Fitch Ratings

18 DEC 2024

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

Fitch Ratings - Paris - 18 Dec 2024: Fitch Ratings has affirmed Credit Mutuel Alliance Federale's (CM Alliance Federale) Long-Term Issuer Default Rating (IDR) at 'A+' with a Stable Outlook and Viability Rating (VR) at 'a+'. A full list of rating actions is below.

Key Rating Drivers

Business Profile, Capital Drive Ratings: CM Alliance Federale's 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 bancassurance in France and consumer finance. The ratings factor in Groupe CM's sound, but deteriorating, asset quality, a low risk appetite, very strong capitalisation compared with most European peers, and stable funding and conservative liquidity management.

Decentralised Cooperative Banking Group: Fitch rates CM Alliance Federale as a core part of Groupe CM. CM Alliance Federale is about 80% of group assets and CM Arkea over 15%. We believe the existing solidarity mechanism binding all affiliated CM entities is cohesive enough to equalise their default risk. This is supported by a legally established and effective support mechanism, as the central body (Confederation Nationale du Credit Mutuel; CNCM) can access the group's resources to support its affiliated members.

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

Group VR: Fitch assigns a group VR to CM Alliance Federale and its subsidiaries, Banque Federative du Credit Mutuel (BFCM) and Credit Industriel et Commercial (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 result, the IDRs of BFCM and CIC are equalised with those of CM Alliance Federale.

Leading Bancassurer in France: Groupe CM has the third-largest retail- and commercial-banking franchise in France and well-established market positions in insurance and in consumer finance. The group generates most of its revenue domestically. The 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 across the group. Regional groups limit their exposure to traded market risks, compared with larger French peers. 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 but Deteriorating Asset Quality: Fitch expects Groupe CM's impaired loans ratio to remain slightly below 3% over the next two years, marginally above that of similarly rated European peers. However, this is mitigated by the group's satisfactory coverage by loan loss allowances and lower exposure to vulnerable corporate sectors and borrowers. Loan impairment charges (LICs) should remain at 25bp-30bp of gross loans over 2024-2026, in line with European banks' average.

Profitability Lags Peers, Good Efficiency: Groupe CM has a sound and consistent profitability record, which benefits from the group's diversification. However, we forecast its operating profit/risk-weighted assets (RWAs) ratio to only reach 2% in 2025, due to the slow recovery in interest margins in France, reduced private-equity gains, rising LICs and increasing cost base. Despite being more decentralised than French peers, Groupe CM has a sound cost efficiency, in particular at CM Alliance Federale (57% in 1H24).

Very Strong Capitalisation: Groupe CM's very strong capitalisation underpins the ratings and compares favourably with most European banks. This is because the regional groups adopt prudent capital planning and have limited pay-outs to cooperative owners. The group's common equity Tier 1 (CET1) ratio of close to 20% provides an ample buffer above requirements and its leverage ratio is well above the peer average.

Stable Funding, Conservative Liquidity: Groupe CM benefits from a large and stable deposit base, mainly from its local retail banking networks in France, although its loans/deposits ratio is structurally slightly higher than large French peers. Liquidity is managed conservatively by the main regional groups, and the group's sound buffer of high-quality liquid assets comfortably covers short-term funding and long-term debt falling due in the next 12 months.

Weaker Economic Outlook: The negative trend on the French banks' operating environment (OE) score mirrors that on the French sovereign rating. We assess French banks' operating environment at 'aa-', capped at the sovereign rating, and we would lower it if the sovereign was downgraded.

Rating Sensitivities

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

CM Alliance Federale retains sufficient rating headroom to potentially withstand a one-notch downgrade of the French sovereign to 'A+' or a negative revision of the OE score for French banks to 'a+' from 'aa-'.

However, its ratings could come under pressure if the economic environment deteriorated more significantly than we expect, for instance, due to a larger than anticipated effect of a more restrictive fiscal policy or structurally higher risks from already high private-sector indebtedness. Rating pressure would arise if Groupe CM's impaired loans ratio increases materially above 3% without a clear path to reduction, and its operating profit deteriorates sustainably to below 1.5% of RWAs, and the CET1 ratio falls towards 17% without sufficient remedial actions.

CM Alliance Federale's ratings would also be sensitive to a downgrade of the French sovereign by more than one notch, as the group's ratings would be capped at the level of the sovereign, all else being equal.

Although not expected, a material increase in the risk appetite, for instance leading to outsized and uncontrolled expansion in volatile businesses or geographies and less conservative capital management, could also put pressure on CM Alliance Federale's ratings. Evidence of weaker risk controls or looser credit risk management at a time when there are rising downside risks in France could also be negative.

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

An upgrade is unlikely given the Negative Outlook on the French sovereign and the negative trend on the OE score. Over the medium term, and with a stabilisation of the OE at the current level, the ratings could be upgraded if Groupe CM strengthens its franchise, as well as its geographic and business diversification, improves its operating profit/RWAs towards 3%, while maintaining a conservative risk appetite and very strong capitalisation. An improvement in the impaired loans ratio towards 1% would also be rating positive.

OTHER DEBT AND ISSUER RATINGS: KEY RATING DRIVERS

Short-Term IDRs

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

Senior Debt, Deposits and Derivative Counterparty Ratings

The total minimum requirement for own funds and eligible liabilities (MREL) is set at the level of Groupe CM. We estimate it at 25.8% of RWAs at end-June 2024. This is based on Groupe CM's publicly disclosed MREL of 21.92%, which excludes the combined buffer requirement (CBR), and Groupe CM's CBR of 3.89% at end-June 2024. As Groupe CM does not have a central debt issuance entity, CM regional groups, including CM Alliance Federale, need to have sufficient own funds and to issue eligible liabilities to ensure that the group complies with its MREL. We expect Groupe CM will continue to meet MREL without recourse to senior preferred debt. We estimate Groupe CM's total capital and buffer of senior non-preferred debt at about 26%-26.5% at end-June 2024 and we expect it to remain sustainably at or above this level.

BFCM's and CIC's long-term deposits and senior preferred debt ratings are one notch above CM

Alliance Federale's Long-Term IDR to reflect the protection that would accrue to their depositors and senior preferred creditors 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 and CIC's 'F1+' short-term deposit and senior preferred debt ratings are the only options mapping to their 'AA-' long-term ratings. BFCM's Derivative Counterparty Rating (DCR) of 'AA-(dcr)' is in line with its equally ranking senior preferred debt and deposits.

Subordinated and Junior Subordinated Debt Ratings

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

Government Support Ratings

CM Alliance Federale, BFCM and CIC's Government Support Ratings (GSRs) of 'no support' reflect Fitch's view that although possible, sovereign support cannot be relied on. In our view, 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. This implies that senior creditors would probably be required to participate in losses, if necessary, instead of the bank receiving sovereign support, despite Groupe CM's systemic importance in France.

OTHER DEBT AND ISSUER RATINGS: RATING SENSITIVITIES

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

Short-Term IDRs

Fitch would downgrade CM Alliance Federale, BFCM and CIC's Short-Term IDRs in case of a combined two-notch downgrade of the Long-Term IDR and a downward revision of the funding and liquidity score. We could upgrade the Short-Term IDR if the Long-Term IDR was upgraded to 'AA-' or if the funding and liquidity score was revised to 'aa-'.

Senior Debt, Deposits and DCRs

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

Should the French sovereign be rated 'A+', BFCM and CIC's senior preferred debt and deposit ratings, as well as BFCM's DCR, would likely be unaffected and rated one notch above the sovereign. At group level, the considerable amount of CET1 capital above regulatory requirements (estimated at EUR36 billion, or about 10pp) provides a comfortable buffer to protect senior preferred debt holders in case of a severe stress on the sovereign rating or a resolution scenario, limiting the risk of default on these debts.

Subordinated and Junior Subordinated Debt Ratings

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

Government Support Ratings

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

VR ADJUSTMENTS

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

Sources of Information

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

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

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

ESG Considerations

The highest level of ESG credit relevance is a score of '3', 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.

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Rating Actions

ENTITY/DEBT	RATING			RECOVERY	PRIOR
Credit Mutuel Alliance Federale	LT IDR	A+	Affirmed		A+
	ST IDR	F1	Affirmed		F1
	Viability	a+	Affirmed		a+
	Government Support	ns	Affirmed		ns
Banque Federative du Credit Mutuel S.A.	LT IDR	A+	Affirmed		A+
	ST IDR	F1	Affirmed		F1
	Viability	a+	Affirmed		a+

ENTITY/DEBT	RATING			RECOVERY	PRIOR
	DCR	AA-(dcr)	Affirmed		AA-(dcr)
	Government Support	ns	Affirmed		ns
• junior subordinated	LT	BBB	Affirmed		BBB
• Senior non-preferred	LT	A+	Affirmed		A+
• subordinated	LT	A-	Affirmed		A-
• long-term deposits	LT	AA-	Affirmed		AA-
• Senior preferred	LT	AA-	Affirmed		AA-
• short-term deposits	ST	F1+	Affirmed		F1+
• Senior preferred	ST	F1+	Affirmed		F1+
Credit	LT IDR	A+	Affirmed		A+

ENTITY/DEBT	RATING			RECOVERY	PRIOR
Industriel et Commercial S.A.					
	ST IDR	F1	Affirmed		F1
	Viability	a+	Affirmed		a+
	Government Support	ns	Affirmed		ns
• long-term deposits	LT	AA-	Affirmed		AA-
• Senior preferred	LT	AA-	Affirmed		AA-
• short-term deposits	ST	F1+	Affirmed		F1+
• Senior preferred	ST	F1+	Affirmed		F1+

RATINGS KEY	OUTLOOK	WATCH
POSITIVE		
NEGATIVE		
EVOLVING		
STABLE		

Applicable Criteria

Bank Rating Criteria (pub.15 Mar 2024) (including rating assumption sensitivity)

Additional Disclosures

Solicitation Status

Endorsement Status

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

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