)

Additional Disclosures
Dodd-Frank Rating Information Disclosure Form (https://www.fitchratings.com/site/dodd-frank-disclosure/1034023)
Solicitation Status (https://www.fitchratings.com/site/pr/1034023#solicitation)
Endorsement Policy (https://www.fitchratings.com/regulatory)

ALL FITCH CREDIT RATINGS ARE SUBJECT TO CERTAIN LIMITATIONS AND DISCLAIMERS. PLEASE READ THESE LIMITATIONS AND DISCLAIMERS BY FOLLOWING THIS LINK: HTTPS://WWW.FITCHRATINGS.COM/UNDERSTANDINGCREDITRATINGS (https://www.fitchratings.com/understandingcreditratings). IN ADDITION, RATING DEFINITIONS AND THE TERMS OF USE OF SUCH RATINGS ARE AVAILABLE ON THE AGENCY'S PUBLIC WEB SITE AT WWW.FITCHRATINGS.COM (https://www.fitchratings.com). PUBLISHED RATINGS, CRITERIA, AND METHODOLOGIES ARE AVAILABLE FROM THIS SITE AT ALL TIMES. FITCH'S CODE OF CONDUCT, CONFIDENTIALITY, CONFLICTS OF INTEREST, AFFILIATE FIREWALL, COMPLIANCE, AND OTHER RELEVANT POLICIES AND PROCEDURES ARE ALSO AVAILABLE FROM THE CODE OF CONDUCT SECTION OF THIS SITE. DIRECTORS AND SHAREHOLDERS RELEVANT INTERESTS ARE AVAILABLE AT HTTPS://WWW.FITCHRATINGS.COM/SITE/REGULATORY (https://www.fitchratings.com/site/regulatory). FITCH MAY HAVE PROVIDED ANOTHER PERMISSIBLE SERVICE TO THE RATED ENTITY OR ITS RELATED THIRD PARTIES. DETAILS OF THIS SERVICE FOR RATINGS FOR WHICH THE LEAD ANALYST IS BASED IN AN EU-REGISTERED ENTITY CAN BE FOUND ON THE ENTITY SUMMARY PAGE FOR THIS ISSUER ON THE FITCH WEBSITE.
Copyright © 2017 by Fitch Ratings, Inc., Fitch Ratings Ltd. and its subsidiaries. 33 Whitehall Street, NY, NY 10004. Telephone: 1-800-753-4824, (212) 908-0500. Fax: (212) 480-4435. Reproduction or retransmission in whole or in part is prohibited except by permission. All rights reserved. In issuing and maintaining its ratings and in making other reports (including forecast information), Fitch relies on factual information it receives from issuers and underwriters and from other sources Fitch believes to be credible. Fitch conducts a reasonable investigation of the factual information relied upon by it in accordance with its ratings methodology, and obtains reasonable verification of that information from independent sources, to the extent such sources are available for a given security or in a given jurisdiction. The manner of Fitch’s factual investigation and the scope of the third-party verification it obtains will vary depending on the nature of the rated security and its issuer, the requirements and practices in the jurisdiction in which the rated security is offered and sold and/or the issuer is located, the availability and nature of relevant public information, access to the management of the issuer and its advisers, the availability of pre-existing third-party verifications such as audit reports, agreed-upon procedures letters, appraisals, actuarial reports, engineering reports, legal opinions and other reports provided by third parties, the availability of independent and competent third- party verification sources with respect to the particular security or in the particular jurisdiction of the issuer, and a variety of other factors. Users of Fitch’s ratings and reports should understand that neither an enhanced factual investigation nor any third-party verification can ensure that all of the information Fitch relies on in connection with a rating or a report will be accurate

and complete. Ultimately, the issuer and its advisers are responsible for the accuracy of the information they provide to Fitch and to the market in offering documents and other reports. In issuing its ratings and its reports, Fitch must rely on the work of experts, including independent auditors with respect to financial statements and 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 (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.

Solicitation Status

Fitch Ratings was paid to determine each credit rating announced in this Rating Action Commentary (RAC) by the obligatory being rated or the issuer, underwriter, depositor, or sponsor of the security or money market instrument being rated, except for the following:

Endorsement Policy - Fitch's approach to ratings endorsement so that ratings produced outside the EU may be used by regulated entities within the EU for regulatory purposes, pursuant to the terms of the EU Regulation with respect to credit rating agencies, can be found on the EU Regulatory Disclosures (https://www.fitchratings.com/regulatory) page. The endorsement status of all International ratings is provided within the entity summary page for each rated entity and in the transaction detail pages for all structured finance transactions on the Fitch website. These disclosures are updated on a daily basis.