FitchRatings

RATING ACTION COMMENTARY

Fitch Affirms Credit Mutuel Alliance Federale at 'A+'; Outlook Stable

Wed 19 Oct, 2022 - 1:01 PM ET

Fitch Ratings - Paris - 19 Oct 2022: Fitch Ratings has affirmed Credit Mutuel Alliance Federale's (CM Alliance Federale) Long-Term Issuer Default Rating (IDR) at 'A+' and Viability Rating (VR) at 'a+'. The Outlook on the Long-Term IDR is Stable.

A full list of rating actions is below.

Fitch has withdrawn CM Alliance Federale, Credit Industriel et Commercial (CIC) and Banque Federative du Credit Mutuel S.A.'s (BFCM) Support Ratings of '5' and Support Rating Floors of 'No Floor' as they are no longer relevant to the agency's coverage following the publication of its updated Bank Rating Criteria. In line with the updated criteria, Fitch has assigned CM Alliance Federale, CIC and BFCM Government Support Ratings (GSRs) of 'No Support' (ns).

KEY RATING DRIVERS

CM Alliance Federale's ratings reflect a stable and consistently profitable retail-and-commercial banking-focused business model. The group leverages on its strong franchises in French bancassurance and in consumer finance, and has plans to further diversify into insurance, wealth and asset management and corporate banking. The ratings also consider a lower risk appetite and stronger capitalisation than most French banks and a sound asset quality. The group's stable funding and conservative liquidity management further support the ratings.

Cooperative Banking Group: CM Alliance Federale, which has integrated Credit Mutuel Nord Europe since January 2022, is part of the wider Credit Mutuel (CM) cooperative group. Fitch rates CM Alliance Federale as a banking group backed by a mutual-support mechanism. We distinguish CM Alliance Federale from CM group as CM Alliance Federale's large size would make it difficult for CM group members outside of CM Alliance Federale to support it, despite the additional mutual support mechanism between them. The risk of CM Alliance Federale having to provide extraordinary support to the remaining CM group members is a remote possibility, given the members' sound credit profiles, and this does not negatively affect the ratings.

A Leading Bancassurer in France: CM Alliance Federale has the third-largest retail- and commercial-banking franchise in France, and has well-established market positions in life and non-life insurance. CM Alliance Federale generates most of its revenue domestically, but has notable diversification in Germany, where it is primarily active in consumer finance, leasing and factoring. Its strategy is well-articulated, conservative and sets credible long-term goals.

Conservative Risk Profile: CM Alliance Federale's cooperative status supports a low risk appetite and conservative underwriting standards in key lending products. The group has limited tolerance for traded market risks, when compared with larger French peers, which benefits our assessment of its risk profile.

Resilient Asset Quality: CM Alliance Federale's 2.5% impaired loans ratio at end-June 2022 remained higher than that of similarly rated European peers. However, the bank's high coverage by loan loss allowances and lower exposure to vulnerable corporate sectors and borrowers mitigate downside risks. The current downturn will moderately weaken CM Alliance Federale's asset quality, and we expect the bank's impaired loans ratio to increase to about 3% by end-2023 due to rising new impaired loans formation.

Sound Profitability and Cost-Efficiency: We expect CM Alliance Federale's operating profit/risk-weighted assets (RWAs) will fall below 2% in 2023 (1H22: 2.1%) on reduced insurance income and investment results, and cost inflation. The bank's profitability had steadily improved over the past 10 years as it integrated a growing number of CM federations, while maintaining better cost efficiency than larger French peers.

Strong Capitalisation: CM Alliance Federale's strong capitalisation underpins its ratings and compares favourably with most French and European banks. This is owing to the group's prudent capital planning and limited pay-outs to cooperative owners. The group's end-June 2022 fully loaded common equity Tier 1 (CET1) ratio of 18.2% provides ample buffer above regulatory requirements, despite a material drop of 60bp in 1H22, and we expect the bank will maintain it at about 18% in 2022 and 2023.

Stable Funding, Conservative Liquidity: CM Alliance Federale benefits from a large and stable deposit base, originating mainly from its domestic branch networks, although it structurally runs with a loans/deposits ratio slightly above that of large French peers. The bank's liquidity management is conservative. The large buffer of cash, central-bank placements and high-quality liquid assets (about 18% of total assets excluding insurance) at end-June 2022, comfortably covers short-term funding and long-term debt falling due in the next 12 months.

RATING SENSITIVITIES

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

-The ratings could be downgraded on the combination of a sustained reduction of the bank's operating profitability/RWAs below 1.5%, deterioration in the CET1 ratio to below 14% and an increase in the impaired loans ratio to materially and persistently above 3%.

-A weakening in the creditworthiness of other CM group members, although not expected, could also negatively affect CM Alliance Federale's ratings, particularly if this eroded the group's reputation and franchise.

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

-An upgrade would require a significant strengthening of CM Alliance Federale's franchise and increased geographic and business diversification, while further improving operating profit/RWAs to levels consistently above 2.5% and maintaining a conservative risk appetite. A sustainable improvement in the impaired loans ratio to 1% or lower, which is unlikely given the current ratio, would also be rating positive.

OTHER DEBT AND ISSUER RATINGS: KEY RATING DRIVERS

SHORT-TERM IDR

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

DERIVATIVE COUNTERPARTY RATING (DCR), DEPOSITS AND SENIOR DEBT

BFCM's and CIC's long-term deposits and senior preferred debt ratings are one notch above CM Alliance Federale's Long-Term IDR to reflect the protection that would accrue to their depositors and senior preferred creditors from CM Alliance Federale's sizeable equity and more junior debt buffers in a resolution. For the same reasons, we rate BFCM's senior non-preferred long-term debt in line with BFCM's Long-Term IDR.

The total minimum requirement for own funds and eligible liabilities (MREL) is set at the level of the CM group at 20.99% of RWAs. As CM group does not have a central debt-issuance entity, each of the CM sub-groups, including CM Alliance Federale, will need to have own funds and eligible liabilities above this threshold for the CM group to comply. We estimate that CM Alliance Federale had eligible liabilities and own funds, excluding senior preferred debt, representing about 25% of its RWAs at end-June 2022, which it can contribute to CM group's eligible liabilities and own funds. We expect CM Alliance Federale will continue to meet its share of CM group's MREL without recourse to senior preferred debt.

The short-term deposit and senior preferred debt ratings of 'F1+' for BFCM and CIC are the only short-term rating options mapping to 'AA-' long-term ratings. BFCM's DCR is at 'AA-(dcr)', in line with equally ranking senior preferred debt and deposits.

SUBORDINATED AND JUNIOR SUBORDINATED DEBT

We rate BFCM's subordinated Tier 2 debt two notches below CM Alliance Federale's VR for loss severity as we expect recoveries to be poor for this type of debt in the event of a bank failure or resolution. Deeply subordinated legacy Tier 1 securities, which are currently subject to a voluntary tender offer, are rated four notches below CM Alliance Federale's VR to reflect the high loss severity risk of these securities (two notches from the VR), and a higher risk of non-performance (an additional two notches) relative to CM Alliance Federale's VR.

GOVERNMENT SUPPORT RATINGS

CM Alliance Federale's, BFCM's and CIC's GSRs of 'ns' reflect Fitch's view that although possible, sovereign support cannot be relied on. Legislative, regulatory and policy initiatives, including the implementation of the EU's Bank Recovery and Resolution Directive, have substantially reduced the likelihood of sovereign support for EU commercial banks in general, in our view. This implies that senior creditors would probably be required to participate in losses, if necessary, instead of the bank receiving sovereign support, despite the CM group's systemic importance in France.

OTHER DEBT AND ISSUER RATINGS: RATING SENSITIVITIES

Fitch would downgrade CM Alliance Federale's Short-Term IDR in case of a combined two-notch downgrade of the Long-Term IDR and of the funding and liquidity score. In contrast, we could upgrade the Short-Term IDR either if the Long-Term IDR is upgraded to 'AA-' or if the funding and liquidity score is upgraded to 'aa-'.

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

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

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

SUBSIDIARIES & AFFILIATES: KEY RATING DRIVERS

Fitch assigns a group VR to CM Alliance Federale and its subsidiaries, BFCM and CIC, which are core banks for the group. This is because the two subsidiaries are large and highly integrated domestic banks. Their credit profiles cannot be disentangled from that CM Alliance Federale and we view their failure risk as substantially the same as the group as a whole. Neither subsidiaries are affiliated to CM Alliance Federale 's central body Caisse Federale de CM, but BFCM has been affiliated to CM group's central body since September 2020 and as such it could benefit from the national-support mechanism.

BFCM made up 77% of CM Alliance Federale's consolidated assets at end-June 2022 (the other 23% related to local CM banks). BFCM is the group's main issuing vehicle on financial markets and it coordinates the group's subsidiaries. CIC is owned by BFCM and accounts for about 46% of group assets. It is one of the group's two retail and commercial networks in France and hosts the group's modest corporate- and investment-banking activities. BFCM and CIC are highly integrated with CM Alliance Federale in management, systems, capital and liquidity.

As a result of the above, the IDRs of BFCM and CIC are equalised with those of CM Alliance Federale.

SUBSIDIARIES AND AFFILIATES: RATING SENSITIVITIES

BFCM's and CIC's ratings will move in tandem with those of CM Alliance Federale, unless Fitch ceases to view BFCM and CIC as core banks within the group, which we do not expect given their role and importance within CM Alliance Federale.

BEST/WORST CASE RATING SCENARIO

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

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

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

ESG CONSIDERATIONS

The highest level of ESG credit relevance is a score of '3'. This means ESG issues are credit neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity.

RATING ACTIONS

ENTITY / DEBT	RATING			PRIOR
Credit Mutuel Alliance Federale	LT IDR	A+ Rating Outlook Stable	Affirmed	A+ Rating Outlook Stable
	ST IDR	F1	Affirmed	F1
	Viability	a+	Affirmed	a+
	Support	WD	Withdrawn	5

	Support Floor WD Withdrawn	NF
	Government Support ns New Rating	
Banque Federative du Credit Mutuel S.A.	LT IDR A+ Rating Outlook Stable Affirmed	A+ Rating Outlook Stable
	ST IDR F1 Affirmed	F1
	Viability a+ Affirmed	a+
	Support WD Withdrawn	5

VIEW ADDITIONAL RATING DETAILS

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APPLICABLE CRITERIA

Bank Rating Criteria (pub. 07 Sep 2022) (including rating assumption sensitivity)

ADDITIONAL DISCLOSURES

Dodd-Frank Rating Information Disclosure Form

Solicitation Status

Endorsement Policy

ENDORSEMENT STATUS

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

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