S&P Global Ratings

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Banque Federative du Credit Mutuel

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Credit Highlights

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

Overview

Key strengths	Key risks
Core member of the Crédit Mutuel group (GCM).	Lower diversification outside domestic retail banking and insurance, compared with that of similar- and higher-rated peers.
Strong and stable franchise in France's retail banking and insurance markets, complemented by Cofidis in consumer credit, Beobank in Belgian retail and Targobank in German consumer finance, leasing, and factoring.	Profitability challenge in the highly competitive French retail market and considering the uncertain economy.
High-quality capital and supportive internal capital generation.	Only average cost efficiency, compared with European peers, although best-in-class in France.

Crédit Mutuel Alliance Fédérale (CMAF) has a strong bancassurance business model, solid capital position, good cost efficiency in a French banking system context, and a sound asset base. CMAF comprises notably the Banque Fédérative du Crédit Mutuel (BFCM) and its subsidiaries, including Targobank and consumer finance specialist Cofidis. CMAF's business mix, resulting from its retail, small and midsize enterprises, and insurance focus, makes revenue predictable and supports its earnings quality and resilience in difficult economic conditions.

CMAF had a strong 2022 and started well into 2023, with a stable €3.3 billion in pre-provisioning operating income in the first half. At €679 million, the cost of risk was higher than in the first half of 2022 (€470 million), with the increase stemming essentially from network clientele and consumer finance activities. Overall, the group reported a net income (including minority interests) of nearly €2.0 billion, an 8.0% decrease year-on-year. We expect CMAF will deliver similar profitability in the second half of 2023, further supported by its resilient business model.

We consider BFCM a core subsidiary of GCM. The group operates under a cooperative status according to the provisions of the French Monetary and Financial Code, whereby cooperative members are eligible to benefit from a financial solidarity mechanism organized by statutory provisions. BFCM was officially affiliated to Confédération Nationale du Crédit Mutuel (CNCM) in 2020, thereby integrating the scope of GCM's solidarity mechanism. BFCM is not a mutual bank, but it comprises a substantial part of CMAF and, given its strategic importance to GCM, we consider that it would benefit from the full support of CMAF if it came under financial stress.

The group pursues building up a sizable bail-in-able buffer. We estimate that GCM's additional loss-absorbing capacity (ALAC), most of which stems from instruments issued by BFCM, was about 4.8% of S&P Global Ratings' risk-weighted assets (RWAs) metric as at year-end-2022. We forecast that it will exceed 5.5% from year-end 2024, well above our 3.0% threshold for one notch of ALAC uplift on GCM.

Outlook

The stable outlook on BFCM mirrors that on GCM and reflects our expectation that the former will remain a core subsidiary of the group. The long-term rating on BFCM is therefore at the level of our 'a+' assessment of GCM's group credit profile (GCP). We see a change in the bank's strategic importance within GCM as extremely unlikely, due to BFCM's role in funding and issuing regulatory financial instruments for a large part of the group.

We expect GCM will continue adapting its retail and insurance activities to the competitive French market. We anticipate that, over our two-year forecast horizon, the group will continue to deliver resilient profitability, demonstrating its business model's sustainability. We also expect GCM will maintain a solid capital position, with a risk-adjusted capital (RAC) ratio before diversification comfortably above 10%, supported by sound earnings and a conservative dividend policy, owing to its cooperative structure. We expect the agreement, which CNCM, Crédit Mutuel Arkéa, and the 19 federations found in May 2023, will enhance the group's cohesion and alleviate lingering questions regarding its governance. The stable outlook also factors in our expectation that GCM's geographic exposure will not mean materially higher economic risks over our outlook horizon.

Downside scenario

We could revise downward GCM's GCP and, at the same time, our rating on BFCM 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 decline in asset quality. This would lead us to lower our ratings on BFCM's hybrid capital and senior nonpreferred notes.

Upside scenario

We consider an upgrade of BFCM unlikely over our two-year horizon. It reflects that an increase of GCM's GCP would depend on a higher starting anchor for domestic banks in France, but would also require GCM to enhance its profitability and efficiency well above levels reported by 'A+' rated peers, while maintaining high asset quality and strong solvency.

Rationale

GCM largely relies on a decentralized pyramidal organizational model. A distinctive feature is that the mandate of the organization's upper levels is only to fulfill missions not already undertaken by other parts of the group, which favors commercial focus and close relationships with local customers, a key advantage in retail banking. The financial solidarity mechanism, set out in French law, is the overarching feature ensuring the group's overall cohesiveness. Article L511-30 of French banking law designates the CNCM as the central body, which entails responsibilities for the liquidity and solvency of the overall group. This explains our consolidated approach to assessing GCM's creditworthiness and our rating approach for the main entities, including BFCM.

Our ratings on BFCM also reflect our view of its critical role as the funding arm, central organ, and substantial part of CMAF, itself the largest cluster of regional federations of cooperative banks that form GCM. According to our group rating methodology, we view BFCM as a core entity of the larger group. We therefore align our ratings on BFCM with GCM's GCP ('a+') and do not determine a group stand-alone credit profile for CMAF, nor for BFCM. Due to BFCM's role as a funding vehicle and its links with CMAF, this report refers to CMAF's consolidated figures, which incorporates those of BFCM due to its full consolidation in CMAF's accounts. BFCM (consolidated) gathered nearly 80% of CMAF's net income group share in the first half of 2023 and a similar percentage of the subgroup's assets as at mid-year.

Out of the 18 regional federations of cooperative banks--organized on a territorial basis--that form GCM, 14 have gradually gathered to form CMAF. The latest entities to join were Crédit Mutuel Antilles Guyane and Crédit Mutuel Massif Central, on Jan. 1, 2020, and Crédit Mutuel Nord Europe (CMNE), on Jan. 1, 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 combination with CMNE strengthened CMAF's asset management franchise with the integration of CMNE's La Française Group and broadened the geographical footprint of CMAF to include Belgium.

We see CMAF, which represented about 80% of GCM's total assets and net income group share in 2022, as the backbone of the group. BFCM operates as a banking entity, consolidating subsidiaries that are not part of the mutual perimeter (principally foreign operations, factoring, receivables management, finance leasing, fund management, employees' savings, insurance, and real estate). Over the years, BFCM has developed expertise in payment systems and digitally advanced services, which it supplies to other group entities. The CMAF subgroup has demonstrated its ability to build on its retail bancassurance model and expand into ancillary businesses, such as technology, remote surveillance, and telecommunications. Also active in financial markets, BFCM provides centralized refinancing for CMAF's entities.

CMAF has a strong retail banking franchise, thanks to its dual retail network: 14 Crédit Mutuel federations leveraging on the powerful Credit Mutuel brand, and Crédit Industriel et Commercial (CIC). Retail banking activities represented over 75% of CMAF's revenue in the first half of 2023. CMAF uses the network of local banks to market the products and services available from the specialized subsidiaries of BFCM, which pays commissions for the deal flow. Facing intense competition and limited growth prospects in its domestic retail banking activities, CMAF remains committed to its dynamic diversification strategy, particularly by geography, through consumer finance and insurance.

CMAF revised its 2019-2023 strategic plan in 2020. It focuses on four priorities: omnichannel customer focus and accelerating digital transformation, engagement in today's world, innovative multiservice banking solutions, and a solid mutualist model.

Its financial targets for 2023 include:

- Net banking income: €14.6 billion;
- Cost-to-income ratio: below 61%;
- Net profit: exceeding €3 billion;
- Profitability from regulatory assets: 1.2%-1.4%; and
- Common Equity Tier 1 (CET 1) ratio: 17%-18%.

In 2023, CMAF created a "societal dividend," devoting 15% of its net profit to projects with added environmental and social value. Thus, out of the 2022 profits, €525 million will be allocated through three pillars: 50% invested in an "environmental and solidarity" impact fund with no financial profitability target, 35% allocated to the deployment of inclusive banking and insurance services, and 15% in philanthropic support to solidarity and environment preservation projects as close as possible to the regions.

CMAF is continuing non-strategic asset divestment, with the sale of Groupe des Assurances du Crédit Mutuel (GACM) España to Axa in July 2023 and exclusive negotiations engaged in late 2022 for the disposal of Targobank Spain to Abanca. In 2022, the group had sold FLOA, a joint venture in web and mobile payment solutions with Groupe Casino, to BNP Paribas. However, the mutualist bank will remain present in the buy-now-pay-later and split-payments markets through its consumer finance subsidiary, Cofidis.

In the first half of 2023, about three quarters of CMAF's revenue was generated domestically, with Germany being the second-largest market (12%). The subgroup serves its customers via about 4,500 branches, mostly in France, and operates a universal banking model through various entities:

- 14 Crédit Mutuel federations, which had 8.7 million retail customers at mid-2023, across many French regions. This retail bancassurance network also distributes telecom and remote surveillance products.
- CIC had 5.6 million retail customers at mid-2023. It complements CMAF's retail and insurance offering in the domestic market, with a focus on small businesses, corporates, and professionals. The CIC banking network's loan portfolio amounted to about €225.6 billion as at mid-2023, while its total loans, including specialized business lines, reached €243.6 billion, a year-on-year rise of 5.4%. CIC contributes to the international diversification of the corporate banking and private banking activities, with over 40 foreign branches and representation offices.
- GACM, CMAF's insurance arm, with revenue balanced between life and property/casualty products. It provides sizable fees and commissions to the group, supporting the resilience of its operating revenue. Over the first half of 2023, GACM contributed €443 million in net income (it was €422 million reported in the first half of 2022, or €406 proforma the implementation of IFRS17 and IFRS9 in 2023). The distribution commissions paid to CMAF's banking networks, which are key parties to the development of the insurance business, amounted to €0.8 billion, same as in the first half 2022.
- Beobank banking and insurance retail in Belgium, with more than 200 points of sale at end-2022 (in 2012, CMNE acquired Citibank Belgium, which was merged into BKCP and changed its name to Beobank in 2016).
- Germany-based consumer finance institution Targobank, which we see as the main source of CMAF's diversification by geography. With 3.7 million retail and business customers, it is a main player in Germany's consumer credit. Targobank integrated General Electric's German factoring and leasing activities in 2017.
- Cofidis, a domestic leading consumer finance business, in which BFCM purchased a controlling stake in 2009 (since then, CMAF has progressively increased its stake to 80%). The Cofidis group operates through three commercial brands: Cofidis, Créatis and Monabanq. To boost its business, Cofidis worked on digital solutions and was one of the first lenders to completely digitize the loan agreement process. At mid-2023, Cofidis had over 10 million customers in Europe and reported €18.8 billion in net customer loans. It is active in France, with its second-largest market being southern Europe. Cofidis' net income was €23.1 million in the first half of 2023, down 75% year-on-year essentially due to the rise in interest rates and despite a solid 12% increase in outstanding loans.

We consider that CMAF displays a solid financial profile, with key financial metrics broadly in line with those of the larger GCM. On June 30, 2023, the subgroup enjoyed a high common equity tier 1 (CET1) ratio of 18.5%. CMAF reported nonperforming loans (NPLs) accounted for 2.7% of its gross customer loans, with a 47.0% coverage considering only credit reserves classified as stage 3 under IFRS9. Its liquidity coverage ratio was 164.4%, obtained by the average calculation method for the first half of 2023. As at November 7, 2023, CMAF had completed its medium- and long-term funding program of €20 billion for the year, executed under various formats (€21.7 billion raised as at that date, of which 57% was senior preferred, 16% covered bonds, 18% senior nonpreferred, and 6% tier 2). These issuances included 17% in USD.

In the first half of 2023, CMAF reported €8.0 billion in revenue and a net income (including minority interests) of nearly €2.0 billion. Revenue growth was 4.0% (proforma changes in accounting principles applied for insurance entities from 2023). This included notably a 5.3% increase year-on-year in net interest income, supported by an overall 5.0% increase in customer loans. Revenue was resilient in retail banking activities (1.9% growth, balancing 0.7% in the banking networks and 5.5% in the consumer finance activities) and increased strongly in the private banking, corporate finance and capital market businesses. Operating expenses rose by 6.7%, also on a proforma basis, resulting in a cost-to-income ratio just above 58%. Amid the uncertain economy, the cost of risk amounted to €679 million, compared with €470 million in the first half of 2022, with the increase stemming notably from the network clientele and the consumer finance activities. Our measure of cost of risk stood at 26 basis points (bps) of gross customer loans for the semester. The decrease in net income was 7.3%, also on a proforma basis.

We expect CMAF will perform well over 2023. In the second half, we anticipate that high interest rates will progressively benefit net interest margins but that loan growth will eventually decelerate, reflecting notably less dynamic mortgage lending since the start of the year. We project that cost of risk will be contained below 30 bps and NPLs to gross customer loans will remain in the 2.5%-3.0% range.

Our ALAC ratio on GCM stood at 484 bps at year-end 2022, with more than 75% of this buffer issued by BFCM, and we forecast that the ratio will exceed 550 bps from year-end 2024, well above our 3.0% threshold for one notch of ALAC uplift on GCM. Therefore, our GCP for GCM and, in turn, our issuer credit ratings on its core entities incorporate one notch of ALAC uplift.

Key Statistics

Crédit Mutuel Alliance Fédérale--Key figures					
	--Fiscal year ends Dec. 31--				
(Mil. €)	**2023***	**2022**	**2021**	**2020**	**2019**
Adjusted assets	724,977	717,713	669,617	627,617	557,610
Customer loans (gross)	519,956	511,668	454,021	429,025	392,980
Adjusted common equity	55,473	52,674	46,407	42,080	39,565
Operating revenues	7,998	17,341	15,905	14,225	14,574
Noninterest expenses	4,650	10,328	9,138	8,867	8,940
Core earnings	1,959	4,621	4,368	2,172	3,092
Return on average common equity	6.61	6.33	6.71	5.07	6.73
Tier 1 capital ratio	18.50	18.20	18.90	18.00	17.60
Net interest income/operating revenues	51.63	46.15	44.86	49.64	45.53
Fee income/operating revenues	28.46	26.13	25.77	25.66	24.69
Market-sensitive income/operating revenues	4.88	3.11	5.99	0.63	5.78
Cost to income ratio	58.14	59.56	57.45	62.33	61.34
Preprovision operating income/average assets	0.75	0.81	0.83	0.71	0.81
Core earnings/average managed assets	0.44	0.53	0.53	0.29	0.45
Growth in customer loans	3.24	12.70	5.83	9.17	3.69
New loan loss provisions/average customer loans	0.26	0.16	0.16	0.58	0.27
Gross nonperforming assets/customer loans + other real estate owned	2.68	2.58	2.58	2.91	3.07
Loan loss reserves/gross nonperforming assets	70.78	72.62	78.44	76.91	69.91
Core deposits/funding base	64.24	65.47	65.05	66.75	62.58
Customer loans (net)/customer deposits	123.23	120.84	113.93	111.43	123.74
Stable funding ratio	94.55	94.69	99.01	99.53	91.17
Short-term wholesale funding/funding base	25.44	25.30	26.30	23.82	26.99
Short-term wholesale funding/total wholesale funding	71.16	73.26	75.22	71.55	72.01
Regulatory net stable funding ratio	117.40	116.10	125.60	N/A	N/A
Broad liquid assets/short-term wholesale funding (x)	0.92	0.96	1.09	1.12	0.83
Broad liquid assets/total assets	16.64	17.42	20.43	18.88	15.55
Broad liquid assets/customer deposits	36.24	37.11	44.16	39.94	35.96
Regulatory liquidity coverage ratio (LCR) (x)	152.10	153.30	181.30	165.20	153.70

*Data as of June 30, 2023.

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

- Credit Mutuel Group, Nov. 22, 2023
- French Banks' Domestic Net Interest Income Remained Depressed In The Third Quarter, Nov. 10, 2023
- Banking Industry Country Risk Assessment Update: October 2023, Oct. 27, 2023
- Large French Banks' Net Interest Income Should Pick Up From Mid-2024, Sept. 26, 2023
- Resilience Under Pressure Amid Tighter Financial Conditions, Sept. 26, 2023
- Economic Outlook Eurozone Q4 2023: Slower Growth, Faster Tightening, Sept. 25, 2023
- Top 200 Banks: Capital Ratios Continue To Normalize After Pandemic Peaks, Sept. 18, 2023
- Credit FAQ: What An Acceleration Of Quantitative Tightening Could Mean For Eurozone Banks, Sept. 13, 2023
- EU Banks Resist Tough Assumptions In Latest Stress Tests, Aug. 01, 2023
- European Banks: Protecting Liquidity Will Come At An Increasing Cost, June 29, 2023
- S&P Global Ratings Definitions, June 9, 2023
- Banking Industry Country Risk Assessment: France, Oct. 11, 2022
- Ratings On Credit Mutuel Nord Europe And Its Programs Withdrawn After Joining Credit Mutuel Alliance Federale, Feb. 22, 2022

Ratings Detail (As Of November 22, 2023)*	
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+

Ratings Detail (As Of November 22, 2023)*(cont.)	
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/Negative/A-1+
Related Entities	
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+
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
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.