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Credit Mutuel Group

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Credit Mutuel Group

Ratings Score Snapshot

Global Scale Ratings
Issuer Credit Rating
A+/Stable/A-1
Resolution Counterparty Rating
AA-/--/A-1+

SACP: a → **Support: +1** → **Additional factors: 0**

SACP: a		
Anchor	bbb+	
Business position	Strong	+1
Capital and earnings	Strong	+1
Risk position	Adequate	0
Funding	Adequate	0
Liquidity	Adequate	
CRA adjustment		0

Support: +1	
ALAC support	+1
GRE support	0
Group support	0
Sovereign support	0

Additional factors: 0
Issuer credit rating
A+/Stable/A-1
Resolution counterparty rating
AA-/A-1+

ALAC--Additional loss-absorbing capacity. CRA--Comparable ratings analysis. GRE--Government-related entity. ICR--Issuer credit rating. SACP--Stand-alone credit profile.

Credit Highlights

Overview

Key strengths	Key risks
A low-risk appetite and good record of controlled growth in complementary business segments and territories.	Lower diversification outside domestic retail banking and insurance compared with similarly and higher-rated peers.
Solid recurring earnings from a strong franchise in French retail banking and insurance.	Profitability challenge in the highly competitive domestic retail market and considering the uncertain economic environment.
High quality capital and supportive internal capital generation.	Only average cost efficiency compared with European peers', although best-in-class in a French context.

The Credit Mutuel group's (CMG's) mutualist organization and resilient bancassurance model make it one of the strongest financial groups in France. The high proportion of recurring revenue has given the group more stable earnings than peers', with usually limited one-off items. Nevertheless, S&P Global Ratings believes that the competitive French banking market will continue to constrain profitability. CMG, which is less diversified by geography and by segment than 'A+' banking peers, maintains average cost efficiency compared with European peers', and best-in-class among French banks. In our view, low payouts from the group's cooperative status and its strong local footprint should allow CMG to maintain its strong position in the French banking market.

CMG delivered a strong operating profit of €7.1 billion in 2021, and we forecast a resilient performance in 2022 despite the global slowdown. We expect a low single-digit increase in revenue in 2022, supported primarily by dynamic loan growth of nearly 10%. The net interest margin will be helped by the increase in interest rates, but we see near-term mitigating factors because the repricing of the long tenure and largely fixed-rate mortgage loan portfolio will take time, and usury caps will change only progressively, while interest rates on regulated deposits (in particular Livret A) have already been revised up. We expect expense inflation to be contained to 4%-6% in 2022, a cost-to-income ratio of just above 60%, and stable pre-provisioning income. Consistent with our assumption that cost of risk will remain low, but above last year's level, we expect a decline in net operating income, although limited.

The group has capacity to absorb pressure from less dynamic business trends and higher loan impairment. CMG's risk profile is low, thanks to its focus on retail bancassurance activities and modest risk appetite, and we expect its asset quality to hold up relatively well. While the small business/entrepreneurs and large corporate portfolios, mostly operated by subsidiary Credit Industriel et Commercial (CIC), could deteriorate moderately amid the global slowdown, housing loans, which form the largest part of the group's loan book, should continue to perform well with a cost of risk not exceeding 30 basis points (bps). We estimate that the group's credit reserves, including prudential provisions for expected-but-not-incurred credit losses, in application of International Financial Reporting Standard No. 9 (IFRS 9), translated into a comparatively high 78% coverage of its nonperforming loans at year-end 2021. CMG's predictable profitability and low payout to cooperative shareholders result in a solid capital position, with a common equity tier 1 (CET1) above 19.5% at year-end 2021, which corresponds to one of the largest buffers above the capital requirement among peers.

The bank pursues building up a sizable bail-inable buffer. Since it was not subject to the total loss-absorbing capacity (TLAC) rules published by the Financial Stability Board for globally systemically important banks, the group was understandably less prompt than most French banking groups to issue sizable amounts of bail-inable debt. However, CMG has been more active since 2019 and has built a significant bail-inable debt buffer. We estimate that the group's additional loss-absorbing capacity (ALAC) was about 4.5% of S&P Global Ratings' risk-weighted assets (RWAs) metric as of year-end 2021. We forecast that it will exceed 5.0% by year-end 2023, well above our standard 3.0% threshold for a one notch of ALAC uplift.

CMG operates under a cooperative status according to the provisions of the French Monetary and Financial Code. Cooperative group members are eligible to benefit from a financial solidarity mechanism organized by statutory provisions. We consider that this overarching feature ensures the group's overall financial cohesiveness. It supports our expectation that extraordinary group support would be equally forthcoming to all mutual group members, directly or indirectly, irrespective of any other consideration including some recurring intragroup tension between some members. This status underpins our classification of these entities as core to the group and, therefore, the equalization of our ratings with the 'a+' group credit profile (GCP).

Outlook

The stable outlook indicates that we expect CMG to gradually adapt its retail and insurance activities to the competitive French market. We anticipate that over our two-year outlook horizon, the group will continue to deliver resilient profitability, demonstrating the sustainability of its business model. We also expect CMG to maintain a solid capital position, with a risk-adjusted capital (RAC) ratio before diversification comfortably above 10% in 2023-2024, supported by sound earnings and a conservative dividend policy owing to its cooperative structure. We assume that challenges regarding the group's cohesion will continue to not represent a structural weakness, but rather an area of relative uncertainty. The stable outlook also factors in our expectation that the group's exposure by geography will not reflect materially higher economic risks under our outlook horizon.

Downside scenario

We could lower the rating in the next two years if we estimated that the group's retail banking and insurance business strategy was not sustainable in France's competitive banking landscape, which would suggest weaker capital loss-absorption capacity. Our RAC ratio could fall below 10% if internal capital generation could not fund organic capital consumption, because of a sizable acquisition, or following an unexpected sharp lowering of asset quality.

Upside scenario

We consider an upgrade unlikely. One would depend on a higher starting anchor for domestic banks in France, but would also need CMG to enhance its profitability and efficiency to well above levels reported by 'A+' rated peers, while maintaining asset quality and strong solvency.

Key Metrics

Credit Mutuel Group--Key Ratios And Forecasts

	--Fiscal year ended Dec. 31--				
(%)	**2020a**	**2021a**	**2022f**	**2023f**	**2024f**
Growth in operating revenue	(4.1)	12.2	2.8-3.4	4.2-5.1	5.3-6.5
Growth in customer loans	8.3	6.2	8.5-9.5	5.5-6.5	5.5-6.5
Growth in total assets	9.7	5.8	0.5-1.0	3.0-3.5	3.0-3.5
Net interest income/average earning assets (NIM)	1.4	1.3	1.3-1.4	1.3-1.4	1.3-1.5
Cost to income ratio	64.0	59.7	60.0-62.0	60.0-62.0	60.0-62.0
Return on average common equity	5.1	6.6	6.0-7.0	6.0-7.0	6.0-7.0
Return on assets	0.4	0.5	0.5-0.6	0.5-0.6	0.5-0.6
New loan loss provisions/average customer loans	0.5	0.2	0.1-0.3	0.2-0.3	0.2-0.3
Gross nonperforming assets/customer loans	2.8	2.5	2.5-2.6	2.6-2.7	2.7-2.8
Risk-adjusted capital ratio	10.1	10.4	10.3-10.8	10.4-10.9	10.5-11.0

All figures are S&P Global Ratings-adjusted. a--Actual. f--Forecast. NIM--Net interest margin.

Anchor: 'bbb+' Reflecting Predominantly Domestic Exposures

We use our Banking Industry Country Risk Assessment methodology to determine a bank's anchor, the starting point in assigning an issuer credit rating. France is in group 3, along with the U.S., the U.K., Australia, the Netherlands, and Denmark. Our 'bbb+' anchor for a bank operating in France is based on our economic risk score of '3' and an industry risk score of '4' on a scale of 1-10 ('1' being the lowest risk). CMG's weighted economic risk score rounds down to '3', indicating that the bulk of its assets are in its domestic market.

On the economic risk side, the rebound of the French economy since pandemic-related restrictions were lifted has been strong, both in terms of GDP and employment. However, the Russia-Ukraine war, commodity supply shortages, and inflation stress are reducing growth prospects. For France, we forecast GDP growth of 2.5% in 2022, before slowing to 0.2% in 2023; and unemployment of 7.4%, below the 2019 level, stabilizing at 7.8%-7.9% in 2023-2024. We project that inflation will peak at 5.9% in 2022, then decelerating to 4.4% in 2023 and 2.4% the following year. We expect French banks' loan growth to decelerate but remain positive at 3.0% annually. Domestic asset quality is structurally supported by fixed-rate mortgage loans, so will not be damaged by higher interest rates. Defaults should increase in the next two years, stemming notably from corporates, small and midsize enterprises, and consumer lending, but to lower levels than we expected a couple of years ago. We project domestic nonperforming assets (NPAs) will increase to close to 3.0% of domestic loans by year-end 2024. We see the economic risk trend as stable.

Regarding industry risk, we expect higher interest rates to benefit French banks' interest income, although this will materialize more progressively than in other European banking markets, reflecting notably the repricing lag in the banks' fixed rate mortgage loan portfolios. Cost efficiency is a weakness for French banks compared with their European peers, mainly because of a still-dense branch network. In a scenario of persistent high inflation, management will find it harder to keep operational expense under control. Banks also face the challenge of streamlining their operations with digitization efforts. Finally, the banking model of most French banks implies some reliance on wholesale resources, exposing the sector to market shocks. We see the industry risk trend as stable.

Business Position: A Strong Domestic Franchise In Retail Banking And Insurance Underpins Revenue Stability

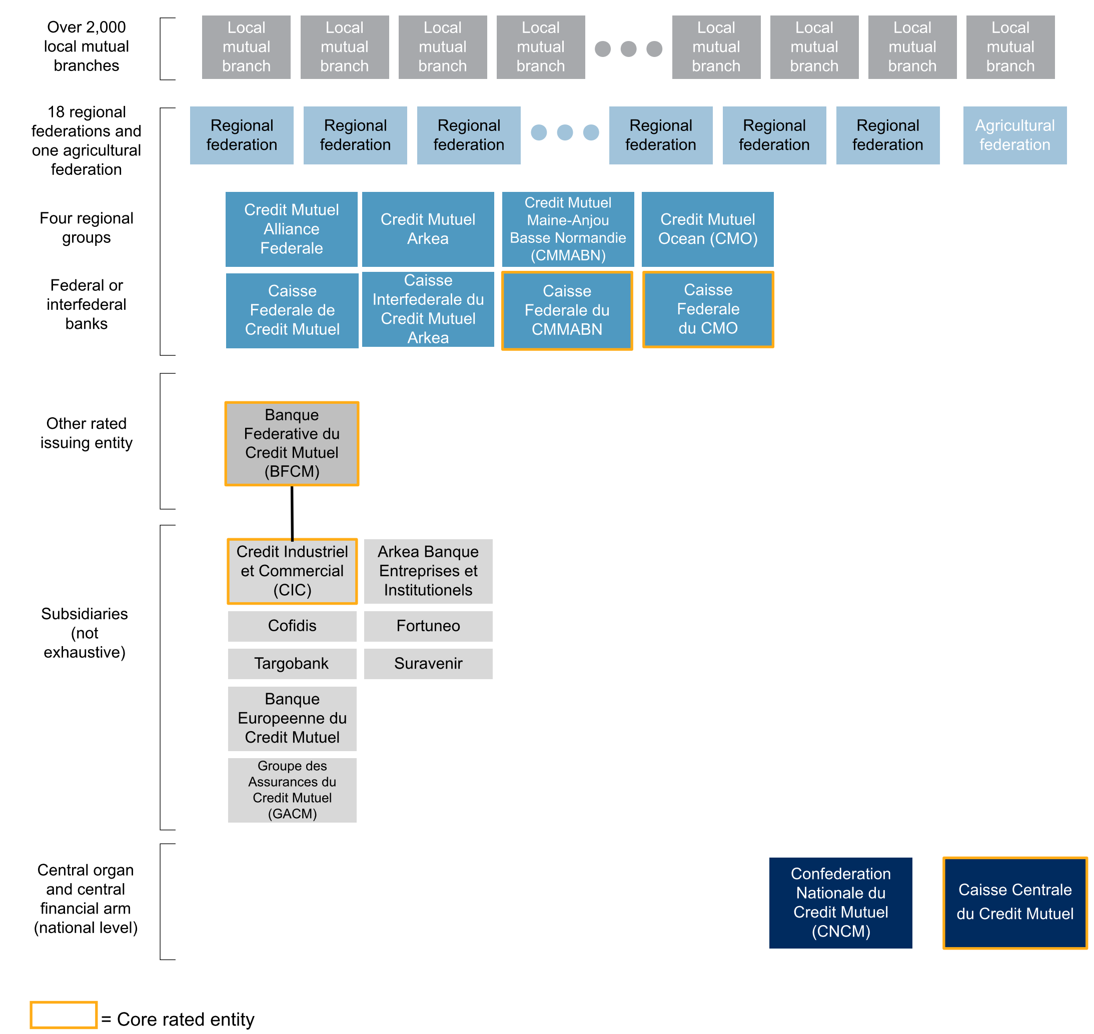
CMG's leading retail and insurance operations in France is a rating strength. Although less geographically diverse than European banks of similar size, the group operates a generally low-risk business, which produces extremely predictable earnings through the cycle. CMG's share of the professional and business customers segment exceeds 20%, and it provides commercial banking products and services to large French companies. The group is also at the forefront of insurance in France, with 16.7 million policyholders (life and property/casualty segments). This historically strong competitive position in insurance, with high customer loyalty, is a distinctive strength and still an area of development.

CMG has the third-largest retail-banking network in France comprising cooperative local banks but also subsidiaries active in retail banking, the largest one being CIC, which was acquired by the Banque Federative du Credit Mutuel (BFCM) in 1998 and is part of the largest of the regional subgroups, Credit Mutuel Alliance Federale (CMAF).

CMG operates with a cooperative banking status according to the provisions of the French Monetary and Financial Code. Its unique decentralized cooperative structure comprises more than 2,000 branches owned locally by end subscribers known as societaires. Local banks are linked to regional federations on a territorial basis. There are 18 federations plus one specializing in agribusiness.

The Confederation Nationale du Credit Mutuel (CNCM) is the group's central organ, as disposed by law. All the local and federal cooperative banks of the Credit Mutuel network are affiliated with the CNCM, as BFCM is since 2020. Furthermore, CNCM issued a general decision in January 2020 (Decision a Caractere General No. 1 of 2020) confirming the cohesiveness and strength of CMG's solidarity mechanism.

Simplified Overview of Credit Mutuel Group

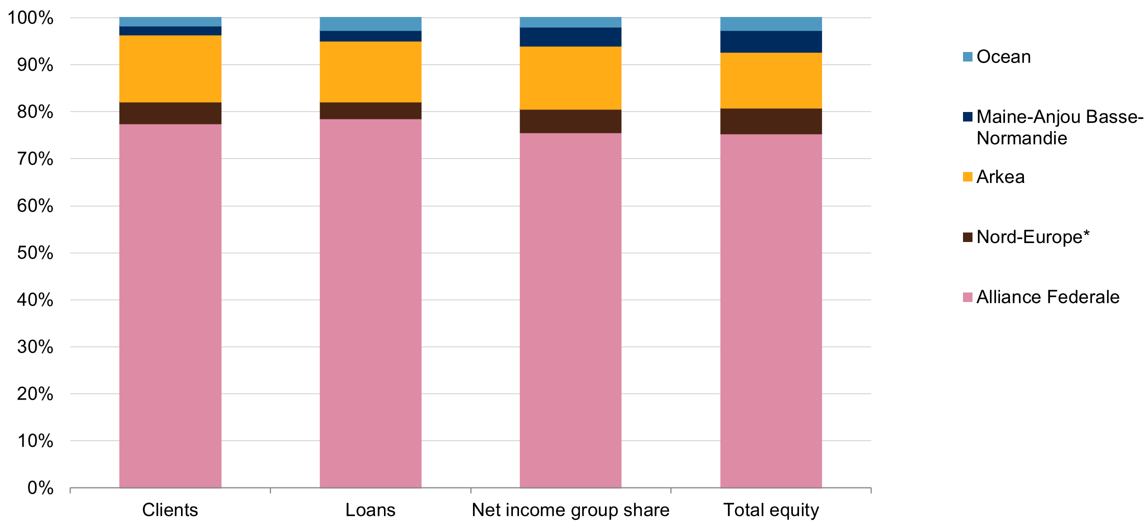


Note: Credit Mutuel Arkea encompasses Credit Mutuel de Bretagne and Credit Mutuel du Sud-Ouest.

In the past 20 years, a number of federations formed interfederal subgroups, the largest one by far being CMAF, which gathers 14 federations and constitutes about 80% of CMG's total assets and net income. CMNE, which represented about 5% of net income of CMG in 2021, joined CMAF at the beginning of 2022 (see "Ratings On Credit Mutuel Nord Europe And Its Programs Withdrawn After Joining Credit Mutuel Alliance Federale," published Feb. 22, 2022, on RatingsDirect). The other interfederal group is Credit Mutuel Arkea (CMA), which encompasses the local savings banks of the federations of Credit Mutuel de Bretagne and Credit Mutuel du Sud-Ouest, as well as several specialized subsidiaries.

Chart 2

Respective Weight Of Credit Mutuel's Regional Groups According To Key Figures (2021)



*Nord-Europe joined Alliance Federale on Jan. 1, 2022. Source: Credit Mutuel; S&P Global Ratings.

We expect that the group will focus primarily on organic growth. However, we do not rule out opportunistic asset or business transactions, similar to BCFM's acquisition in 2016 of General Electric Capital's leasing and factoring activities in France and Germany, a portfolio of about €10 billion.

Nondomestic activities generated 19% of CMG's revenue in 2021 (21% in 2020). Although less diversified by geography than other large French banking groups, CMG embarked several years ago on a strategy of gradual expansion in neighboring countries, and, for some entities, higher-margin businesses. Its main subsidiaries--comprising network banks--were acquired primarily in Belgium, Germany, and Spain. CMAF operates the Germany-based consumer finance institution Targobank (following BCFM's acquisition of Citibank Deutschland activities in 2008), which now provides factoring and leasing solutions. It also holds a controlling stake in Cofidis S.A. (acquired by BFCM in 2009), a consumer-finance specialist operating in seven European countries. While consumer finance activities are sensitive to economic and credit risk, they entail short-term commitments, thus allowing reactive risk management, and generate higher interest margins. We consider this diversification as beneficial to CMG's business profile.

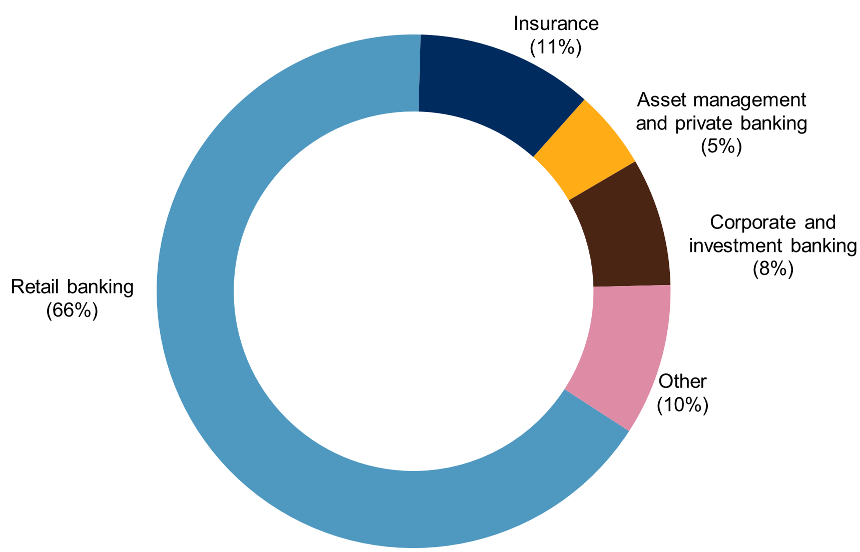
CMG has a reasonably advanced and efficient digital strategy and includes successful online banks (like Fortuneo, a subsidiary of CMA). It long had a proactive approach to technology, offering its customers innovative solutions. Arkea Banking Services is well placed in white-label services in the business-to-business market. In 2020, AXA Banque France transferred its IT activities and part of its back-office activities to Arkea. A similar partnership was announced in 2021 with HSBC's French retail operations after the takeover by My Money Group. CMG's foray into side businesses means it can take advantage of technology to boost cross-selling in the retail segment. We also note initiatives to expand the scope and contribution of non-interest revenue, from mobile banking to electronic payments.

With 66% of consolidated revenue in 2021 coming from retail banking; 16% from asset management, private banking, and insurance; and 8% from corporate and investment banking, CMG has good recurring business volumes, supporting business stability. The group faces intense competition in the French banking sector and costs related to digitization, but we believe higher interest rates will progressively become a significantly positive factor for profitability.

Chart 3

Most Of CMG's Revenue Come From Retail And Insurance

2021 revenue by business line

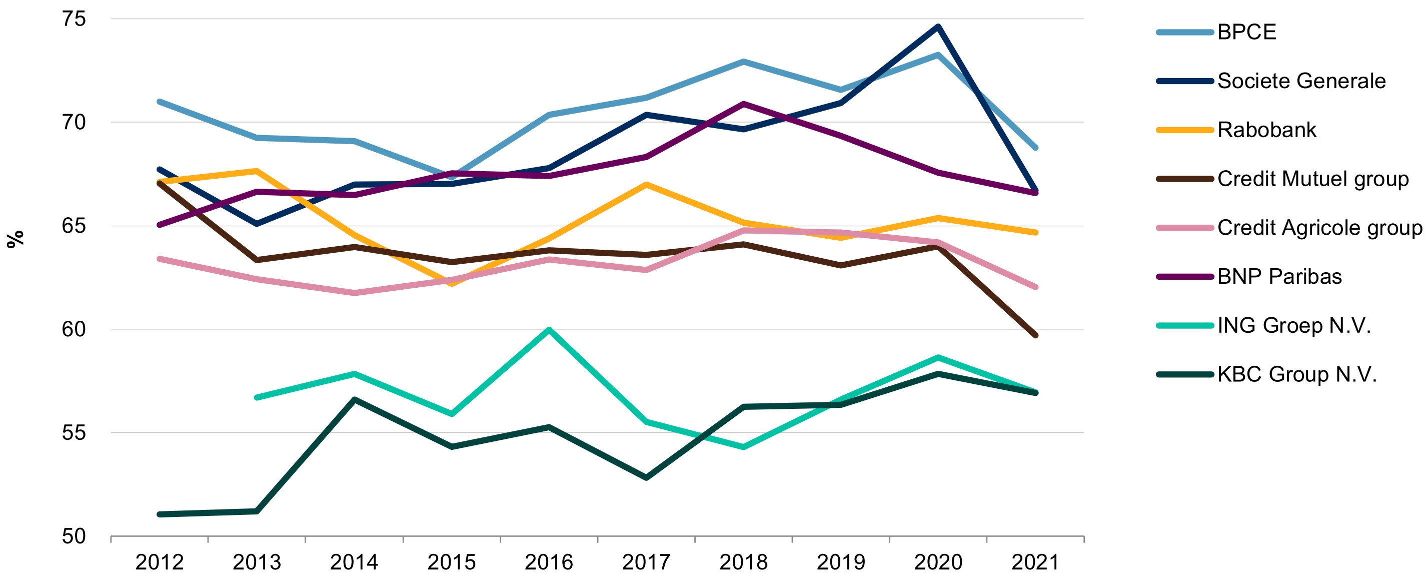


Source: S&P Global Ratings.

According to our estimates, the mean of CMG's cost-to-income ratio stood at 62.9% over 2017-2021, which reflects average cost-efficiency in a global context. Supported by bank and insurance synergies, CMG's cost efficiency is at the top end of the French banking groups, on par with Credit Agricole. However, it stands behind peers in the Nordics and direct peers like KBC and ING.

Chart 4

CMG's Cost Efficiency Is Best-In-Class In France, But Average In A Global Context
Cost-to-income



Source: S&P Global Ratings.

Capital And Earnings: Incremental Capital Buildup, Balancing Strong Earnings Retention And Dynamic Loan Growth

The group's profitability is supported by the strength of its retail and insurance businesses, and its low risk profile. In line with other cooperative groups, CMG retains most of its earnings, which supports capital buildup even when exposure growth is dynamic. It is less profitable than listed peers, in our view, but benefits from typically lower earnings volatility. We project average return on average common equity (ACE) of 6.5% over 2022-2024, in line with the group's historical levels. We expect our RAC ratio before diversification to increase incrementally to the 10.5%-11.0% range in 2023-2024, from the 10.4% we estimated at year-end 2021.

Our RAC forecast factors in the following assumptions for 2022-2024:

- Revenue growth averaging 4%-5%, supported by increasing interest rates, which will translate progressively into a higher net interest margin, along with asset repricing.
- Expense inflation contained to 5% annually, with the group's cost-to-income ratio stabilizing just above 60%.
- Cost of risk at 20 bps of gross customer loans in 2022, normalizing to 25-30 bps in 2023-2024. We do not factor in any significant reversal of provisions, because we expect CMG to maintain prudent coverage by credit reserves.

- Net annual income group share of €4.5 billion-€5.0 billion.
- Annual increase of the participation in insurance subsidiaries of 5%, as measured using the equity method.
- No significant acquisitions.
- Increase in RWAs of 8.0%-9.0% in 2022, as CMG will continue to expand organically, mainly in retail banking in low-risk European countries (9.5% annualized growth in customer loans reported by CMAF over first-half 2022); annual increase in RWAs normalizing to 5.0%-6.0% in 2023-2024.

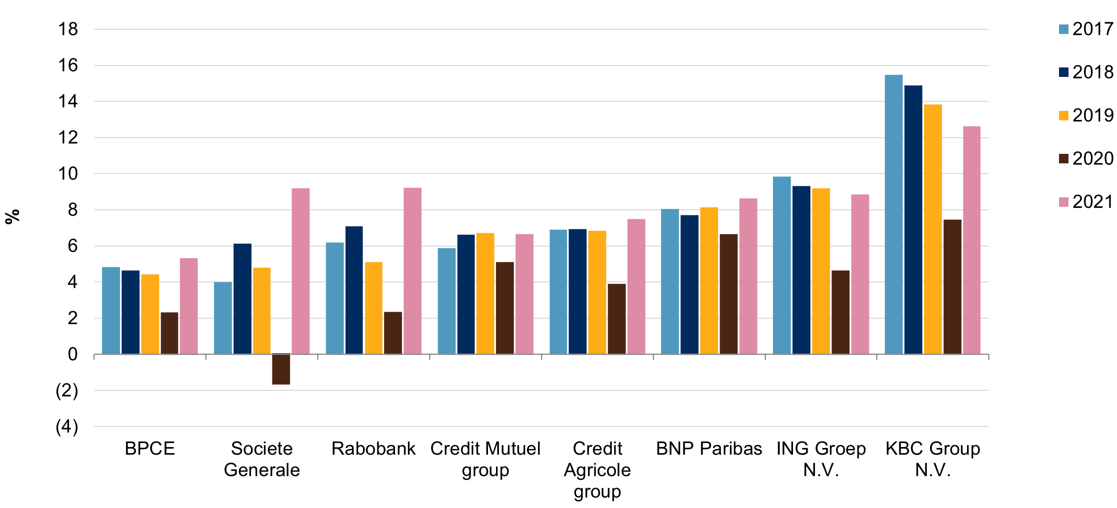
We also factor in that interest conditions on the third series of the targeted long-term refinancing operations (TLTRO) will be indexed on the interest rates applicable to cash amounts deposited with the ECB, effective Nov. 23, 2022. Therefore, the carry of liquidity raised from recourse to TLTRO III refinancing will be neutral to banks' interest rate margins. Consistently, we do not project any benefit to CMG's interest revenue in 2023.

Typical for a mutual group, CMG's earnings are very stable compared with larger and more complex banking groups, only dented by marginal one-off costs. Its customer-centric business model, absence of cyclical businesses, and low-risk appetite allowed the group to outperform peers in times of stress.

Our measure of return on ACE on CMG averaged 6.4% over the past decade. While this level is comparatively low, CMG'S return was extremely stable over that period, slightly down in 2020 but still above 5.0%. Also, this poses fewer strategic and business-model challenges to cooperative groups than to listed ones because the former typically enjoy lower cost of capital, given their low dividend payout and capacity to issue affordable cooperative shares.

Chart 5

CMG's Return On ACE Is Lower Than Some Peers, But Is Less Volatile
Return on average common equity



Source: S&P Global Ratings.

In 2021, CMG reported revenue of nearly €20 billion, up 12.9%. This was supported by dynamic loan growth (6.5%), resilient net interest margin and a material increase in commissions (10.7%), and strong improvement in the insurance segment's contribution (17.5%). The cost-to-income was just below 60%, as expense increased by a limited 4.6%. Due to the capping of fees and commissions on credit insurance in Germany from 2022, CMG booked a €875 million impairment of its goodwill on Targobank in 2021 (€775 million impact in profit after tax), which brought this goodwill down to just below €2.0 billion.

CMG's reported CET1 ratio was above 19.5% at year-end 2021, one of the highest for a universal bank in Europe. The difference between our RAC ratio and the regulatory tier 1 ratio (10.4% and 19.6%, respectively, at year-end 2021), stems primarily from the higher risk weights we apply to mortgage lending and to the relatively large equity stakes in the banking book, as well as from our deducting participation in insurance activities. We consider that CMG has material exposure to insurance risks through its large insurance subsidiaries (GACM and Suravenir Assurances).

CMG's capital base is high quality. Hybrids benefitting from intermediate capital equity content, all legacy tier 1 instruments under regulatory phasing out, represented a residual 0.5% of our total adjusted capital at year-end 2021, and will be fully phased out in 2023.

Risk Position: Primarily Focused On Retail Banking In France

Our assessment of CMG's risk position reflects the group's domestic focus on low-risk retail activities and fairly low involvement in capital-market activities. Still, some pockets of risk stem from, for instance, the expansion into consumer finance, and the concentration of customer credit risks up to 80%-85% in France.

Domestic residential mortgages represent about half of CMG's total customer loans, but are naturally granular, are collateralized, and generated extremely low and stable losses throughout the credit cycle. While residential property prices could stagnate, or even moderately decline in some French areas, the key risk for the bank would be a rise in unemployment, as it could weaken borrowers' solvency. CMG, like French peers, apply strict debt-to-income and debt service ratios, and residential mortgages are essentially granted at fixed rates. Overall, we expect losses in the residential real estate segment to remain very low.

In the next couple of years, we expect NPAs to remain below 3.0% of total loans, the coverage of bad loans by reserves to remain a high 75%-80%, and the cost of risk to stabilize at the historical level of 25-30 bps for CMG. We forecast the cost of risk to remain a lower about 20 bps in 2022 (16 bps in 2021) considering that, so far, and as is the case for peers, the number of defaults remained low due to French authorities' measures to support the economy. Also, the bank has booked forward-looking additional provisions to cover risks within the business sectors identified as the most vulnerable, which include hotel and catering, tourism, transportation and retailers. The exposure identified as vulnerable represent a limited 2% of the group's loan book. Nevertheless, we do not rule out downside scenarios in the current uncertain economy (for more information, see "Rising Recession Risks Cloud Eurozone Banks' Earnings Prospects," published Sept. 30, 2022, on RatingsDirect).

The group stated it does not operate in Ukraine and Russia, and that its direct exposures in these two countries, as well as in Belarus, are immaterial.

Consumer finance portfolios--with Cofidis and Targobank (both part of CMAF), and Financo (a subsidiary of CMA)--constituted 9.0% of net customer loans at year-end 2021. Targobank operates predominantly in the very low-risk German market, which is typified by low household debt and unemployment. Its Germany loan portfolio, including corporate customers, totaled €23.6 billion as of June 30, 2022. Cofidis offers riskier products, like revolving loans or credit cards, but its overall size remains modest, with €16.6 billion of retail loans outstanding on that date. These activities carry structurally higher credit risk, but margins are wider.

The group is a major bancassurance provider in France and is exposed to insurance risk. The strong penetration of unit-linked products and cross-selling from the bancassurance model are set to underpin business growth, despite risks related to the increase in interest rates in 2022 and poor standing in the bonds and equity markets.

CMG's exposure to interest rates mainly derives from its long-term fixed-rate French retail loan portfolio. Like French peers, the group relies on asset-liability management to measure its exposure to and hedge against interest rate risk. We expect that the increase in interest rates in 2022 will benefit interest revenue, although any positive impacts will be subject to the respective paces of repricing on the asset and liability sides, and CMG's assets include a large part of fixed-rate mortgages with longer tenure.

Although nonfinancial risks can emerge, as we have seen in other European countries, we believe that the bank manages them well. Its local and regional entrenchment, along with CMG's mutualist status, and its modest international presence tend to reduce financial-crime-related or litigation risks. As a retail bank, the group is exposed to conduct risks and risks related to mis-selling to retail clientele, but its lending practices are non-aggressive and its track record in that domain is favorable, in our view.

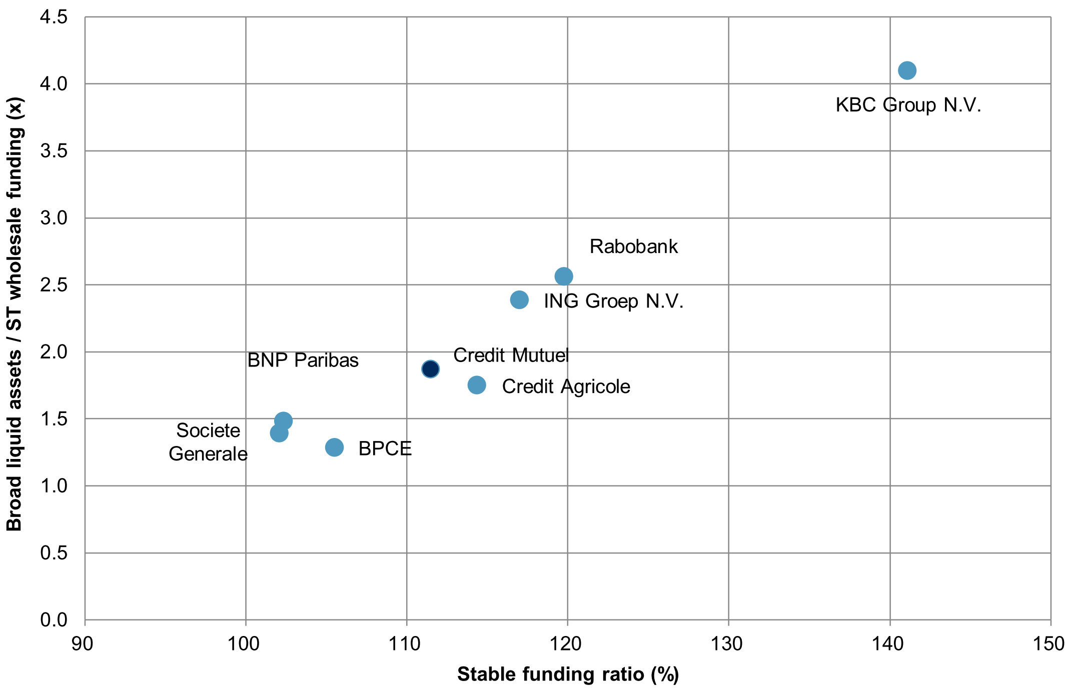
Funding And Liquidity: Better In Line With International Peers'

The group's funding and liquidity is neutral to our group stand-alone credit profile (SACP) assessment. Its metrics are comparable with its direct peers'. At year-end 2021, CMG's stable funding ratio and broad liquid asset to short-term wholesale funding ratio stood at 111.1% and 1.94x, respectively, which compared with average levels of about 95% and 0.9x over 2012-2019. The sharp improvement in the past couple of years reflected primarily the abundant liquidity in financial markets and still-favorable borrowing conditions (including TLTRO). Unchanged, the group's large retail banking network, and loyal and very granular deposit base, are strong qualitative factors that we factor in our funding and liquidity assessment.

Over the past decade, CMG made efforts to roll out stricter management of resources and improved its funding metrics. The growth in deposits led to a material improvement in the loan-to-deposit ratio since 2019, with achieved levels of 113% at year-end 2021 and 111% at year-end 2020, compared with 121% at year-end 2019 and a far higher 180% at year-end 2008. CMG has a large and increasing core deposit base that stood at €501 billion at year-end 2021 and was collected mainly by the regional banks and CIC. Deposits are granular and stable, thanks to the strong retail franchise of the local banks and the Credit Mutuel brand. While higher interest rates could lead customers to draw against deposits on the bank's books and redirect their savings, to some extent, to long-term investments, we see an increase in the overall funding cost as more likely than a depletion of the deposit base.

Chart 6

CMG's Funding And Liquidity Metrics Are In Line With Peers'
S&P Global Ratings' funding and liquidity ratios as of Dec. 31, 2021



Source: S&P Global Ratings.

Wholesale funding is an important part of the group's funding. The portfolio of medium- and long-term (MLT) debt amounted to €168 billion at year-end 2021. CMG has limited funding needs in U.S. dollars, most of which are at CMAF. As of September 2022, CMAF had nearly completed its €17 billion-€18 billion annual MLT funding program, executed under various formats (45% senior preferred, 25% covered bonds, 18% nonpreferred, 7% tier 2, and the rest in negotiable European medium-term notes and MLT deposits). We consider that CMG's access to European Central Bank funding is opportunistic, as is the case for most of its French and European banking peers. The group reported €53.8 billion in TLTRO III as at year-end 2021.

We expect CMG's liquidity coverage ratio to remain well above 100% (the group reported 183.6% at year-end 2021). In our opinion, this liquidity position would provide flexibility under prolonged market stress, and benefits from a large and granular deposit base and conservative risk management. Also, we consider that the bank benefits from flexibility to mobilize unencumbered housing loan assets to access central banks in case of need.

We adjust our funding and liquidity metrics to exclude the portion of regulated deposits centralized at the Caisse des Depots et Consignations and cannot be used to fund loans. These centralized deposits amounted to €47 billion at year-end 2021 (€44 billion at year-end 2020).

Support: One Notch Of Uplift For ALAC

We believe that CMG has a credible strategy to issue bail-inable instruments. This is despite the group not being subject to TLAC rules (initially developed by the Financial Stability Board and further transposed into European law) and already has a large amount of common equity in its capital structure. In our view, this translated in a lower incentive than for other large French banking groups to issue senior nonpreferred debt or other subordinated instruments. Furthermore, at year-end 2021, the group's subordinated liabilities already exceeded comfortably its minimum requirement for eligible liabilities and own funds (MREL).

We expect CMG's new issuances of senior nonpreferred and subordinated notes to be at least €4.0 billion annually over 2022-2024. With this, we forecast our ratio of ALAC to RWAs to exceed 5.0% by year-end 2023, well above our 3.0% threshold for one notch of ALAC uplift.

Our ALAC ratio on CMG was 447 bps at year-end 2021. This compared with 361 bps at year-end 2020, pro forma the revision of our rating methodology for financial institutions in 2021 (for more information, see "Four European Bank Ratings Raised, One Affirmed On ALAC Uplift; Off UCO On Implementation Of Revised FI Criteria," published Dec. 16, 2021, on RatingsDirect). The historical metric at year-end 2020 was 373 bps, and the 2021 increase in ALAC came after the issuance of €4.4 billion in bail-inable instruments, essentially under the form of senior nonpreferred debt.

Additional Rating Factors

None.

Environmental, Social, And Governance

ESG Credit Indicators

E-1	**E-2**	E-3	E-4	E-5	S-1	**S-2**	S-3	S-4	S-5	G-1	**G-2**	G-3	G-4	G-5

ESG credit indicators provide additional disclosure and transparency at the entity level and reflect S&P Global Ratings' opinion of the influence that environmental, social, and governance factors have on our credit rating analysis. They are not a sustainability rating or an S&P Global Ratings ESG Evaluation. The extent of the influence of these factors is reflected on an alphanumerical 1-5 scale where 1 = positive, 2 = neutral, 3 = moderately negative, 4 = negative, and 5 = very negative. For more information, see our commentary "ESG Credit Indicators: Definition And Applications," published Oct. 13, 2021.

Environmental, social, and governance (ESG) factors for the group are broadly in line with those of the industry.

From an environmental standpoint, CMG could be vulnerable to evolving norms and legislation that could affect the credit quality of its loan exposures and securities investments (including in insurance). The group has set financing exclusions on some sectors and companies that could have a negative impact on people or the environment. But given its relatively small portfolio of large corporates, transition risks to a greener economy are manageable in our view. Retail banks are also challenged to achieve carbon neutrality on their housing loan books, and CMG considers this a priority for the next few years.

Social factors are important due to regulatory focus on banks' business conduct, including how they treat customers. This is an area of particular attention for CMG, especially in its consumer finance business, which caters to a typically more fragile clientele, and in the management of its large branch network. As is the case for its peers in France, Cofidis operates in a consumer-friendly jurisdiction, with a usury rate and strict laws on over-indebtedness, both of which limit predatory lending practices, compared with what we have seen in other countries. Digitalization and changing customer preferences are key risks for the banking sector. Building on strict rules in terms of IT security and privacy, the bank uses private cloud networks located in France, with backups in Germany.

CMG displays a highly decentralized organizational model. Its local cooperative banks are credit institutions whose equity capital is held by members who are also customers. These entrenched local roots support the group's focus on sustainability and its leading position among retail and small and midsize enterprise clients. The intragroup tensions between CMA and CNCM are unusual in such large banking groups. So far, it has not weighed on operational effectiveness or financial performance, which is why we do not yet consider these tensions to be credit relevant.

Group Structure, Rated Subsidiaries, And Hybrids

We view the following rated entities as core to CMG: Caisse Centrale du Credit Mutuel (CCCM), BFCM, CIC, Caisse Federale du Credit Mutuel de Maine-Anjou Basse Normandie, and Caisse Federale du Credit Mutuel Ocean.

Ratings on hybrid securities

In our credit analysis of hybrid debt issued by an entity we regard as a core member of a group--as is the case for BFCM--we assess whether the cohesiveness and integration within the group is strong enough to accrue support to those instruments. In CMG's case the financial solidarity mechanism under French law is, in our view, the overarching feature ensuring overall cohesiveness. We then deduct notches from the long-term issuer credit ratings (ICR) to derive the issue rating on hybrid notes:

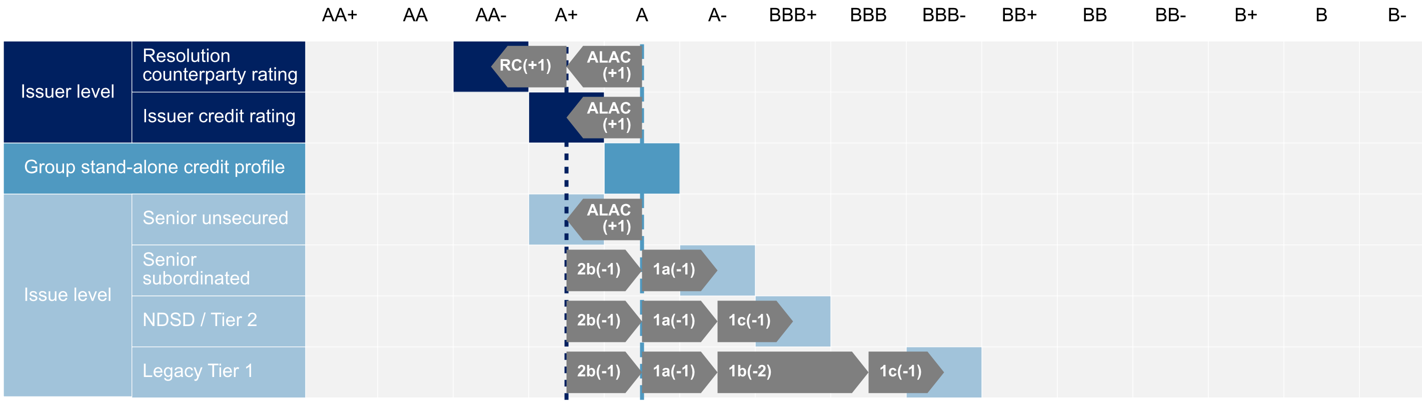
- One notch for contractual subordination. In line with our approach for rating senior nonpreferred notes in France or Tier 3 instruments in some other countries, we deduct one notch when an instrument is subordinated to senior unsecured debt, even if it is not labeled subordinated; and
- One notch to remove the benefit of ALAC, which provides uplift only to ratings on senior preferred debt.

Therefore, we rate BFCM senior nonpreferred notes 'A-', two notches below the 'A+' long-term ICR on the bank (which corresponds to one notch below the 'a' group SACP for CMG).

Our 'BBB-' and 'BBB+' ratings on BFCM's legacy tier 1 and tier 2 capital instruments stand five and three notches, respectively, below our 'A+' issuer credit rating on BFCM, which reflects:

- One notch for subordination;
- Two notches for regulatory capital status for the tier 1 instruments, while no notches are deducted for the tier 2 instruments because they are nondeferrable;
- One notch for tier 1 and tier 2 instruments because they contain a contractual write-down clause; and
- The removal of the benefit of the ALAC notch (same as for senior nonpreferred instruments).

Banque Federative du Credit Mutuel: Notching



Key to notching

- - - - - Group stand-alone credit profile
- - - - - - Issuer credit rating

RC	Resolution counterpartyliabilities (senior secured debt)
ALAC	Additional loss-absorbing capacity buffer
1a	Contractual subordination
1b	Discretionary or mandatory nonpayment clause and whether the regulator classifies it as regulatory capital
1c	Mandatory contingent capital clause or equivalent
2b	Other nonpayment or default risk not captured already

Note: The number-letter labels in the table above are in reference to the notching steps we apply to hybrid capital instruments, as detailed in table 2 of our “Hybrid Capital: Methodology And Assumptions” criteria, published on March 2, 2022.
NDSD--Non-deferrable subordinated debt.

Resolution Counterparty Ratings (RCRs)

We have 'AA-/A-1+' RCRs on CCCM, BFCM, CIC, Caisse Federale du Credit Mutuel Maine-Anjou Basse Normandie, and Caisse Federale du Credit Mutuel Ocean. We have assigned RCRs to these entities of the group because we assess the resolution regime to be effective in France and the bank as likely to be subject to a resolution that entails a bail-in if it reaches nonviability. An RCR is a forward-looking opinion of the relative default risk of certain senior liabilities that may be protected from default through an effective bail-in resolution process for the issuing financial institution. We position the long-term RCR up to one notch above the long-term ICR when the ICR ranges from 'BBB-' to 'A+'.

Key Statistics

Table 1

Credit Mutuel Group--Key Figures

	--Year ended Dec. 31--				
(Mil. €)	**2021**	**2020**	**2019**	**2018**	**2017**
Adjusted assets	834,440	785,566	701,169	643,917	608,183
Customer loans (gross)	574,979	541,178	499,577	468,263	443,887
Adjusted common equity	47,427	41,779	39,867	37,157	33,945
Operating revenues	19,769	17,625	18,380	17,680	17,407
Noninterest expenses	11,803	11,280	11,597	11,332	11,069
Core earnings	5,143	2,702	3,846	3,557	3,057

Table 2

Credit Mutuel Group--Business Position

	--Year ended Dec. 31--				
(%)	**2021**	**2020**	**2019**	**2018**	**2017**
Total revenue from business line (mil. €)	19,777	18,209	18,397	17,701	17,429
Retail banking/total revenue from business line	70.3	72.8	72.4	73.9	73.7
Corporate and investment banking/total revenue from business line	8.5	5.2	5.6	6.1	6.6
Insurance activities/total revenue from business line	11.8	10.2	12.2	12.6	13.6
Asset management/total revenue from business line	5.3	4.9	4.7	4.6	4.8
Other revenue/total revenue from business line	4.0	6.8	5.1	2.8	1.3
Return on average common equity	6.6	5.1	6.7	6.6	5.8

Table 3

Credit Mutuel Group--Capital And Earnings

	--Year ended Dec. 31--				
(%)	**2021**	**2020**	**2019**	**2018**	**2017**
Tier 1 capital ratio	19.6	18.8	18.6	17.9	17.9
S&P Global Ratings' RAC ratio before diversification	10.4	10.1	10.1	9.8	8.6
S&P Global Ratings' RAC ratio after diversification	11.1	10.7	10.6	10.3	9.2
Adjusted common equity/total adjusted capital	99.5	98.9	98.2	97.5	96.7
Net interest income/operating revenue	43.2	47.5	43.3	42.7	40.9
Fee income/operating revenue	24.6	24.9	23.7	24.9	24.3
Market-sensitive income/operating revenue	6.7	0.7	5.1	5.5	7.7
Cost to income ratio	59.7	64.0	63.1	64.1	63.6
Preprovision operating income/average assets	0.8	0.6	0.8	0.8	0.8
Core earnings/average managed assets	0.5	0.3	0.4	0.4	0.4

RAC--Risk-adjusted capital.

Table 4

Credit Mutuel Group--Risk-Adjusted Capital Framework Data

(€ 000s)	Exposure*	Basel III RWA	Average Basel III RW(%)	S&P Global Ratings RWA	Average S&P Global Ratings RW (%)
Credit risk					
Government and central banks	244,108,720	5,059,578	2.0	3,315,338	1.0
Of which regional governments and local authorities	10,494,008	2,136,661	20.0	377,855	4.0
Institutions and CCPs	39,563,488	8,551,344	22.0	7,828,139	20.0
Corporate	175,651,249	108,528,105	62.0	136,738,662	78.0
Retail	426,213,468	82,933,359	19.0	184,941,653	43.0
Of which mortgage	276,070,558	31,347,720	11.0	75,853,531	27.0
Securitization§	6,793,641	1,412,831	21.0	14,884,825	219.0
Other assets†	19,684,222	9,866,472	50.0	21,672,901	110.0
Total credit risk	912,014,789	216,351,690	24.0	369,381,519	41.0
Credit valuation adjustment					
Total credit valuation adjustment	--	655,373	--	0	--
Market risk					
Equity in the banking book	7,991,127	20,910,068	262.0	58,045,358	726.0
Trading book market risk	--	2,685,120	--	4,027,680	--
Total market risk	--	23,595,187	--	62,073,038	--
Operational risk					
Total operational risk	--	25,195,771	--	29,035,325	--
	Exposure	**Basel III RWA**	**Average Basel II RW (%)**	**S&P Global Ratings RWA**	**% of S&P Global Ratings RWA**
Diversification adjustments					
RWA before diversification	--	312,193,228	--	460,489,882	100.0
Total diversification/cConcentration adjustments	--	--	--	(29,336,070)	(6.0)
RWA after diversification	--	312,193,228	--	431,153,812	94.0
		Tier 1 capital	**Tier 1 ratio (%)**	**Total adjusted capital**	**S&P Global Ratings RAC ratio (%)**
Capital ratio					
Capital ratio before adjustments		61,243,000	19.6	47,669,652	10.4
Capital ratio after adjustments‡		61,243,000	19.6	47,669,652	11.1

*Exposure at default. §Securitization exposure includes the securitization tranches deducted from capital in the regulatory framework. †Exposure and S&P Global Ratings' risk-weighted assets for equity in the banking book include minority equity holdings in financial institutions. ‡Adjustments to tier 1 ratio are additional regulatory requirements (e.g. transitional floor or pillar 2 add-ons). RWA--Risk-weighted assets. RW--Risk weight. RAC--Risk-adjusted capital. Sources: Company data as of Dec. 31, 2021, S&P Global Ratings.

Table 5

Credit Mutuel Group--Risk Position

	--Year ended Dec. 31--				
(%)	**2021**	**2020**	**2019**	**2018**	**2017**
Growth in customer loans	6.2	8.3	6.7	5.5	4.3
Total diversification adjustment/S&P Global Ratings' RWA before diversification	(6.4)	(5.4)	(4.9)	(5.1)	(6.4)
Total managed assets/adjusted common equity (x)	22.8	24.5	23.4	22.9	24.0
New loan loss provisions/average customer loans	0.2	0.5	0.2	0.2	0.2
Gross nonperforming assets/customer loans + other real estate owned	2.5	2.8	3.0	3.1	3.3
Loan loss reserves/gross nonperforming assets	77.8	76.2	69.7	69.7	59.9

RWA--Risk-weighted assets.

Table 6

Credit Mutuel Group--Funding And Liquidity

	--Year ended Dec. 31--				
(%)	**2021**	**2020**	**2019**	**2018**	**2017**
Core deposits/funding base	67.0	67.8	64.7	63.3	63.2
Customer loans (net)/customer deposits	112.5	110.8	121.2	126.0	126.2
Long-term funding ratio	87.7	84.8	83.1	80.9	79.7
Stable funding ratio	111.1	106.1	99.0	95.5	96.0
Short-term wholesale funding/funding base	13.4	16.4	18.4	20.8	22.1
Broad liquid assets/short-term wholesale funding (x)	1.9	1.5	1.1	0.9	0.9
Broad liquid assets/total assets	17.9	16.9	13.7	13.1	13.8
Broad liquid assets/customer deposits	38.7	36.1	31.5	30.6	32.5
Net broad liquid assets/short-term customer deposits	20.4	30.7	7.4	(5.0)	(5.0)
Short-term wholesale funding/total wholesale funding	40.5	50.7	51.9	56.2	59.6

Caisse Centrale du Credit Mutuel--Rating Component Scores

Issuer Credit Rating	**A+/Stable/A-1**
SACP	a
Anchor	bbb+
Economic risk	3
Industry risk	4
Business position	Strong
Capital and earnings	Strong
Risk position	Adequate
Funding	Adequate
Liquidity	Adequate
Comparable ratings analysis	0
Support	1
ALAC support	1
GRE support	0
Group support	0
Sovereign support	0

Caisse Centrale du Credit Mutuel--Rating Component Scores (cont.)	
Issuer Credit Rating	**A+/Stable/A-1**
Additional factors	0

ALAC--Additional loss-absorbing capacity. GRE--Government-related entity. SACP--Stand-alone credit profile.

Related Criteria

- General Criteria: Hybrid Capital: Methodology And Assumptions, March 2, 2022
- Criteria | Financial Institutions | General: Financial Institutions Rating Methodology, Dec. 9, 2021
- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Dec. 9, 2021
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Group Rating Methodology, July 1, 2019
- 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
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- Banking Industry Country Risk Assessment Update: November 2022, Nov. 29, 2022
- Economic Outlook Eurozone Q1 2023: Reality Check, Nov. 28, 2022
- Top 50 European Banks: Higher Rates Support Risk-Adjusted Capital Ratios, Nov. 10, 2022
- Banking Industry Country Risk Assessment: France, Oct. 11, 2022
- The Resolution Story For Europe's Banks: The Final Push To Resolvability, Sept. 30, 2022
- Rising Recession Risks Cloud Eurozone Banks' Earnings Prospects, Sept. 30, 2022
- The New Normal For Eurozone Banks: Strong Funding Franchises Are Back In Vogue, July 7, 2022
- When Rates Rise: Not All European Banks Are Equal, June 8, 2022
- Ratings On Credit Mutuel Nord Europe And Its Programs Withdrawn After Joining Credit Mutuel Alliance Federale, Feb. 22, 2022
- Four European Bank Ratings Raised, One Affirmed On ALAC Uplift; Off UCO On Implementation Of Revised FI Criteria, Dec. 16, 2021
- S&P Global Ratings Definitions, Nov. 10, 2021

Ratings Detail (As Of November 30, 2022)*	
Caisse Centrale du Credit Mutuel	
Issuer Credit Rating	A+/Stable/A-1
Resolution Counterparty Rating	AA-/--/A-1+
Commercial Paper	
Local Currency	A-1
Senior Unsecured	A+
Issuer Credit Ratings History	
16-Dec-2021	A+/Stable/A-1
24-Jun-2021	A/Stable/A-1
23-Apr-2020	A/Negative/A-1
Sovereign Rating	
France	AA/Stable/A-1+
Related Entities	
Banque Federative du Credit Mutuel	
Issuer Credit Rating	A+/Stable/A-1
Resolution Counterparty Rating	AA-/--/A-1+
Commercial Paper	
Local Currency	A-1
Junior Subordinated	BBB-
Senior Subordinated	A-
Senior Unsecured	A+
Senior Unsecured	A+/A-1
Senior Unsecured	A-1
Subordinated	BBB+
Caisse Federale du Credit Mutuel de Maine-Anjou Basse Normandie	
Issuer Credit Rating	A+/Stable/A-1
Resolution Counterparty Rating	AA-/--/A-1+
Commercial Paper	
Local Currency	A-1
Senior Unsecured	A+
Caisse Federale du Credit Mutuel Ocean	
Issuer Credit Rating	A+/Stable/A-1
Resolution Counterparty Rating	AA-/--/A-1+
Commercial Paper	
Local Currency	A-1
Senior Unsecured	A+
Credit Industriel et Commercial	
Issuer Credit Rating	A+/Stable/A-1
Resolution Counterparty Rating	AA-/--/A-1+
Commercial Paper	
Local Currency	A-1
Senior Unsecured	A+
Short-Term Debt	A-1

Ratings Detail (As Of November 30, 2022)*(cont.)	
Credit Industriel et Commercial, New York Branch	
Commercial Paper	
Local Currency	A-1
Credit Mutuel Home Loan SFH	
Senior Secured	AAA/Stable

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.