

## Credit Mutuel Group

**Primary Credit Analyst:**

Francois Moneger, Paris + 33 14 420 6688; francois.moneger@spglobal.com

**Secondary Contact:**

Nicolas Malaterre, Paris + 33 14 420 7324; nicolas.malaterre@spglobal.com

**Research Assistant:**

Nicolas Poirier, Paris

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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

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

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

Issuer credit rating
<b>A+/Stable/A-1</b>
Resolution counterparty rating
<b>AA-/A-1+</b>

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

A low-risk appetite and good record of controlled growth in complementary business segments and territories.

Solid recurring earnings from a strong franchise in French retail banking and insurance.

High quality capital and supportive internal capital generation.

#### Key risks

Lower diversification outside domestic retail banking and insurance compared with that of similar and higher-rated peers.

Profitability challenge in the highly competitive domestic retail market and considering the uncertain economy.

Only average cost efficiency compared with European peers', although best-in-class in a French context.

*The Credit Mutuel group's (GCM'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 it 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. GCM, which is less diversified by geography and segment than its 'A+' banking peers, maintains average cost efficiency compared with European peers', although it is best-in-class among French banks, slightly ahead of Credit Agricole. In our view, low payouts from the group's cooperative status and GCM's strong local footprint should allow the group to maintain its strong position in the French banking market.

***GCM delivered a strong and stable operating profit of €7.0 billion in 2022, but we expect a lower close to €6.0 billion in 2023, reflecting the less favorable economy.*** We expect the group's revenue to be affected by resilient, but decreased, loan growth of less than 4%. Also, in 2023, its interest income is set to benefit only progressively from the high interest rates, as it is hampered by several near-term negative factors. The repricing of the long-tenure and largely fixed-rate mortgage loan portfolio takes time, and the increase in usury caps has been lagging, while interest rates on regulated deposits have already risen (notably Livret A to 3.0%). We expect GCM to report a cost-to-income ratio just above 60%, with pre-provisioning income down 6%-7%. Consistent with our assumption that cost of risk will remain low, but well above 2022's €1.0 billion, we expect a decline in net operating income of about 15%, although this is above pre-pandemic levels.

***The group has capacity to absorb less dynamic business trends and higher loan impairment.*** GCM'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), and consumer finance loans could deteriorate moderately amid the global slowdown, housing loans, which form the largest part of the loan book, should continue to perform well, and the overall cost of risk should not exceed 25 basis points (bps). We estimate that the group's credit reserves, including prudential provisions for expected-but-unincurred credit losses, in application of International Financial Reporting Standard (IFRS) No. 9, translated into a comparatively high 74% coverage of its nonperforming loans at year-end 2022. GCM's predictable profitability and low payout to cooperative shareholders result in a solid capital position, with a common equity tier 1 (CET1) of 18.8% at year-end 2022, translating into one of the largest buffers above the capital requirement among peers.

***The bank is seeking to build up a sizable bail-inable buffer.*** The group is not subject to the total loss-absorbing capacity (TLAC) rules published by the Financial Stability Board for globally systemically important banks, so it was understandably less prompt than most French banking groups to issue sizable amounts of bail-inable debt. However, GCM has been more active since 2019 and has built a significant bail-inable debt buffer. The group's additional loss-absorbing capacity (ALAC) was about 4.8% of S&P Global Ratings' risk-weighted assets (RWAs) as of year-end 2022. We forecast that this metric will exceed 5.5% from year-end 2024, well above our standard 3.0% threshold for a one notch of ALAC uplift.

***GCM 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 GCM'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 potential intragroup tension between some members. This underpins our classification of these entities as core to GCM and, therefore, the equalization of our ratings with the 'a+' group credit profile (GCP). In May 2023, The Confederation Nationale du Credit Mutuel (CNCM), Credit Mutuel Arkea (CMA), and the 19 federations signed a memorandum of understanding that preserves the cohesion of Credit Mutuel and guarantees the autonomy of its members, and the group's status have been updated accordingly. This is set to put an end to challenges regarding GCM's cohesion, which represented an area of relative uncertainty for the past decade, although we did not see it as representing a structural weakness for the group.

## Outlook

The stable outlook indicates that we expect GCM to keep adapting 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 business model's sustainability. We also expect GCM to 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 that the agreement found by all federations in May 2023 will enhance the group's cohesion and alleviate lingering questions regarding governance. The stable outlook also factors in our expectation that the group's geographic exposure will not mean materially higher economic risks during our outlook horizon.

### Downside scenario

We could lower the rating in the next two years if we estimated that GCM'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 during our two-year outlook horizon unlikely. One would depend on a higher starting anchor for domestic banks in France, but would also need GCM 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--				
(%)	2021a	2022a	2023f	2024f	2025f
Growth in pre-provisioning operating income	25.5	0.2	(6.0)-(7.0)	5.0-7.0	7.0-8.0
Growth in customer loans	6.2	8.2	3.2-3.8	3.6-4.4	3.6-4.4
Growth in total assets	5.8	2.6	2.8-3.2	3.0-3.4	3.0-3.4
Net interest income/average earning assets (NIM)	1.3	1.3	1.2-1.4	1.3-1.4	1.3-1.5
Cost to income ratio	59.7	61.1	60.0-61.0	59.5-60.5	58.5-59.5
Return on average common equity	6.6	6.1	6.0-6.3	6.0-6.3	6.0-6.3
Return on assets	0.5	0.5	0.4-0.6	0.4-0.6	0.4-0.6
New loan loss provisions/average customer loans	0.2	0.2	0.2-0.3	0.2-0.3	0.2-0.3
Gross nonperforming assets/customer loans	2.5	2.4	2.5-2.7	2.6-2.8	2.8-3.0
Risk-adjusted capital ratio	10.4	10.4	10.25-10.75	10.75-11.25	11.25-11.75

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

## Anchor: 'bbb+', Reflecting Predominantly Domestic Exposures

The anchor for banks operating primarily in France is 'bbb+', reflecting our economic risk assessment of '3' and our industry risk assessment of '4' (on a scale of 1-10, with '10' signifying the highest risk). GCM's weighted economic risk score rounds to '3', indicating that the bulk of its assets are in its domestic market.

Banks in France benefit from the country's open and diversified economy, and significantly higher credit growth than the eurozone average. Persistent inflation and higher interest rates have reduced growth prospects, and risks are now stacked to the downside. For France, we envisage GDP growth of 0.8% in 2023 and 0.9% in 2024, and unemployment still below 2019's level, stabilizing at 7.5% in 2024 and 2025. At 5.9%, inflation peaked in 2022 and we project it will come down to 5.6% in 2023 and 2.6% in 2024, then head towards 2.0% in subsequent years. We expect French banks' loan growth to decelerate but remain positive at 2.5%-3.0% annually while the real estate market prices have started to decrease. Domestic asset quality is structurally supported by fixed-rate mortgage loans, and will not be damaged by higher interest rates. While some problem loans could yet emerge this year and next, asset quality deterioration will likely stay contained. We project domestic nonperforming assets (NPAs) will increase to 2.8% of domestic assets by year-end 2025. We see the economic risk trend as stable.

Regarding industry risk, we expect higher interest to benefit French banks' interest income, but this will materialize more progressively than in some other European banking markets, reflecting notably the pace of repricing in the banks' loan portfolios. Cost efficiency is a weakness for French banks compared with their European peers, notably due to a still-dense branch network. In a scenario of persistent high inflation, banks' management teams will find it harder to keep operational expenses 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

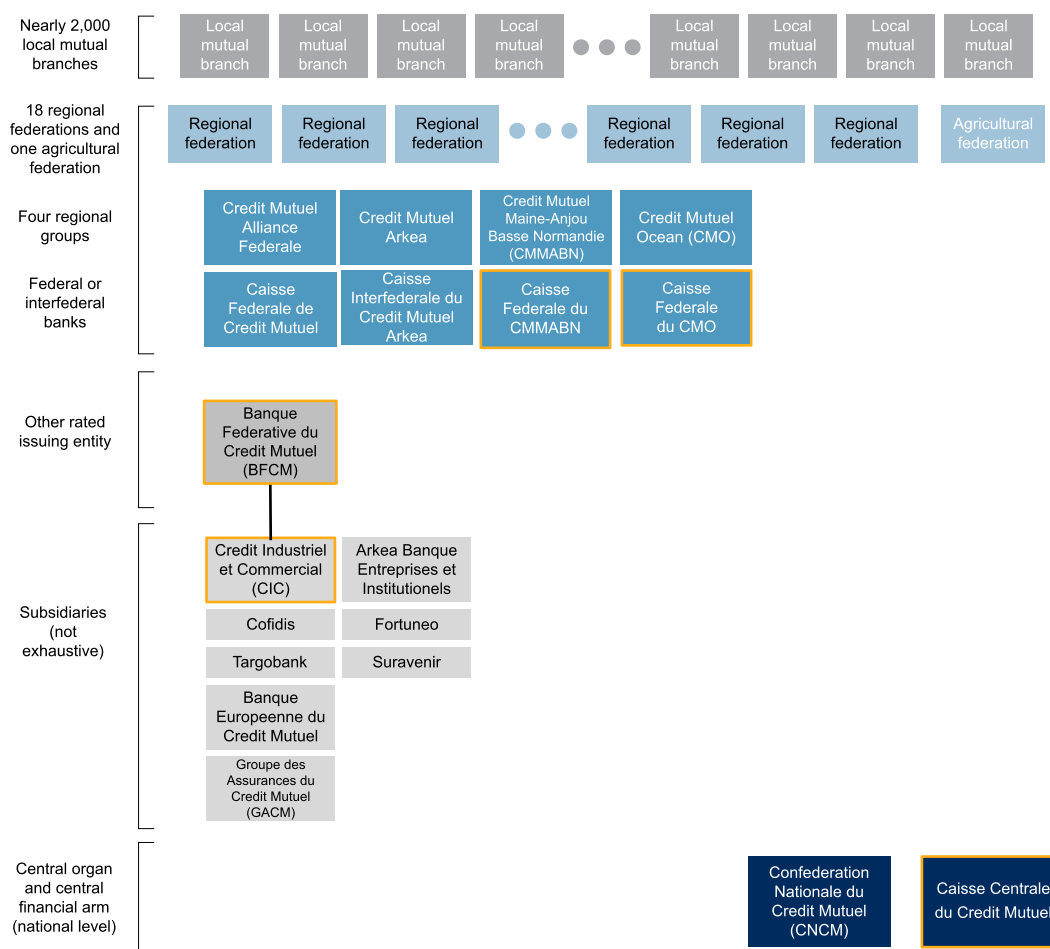
GCM's leading retail and insurance operations in France is a rating strength. Although less geographically diverse than European peers of similar size, the group operates a generally low-risk business, which produces extremely predictable earnings through the cycle. GCM's share of France's professional 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 more than 17.2 million policyholders (in both the life and property/casualty segments). This historically strong competitive position in insurance, with high customer loyalty, is a distinctive strength.

GCM 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).

GCM operates with a cooperative banking status according to the provisions of the French Monetary and Financial Code. Its unique decentralized cooperative structure comprises nearly 2,000 branches owned locally by end

subscribers known as sociétaires. Local banks are linked to federations on a territorial basis. There are 18 regional federations, and one specializing in agribusiness. CNCM is the group's central organ, as prescribed by law. All the local and federal cooperative banks of the Credit Mutuel network are affiliated with the CNCM, as BFCM is since 2020.

### Simplified Overview of Credit Mutuel Group



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

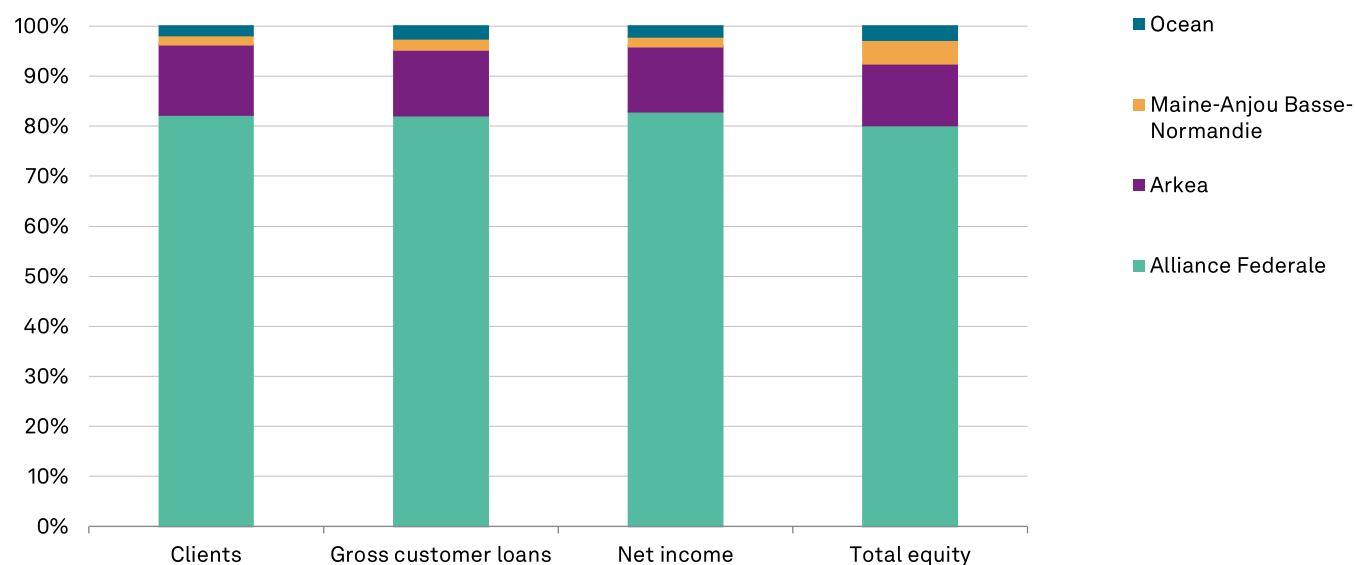
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In the past 20 years, a number of federations formed inter-federal subgroups, the largest one by far being CMAF, which gathers 14 federations and constitutes more than 80% of GCM's total assets and net income. Credit Mutuel Nord Europe (CMNE), which represented about 5% of net income of GCM in 2021, joined CMAF at the beginning of 2022. The other inter-federal group is 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. In May 2023, CNCM, CMA, and the 19 federations found an agreement which is set to enhance the group's cohesion and which we think will alleviate lingering questions regarding governance.

Chart 2

## Respective weights of Credit Mutuel's regional groups according to key figures

Reference year 2022



Sources: Credit Mutuel, S&amp;P Global Ratings.

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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 GCM's revenue in 2022 (unchanged from 2021). Although it is less diversified by geography than other large French banking groups, GCM embarked several years ago on a strategy of gradual expansion in neighboring countries, and, for some entities, higher-margin businesses. Its main subsidiaries were acquired primarily in Belgium and Germany.

CMAF operates banking and insurance retail activities in Belgium through Beobank, which had 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). CMAF also operates the Germany-based consumer finance institution Targobank (following BCFM's acquisition of Citibank Deutschland activities in 2008), which now provides factoring and leasing products. It also holds a controlling stake in Cofidis S.A. (acquired by BFCM in 2009), a consumer-finance specialist operating in nine European countries. Cofidis is active in France, and Southern Europe is its second-largest market. While consumer finance activities are sensitive to economic and credit risk, they entail short-term commitments, allowing reactive risk management, and generate higher interest margins. We consider this diversification as benefiting the group's business profile.



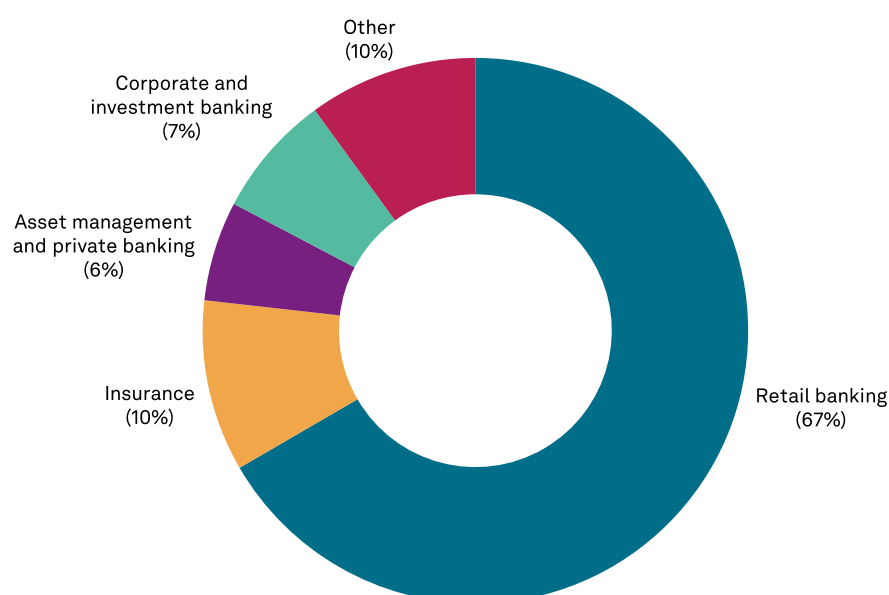
GCM has a reasonably advanced and efficient digital strategy and includes successful online banks (like Fortuneo, a subsidiary of CMA). It long had a proactive approach to technology, offering customers innovative products. In that respect, Arkea Banking Services is well placed in white-label services in the business-to-business market. In 2020, AXA Banque France transferred its IT activities and part of its back-office activities to CMA. A similar partnership was announced in 2021 with HSBC's French retail operations after the takeover by My Money Group. GCM'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 67% of consolidated revenue in 2022 coming from retail banking; 16% from asset management, private banking, and insurance; and 7% from corporate and investment banking, GCM 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 high interest rates will progressively become a significantly positive factor for profitability.

### Chart 3

#### Most Of GCM's revenue come from retail and insurance

2022 revenue by business line



Source: S&P Global Ratings.

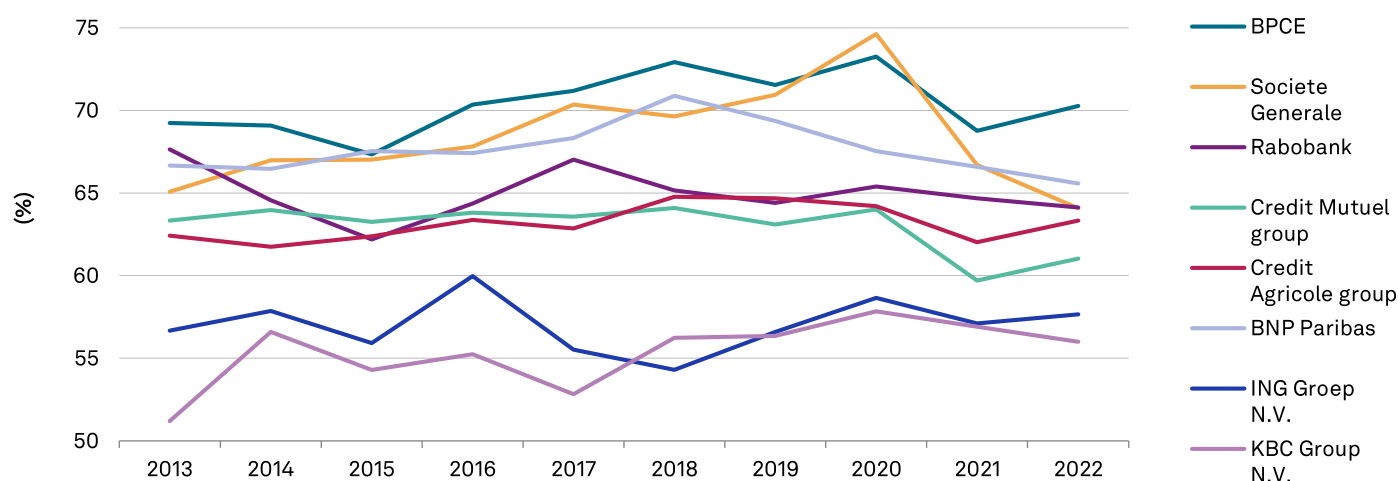
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According to our estimates, the mean of GCM's cost-to-income ratio over 2018-2022 stood at 62.4%, which reflects average cost efficiency in a global context. Supported by bank and insurance synergies, GCM's cost efficiency is at the top end of the French banking groups, slightly ahead of Credit Agricole. However, it stands behind peers in the Nordics and direct peers like KBC and ING.

Chart 4

## GCM's cost efficiency is best-in-class in France, but average in a global context

Cost-to-income



Source: S&amp;P Global Ratings.

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## Capital And Earnings: Strong Earnings Retention Supports Incremental Capital Buildup

The group's strength of its retail and insurance businesses, and its low risk profile, support profitability. In line with other cooperative groups, GCM retains most of its earnings, which supports capital buildup even when exposure growth is dynamic. It is less profitable than listed peers, but benefits from typically lower earnings volatility. We project average return on average common equity (ACE) above 6.0% over 2023-2025, in line with the group's historical levels. We expect our RAC ratio before diversification to increase incrementally to above 11.0% in 2025, from 10.4% at year-end 2022.

Our RAC forecast factors in the following assumptions for 2023-2025:

- In 2024 and 2025, we expect annual revenue growth of nearly 5%, along with high interest rates, and annual expense inflation contained at less than 5% (our forecasts factor in reduced contributions to the EU Single Resolution Fund from 2024).
- In 2023, we expect slight revenue growth and expense inflation of more than 5%, pro forma the implementation of IFRS 17 (reported figures will not be comparable with 2022).
- Cost-to-income ratio improving towards below 60%.
- Cost of risk contained at 25 bps of gross customer loans.
- We expect GCM to maintain prudent coverage by credit reserves and we do not factor in any significant reversal of provisions.

- Average net income of €4.5 billion in 2023-2024.
- Broadly stable participation in insurance subsidiaries, as measured using the equity method.
- No significant acquisitions.
- A normalization in RWA growth, close to 4% annually, following 8.8% in 2022 and 10.2% in 2021, because we expect higher interest rates will weigh on new loan generation. This also reflects our expectation that GCM will continue to expand organically, mainly in retail banking in low-risk European countries.

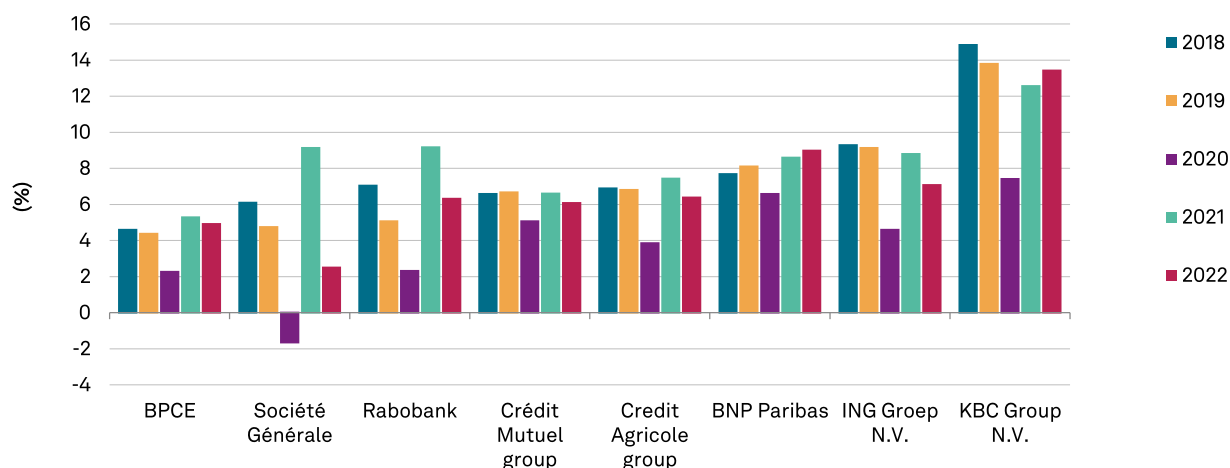
Typical for a mutual group, GCM's earnings are very stable compared with those of larger and more complex banking groups, only dented by marginal one-off costs. Its customer-centric business model, absence of cyclical businesses, and low-risk appetite allowed the group to outperform peers in times of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

Our measure of return on ACE on GCM averaged 6.4% over the past decade. While this level is comparatively low, GCM'S return was extremely stable. 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 payouts and capacity to issue affordable cooperative shares.

#### Chart 5

#### GCM's return on ACE is lower than some peers, but is less volatile

Return on average common equity



Source: S&P Global Ratings.

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In 2022, GCM reported revenue of €20.5 billion, up 3.6% from a year earlier. This was supported by dynamic loan growth (above 8%), a 7% increase in net interest margin, and a 3.4% increase in revenue from insurance. The cost-to-income ratio deteriorated slightly, to 61% from 60% in 2021. The cost of risk increased to €1.0 billion from €0.9 billion. This balanced negative low granularity impacts from single-names common to the French banking sector and lower new loan loss provisions on performing loans (that is, in stage 1 and stage 2, under IFRS 9) than in 2021. Overall, net operating income was very resilient, down by about 1%.

The net income decreased by 3.4% as nonrecurring losses reached €1.1 billion before tax. The latter notably included a provision linked to the potential sale of Targobank Spain and a €958 million impairment of the goodwill on Targobank following the increase in discount interest rates. In 2021, GCM had booked a €875 million impairment of its goodwill on Targobank due to the capping of fees and commissions on credit insurance in Germany from 2022.

The group's reported CET1 ratio was 18.8% at year-end 2022, one of the highest for a universal banking group in Europe. The difference between the regulatory ratio and our RAC ratio (10.4%) 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 think GCM has material exposure to insurance risks through its large insurance subsidiaries (GACM and Suravenir Assurances).

Under the adverse scenario of the 2023-2025 stress-test published by the ECB in July 2023, GCM maintained a solid CET1 ratio of 11.4% projected at end-2025, well above its minimum regulatory requirements.

GCM's capital base is high quality. All legacy tier 1 instruments were fully phased out in 2022.

## **Risk Position: Primarily Focused On Retail Banking In France**

Our assessment of GCM'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 in France (up to 80%-85%).

Domestic residential mortgages represent about half of GCM's total customer loans but are naturally granular, are collateralized, and generated extremely low and stable losses throughout the credit cycle. Rather than a decline in residential property prices, the key risk for the bank would be a rise in unemployment, because it could weaken borrowers' solvency. GCM, 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 increase incrementally to 2.5%-3.0% of total loans, and the coverage of bad loans by reserves to remain at about 75%. As of year-end 2022, loan loss reserves totalled a stable €11.2 billion, including €4.0 billion for performing loans (€3.9 billion as of year-end 2021).

After a low point at 16 bps in 2021 and 2022, we expect the cost of risk to be contained under 25 bps, in line with historical levels. Our forecast factor in GCM's high share of fixed-rate mortgages, meaning debt servicing capacity will be little affected by higher interest rates.

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

Consumer finance portfolios--with Cofidis and Targobank (both part of CMAF), and Financo (a subsidiary of CMA)--constituted 9.3% of net customer loans at year-end 2022. Targobank operates predominantly in the very low-risk German market, which is typified by low household debt and unemployment. Its Germany retail loan portfolio

reached €20.8 billion as of midyear-2023. Cofidis offers riskier products, like revolving loans or credit cards, but its overall size remains modest, with €18.8 billion in net customer loans at midyear-2023. 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 its business growth.

GCM'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. For other French banks, the rapid increase in interest rates translated into pressure on net interest income in 2023, but GCM demonstrated good resilience and we expect that the higher interest rates will benefit increasingly the group's revenue, essentially from 2024.

Although nonfinancial risks can emerge, as we have seen in other European countries, we think that GCM manages them well. The group's local and regional entrenchment, along with its mutualist status and modest international presence, tend to reduce financial-crime-related or litigation risks. As a retail bank, it is exposed to conduct risks and risks related to mis-selling to retail clientele, but GCM's lending practices are not aggressive and its track record in that domain is favorable, in our view.

## **Funding And Liquidity: More In Line With International Peers'**

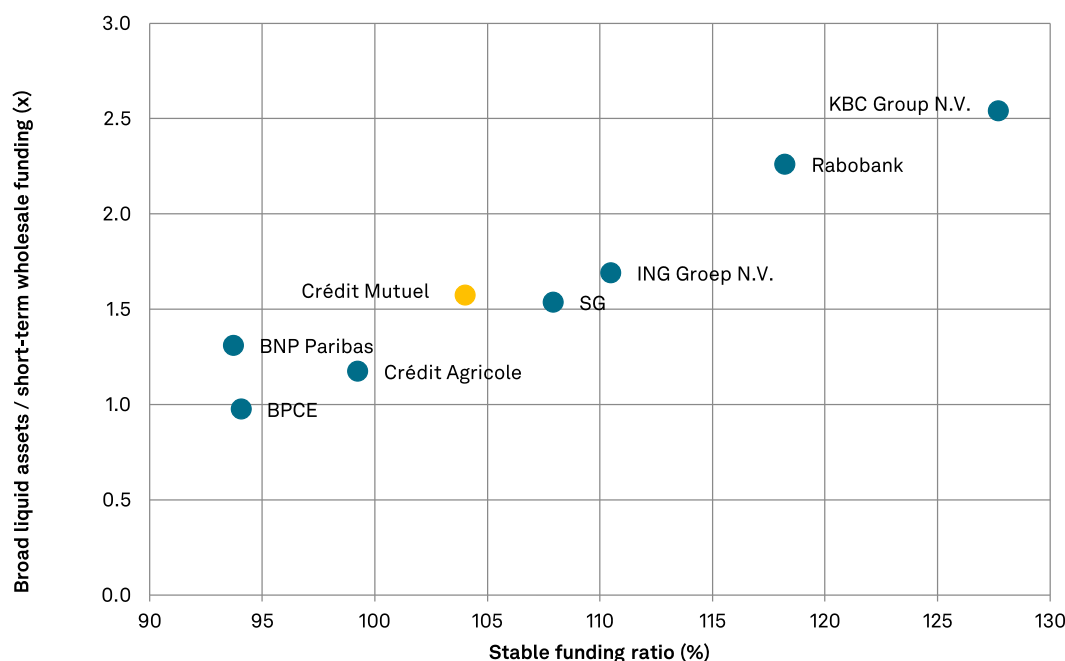
GCM's funding and liquidity is neutral to our group stand-alone credit profile (SACP) assessment. The group's metrics are comparable with its direct peers'. At year-end 2022, GCM's stable funding ratio and broad liquid asset to short-term wholesale funding ratio stood at 104.3% and 1.57x, respectively, compared with an average of 95% and 0.90x over 2012-2019. Unchanged, its large retail banking network, and loyal and very granular deposit base, are strong qualitative factors that we factor in our funding and liquidity assessment.

The growth in deposits has led to a material improvement in the loan-to-deposit ratio since 2019, at 119% as of year-end 2022 and 113% as of year-end 2021 compared with a far higher 180% as of year-end 2008. GCM has a large and increasing core deposits base that stood at €515 billion at year-end 2022 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. In 2022, the customer deposit base increased about 3%, including a broadly stable portion of sight deposits. While higher interest rates could lead customers to draw against deposits on the bank's books and somewhat redirect savings to long-term investments, we see an increase in the overall funding cost more likely than a depletion of the deposit base.

## Chart 6

**GCM's funding and liquidity metrics are in line with peers'**

S&amp;P Global Ratings funding and liquidity ratios as of Dec. 31, 2022



Source: S&amp;P Global Ratings.

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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 2022. GCM has limited funding needs in U.S. dollars, most of which are at CMAF. As of Nov. 7, 2023, CMAF had completed its annual MLT funding program of €20 billion (€21.7 billion raised as of that date, which included 17% in U.S. dollars).

We see GCM's access to European Central Bank funding as opportunistic (€42.6 billion in TLTRO III as of year-end 2022, compared to €53.8 billion a year before).

We expect GCM's liquidity coverage ratio to remain well above 100% (the group reported 150.6% at year-end 2022). 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 think the group benefits from flexibility to mobilize unencumbered housing loan assets to access central banks if needed.

We adjust our funding and liquidity metrics to exclude the portion of regulated deposits centralized at the Caisse des Dépôts et Consignations and cannot be used to fund loans. These centralized deposits amounted to €51.4 billion at year-end 2022 (compared with €46.6 billion at year-end 2021).

## Support: One Notch Of Uplift For ALAC

We believe that GCM 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 having 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 2022, GCM's subordinated liabilities already exceeded comfortably its minimum requirement for eligible liabilities and own funds (MREL).

We expect new issuances of senior nonpreferred and subordinated notes to be at, or above, €4.0 billion annually over 2023-2025. With this, we forecast our ratio of ALAC to RWAs to exceed 550 bps from year-end 2024, well above our 300 bps standard threshold for one notch of ALAC uplift.

Our ALAC ratio on GCM was 484 bps at year-end 2022, compared with 447 bps at year-end 2021. The 2022 increase in ALAC came after the issuance of €4.75 billion in bail-inable instruments, of which €3.5 billion was senior nonpreferred debt.

## Additional Rating Factors

None.

## Environmental, Social, And Governance

Environmental, social, and governance factors for the group are broadly in line with those of the industry. In 2023, CMAF created a "societal dividend," devoting 15% of its net profit to projects with added environmental and social value, which comes through three pillars: an "Environmental and solidarity" impact fund with no financial profitability target, the deployment of inclusive banking and insurance services, and philanthropic support to solidarity and environment preservation.

From an environmental standpoint, GCM 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 GCM 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 GCM, 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.

GCM 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.

## Group Structure, Rated Subsidiaries, And Hybrids

We view the following rated entities as core to GCM: 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 GCM's case, the financial solidarity mechanism under French law is, in our view, the essential 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 labelled subordinated; and
- One notch to remove the benefit of ALAC, which provides uplift only to ratings on senior preferred debt.

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

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 Fédérative du Crédit Mutuel: Notching

		AA+	AA	AA-	A+	A	A-	BBB+	BBB	BBB-	BB+	BB	BB-	B+	B	B-
Issuer level	Resolution counterparty rating				RC(+1)	ALAC(+1)										
	Issuer credit rating					ALAC(+1)										
Group stand-alone credit profile																
Issue level	Senior unsecured					ALAC(+1)										
	Senior subordinated				2b(-1)	1a(-1)										
	NDSD / Tier 2				2b(-1)	1a(-1)	1c(-1)									
	Legacy Tier 1				2b(-1)	1a(-1)	1b(-2)	1c(-1)								

## Key to notching

- Group stand-alone credit profile
- Issuer credit rating

RC	Resolution counterparty liabilities (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.

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## 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 because we assess the resolution regime to be effective in France and GCM 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					
	--Fiscal year ended Dec. 31--				
(Mil. €)	2022	2021	2020	2019	2018
Adjusted assets	873,269	834,440	785,566	701,169	643,917
Customer loans (gross)	622,335	574,979	541,178	499,577	468,263
Adjusted common equity	51,911	47,427	41,779	39,867	37,157
Operating revenue	20,487	19,769	17,625	18,380	17,680
Noninterest expense	12,508	11,803	11,280	11,597	11,332
Core earnings	5,246	5,143	2,702	3,846	3,557

Table 2

Credit Mutuel Group--Business position					
	--Fiscal year ended Dec. 31--				
(%)	2022	2021	2020	2019	2018
Total revenue from business line (mil. €)	20,487	19,777	18,209	18,397	17,701
Retail banking/total revenue from business line	70.7	70.3	72.8	72.4	73.9
Corporate and investment banking/total revenue from business line	7.7	8.5	5.2	5.6	6.1
Insurance activities/total revenue from business line	10.8	11.8	10.2	12.2	12.6
Asset management/total revenue from business line	6.3	5.3	4.9	4.7	4.6
Other revenue/total revenue from business line	4.5	4.0	6.8	5.1	2.8
Return on average common equity	6.1	6.6	5.1	6.7	6.6

Table 3

Credit Mutuel Group--Capital and earnings					
	--Fiscal year ended Dec. 31--				
(%)	2022	2021	2020	2019	2018
Tier 1 capital ratio	18.8	19.6	18.8	18.6	17.9
S&P Global Ratings' RAC ratio before diversification	10.4	10.4	10.1	10.1	9.8
S&P Global Ratings' RAC ratio after diversification	11.1	11.1	10.7	10.6	10.3
Adjusted common equity/total adjusted capital	100.0	99.5	98.9	98.2	97.5
Net interest income/operating revenue	44.5	43.2	47.5	43.3	42.7
Fee income/operating revenue	25.6	24.6	24.9	23.7	24.9
Market-sensitive income/operating revenue	4.1	6.7	0.7	5.1	5.5
Cost to income ratio	61.1	59.7	64.0	63.1	64.1
Preprovision operating income/average assets	0.7	0.8	0.6	0.8	0.8
Core earnings/average managed assets	0.5	0.5	0.3	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 (%)
<b>Credit risk</b>					
Government and central banks	238,020,526	4,921,428	2	3,400,762	1
Of which regional governments and local authorities	13,278,547	2,676,325	20	478,107	4
Institutions and CCPs	39,203,277	9,127,859	23	7,239,704	18
Corporate	194,047,227	129,876,106	67	151,738,721	78
Retail	454,773,758	89,295,734	20	202,348,908	44
Of which mortgage	289,776,043	33,219,032	11	79,591,551	27
Securitization§	8,098,858	1,641,030	20	17,910,181	221
Other assets†	21,548,329	9,996,478	46	22,970,298	107
Total credit risk	955,691,975	244,858,635	26	405,608,574	42
<b>Credit valuation adjustment</b>					
Total credit valuation adjustment	--	492,604	--	0	--
<b>Market risk</b>					
Equity in the banking book	8,715,503	20,408,810	234	61,485,782	705
Trading book market risk	--	1,954,518	--	2,931,778	--
Total market risk	--	22,363,329	--	64,417,560	--
<b>Operational risk</b>					
Total operational risk	--	26,621,605	--	31,009,600	--
	Exposure	Basel III RWA	Average Basel II RW (%)	S&P Global Ratings' RWA	% of S&P Global Ratings' RWA
<b>Diversification adjustments</b>					
RWA before diversification	--	333,734,855	--	501,035,734	100
Total diversification/ Concentration adjustments	--	--	--	(33,880,643)	(7)
RWA after diversification	--	333,734,855	--	467,155,091	93
		Tier 1 capital	Tier 1 ratio (%)	Total adjusted capital	S&P Global Ratings' RAC ratio (%)
<b>Capital ratio</b>					
Capital ratio before adjustments		62,684,060	18.8	51,910,950	10.4
Capital ratio after adjustments‡		62,684,060	18.8	51,910,950	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, 2022, S&P Global Ratings.

Table 5

Credit Mutuel Group--Risk position					
(%)	--Fiscal year ended Dec. 31--				
	2022	2021	2020	2019	2018
Growth in customer loans	8.2	6.2	8.3	6.7	5.5
Total managed assets/adjusted common equity (x)	21.3	22.8	24.5	23.4	22.9
New loan loss provisions/average customer loans	0.2	0.2	0.5	0.2	0.2
Gross nonperforming assets/customer loans + other real estate owned	2.4	2.5	2.8	3.0	3.1
Loan loss reserves/gross nonperforming assets	74.2	77.8	76.2	69.7	69.7

RWA--Risk-weighted assets.

Table 6

Credit Mutuel Group--Funding and liquidity					
(%)	--Fiscal year ended Dec. 31--				
	2022	2021	2020	2019	2018
Core deposits/funding base	66.5	67.0	67.7	64.7	63.2
Customer loans (net)/customer deposits	118.8	112.5	110.8	121.2	126.0
Long-term funding ratio	86.5	87.7	84.8	83.1	80.9
Stable funding ratio	104.0	111.1	106.1	98.9	95.5
Short-term wholesale funding/funding base	14.6	13.4	16.4	18.4	20.8
Broad liquid assets/short-term wholesale funding (x)	1.6	1.9	1.5	1.1	0.9
Broad liquid assets/total assets	16.0	17.9	16.9	13.7	13.1
Broad liquid assets/customer deposits	34.6	38.7	36.1	31.5	30.6
Short-term wholesale funding/total wholesale funding	43.7	40.5	50.7	51.8	56.2

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
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
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- Criteria | Financial Institutions | General: Risk-Adjusted Capital Framework Methodology, July 20, 2017
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- General Criteria: Guarantee Criteria, Oct. 21, 2016
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

## Related Research

- 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
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- European G-SIBs Monitor H2 2023: Rising Rates Don't Float All Boats, Sept. 20, 2023
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- 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)\*

#### Caisse Centrale du Credit Mutuel

Issuer Credit Rating

A+/Stable/A-1

Resolution Counterparty Rating

AA-/--/A-1+

## Ratings Detail (As Of November 22, 2023)\*(cont.)

Commercial Paper	
<i>Local Currency</i>	A-1
Senior Unsecured	A+
<b>Issuer Credit Ratings History</b>	
16-Dec-2021	A+/Stable/A-1
24-Jun-2021	A/Stable/A-1
23-Apr-2020	A/Negative/A-1
<b>Sovereign Rating</b>	
France	AA/Negative/A-1+
<b>Related Entities</b>	
<b>Banque Federative du Credit Mutuel</b>	
Issuer Credit Rating	A+/Stable/A-1
Resolution Counterparty Rating	AA-/--/A-1+
Commercial Paper	
<i>Local Currency</i>	A-1
Junior Subordinated	BBB-
Senior Subordinated	A-
Senior Unsecured	A+
Senior Unsecured	A+/A-1
Senior Unsecured	A-1
Subordinated	BBB+
<b>Caisse Federale du Credit Mutuel de Maine-Anjou Basse Normandie</b>	
Issuer Credit Rating	A+/Stable/A-1
Resolution Counterparty Rating	AA-/--/A-1+
Commercial Paper	
<i>Local Currency</i>	A-1
Senior Unsecured	A+
<b>Caisse Federale du Credit Mutuel Ocean</b>	
Issuer Credit Rating	A+/Stable/A-1
Resolution Counterparty Rating	AA-/--/A-1+
Commercial Paper	
<i>Local Currency</i>	A-1
Senior Unsecured	A+
<b>Credit Industriel et Commercial</b>	
Issuer Credit Rating	A+/Stable/A-1
Resolution Counterparty Rating	AA-/--/A-1+
Commercial Paper	
<i>Local Currency</i>	A-1
Senior Unsecured	A+
Short-Term Debt	A-1
<b>Credit Industriel et Commercial, New York Branch</b>	
Commercial Paper	
<i>Local Currency</i>	A-1

Ratings Detail (As Of November 22, 2023)\*(cont.)

Credit Mutuel Home Loan SFH

Senior Secured	AAA/Stable
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\*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.

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