FitchRatings

Banks
Universal Commercial Banks
France

Credit Mutuel Alliance Federale

Update

Key Rating Drivers

Business Profile, Capital Drive Ratings: Credit Mutuel Alliance Federale's (CM Alliance Federale) ratings primarily reflect our assessment of Groupe Credit Mutuel's (Groupe CM) stable and profitable retail-and-commercial banking business model. The group leverages on strong franchises in French bancassurance and in consumer finance, and its main autonomous regional sub-groups continue to diversify into insurance, wealth and asset management and corporate banking

The ratings also factor in stronger capitalisation than most French banks', sound asset quality and a low risk appetite. Stable funding and conservative liquidity also support the ratings

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

Conservative Risk Profile: Groupe CM's cooperative status supports a low risk appetite and conservative underwriting standards in key lending products. Regional sub-groups limit their exposure to traded market risks, which benefits their risk profile. Similar to other French banks, Groupe CM has high exposure to structural interest rate risks, but these risks are managed conservatively by the main regional groups.

Sound Asset Quality: Groupe CM's 2.6% impaired loans ratio at end-2023 was slightly above similarly rated European peers'. However, this is mitigated by lower exposure to vulnerable corporate sectors and borrowers. The economic slowdown and higher interest rates only led to a 20bp increase in the impaired loans ratio in 2023, and we believe that the ratio will increase to around 3% by end-2025. Groupe CM's loan impairment charges (LICs) will continue normalising from their low levels to around 25bp–30bp of gross loans in 2024–2025.

Resilient Profitability: Groupe CM has a sound and consistent profitability record, which benefits from the group's diversification. However, its operating profit/risk-weighted assets (RWAs) ratio will likely remain below 2% in 2024 due to interest margin pressure in France, reduced private equity results, rising LICs and sustained underlying cost inflation. Most of Groupe CM's regional groups have a sound cost efficiency, in particular at CM Alliance Federale.

Very Strong Capitalisation: Groupe CM's very strong capitalisation underpins the ratings and compares favourably with most peers. This is because the main regional groups adopt prudent capital planning and have low pay-outs to cooperative owners. Its end-2023 common equity Tier 1 (CET1) ratio of 19.2% provided an ample buffer above requirements. We expect the CET1 ratio to gradually move towards 20% in the medium term.

Stable Funding, Conservative Liquidity: Groupe CM has a large and stable deposit base, originating mainly from its local retail banking networks in France, although it structurally has a slightly higher loans/deposits ratio than that of some large French peers, at close to 110% at end-2023. Liquidity is managed conservatively by the main regional groups, which hold large liquid asset buffers, comfortably covering their short-term funding needs.

Ratings

Foreign Currency	
Long-Term IDR	A+
Short-Term IDR	F1
Viability Rating	a+
Government Support Rating	ns
Sovereign Risk (France)	
Long-Term Foreign-Currency IDR	AA-
Long-Term Local-Currency IDR	AA-
Country Ceiling	AAA
Outlooks	
Long-Term Foreign-Currency IDR	Stable
Sovereign Long-Term Foreign-Currency IDR	Stable
Sovereign Long-Term Local-Currency IDR	Stable

Applicable Criteria

Bank Rating Criteria (March 2024)

Related Research

French Banks' Profitability to Lag European Peers' Until Late 2025 (August 2024)

Increased Political Risk May Pressure French Banks' Operating Environment (June 2024)

Global Economic Outlook (June 2024)

Fitch Affirms Credit Mutuel Alliance Federale at 'A+'; Outlook Stable (September 2023)

CM Alliance Federale Sets Ambitious Medium-Term Growth Targets (December 2023)

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Rating Sensitivities

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade

The ratings are primarily sensitive to a sharp deterioration in the French operating environment, leading to an unmitigated marked weakening of the group's financial profile. In particular, the ratings could be downgraded on the combination of a sustained reduction of Groupe CM's operating profit/RWA ratio to below 1.5%, deterioration of its CET1 ratio to below 14% and a sustained increase in the impaired loans ratio to materially above 3%, which we view as unlikely in our baseline scenario.

Although not expected, a material increase in risk appetite, for instance leading to outsized and uncontrolled expansion in volatile businesses or geographies and reduced capital targets, could put pressure on CM Alliance Federale's ratings.

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

An upgrade would require a significant strengthening of Groupe CM'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 and very strong capitalisation. A sustained 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

Rating level	Rating
Banque Federative du Credit Mutuel S.A. (BFCM)	
Deposits	AA-/F1+
Senior preferred debt	AA-/F1+
Senior non-preferred debt	A+
Subordinated Tier 2	A-
Legacy Tier 1	BBB
Credit Industriel et Commercial S.A. (CIC)	
Deposits	AA-/F1+
Senior preferred debt	AA-/F1+

Source: Fitch Ratings

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

The total minimum requirement for own funds and eligible liabilities (MREL) is set at the level of Groupe CM, at 21.92% of RWAs. As Groupe CM does not have a central debt-issuance entity, each of the CM sub-groups, including CM Arkea, will need to have own funds and eligible liabilities above this threshold for Groupe CM to comply. Groupe CM reported a subordinated MREL ratio (excluding senior preferred debt) of around 23.2% at end-2023.

Banque Federative du Credit Mutuel S.A. (BFCM)'s and Credit Industriel et Commercial S.A. (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 in a resolution from the sizeable equity and more junior debt buffers available within Groupe CM. For the same reasons, we rate BFCM's senior non-preferred long-term debt in line with its Long-Term IDR.

BFCM's and CIC's 'F1+' short-term deposit and senior preferred debt ratings are the only options mapping to their 'AA-' long-term debt ratings. BFCM's Derivative Counterparty Rating (DCR) of 'AA-(dcr)' is in line with its equally ranking senior preferred debt and deposits.

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

Significant Changes from Last Review

Satisfactory 1H24 Despite Above-Average LICs and Pressure in French Retail

CM Alliance Federale had a satisfactory performance in 1H24, albeit weaker than similarly rated French and European peers'. The operating profit/RWA ratio was about 1.7% in 1H24, which is materially lower than the cyclically high European average of close to 3%. CM Alliance Federale's diverse business model has contributed to resilient results despite domestic margin pressure, higher LICs and slow economic activity.

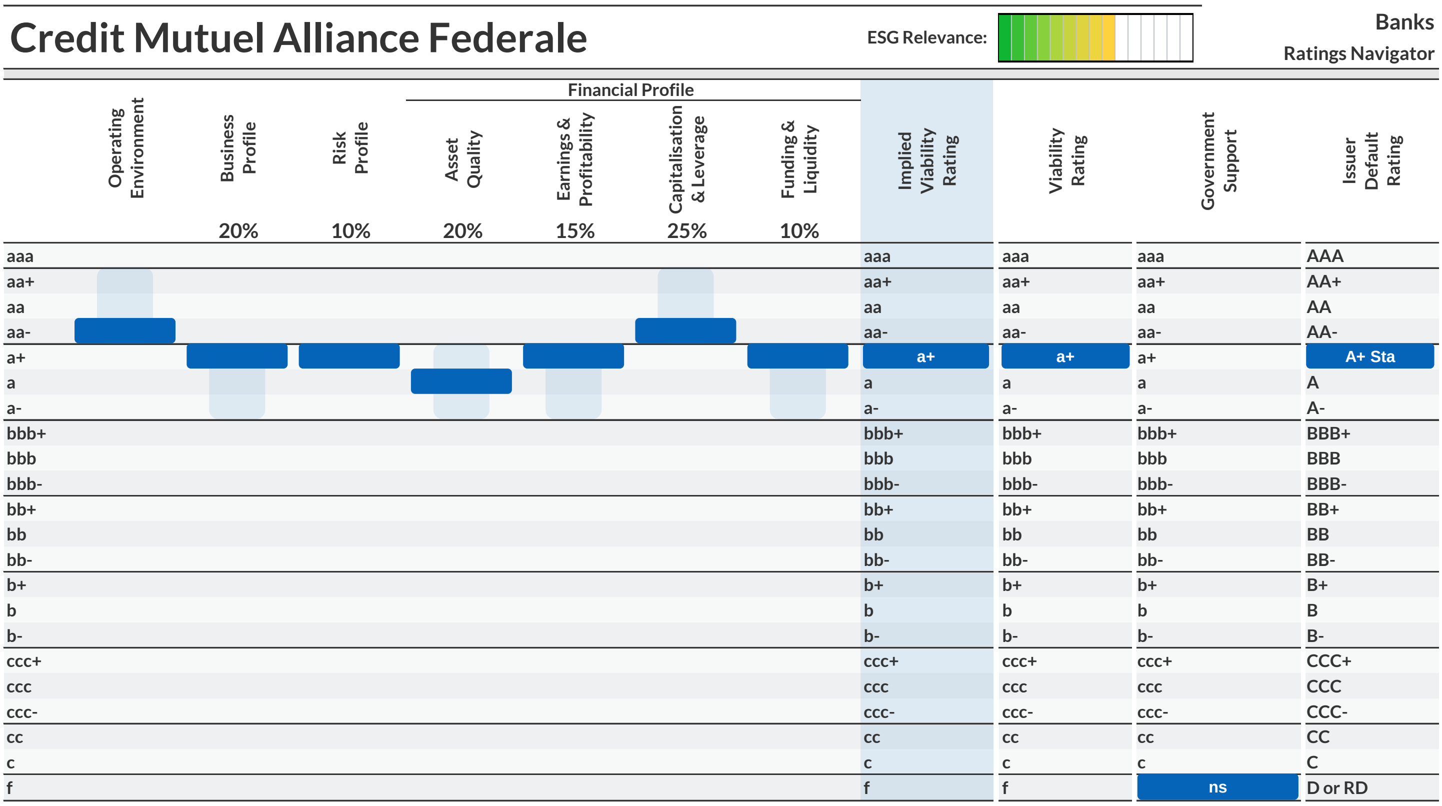
Revenue rose just over 3% yoy (year on year), benefitting from strong revenue growth in insurance, corporate banking and consumer finance. This more than offset persisting weakness in French retail banking revenue, -2% yoy, mainly because of net interest income pressure. This follows a small revenue drop of about 0.4% for this business segment in 2023, which also reports revenue from some non-French retail activities. We expect revenue in French retail to start progressively recovering from 2H24 and to increase in 2025. We believe a gradual decline in policy rates should support French banks' net interest margins through reduced funding cost pressures, and potential recovery in new credit volumes.

CM Alliance Federale's cost/income ratio (1H24: 57%) remains the best of all large French banks. This is despite some revenue pressure in domestic retail and sustained cost inflation (above +6% excluding regulatory contributions, which decreased in 2024). Cost inflation is higher than at domestic peers, primarily due to higher staff costs, IT investments, and contributions to CM Alliance Federale's social dividend.

Asset quality remains sound, but has weakened more than domestic peers in 1H24. The stock of impaired loans has risen by over EUR1 billion or +8% since end-2023, leading to an estimated increase in the impaired loans ratio of about 20bp to 3.1%. Pressure from exposure to small companies and SMEs and consumer loans increased more than at some other domestic peers, and comes in addition to some large corporate defaults, which also affected other peers. We expect LICs/gross loans to temporarily exceed 30bp in 2024 (1H24: 35bp).

Capital remains a relative rating strength, with an unchanged CET1 ratio of 18.5% at end-June 2024.

Ratings Navigator



The Key Rating Driver (KRD) weightings used to determine the implied VR are shown as percentages at the top. In cases where the implied VR is adjusted upwards or downwards to arrive at the VR, the KRD associated with the adjustment reason is highlighted in red. The shaded areas indicate the benchmark-implied scores for each KRD.

VR - Adjustments to Key Rating Drivers

CM Alliance Federale's implied VR Key Rating Drivers are derived from Groupe CM's consolidated accounts.

Other

Decentralised Cooperative Banking Group

Fitch rates CM Alliance Federale as a core part of the wider Groupe CM, which comprises nearly 2,000 local banks and 18 regional federations, grouped into four main sub-groups. CM Alliance Federale (about 80% of group assets) and CM Arkea (over 15%) are the two largest sub-groups. We believe the existing solidarity mechanism binding all affiliated CM entities is cohesive enough to substantially equalise their default risk. This is supported by a legally established and effective support mechanism, as the central body can access the group's resources to support its affiliated members.

In addition, CM Arkea's recent decision to abandon its independence project has strengthened the group's cohesion.

Groupe CM publishes consolidated audited accounts, is supervised as a group and assigned consolidated resolution debt requirements, which further supports our assessment. There is a common risk framework and overarching risk supervision from the central body, which can prevent affiliated banks from taking on excessive risks. That said, regional groups run independent risk functions and strategies.

Financials

Financial Statements

	30 Jun 24		31 Dec 23	31 Dec 22	31 Dec 21
	6 months - interim (USDm) Unaudited	6 months - interim (EURm) Unaudited	Year end (EURm) Audited - unqualified	Year end (EURm) Audited - unqualified	Year end (EURm) Audited - unqualified
Summary income statement					
Net interest and dividend income	4,728	4,400	8,524	8,027	7,158
Net fees and commissions	2,504	2,330	4,585	4,531	4,098
Other operating income	1,655	1,540	2,977	4,783	4,649
Total operating income	8,886	8,270	16,086	17,341	15,905
Operating costs	5,064	4,713	9,174	10,328	9,137
Pre-impairment operating profit	3,822	3,557	6,912	7,013	6,768
Loan and other impairment charges	1,028	957	1,296	768	699
Operating profit	2,794	2,600	5,616	6,245	6,069
Other non-operating items (net)	44	41	45	-1,186	-838
Tax	654	609	1,546	1,557	1,704
Net income	2,183	2,032	4,115	3,502	3,527
Other comprehensive income	n.a.	n.a.	321	-2,197	164
Fitch comprehensive income	2,183	2,032	4,436	1,305	3,691
Summary balance sheet					
Assets					
Gross loans	572,845	533,127	530,609	510,464	452,954
- Of which impaired	17,522	16,307	15,133	13,180	11,723
Loan loss allowances	11,405	10,614	10,103	9,571	9,195
Net loans	561,440	522,513	520,506	500,893	443,759
Interbank	73,358	68,272	64,932	55,696	59,277
Derivatives	-1,597	-1,486	5,073	4,191	6,130
Other securities and earning assets	237,438	220,975	205,019	186,796	193,221
Total earning assets	870,640	810,274	795,530	747,576	702,387
Cash and due from banks	96,682	89,979	97,504	111,929	121,181
Other assets	23,302	21,686	20,496	25,582	20,338
Total assets	990,624	921,939	913,530	885,087	843,906
Liabilities					
Customer deposits	512,977	477,410	481,157	456,995	425,183
Interbank and other short-term funding	37,478	34,879	118,041	129,030	128,475
Other long-term funding	213,325	198,534	104,707	88,443	80,457
Trading liabilities and derivatives	1,960	1,824	8,752	11,357	7,360
Total funding and derivatives	765,740	712,647	712,657	685,825	641,475
Other liabilities	156,025	145,207	137,879	141,899	148,198
Preference shares and hybrid capital	n.a.	n.a.	615	615	1,022
Total equity	68,859	64,085	62,379	56,748	53,211
Total liabilities and equity	990,624	921,939	913,530	885,087	843,906
Exchange rate		USD1 = EUR0.930665	USD1 = EUR0.912742	USD1 = EUR0.937559	USD1 = EUR0.884173

Source: Fitch Ratings, Fitch Solutions, CM Alliance Federale

Key Ratios

	30 Jun 24	31 Dec 23	31 Dec 22	31 Dec 21
Ratios (%; annualised as appropriate)				
Profitability				
Operating profit/risk-weighted assets	1.7	1.9	2.2	2.5
Net interest income/average earning assets	1.1	1.1	1.1	1.0
Non-interest expense/gross revenue	57.1	57.1	59.6	57.4
Net income/average equity	6.5	6.9	6.3	6.9
Asset quality				
Impaired loans ratio	3.1	2.9	2.6	2.6
Growth in gross loans	0.5	4.0	12.7	5.8
Loan loss allowances/impaired loans	65.1	66.8	72.6	78.4
Loan impairment charges/average gross loans	0.4	0.2	0.2	0.2
Capitalisation				
Common equity Tier 1 ratio	18.5	18.5	18.2	18.8
Tangible common equity/tangible assets	6.6	6.5	5.8	5.9
Basel leverage ratio	7.3.	7.1	6.6	7.6
Net impaired loans/common equity Tier 1 capital	10.0	9.0	7.1	5.5
Funding and liquidity				
Gross loans/customer deposits	111.7	110.3	111.7	106.5
Liquidity coverage ratio	178.0	150.0	144.0	182.0
Customer deposits/total non-equity funding	67.2	68.2	67.5	66.8
Net stable funding ratio	119.6	115.1	116.1	125.6

Source: Fitch Ratings, Fitch Solutions, CM Alliance Federale

Support Assessment

Commercial Banks: Government Support	
Typical D-SIB GSR for sovereign's rating level (assuming high propensity)	a or a-
Actual jurisdiction D-SIB GSR	ns
Government Support Rating	ns
Government ability to support D-SIBs	
Sovereign Rating	AA-/ Stable
Size of banking system	Negative
Structure of banking system	Negative
Sovereign financial flexibility (for rating level)	Positive
Government propensity to support D-SIBs	
Resolution legislation	Negative
Support stance	Neutral
Government propensity to support bank	
Systemic importance	Neutral
Liability structure	Neutral
Ownership	Neutral

The colours indicate the weighting of each KRD in the assessment.
Higher influence Moderate influence Lower influence

No Reliance on Sovereign Support

CM Alliance Federale's, BFCM's and CIC's Government Support Ratings of 'no support' 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 CM group's systemic importance.

Subsidiaries and Affiliates

Fitch assigns a group VR to CM Alliance Federale and its subsidiaries, BFCM and CIC, which are core banks for Groupe CM. This is because the two subsidiaries are large and highly integrated domestic banks. Their credit profiles cannot be disentangled from those of CM Alliance Federale and Groupe CM, and we view their failure risk as substantially the same as that of the group as a whole.

Only BFCM is affiliated to Groupe CM's central body, and, as such, it could benefit from the national-support mechanism, which, by extension, could also benefit CIC if BFCM is unable to provide the necessary support to CIC, because it would find itself in financial difficulties. BFCM makes up close to two-thirds of Groupe CM's consolidated assets. BFCM is the main issuer on the financial markets, and it coordinates the activities of CM Alliance Federale's subsidiaries.

CIC is owned by BFCM and accounts for about 40% of CM Alliance Federale's assets. It is one of CM Alliance Federale's two retail and commercial networks in France and hosts this 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.

Environmental, Social and Governance Considerations

FitchRatings **Credit Mutuel Alliance Federale**

Banks
Ratings Navigator

Credit-Relevant ESG Derivation

Credit Mutuel Alliance Federale has 5 ESG potential rating drivers

- Credit Mutuel Alliance Federale has exposure to compliance risks including fair lending practices, mis-selling, repossession/foreclosure practices, consumer data protection (data security) but this has very low impact on the rating.
- Governance is minimally relevant to the rating and is not currently a driver.

			ESG Relevance to Credit Rating
key driver	0	issues	5
driver	0	issues	4
potential driver	5	issues	3
not a rating driver	4	issues	2
	5	issues	1

Environmental (E) Relevance Scores

General Issues	E Score	Sector-Specific Issues	Reference	E Relevance
GHG Emissions & Air Quality	1	n.a.	n.a.	5
Energy Management	1	n.a.	n.a.	4
Water & Wastewater Management	1	n.a.	n.a.	3
Waste & Hazardous Materials Management; Ecological Impacts	1	n.a.	n.a.	2
Exposure to Environmental Impacts	2	Impact of extreme weather events on assets and/or operations and corresponding risk appetite & management; catastrophe risk; credit concentrations	Business Profile (incl. Management & governance); Risk Profile; Asset Quality	1

Social (S) Relevance Scores

General Issues	S Score	Sector-Specific Issues	Reference	S Relevance
Human Rights, Community Relations, Access & Affordability	2	Services for underbanked and underserved communities: SME and community development programs; financial literacy programs	Business Profile (incl. Management & governance); Risk Profile	5
Customer Welfare - Fair Messaging, Privacy & Data Security	3	Compliance risks including fair lending practices, mis-selling, repossession/foreclosure practices, consumer data protection (data security)	Operating Environment; Business Profile (incl. Management & governance); Risk Profile	4
Labor Relations & Practices	2	Impact of labor negotiations, including board/employee compensation and composition	Business Profile (incl. Management & governance)	3
Employee Wellbeing	1	n.a.	n.a.	2
Exposure to Social Impacts	2	Shift in social or consumer preferences as a result of an institution's social positions, or social and/or political disapproval of core banking practices	Business Profile (incl. Management & governance); Financial Profile	1

Governance (G) Relevance Scores

General Issues	G Score	Sector-Specific Issues	Reference	G Relevance
Management Strategy	3	Operational implementation of strategy	Business Profile (incl. Management & governance)	5
Governance Structure	3	Board independence and effectiveness; ownership concentration; protection of creditor/stakeholder rights; legal /compliance risks; business continuity; key person risk; related party transactions	Business Profile (incl. Management & governance); Earnings & Profitability; Capitalisation & Leverage	4
Group Structure	3	Organizational structure; appropriateness relative to business model; opacity; intra-group dynamics; ownership	Business Profile (incl. Management & governance)	3
Financial Transparency	3	Quality and frequency of financial reporting and auditing processes	Business Profile (incl. Management & governance)	2
				1

How to Read This Page
ESG relevance scores range from 1 to 5 based on a 15-level color gradation. Red (5) is most relevant to the credit rating and green (1) is least relevant.

The Environmental (E), Social (S) and Governance (G) tables break out the ESG general issues and the sector-specific issues that are most relevant to each industry group. Relevance scores are assigned to each sector-specific issue, signaling the credit-relevance of the sector-specific issues to the issuer's overall credit rating. The Criteria Reference column highlights the factor(s) within which the corresponding ESG issues are captured in Fitch's credit analysis. The vertical color bars are visualizations of the frequency of occurrence of the highest constituent relevance scores. They do not represent an aggregate of the relevance scores or aggregate ESG credit relevance.

The Credit-Relevant ESG Derivation table's far right column is a visualization of the frequency of occurrence of the highest ESG relevance scores across the combined E, S and G categories. The three columns to the left of ESG Relevance to Credit Rating summarize rating relevance and impact to credit from ESG issues. The box on the far left identifies any ESG Relevance Sub-factor issues that are drivers or potential drivers of the issuer's credit rating (corresponding with scores of 3, 4 or 5) and provides a brief explanation for the relevance score. All scores of '4' and '5' are assumed to result in a negative impact unless indicated with a '+' sign for positive impact.h scores of 3, 4 or 5) and provides a brief explanation for the score.

Classification of ESG issues has been developed from Fitch's sector ratings criteria. The General Issues and Sector-Specific Issues draw on the classification standards published by the United Nations Principles for Responsible Investing (PRI), the Sustainability Accounting Standards Board (SASB), and the World Bank.

CREDIT-RELEVANT ESG SCALE

How relevant are E, S and G issues to the overall credit rating?	
5	Highly relevant, a key rating driver that has a significant impact on the rating on an individual basis. Equivalent to "higher" relative importance within Navigator.
4	Relevant to rating, not a key rating driver but has an impact on the rating in combination with other factors. Equivalent to "moderate" relative importance within Navigator.
3	Minimally relevant to rating, either very low impact or actively managed in a way that results in no impact on the entity rating. Equivalent to "lower" relative importance within Navigator.
2	Irrelevant to the entity rating but relevant to the sector.
1	Irrelevant to the entity rating and irrelevant to the sector.

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' 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. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit https://www.fitchratings.com/topics/esg/products#esg-relevance-scores

SOLICITATION & PARTICIPATION STATUS

For information on the solicitation status of the ratings included within this report, please refer to the solicitation status shown in the relevant entity's summary page of the Fitch Ratings website.

For information on the participation status in the rating process of an issuer listed in this report, please refer to the most recent rating action commentary for the relevant issuer, available on the Fitch Ratings website.