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 delivered a resilient gross operating income of €6.9 billion in 2023 (€7.0 billion in 2022), balancing improved interest revenue and a material increase in cost of risk, and started well into 2024, with €3.6 billion in the first half. Overall, the group reported a net income (including minority interests) of just above €2.0 billion in the first half of 2024, a 3.6% increase year-on-year. Cost of risk increased to €957 million, compared to €679 million in the first half of 2023. The increase in credit risk was concentrated in the retail division, comprising consumer finance activities, real estate professionals, and single names impacts from a few corporates. The increase in operating expenses was only 1.4%, largely offset by the end of the contributions to the EU Single Resolution Fund. The cost-to-income ratio stood at 57%. We expect the group to deliver similar profitability in the second half of the year.

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 can benefit from a financial solidarity mechanism organized by statutory provisions. BFCM was officially affiliated to the 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 5.6% of S&P Global Ratings' risk-weighted assets metric as at year-end 2023. We forecast that it will remain 5.5%-6.0% until 2026, 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 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 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. The agreement, reached by all federations in May 2023, enhances the group's cohesion and will alleviate lingering questions regarding its 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 revise downward GCM's GCP and, at the same time, our rating on BFCM in the next two years if we thought that the group's retail banking and insurance business strategy was not sustainable in France's competitive banking landscape, or if a deterioration in the domestic economic and operating environments altered materially its activity and financial performance. This could indicate 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 also lead us to lower our ratings on BFCM's hybrid capital and senior nonpreferred notes.

Upside scenario

We consider an upgrade of BFCM during our two-year horizon unlikely. It reflects that an increase of GCM's GCP would depend on a higher starting anchor for domestic banks in France, which we see as a remote scenario, 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.

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 2024 and the same 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. 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 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: the 14 Crédit Mutuel federations leveraging on the powerful Credit Mutuel brand, and Crédit Industriel et Commercial (CIC). Retail banking activities represented nearly 75% of CMAF's revenue in the first half of 2024. 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 diversification strategy, particularly by geography, through consumer finance and insurance.

In December 2023, CMAF presented its strategic plan 2024-2027, with the ambition to bolster its performance and lead environmental and societal transformation. This plan includes the following financial targets for 2027:

- Customers (Crédit Mutuel and CIC French networks): over 15 million, involving sizable insurance activity;
- Launching of a new asset management business line;
- Net banking income: €19 billion;
- Cost-to-income ratio: 54%;
- Net income: €5 billion.

In 2023, CMAF created a "societal dividend," devoting 15% of its net profit to projects with added environmental and social value. The amount devoted to this initiative in 2023 reached €439 million, which represented already 12.5% of the group's net income in 2022. The societal dividend is allocated through three pillars: for the largest part under the form of investments in an "environmental and solidarity" impact fund with no financial profitability target, and, to a lesser extent, in deployment of inclusive banking and insurance services and in philanthropic support to solidarity and environment preservation projects as close as possible to the regions.

CMAF continued nonstrategic asset divestment in 2023, with the sales of Groupe des Assurances du Crédit Mutuel (GACM) España to AXA and 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 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 4,300 branches, mostly in France, and operates a universal banking model through various entities:

- 14 Crédit Mutuel federations, which had 8.8 million customers as at mid-year 2024, across many French regions. This retail bancassurance network also distributes telecom and remote surveillance products.
- CIC had 5.7 million retail customers as at mid-year 2024. 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 €197 billion as at mid-year 2024, while its total loans, including specialized business lines, reached €251.8 billion, a year-on-year rise of 3.4%. CIC contributes to the international diversification of the corporate banking and private banking activities, with 39 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 2024, GACM contributed €483 million in net income (it was €443 million reported in the first half of 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 2023.
- Beobank banking and insurance retail in Belgium, with 200 points of sale (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 3.8 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, it progressively increased its stake to 80%, and eventually became the sole owner in April 2024. The Cofidis group operates through three commercial brands: Cofidis, Créatis, and Monabanq. At mid-year 2024, it had €20.2 billion in gross customer loans. Cofidis is active in France, with its second-largest market being southern Europe. Cofidis' net income was €35.5 million in the first half of 2024, up 54% year-on-year, benefiting from growth in lending volumes and better pricing.

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, 2024, the subgroup enjoyed a high common equity tier 1 ratio of 18.5%. As of mid-year 2024, nonperforming loans (NPLs) accounted for 3.1% of gross customer loans. Credit reserves totaled €10.6 billion, including €3.1 billion for performing loans, and covered gross NPLs by 65% (the coverage was about 45.9% when considering only credit reserves allocated to stage 3 loans under IFRS9). The monthly calculation of the group's liquidity coverage ratio averaged 178% for the first half of 2024. As at Sept. 30, 2024, CMAF had completed 110% of its medium- and long-term funding program of €16 billion for the year, executed under various formats (€17.6 billion raised as at that date, of which 45% was senior preferred, 28% covered bonds, 8% senior nonpreferred, and 10% tier 2). These issuances included 14% in U.S. dollar.

In the first half of 2024, CMAF reported €8.3 billion in revenue, a 3.4% growth year-on-year, and a net income (including minority interests) of just above €2.0 billion. This included a 6.6% increase year-on-year in net interest income, despite a moderate 2.5% increase in gross customer loans. Revenue was stable in the retail banking activities (0.5% growth, balancing a 2.3% decrease in the banking networks and a 6.6% growth in the consumer finance activities) and increased by a strong 7.6% in the corporate banking and capital market businesses. Also in the first half of 2024, operating expenses rose by 1.4% year-on-year on a reported basis (6.2% if excluding the contributions of €217 million to the EU Single Resolution Fund from the expenses figure reported in the first half of 2023). The cost-to-income ratio stood at 57%. Amid the uncertain economy, cost of risk amounted to €957 million, compared with €679 million in the first half of 2023, with the increase stemming essentially from the network clientele and the consumer finance activities. Our measure of cost of risk stood at 36 basis points (bps) of gross customer loans for the semester. The increase in reported net income was 3.6%, year-on-year.

We expect CMAF to deliver resilient profitability in the coming years. We anticipate that high interest rates will further benefit net interest margins, helped by gradual loan growth following subdued levels in mortgage lending since the start of 2023. We project stable cost efficiency. We expect NPLs to gross customer loans to increase moderately, toward 3.5%, and that cost of risk will be contained within 40 bps. Overall, we expect resilient earnings in 2024.

Our ALAC ratio on GCM stood at 555 bps at year-end 2023, with more than 80% of this buffer issued by BFCM, and we forecast that the ratio will be at 550 bps-600 bps in the coming two years, well above our 300 bps 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. €)	**2024***	**2023**	**2022**	**2021**	**2020**
Adjusted assets	732,522	730,628	717,713	669,617	627,617
Customer loans (gross)	533,126	532,054	511,668	454,021	429,025
Adjusted common equity	58,894	57,045	52,392	46,277	41,711
Operating revenues	8,270	16,086	17,341	15,905	14,225
Noninterest expenses	4,713	9,173	10,328	9,138	8,867
Core earnings	2,000	4,083	4,621	4,368	2,172
Return on average common equity	6.34	6.83	6.33	6.71	5.07
Tier 1 capital ratio	18.50	18.60	18.20	18.90	18.00
Net interest income/operating revenues	53.20	52.82	46.15	44.86	49.64
Fee income/operating revenues	28.17	28.50	26.13	25.77	25.66
Market-sensitive income/operating revenues	3.23	3.88	3.11	5.99	0.63
Cost-to-income ratio	56.99	57.02	59.56	57.45	62.33
Preprovision operating income/average assets	0.78	0.77	0.81	0.83	0.71
Core earnings/average managed assets	0.44	0.45	0.53	0.53	0.29
Growth in customer loans	0.40	3.98	12.70	5.83	9.17
New loan loss provisions/average customer loans	0.36	0.25	0.16	0.16	0.58
Gross nonperforming assets/customer loans and other real estate owned	3.06	2.84	2.58	2.58	2.91
Loan loss reserves/gross nonperforming assets	65.09	66.76	72.62	78.44	76.91
Core deposits/funding base	65.19	65.82	65.47	65.05	66.75
Customer loans (net)/customer deposits	122.97	120.64	120.84	113.93	111.43
Stable funding ratio	95.14	96.07	94.69	99.01	99.53
Short-term wholesale funding/funding base	23.46	23.65	25.30	26.30	23.82
Short-term wholesale funding/total wholesale funding	67.38	69.20	73.26	75.22	71.55
Regulatory net stable funding ratio	119.60	115.10	116.10	125.60	N/A
Broad liquid assets/short-term wholesale funding (x)	0.92	0.93	0.96	1.09	1.12
Broad liquid assets/total assets	15.23	15.87	17.42	20.43	18.88
Broad liquid assets/customer deposits	33.04	33.50	37.11	44.16	39.94
Regulatory liquidity coverage ratio (x)	169.60	162.80	153.30	181.30	165.20

*As of mid year. N/A--Not applicable.

Related Criteria

- Risk-Adjusted Capital Framework Methodology, April 30, 2024
- General Criteria: Hybrid Capital: Methodology And Assumptions, March 2, 2022
- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Dec. 9, 2021

- Criteria | Financial Institutions | General: Financial Institutions Rating Methodology, Dec. 9, 2021
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Group Rating Methodology, July 1, 2019
- 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. 7, 2024
- Banking Industry Country Risk Assessment Update: October 2024, Oct. 30, 2024
- Top 200 Rated Banks' Capital Ratios Are On A Stable Trend, Oct. 21, 2024
- S&P Global Ratings Definitions, Oct. 15, 2024
- Economic Outlook Eurozone Q4 2024: Consumer Spending To The Rescue, Sept. 24, 2024
- European Banks Continue To Reap The Benefits Of Benign Credit Conditions, Sept. 3, 2024
- Banking Industry Country Risk Assessment: France, July. 10, 2024
- French Banks Face Increased Volatility Amid Policy Uncertainty, July 10, 2024
- Banking Industry Country Risk Assessment On France Unchanged Despite Sovereign Downgrade, June 3, 2024
- Ratings On Credit Mutuel Nord Europe And Its Programs Withdrawn After Joining Credit Mutuel Alliance Federale, Feb. 22, 2022

Ratings Detail (As Of November 7, 2024)*	
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+
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

Ratings Detail (As Of November 7, 2024)*(cont.)	
Sovereign Rating	
France	AA-/Stable/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

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