S&P Global Ratings

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Credit Mutuel Group

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Rating 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**

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

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

Additional factors: 0
Issuer credit rating
A+/Stable/A-1
Resolution counterparty rating
AA-/A-1+

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	Key risks
A low-risk appetite and good record of controlled growth in complementary business segments and territories.	Lower diversification outside domestic retail banking and insurance compared with that of similar and higher-rated peers.
Solid recurring earnings from a strong franchise in French retail banking and insurance.	Profitability challenge in the highly competitive domestic 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 a French context.

Its mutualist organization and bancassurance model provide the Credit Mutuel group (GCM) with highly recurring earnings and one of the strongest financial profiles among French banking groups. Highly recurring revenues have given it more stable earnings than peers', with very few one-off items. But we believe that the competitive French banking market will continue to constrain the group's 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. In our view, low payouts (given its cooperative status) and its deep local footprint will allow the group to maintain its strong position in the French banking market.

GCM delivered resilient gross operating income of €7.6 billion in 2023, and we expect similar in 2024, balancing increases in interest revenue and cost-of-credit risk. This year we expect its revenue to be constrained by subdued loan growth of broadly 1%, as demand for mortgage loans has remained low amid still-high interest rates and a depressed domestic housing market. Also, interest income is set to benefit only progressively from the higher interest rate environment because repricing the long-tenure and largely fixed-rate mortgage loan portfolio has been gradual, while interest rates on regulated deposits were revised as early as 2023 (notably Livret A up to 3.0%). Also, the portion of sight deposits, which is an important factor in the average cost of funding, decreased over 2022-2023, reflecting clients' expectations of higher returns amid increasing interest rates. In 2024, we expect GCM to report a slight increase in its cost-to-income ratio, to just below 60%, and increased cost of risk, translating into a decline in net operating income by the high single digits.

The group has capacity to absorb higher loan impairments. GCM's risk profile is low thanks to its focus on retail bancassurance and its modest risk appetite, and we expect its overall asset quality to hold up reasonably well with a contained increase in nonperforming loans (NPLs) to about 3% of gross customer loans. We foresee some increase in credit risk stemming from businesses/entrepreneurs, single-name impacts from larger corporates mostly in the loan books of Credit Industriel et Commercial (CIC), and from consumer finance activities. That said, housing loans, which form the bulk of GCM's loans, will continue to perform well and we expect that the overall cost of risk will not exceed 30 basis points (bps). GCM's predictable profitability and low payouts to cooperative shareholders result in a solid capital position, with a common equity tier 1 (CET1) of 19.2% at year-end 2023. This translates into one of the largest buffers above the capital requirement among peers.

The bank is seeking to build up a sizable bail-inable buffer. GCM is not subject to the total loss-absorbing capacity (TLAC) rules published by the Financial Stability Board for globally systemically important banks. However, it has been active in issuing a sizable amount of bail-inable instruments and has built a significant buffer. The group's additional loss-absorbing capacity (ALAC) was about 5.6% of S&P Global Ratings' risk-weighted assets (RWAs) as of year-end 2023. We forecast that this metric will remain 5.5%-6.0% until 2026, well above our standard 3.0% threshold for one notch of ALAC uplift.

GCM operates as a cooperative according to the provisions of the French Monetary and Financial Code. Cooperative group members are eligible to benefit from a financial solidarity mechanism set forth in the group's statutory provisions. We view this overarching feature as ensuring GCM's overall financial cohesiveness. The mechanism supports our expectation that extraordinary group support would be equally forthcoming to all mutual group members, directly or indirectly. 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 Confédération Nationale du Crédit Mutuel (CNCM), Crédit Mutuel Arkéa (CMA), and the 19 federations signed a memorandum of understanding that preserves the cohesion of Crédit Mutuel and guarantees the autonomy of its members. The group's statutes were updated accordingly. This should address the previous challenges regarding GCM's cohesion--an area of relative uncertainty for the past decade--although we did not view it as 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. The agreement, reached by all federations in May 2023, enhances the group's cohesion and will 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 thought GCM's retail banking and insurance business strategy was not sustainable in France's competitive 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 weakening in 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, 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.

Key Metrics

Crédit Mutuel Group--Key ratios and forecasts

	--Fiscal year ended Dec. 31--				
(%)	**2022a**	**2023a**	**2024f**	**2025f**	**2026f**
Growth in pre-provisioning operating income	0.2	(4.2)	(0.5)-(0.0)	3.5-4.0	4.5-5.5
Growth in customer loans	8.2	4.3	0.9-1.1	2.7-3.3	2.7-3.3
Growth in total assets	2.6	3.1	1.2-1.5	2.2-2.7	2.2-2.7
Net interest income/average earning assets (NIM)	1.3	1.3	1.2-1.3	1.3-1.4	1.3-1.4
Cost to income ratio	61.1	58.8	58.2-61.2	58.1-61.1	57.6-60.6
Return on average common equity	6.1	6.3	5.3-5.8	5.1-5.7	5.3-5.9
Return on assets	0.5	0.5	0.4-0.5	0.4-0.5	0.5-0.6
New loan loss provisions/average customer loans	0.2	0.2	0.3-0.3	0.3-0.3	0.2-0.3
Gross nonperforming assets/customer loans	2.4	2.6	2.8-3.1	2.9-3.2	2.9-3.2
Risk-adjusted capital ratio	10.4	11.2	11.1-11.7	11.4-12.0	11.8-12.4

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

Anchor: 'bbb+', Reflecting Predominantly Domestic Exposures

We use our Banking Industry Country Risk Assessment's economic risk and industry risk scores to determine a bank's anchor, the starting point in assigning an issuer credit rating to a bank. 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). We view the trends for economic and industry risks as stable. 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 higher credit growth than the eurozone average. For France, we envisage GDP growth of 1.1% in 2024 and 1.2% in 2025, and unemployment remaining below 2019 levels, stabilizing at 7.5% in 2024 and 7.6% in 2025. We project that inflation will decline from 5.7% in 2023 to 2.5% in 2024, before reverting to below 2.0% in the following years. We expect French banks' loan growth to decelerate but remain positive, stabilizing at 2.5%-3.0% annually from 2025, after reaching a low point in 2024, while the French housing market remains depressed. Fixed-rate mortgage loans provide structural support for domestic asset quality, and so prevent damage from higher interest rates. While some problem loans could yet emerge by 2026, asset quality deterioration will likely stay contained. We project domestic nonperforming assets (NPAs) will increase to 2.8% of domestic loans by year-end 2025, with credit costs at close to 30 basis points. Political challenges could create headwinds if they add risks to the economic growth outlook and create uncertainties regarding budgetary imbalances.

Regarding industry risk, we expect higher interest rates to benefit French banks' interest income, but this is materializing more gradually than in some other European banking markets, reflecting notably the pace of repricing in loan portfolios. Cost efficiency is a weakness for French banks compared with their European peers because of still-dense branch networks. Amid a still somewhat inflationary environment, management teams will find it harder to keep operational expenses under control. Banks also face the challenge of streamlining their operations via digitization efforts. Finally, the banking models of most French banks imply some reliance on wholesale resources, exposing the sector to market shocks.

Business Position: A Strong Domestic Franchise In Retail Banking And Insurance Underpins Revenue Stability

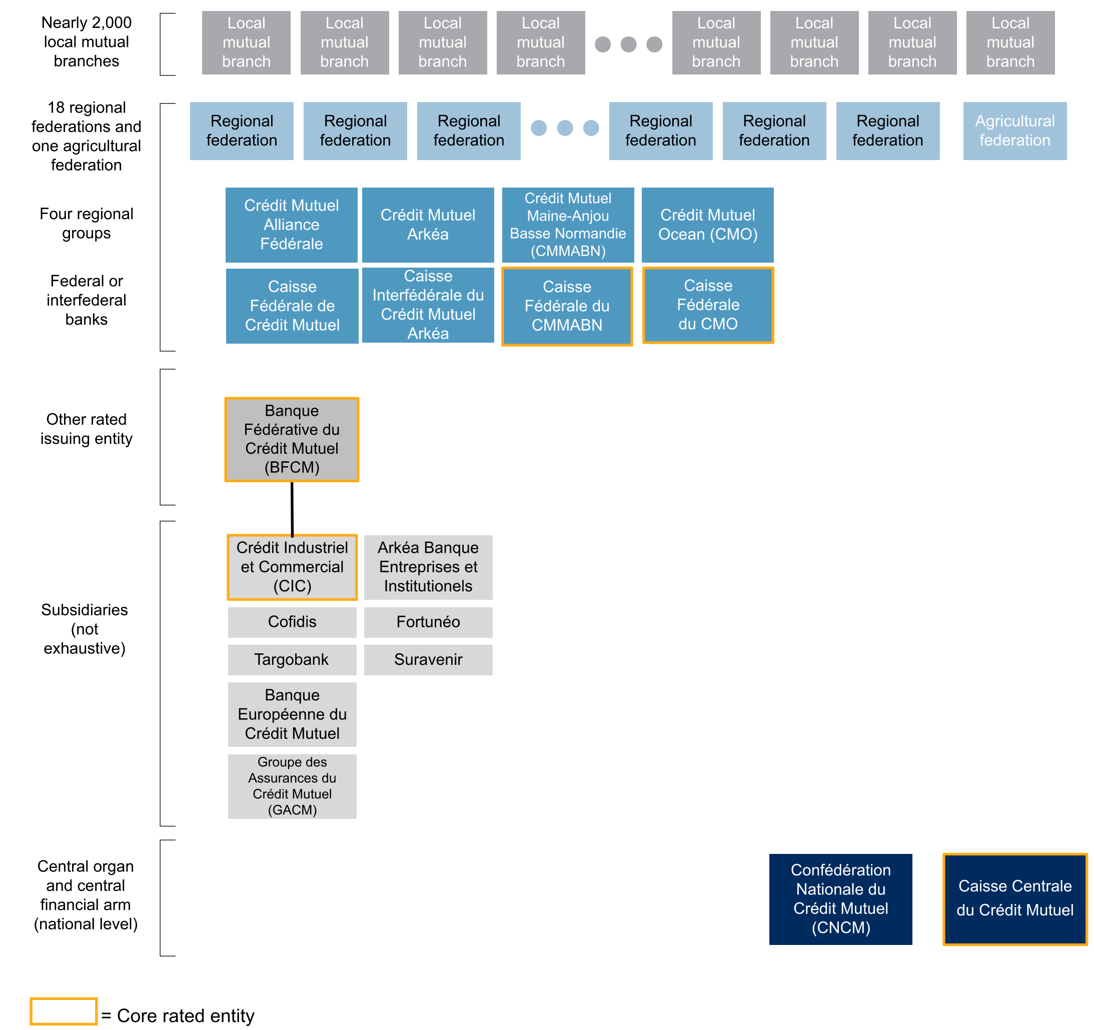
GCM's leading retail and insurance operations in France are rating strengths. Although less geographically diverse than European peers of similar size, the group operates a generally low-risk business, which produces extremely predictable earnings through the cycle. GCM's share of France's professional and business customers segment is about 20%, and the group provides commercial banking products and services to large French companies. It is also at the forefront of insurance in France, with more than 17.1 million policyholders (in both the life and property/casualty segments).

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 Fédérative du Crédit Mutuel (BFCM) in 1998 and is part of the largest of the regional subgroups, Crédit Mutuel Alliance Fédérale (CMAF). At year-end 2023, GCM comprised about 5,100 branches, of which 4,659 in France.

The group operates with a cooperative banking status according to the provisions of the French Monetary and Financial Code. Its unique decentralized cooperative structure comprises 1,966 local mutual banks (as of year-end 2023) owned locally by end subscribers known as "sociétaires". Local banks are linked to federations on a territorial basis. There are 18 regional federations, plus 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 has been since 2020.

Simplified overview of Crédit Mutuel Group



Note: Crédit Mutuel Arkéa encompasses Crédit Mutuel de Bretagne and Crédit Mutuel du Sud-Ouest.

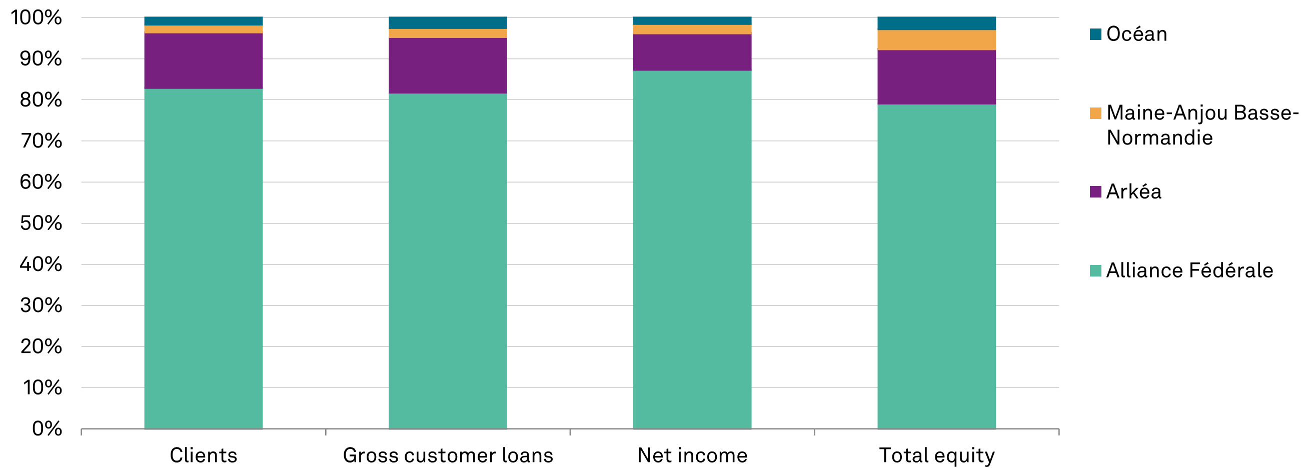
In the past 20 years, a number of federations have formed interfederal subgroups, the largest one by far being CMAF, which gathers 14 federations and constitutes more than 80% of GCM's total assets and net income. Credit Mutuel Nord Europe (CMNE), which represented about 5% of net income of GCM in 2021, joined CMAF at the beginning of

2022. The other interfederal 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 that will enhance the group's cohesion and facilitate its governance.

Chart 2

Respective weight of Crédit Mutuel's regional groups according to key figures

Reference year 2023



Sources: Crédit Mutuel, S&P Global Ratings.

We expect that the group will focus primarily on organic growth. However, we do not rule out opportunistic asset or business transactions, similar to BFCM'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 close to 23% of GCM's reported revenue in 2023. Although it is less diversified by geography than other large French banking groups, GCM embarked several years ago on a strategy of gradual expansion into neighboring countries, and, for some entities, higher-margin businesses. Its main subsidiaries were acquired in Belgium and Germany.

CMAF operates banking and insurance retail activities in Belgium through Beobank, which had 200 points of sale at year-end 2023 (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 BFCM's acquisition of Citibank Deutschland activities in 2008), which now provides factoring and leasing products. In 2023 the group disposed of the Spanish subsidiaries of Targobank and of the Groupe des Assurances du Crédit Mutuel (GACM). In April 2024, BFCM became the sole owner of the Cofidis group, from previously holding a controlling stake acquired in 2009. Cofidis is a consumer-finance specialist operating in nine European countries. It 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.

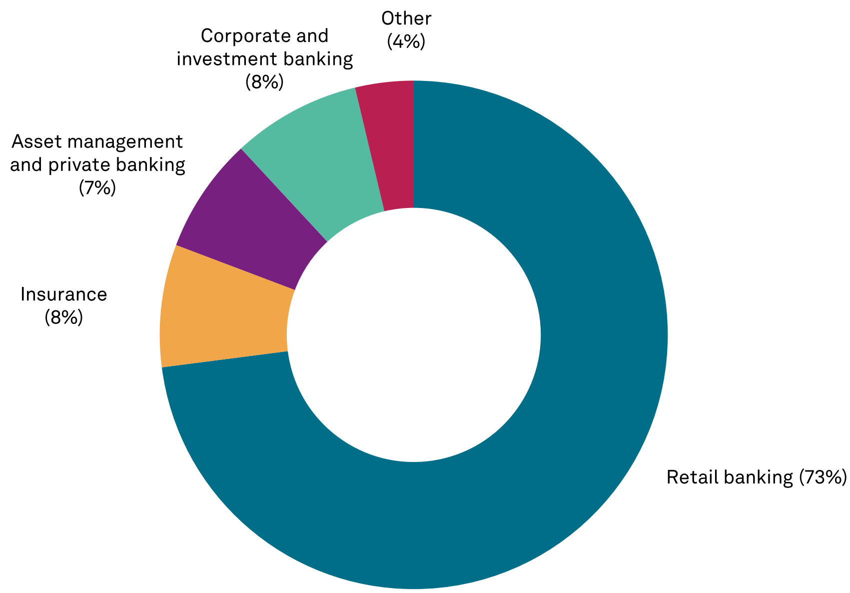
GCM has a reasonably advanced and efficient digital strategy and includes successful online banks (like Fortunéo, a subsidiary of CMA). It has long had a proactive approach to technology, offering customers innovative products. In that respect, Arkéa Banking Services is well placed in white-label services in the business-to-business market. For example in 2020 AXA Banque France transferred its IT activities and part of its back-office activities to CMA. In January 2024, a similar partnership became effective 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 73% of all business lines' revenue in 2023 coming from retail banking; 15% from asset management, private banking, and insurance; and 8% 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 the increase in interest rates since 2022 will eventually become a significantly positive factor for profitability.

Chart 3

Most of GCM's revenues come from retail and insurance

2023 revenue by business line

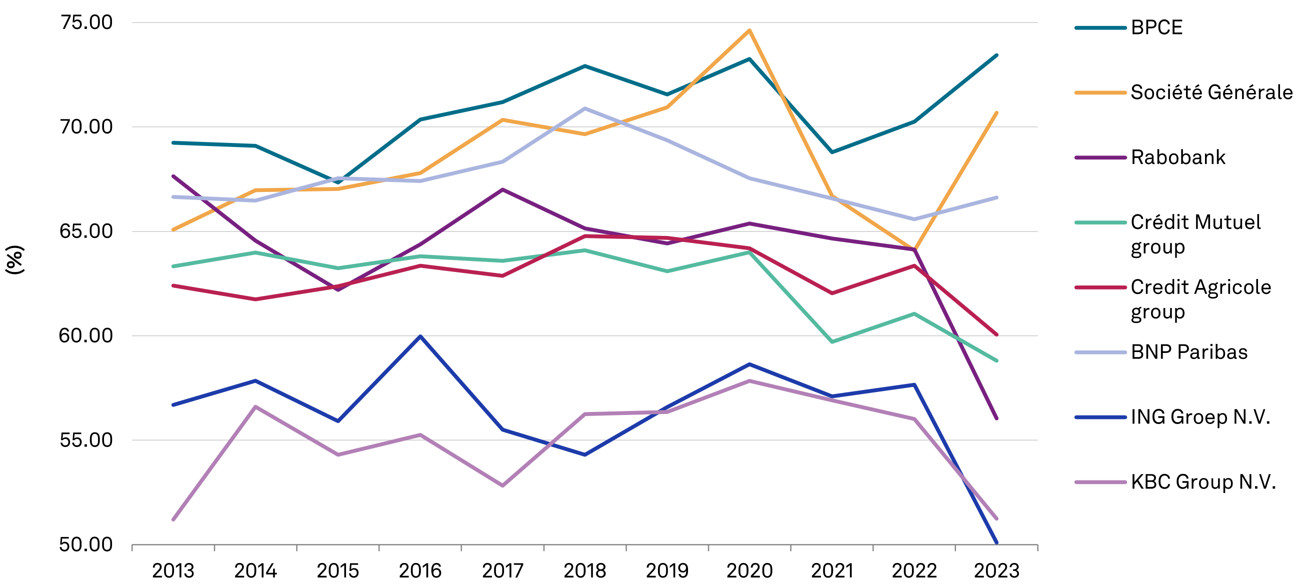


Source: S&P Global Ratings.

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&P Global Ratings.

Capital And Earnings: Strong Earnings Retention Supports Incremental Capital Buildup

The strength of the group's retail and insurance businesses, and its low risk profile, support profitability. In line with other cooperative groups, GCM retains most of its earnings, which helps capital buildup even when exposure growth is dynamic. It is less profitable than listed peers, but benefits from typically lower earnings volatility. We expect our RAC ratio before diversification to increase incrementally to about 12.0% by 2026, from 11.2% at year-end 2023.

Our RAC forecast for 2024-2026 factors in the following assumptions:

- Annual revenue growth of 2%-5%, reflecting some improvement in net interest margin and a gradual pick-up in lending.
- Expense inflation contained but at or above 3.0% annually. In 2024, we expect the end or reduction of the contributions to the EU Single Resolution Fund to offset the increase in GCM's costs by 2.5 percentage points (pps).
- Stable cost-to-income of 59%-60%.

- Cost of risk contained to 25 bps-30 bps of gross customer loans, with maintenance of prudent coverage by credit reserves and no significant reversal of provisions.
- Net income short of €4.5 billion in 2024-2025, then €4.5 billion-€5.0 billion in 2026.
- A steady 3.0% annual increase of the participation in insurance, measured via the equity method; our forecast of insurance capitalization also factors in that, on Sept. 30, 2024, GACM paid an exceptional dividend of €1.0 billion to its shareholders (which are all within GCM group).
- No significant acquisitions.
- A normalization in RWA growth, averaging close to 5% annually, over the next three years. This also reflects our expectation that GCM will continue to expand organically, mainly in retail banking in low-risk European countries.

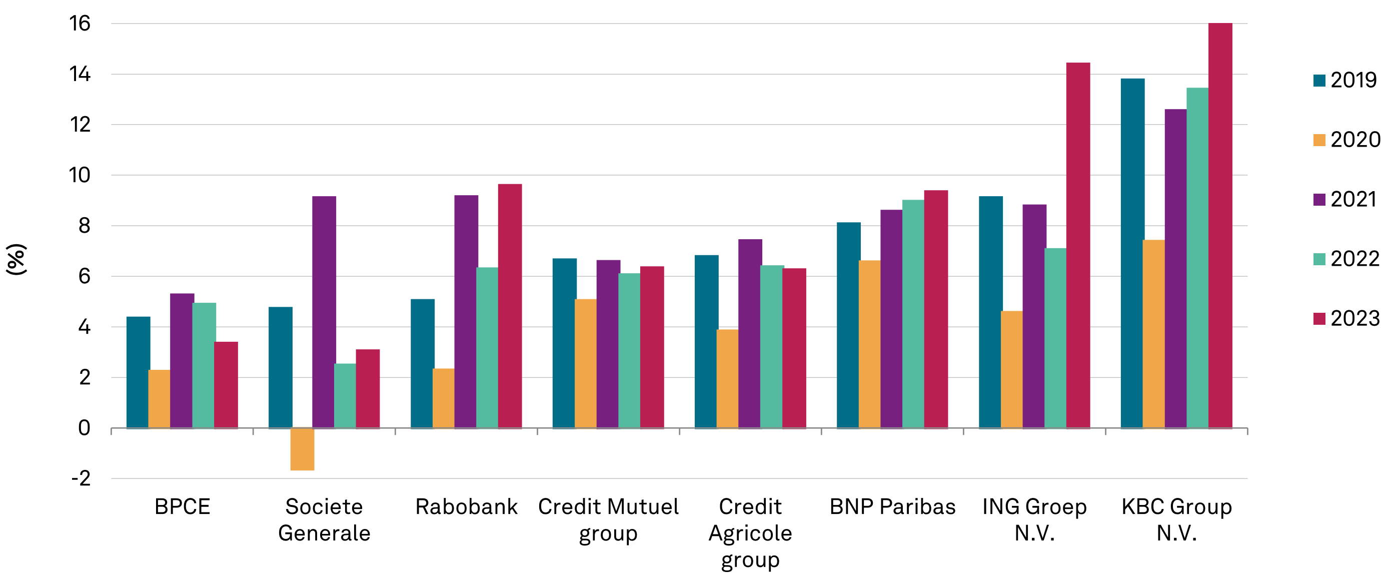
Typical for a mutual group, GCM's earnings are quite stable compared with those of more complex banking groups. Its customer-centric business model, absence of cyclical businesses, and low risk appetite allow the group to outperform peers in times of stress.

Our measure of GCM's return on average common equity was 6.3% in 2023, in line with the average over the past decade. While this 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.

In 2023, GCM reported revenue of €18.7 billion. We note that revenue and costs reported from 2023 are not comparable with those reported until 2022, due to the implementation of IFRS 17 on Jan. 1, 2023. However, the group disclosed 2022 revenue of €18.6 billion restated in accordance with changes in accounting methods applied from 2023. This low revenue growth reflects subdued new loan generation and the fact that the net interest margin is benefiting only gradually from higher interest rates. Cost to income was about 59% in 2023, compared to a pro forma estimate of about 56% in 2022, which was a low point. The increase in the cost base was 5.6% (pro forma) stemming notably from salary increases.

Our measure of cost of risk increased to 22 bps in 2023 (€1.4 billion) from 16 bps in 2021 and 2022, and was related for the most part to NPLs (stage 3). The increase stemmed essentially from consumer finance activities and from low granularity impacts from single names common to the French banking sector.

We estimated core earnings of €4.5 billion in 2023, compared with about €5.2 billion in 2021 and 2022. While the reported net income of €4.6 billion points to an increase of 10.7% in 2023, nonrecurring losses had reached €1.1 billion before tax in 2022. This 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 similar €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 19.2% at year-end 2023, one of the highest for a universal banking group in Europe. The difference between the regulatory ratio and our RAC ratio (11.2%) 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 us deducting the participation in insurance activities. We think GCM has material exposure to insurance risks through its large insurance subsidiaries (GACM; and Suravenir Assurances, which is part of CMA). The group's total capital ratio was 21.4%, which was about 8 pps above the minimum requirement set by the supervisory review and evaluation process (SREP).

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 customer credit risks are concentrated 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. However, like French peers, GCM applies strict debt-to-income and debt service ratios, and residential mortgages are essentially granted at fixed rates. Overall, we expect losses in domestic residential mortgages to remain very low.

In the next couple of years, we expect the group's NPAs to increase incrementally to just above 3.0% of gross loans, from 2.6% at year-end 2023 (€17.1 billion), and the coverage of bad loans by reserves to remain broadly stable at about 70%. As of year-end 2023, credit reserves totaled €11.7 billion, including €3.8 billion for performing loans (€4.0 billion as of year-end 2022).

At year-end 2023, outstanding government-backed loans (PGEs) created in response to the pandemic were €11.0 billion. For the record, the guarantee from the French state is 90% for most of these PGEs (70% to 90% subject to the size of the borrower) and therefore they are set to generate limited cost of risk. The portion of these loans that is classified as doubtful is limited but, as it will be aging, we expect this book to contribute increasingly to the group's total stage 3 loans (as of mid-year 2024, CMAF reported PGEs of €7.8 billion, of which €1.4 billion were classified as stage 3). Thanks to the guarantee, the impact on cost of risk will remain marginal but this portfolio will weigh on the overall coverage ratio of NPLs by reserves.

We expect GCM's cost of risk to increase due to the uncertain economic environment and slowdown in French real-estate development and construction. However, we expect our metric to be contained to 25 bps-30 bps. Our forecast factors in GCM's high share of fixed-rate mortgages, meaning debt servicing capacity will be little affected by higher interest rates. The group has 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)--constitute close to 10% of GCM's net customer loans. Targobank operates predominantly in the very low risk German market, which is typified by low household debt and unemployment. Its German retail loan portfolio reached €22.5 billion as of mid-year 2024. Cofidis offers riskier products, like revolving loans or credit cards, but its overall size remains modest at €20.2 billion in net customer loans at mid-year 2024. 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 should underpin its business growth.

GCM's exposure to interest rates mainly derives from its long-term fixed-rate French retail loan portfolio. The group relies on asset-liability management to measure its exposure to, and hedges efficiently against, interest rate risk. This year in France demand for mortgage loans has stayed low and lending volumes have remained subdued, trends we expect to see at GCM and which will constrain interest revenue growth. Moreover, the migration to term from nonremunerated deposits went on until 2023 and is pressuring banks' net interest margins. But GCM demonstrated good resilience in 2023 and we expect that the increase in interest rates over 2022-2023 will eventually benefit the group's revenue.

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 clients, but GCM's lending practices are not aggressive and its track record in that domain is favorable, in our view.

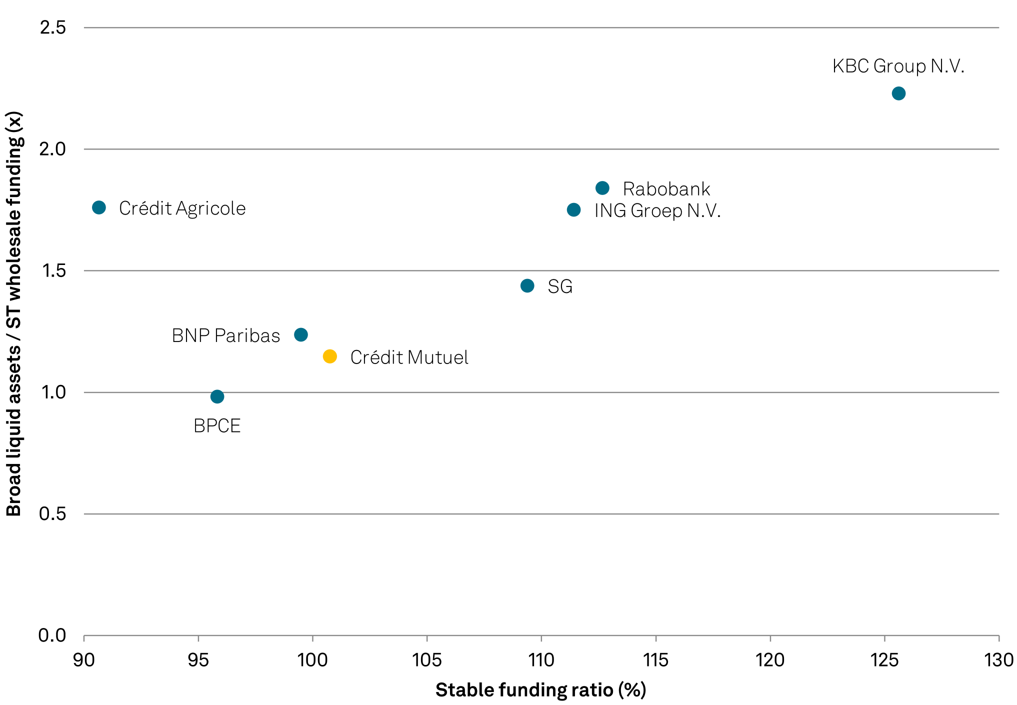
Funding And Liquidity: More In Line With International Peers'

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 2023, GCM's stable funding ratio and broad liquid asset to short-term wholesale funding ratio stood at 100.8% and 1.15x, respectively, compared with an average of 95% and about 0.9x over 2012-2019. Unchanged, its large retail banking network, and loyal and very granular deposit base, are strong qualitative factors that we factor into our funding and liquidity assessment.

The growth in deposits has led to a material improvement in the loan-to-deposit ratio since 2019, at 119.3% as of year-end 2023 (118.8% as of year-end 2022) compared with a far higher 178% as of year-end 2008. GCM has a large and increasing core deposits base of €534 billion at year-end 2023, 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 2023, the customer deposit base increased by nearly 4%. However, we estimate that the portion of sight deposits (that is, excluding notably regulated passbooks), which is an important factor for average funding cost, has decreased by about 10 pps over 2022-2023, reflecting clients' expectations of higher returns amid increasing interest rates.

Chart 6

GCM's funding and liquidity metrics are in line with peers'
S&P funding and liquidity ratios as of Dec. 31, 2023



Source: S&P Global Ratings.

Wholesale funding is an important part of the group's funding. The portfolio of medium- and long-term (MLT) debt amounted to €156 billion at year-end 2023. GCM has limited funding needs in U.S. dollars, most of which are at CMAF. As of Sept. 30, 2024, CMAF had completed 110% of its annual MLT funding program of €16 billion (€17.6 billion raised as of that date, which included 14% in U.S. dollars).

We see GCM's access to European Central Bank funding as opportunistic. GCM had €13.7 billion in TLTRO III as of year-end 2023 (compared to €53.8 billion at year-end 2021) and only €0.5 billon at mid-year 2024, as CMAF and CMA repaid respectively €11.2 billion and €2.0 billion during the first semester.

We expect GCM's liquidity coverage ratio to remain well above 100% (the group reported 153.5% at year-end 2023). 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 Dépots et Consignations and cannot be used to fund loans. These centralized deposits amounted to €59.8 billion at year-end 2023 (compared with €51.4 billion at year-end 2022).

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. GCM's subordinated liabilities exceeds comfortably its minimum requirement for eligible liabilities and own funds (MREL).

We expect new issuances of senior nonpreferred and subordinated notes will average about €4.0 billion annually over 2024-2026. With this, we forecast our ratio of ALAC to RWAs on GCM at 550 bps-600 bps, well above our 300 bps standard threshold for one notch of ALAC uplift. Our ALAC ratio was 555 bps at year-end 2023, compared with 484 bps at year-end 2022. The 2023 increase came with the issuance of €5.4 billion in bail-inable instruments, of which €4.15 billion in 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. Over the full year 2023, the amount devoted to this initiative was €439 million, representing 12.5% of CMAF's net income in 2022.

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.

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 And Rated Subsidiaries

We view the following rated entities as core to GCM: Caisse Centrale du Crédit Mutuel (CCCM), BFCM, CIC, Caisse Fédérale du Crédit Mutuel de Maine-Anjou Basse Normandie, and Caisse Fédérale du Crédit Mutuel Océan.

Hybrid Capital Instruments And Senior Subordinated Debt

In our credit analysis of senior nonpreferred notes issued by an entity that 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 for these 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 the notes:

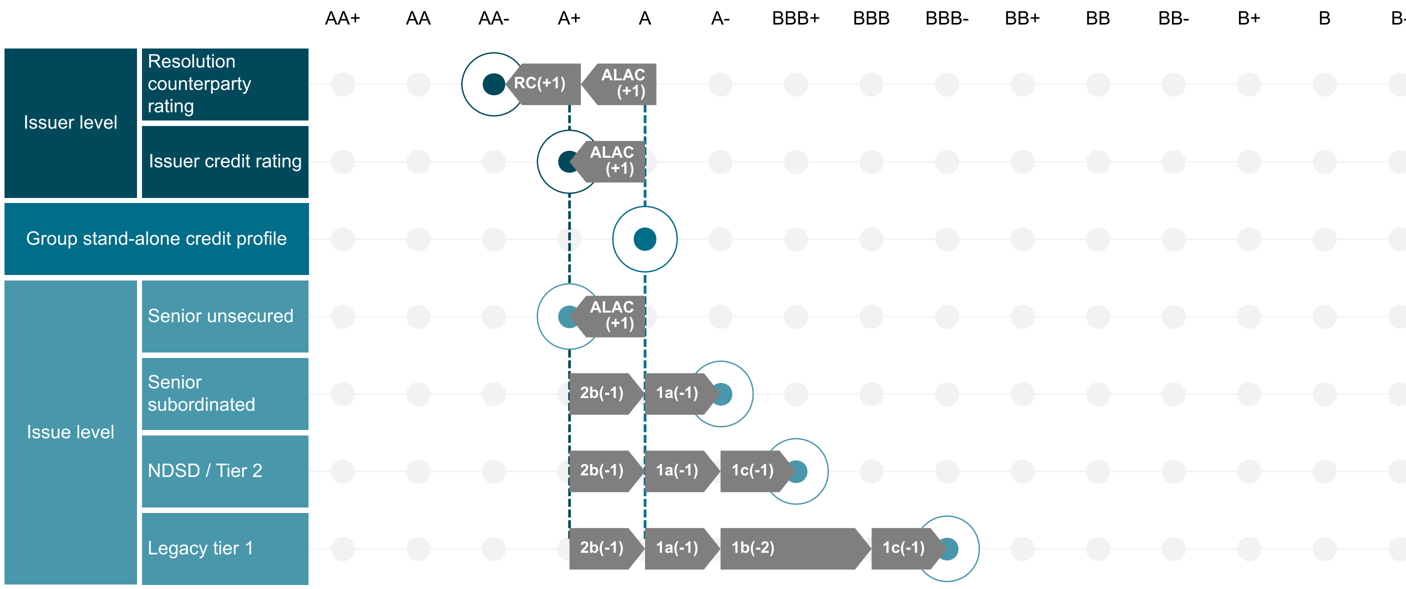
- One notch for contractual subordination. In line with our approach for rating senior nonpreferred notes in France or tier 3 instruments in some other countries, we deduct one notch when an instrument is subordinated to senior unsecured debt, even if it is not labelled subordinated; and
- One notch 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; 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



Key to notching

----	Issuer credit rating
-----	Group stand-alone credit profile
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.

Resolution Counterparty Ratings (RCRs)

We have 'AA-/A-1+' RCRs on CCCM, BFCM, CIC, Caisse Fédérale du Crédit Mutuel Maine-Anjou Basse Normandie, and Caisse Fédérale du Crédit Mutuel Océan. 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

Crédit Mutuel Group--Key figures

	--Year ended Dec. 31--				
(Mil. €)	**2023**	**2022**	**2021**	**2020**	**2019**
Adjusted assets	886,820	873,269	834,440	785,566	701,169
Customer loans (gross)	649,303	622,335	574,979	541,178	499,577
Adjusted common equity	56,616	51,911	47,427	41,779	39,867
Operating revenues	18,564	20,487	19,769	17,625	18,380
Noninterest expenses	10,917	12,508	11,803	11,280	11,597
Core earnings	4,544	5,246	5,143	2,702	3,846

Table 2

Crédit Mutuel Group--Business position

	--Year ended Dec. 31--				
(%)	**2023**	**2022**	**2021**	**2020**	**2019**
Total revenues from business line (currency in millions)	18,638	20,487	19,777	18,209	18,397
Retail banking/total revenues from business line	77.7	70.7	70.3	72.8	72.4
Corporate and investment banking/total revenue from business line	8.7	7.7	8.5	5.2	5.6
Insurance activities/total revenues from business line	8.3	10.8	11.8	10.2	12.2
Asset management/total revenues from business line	7.8	6.3	5.3	4.9	4.7
Other revenues/total revenues from business line	-2.5	4.5	4.0	6.8	5.1
Return on average common equity	6.3	6.1	6.6	5.1	6.7

Table 3

Crédit Mutuel Group--Capital and earnings

	--Year ended Dec. 31--				
(%)	**2023**	**2022**	**2021**	**2020**	**2019**
Tier 1 capital ratio	19.2	18.8	19.6	18.8	18.6
S&P Global Ratings' RAC ratio before diversification	11.2	10.4	10.4	10.1	10.1
S&P Global Ratings' RAC ratio after diversification	11.9	11.1	11.1	10.7	10.6
Adjusted common equity/total adjusted capital	100.0	100.0	99.5	98.9	98.2
Net interest income/operating revenues	50.5	44.5	43.2	47.5	43.3
Fee income/operating revenues	28.7	25.6	24.6	24.9	23.7
Market-sensitive income/operating revenues	4.5	4.1	6.7	0.7	5.1
Cost to income ratio	58.8	61.1	59.7	64.0	63.1
Preprovision operating income/average assets	0.7	0.7	0.8	0.6	0.8
Core earnings/average managed assets	0.4	0.5	0.5	0.3	0.4

RAC--Risk-adjusted capital.

Table 4

Crédit 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 (%)
Credit risk					
Government & central banks	225,504,270	4,652,123	2.1	3,621,707	1.6
Of which regional governments and local authorities	12,944,388	2,628,585	20.3	466,559	3.6
Institutions and CCPs	52,411,358	10,475,171	20.0	9,263,160	17.7
Corporate	201,037,504	133,652,117	66.5	158,057,693	78.6
Retail	472,481,672	93,338,660	19.8	198,232,869	42.0
Of which mortgage	332,463,073	35,959,437	10.8	91,501,961	27.5
Securitization§	7,640,003	1,690,426	22.1	1,874,334	24.5
Other assets†	24,731,334	12,494,376	50.5	21,610,922	87.4
Total credit risk	983,806,141	256,302,873	26.1	392,660,685	39.9
Credit valuation adjustment					
Total credit valuation adjustment	--	528,054	--	0	--
Market Risk					
Equity in the banking book	10,628,556	25,435,574	239.3	78,007,223	733.9
Trading book market risk	--	1,772,753	--	2,659,129	--
Total market risk	--	27,208,327	--	80,666,352	--
Operational risk					
Total operational risk	--	27,538,470	--	32,714,238	--
	Exposure	**Basel III RWA**	**Average Basel II RW (%)**	**S&P Global Ratings RWA**	**% of S&P Global Ratings RWA**
Diversification adjustments					
RWA before diversification	--	359,878,383	--	506,041,275	100.0
Total diversification/ Concentration adjustments	--	--	--	-30,744,556	-6.1
RWA after diversification	--	359,878,383	--	475,296,719	93.9
		Tier 1 capital	**Tier 1 ratio (%)**	**Total adjusted capital**	**S&P Global Ratings RAC ratio (%)**
Capital ratio					
Capital ratio before adjustments		69,074,000	19.2	56,616,395	11.2
Capital ratio after adjustments‡		69,074,000	19.2	56,616,395	11.9

*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. CCPS--Central counterparty clearing house. Sources: Company data as of Dec. 31, 2023, S&P Global Ratings.

Table 5

Crédit Mutuel Group--Risk position

	--Year ended Dec. 31--				
(%)	**2023**	**2022**	**2021**	**2020**	**2019**
Growth in customer loans	4.3	8.2	6.2	8.3	6.7
Total managed assets/adjusted common equity (x)	20.2	21.3	22.8	24.5	23.4
New loan loss provisions/average customer loans	0.2	0.2	0.2	0.5	0.2
Gross nonperforming assets/customer loans + other real estate owned	2.6	2.4	2.5	2.8	3.0
Loan loss reserves/gross nonperforming assets	68.3	74.2	77.8	76.2	69.7

Table 6

Crédit Mutuel Group--Funding and liquidity

	--Year ended Dec. 31--				
(%)	**2023**	**2022**	**2021**	**2020**	**2019**
Core deposits/funding base	66.8	66.5	67.0	67.7	64.7
Customer loans (net)/customer deposits	119.3	118.8	112.5	110.8	121.2
Long-term funding ratio	84.0	86.5	87.7	84.8	83.1
Stable funding ratio	100.8	104.0	111.1	106.1	98.9
Short-term wholesale funding/funding base	17.4	14.6	13.4	16.4	18.4
Broad liquid assets/short-term wholesale funding (x)	1.1	1.6	1.9	1.5	1.1
Broad liquid assets/total assets	14.0	16.0	17.9	16.9	13.7
Broad liquid assets/customer deposits	29.9	34.6	38.7	36.1	31.5
Short-term wholesale funding/total wholesale funding	52.4	43.7	40.5	50.7	51.8

Caisse Centrale du Crédit 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

- Risk-Adjusted Capital Framework Methodology, April 30, 2024
- General Criteria: Hybrid Capital: Methodology And Assumptions, March 2, 2022
- Criteria | Financial Institutions | General: Financial Institutions Rating Methodology, Dec. 9, 2021
- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Dec. 9, 2021
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Group Rating Methodology, July 1, 2019
- 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

- 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)*	
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+
Issuer Credit Ratings History	
16-Dec-2021	A+/Stable/A-1
24-Jun-2021	A/Stable/A-1

Ratings Detail (As Of November 7, 2024)*(cont.)	
23-Apr-2020	A/Negative/A-1
Sovereign Rating	
France	AA-/Stable/A-1+
Related Entities	
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+
Caisse Federale du Credit Mutuel de Maine-Anjou Basse Normandie	
Issuer Credit Rating	A+/Stable/A-1
Resolution Counterparty Rating	AA-/--/A-1+
Commercial Paper	
Local Currency	A-1
Senior Unsecured	A+
Caisse Federale du Credit Mutuel Ocean	
Issuer Credit Rating	A+/Stable/A-1
Resolution Counterparty Rating	AA-/--/A-1+
Commercial Paper	
Local Currency	A-1
Senior Unsecured	A+
Credit Industriel et Commercial	
Issuer Credit Rating	A+/Stable/A-1
Resolution Counterparty Rating	AA-/--/A-1+
Commercial Paper	
Local Currency	A-1
Senior Unsecured	A+
Short-Term Debt	A-1
Credit Industriel et Commercial, New York Branch	
Commercial Paper	
Local Currency	A-1
Credit Mutuel Home Loan SFH	
Senior Secured	AAA/Stable

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.