Creditreform Bank Rating

Crédit Mutuel Alliance Fédérale (Group) as parent of Banque Fédérative du Crédit Mutuel (BFCM)

Creditreform Rating

Rating Object	Rating Information			
Crédit Mutuel Alliance Fédérale (Group) as parent of Banque Fédérative du Crédit Mutuel (BFCM)	Long Term Issuer Rating / Outlook: **A / stable**		Short Term: **L2**	Type: Update unsolicited
	Rating of Bank Capital and Unsecured Debt Instruments:			
	Preferred Senior Unsecured: **A**	Non-Preferred Senior Unsecured: **A-**	Tier 2: **BBB-**	Additional Tier 1: **BB+**

Creditreform ID: 400987949
Incorporation: 1882
(Main-) Industry: Banks
Management: Daniel Baal (CEO)
Nicolas Théry (Chairman of the Board of Directors)

Rating Date: **19 November 2020**
Monitoring until: withdrawal of the rating
Rating Methodology: CRA "Bank Ratings v.2.0"
CRA "Rating of Bank Capital and Unsecured Debt Instruments v.2.0"
CRA "Environmental, Social and Governance Score for Banks v.1.0"
CRA "Rating Criteria and Definitions v.1.3"
Rating History: www.creditreform-rating.de

Our rating of BFCM is reflected by our rating opinion of Crédit Mutuel Alliance Fédérale (Group) due to its group structure. Therefore we refer to our rating report of of Crédit Mutuel Alliance Fédérale (Group) from 19 November 2020.

Contents

Analysts
Felix Schuermann
f.schuermann@creditreform-rating.de
Lead-Analyst

Philipp J. Beckmann
p.beckmann@creditreform-rating.de
Senior Analyst

Daniel Keller
d.keller@creditreform-rating.de
Person Approving Credit Ratings

Neuss, Germany

Key Rating Driver

Strengths

+ One of the five largest banking groups in France, most significant part of the Crédit Mutuel Group (G-SII)
+ Diversification outside of traditional banking business (e.g. mobile phone contracts)
+ Low operating cost, solid profitability and asset quality, excellent capitalization

Weaknesses

- Low-interest environment cuts into profitability
- High reliance on French home market
- High group structure complexity

Opportunities / Threats

+/- Strategic Plan tackling digitization, diversification and simplification of brand architecture

- Uncertainty about scope, consequences and duration of COVID-19 crisis

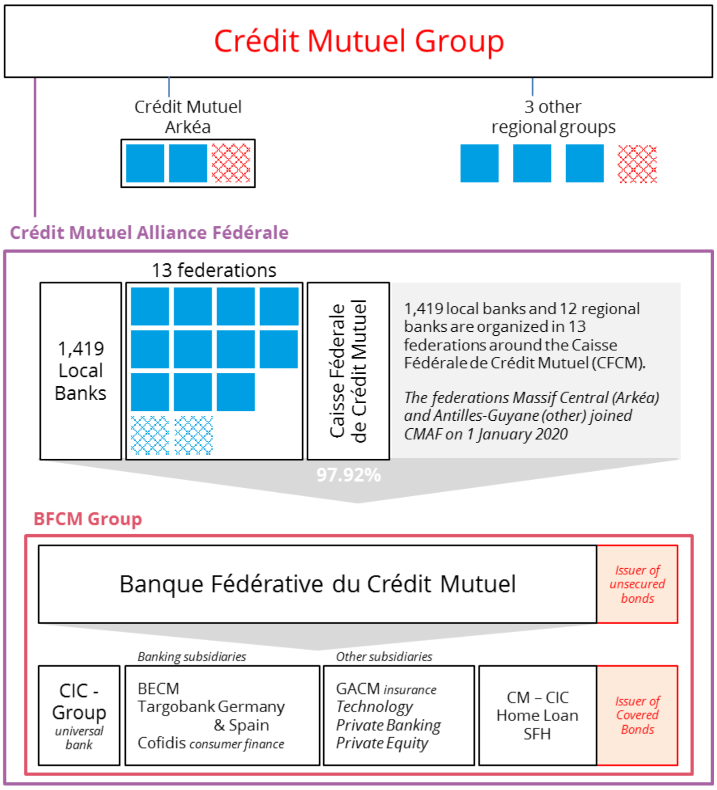
Company Overview

The Groupe Crédit Mutuel can trace back its origins to 1882 with the creation of the first Caisse de Crédit Mutuel in Wantzenau, then part of the German Empire. The group nowadays consists of 18 regional federations across France. The Crédit Mutuel Alliance Fédérale (hereinafter: CMAF) represents an alliance of thirteen of these regional federations, including well over a thousand cooperative banks, organized around the common federal bank Caisse Fédérale de Crédit Mutuel (hereinafter: CFCM). CMAF has almost five million members. It is the single most important cooperative alliance within the Groupe Crédit Mutuel, representing more than two thirds of the Group's local banks (1,419 vs 2,064 total) and three fourths of the Group's total assets (€718.5bn vs €930.9bn).

CFCM and the thirteen federations (including local and regional banks) represent about 98% of the share capital of Banque Fédérative du Crédit Mutuel SA (hereinafter: BFCM). BFCM is the issuer of unsecured bonds on capital markets, and fulfils three roles for CMAF. First, it is the funding arm of the Group. Second, CMAF manages the Group's liquidity, critical and payment functions, and has access to the ECB. Third, it is the owner of all business lines outside the mutual perimeter. These subsidiaries cover fields of finance, insurance, electronic banking and information technology. The biggest subsidiary is Crédit Industriel et Commercial (CIC), a French group of regional banks. Other important banking subsidiaries are BECM, Targobank Germany and Spain, among others. On 1 January 2020, the federations Massif Central and Antilles-Guyane joined CMAF. The former was part of Crédit Mutuel Arkéa, which seeks independence from the Crédit Mutuel Group.

CMAF is mainly active in France with close to 80% in total assets, but through its subsidiaries also maintains important activities in Germany and in Spain. It serves more than 25 million customers. The core business of CMAF is retail banking, followed by insurance and other specialized business like electronic payments, mobile phone contracts, remote surveillance and real estate. CMAF's market share stands at 13.2% and 12.2% for loans and deposits, respectively.

Chart 1: Organizational Overview of CMAF and major subsidiaries | Source: Website of CMAF/BFCM



The strategic plan "ensemble#nouveaumonde" entered into the second year in 2020. The plan seeks to tackle the challenges CMAF is facing, such as persistently low interest rates, the rapidly shifting in attitudes towards banking, digitizaton, regulatory pressures and arrivals of newcomers and fintechs on the market. CMAF seeks to be the "reference relational bank in a digital world" and to be an "innovative, multi-service bank", amongst others. To boost commercial efficiency, CMAF seeks to enhance customer-advisor relations through technology, to simplify its brand architecture as well as continue its diversification efforts, for example in telecommunications and insurances. The first year saw a successful increase in net banking income and net income, as well as slightly lower cost income ratio. CMAF set its ambitions into place by codifying its core values in its articles of association, and Caisse Fédérale de Crédit Mutuel and CIC will become mission-oriented companies. The COVID-19 crisis has called into question the financial goals and objectives, which were originally outlined as follows: an increase of net banking income by 3% per annum, and cost income ratio of below 60%, a net profit of greater than €4bn, a yield on risk-weighted assets of greater than 1.5% and a CET1 ratio of greater than 18% by the end of 2023. As per half-year 2020, CMAF has decided to accelerate the implementation of the strategic plan based on proactivity, simplicity, efficiency and modernity. The plan was set to be reviewed in the second half of 2020.

In the context of the COVID-19 epidemic, CMAF implemented immediate support measures for its employees, customers and the economy. Payments on medium- and long-term amortizing loans to businesses, professionals and farmers granted by CMAF could be unconditionally suspended free of charge until the end of September 2020, as well as implementing the customer support measures granted by the French State. Up the 30 June 2020, more than 1.577m installments worth €3.5bn had been deferred for small business and and corporates, and CMAF received over 108,000 State guaranteed loan applications worth €17.3bn in the first half of the year, among many other measures applied to customers of CMAF.

Business Development

Profitability

The 2019 financial year was another successful one for CMAF, with net income again increasing year on year. This was possible because operating income increased again year on year (+3.2% or €0.49bn), while operating expense increased to a lesser extent (+2.8% or €0.27bn). Contrary to the industry trend, CMAF significantly increased its net interest income, which was less due to higher revenues than to lower interest expenses. The negative trend in gross interest income was brought to an end. In contrast, fees and commissions earned slightly less (-0.4% or -€14m). The decline in income (-3.6%) was cushioned by a disproportionately high decrease in expenses (-12.7%). The insurance business was friendly in 2019, with strongly growing income and expenses (+28.6% and 35.5% respectively) resulting in a plus of €39 million (+1.5%) compared to the previous year. Net trading income contributed €0.84bn to operating income, an increase of €42m (+5.2%). At the end of the year, Operating Income amounted to €15.64bn (+3.2% or €0.49bn).

The Operating Expense increased to €10bn (+2.8% or €0.27bn) mainly due to higher depreciation and amortisation (IFRS16 adoption) and personnel expenses (+2.3% or €0.12bn).

Risk costs increased strongly by €0.16bn (+17.6%), coming from a low base. Overall, pre-tax profit increased slightly by €0.09bn (+2%) and net profit by €0.15bn (+5.1%) to €3.15bn.

CMAF's strategic plan is to grow net banking income by 3% per annum (operating profit after our reporting: +4% in 2019) and increase net profit to €4bn.

Net banking income for CMAF was down by almost 10% year on year in the first half of 2020. Every business line but private banking was afflicted by the crisis, according to CMAF. The biggest decrease was recorded in insurance (-36.3%) and specialized business (-27.3%), while retail banking merely decreased by 2.5%. At the same time, operating expense could only be decreased by 1.2%. As a result, the operating result decreased by 22.9%. Like all other banks, the Bank had to build up high loan-loss provisions due to the COVID-19 crisis. Risk costs amounted to €1.05bn, an increase of more than twice as much as in the first half of last year. However, risk costs compared to outstanding customer loans totaled less than 50 basis points on an annualized basis, significantly lower than most of the banks surveyed, which on average had to absorb 50-70bp on top of baseline risk costs. The net profit was €0.86bn in the first half of the year, down almost 50% from €1.63bn the year prior. CRA does not expect for CMAF to post a loss for the overall year, given that Q3 has been a very good one for almost all banks on the rebound from the first lockdown, however uncertainties remain over the second lockdown that is in progress at this time.

A detailed group income statement for the years of 2016 through 2019 can be found in Figure 1 below:

Figure 1: Group income statement | Source: eValueRate / CRA

Income Statement	2016	2017	2018	%	2019
Income (€m)					
Net Interest Income	5.552	5.713	6.209	+6,9	6.635
Net Fee & Commission Income	3.256	3.511	3.613	-0,4	3.599
Net Insurance Income	2.168	2.514	2.579	+1,5	2.618
Net Trading Income	1.610	1.258	801	+5,2	843
Equity Accounted Results	-136	-334	67	-89,6	7
Dividends from Equity Instruments	-	-	8	+25,0	10
Other Income	1.831	2.024	1.877	+2,7	1.928
Operating Income	**14.281**	**14.686**	**15.154**	**+3,2**	**15.640**
Expenses (€m)					
Depreciation and Amortisation	779	526	467	+33,4	623
Personnel Expense	4.709	4.856	5.054	+2,3	5.172
Tech & Communications Expense	-	-	-	-	-
Marketing and Promotion Expense	-	-	-	-	-
Other Provisions	-	-	-	-	-
Other Expense	4.016	4.102	4.213	-0,1	4.210
Operating Expense	**9.504**	**9.484**	**9.734**	**+2,8**	**10.005**
Operating Profit & Impairment (€m)					
Pre-impairment Operating Profit	**4.777**	**5.202**	**5.420**	**+4,0**	**5.635**
Asset Writedowns	827	871	902	+17,6	1.061
Net Income (€m)					
Non-Recurring Income	28	25	68	+60,3	109
Non-Recurring Expense	15	22	24	+29,2	31
Pre-tax Profit	**3.963**	**4.334**	**4.562**	**+2,0**	**4.652**
Income Tax Expense	1.383	1.929	1.569	-4,0	1.507
Discontinued Operations	44	22	-	-	-
Net Profit (€m)	**2.624**	**2.427**	**2.993**	**+5,1**	**3.145**
Attributable to minority interest (non-controlling interest)	214	219	298	+5,0	313
Attributable to owners of the parent	2.410	2.208	2.695	+5,1	2.832

Given the dynamic growth in total assets, the only slight increase in net profit had a negative impact on most key earnings figures - a development which the alliance shares with its peer group. Key performance indicators such as return on assets and return on equity both fell slightly year-on-year, while the cost income ratio (CIR) declined slightly due to the higher relative growth of operating income compared to operating expense. Over the period under review, the CIR (CRA calculated) decreased steadily and the declared target of the strategic plan is below 60%. The current momentum is not sufficient to achieve this target in a near-term future. The self-reported CIR of 61.4% puts the bank closer to that goal, however. The other key performance indicators showed heterogeneous trends, but remained practically unchanged in the observed period.

The self-reported CIR increased slightly from 64.3 to 64.6% in the first half of 2020.

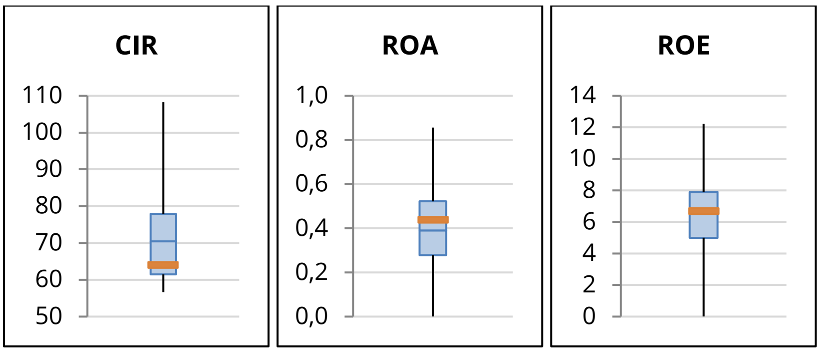
A detailed overview of the income ratios for the years of 2016 through 2019 can be found in Figure 2 below:

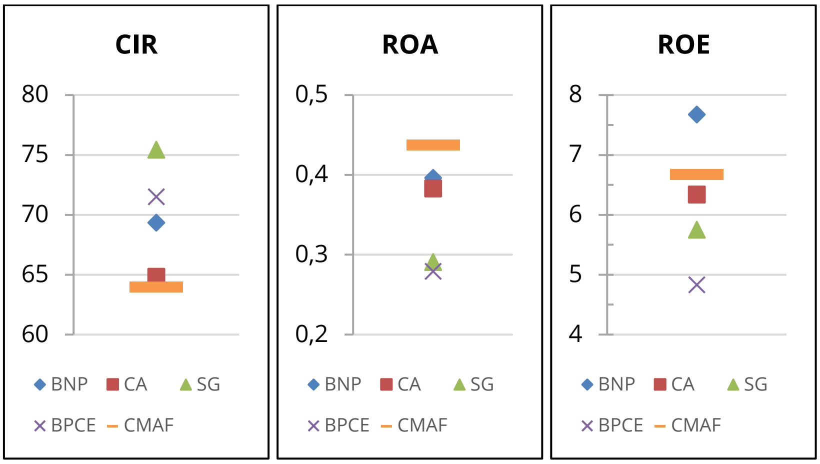
Figure 2: Group key earnings figures| Source: eValueRate / CRA

Income Ratios (%)	2016	2017	2018	%	2019
Cost Income Ratio (CIR)	66,55	64,58	64,23	-0,26	63,97
Cost Income Ratio ex. Trading (CIRex)	75,01	70,63	67,82	-0,20	67,62
Return on Assets (ROA)	0,43	0,39	0,45	-0,01	0,44
Return on Equity (ROE)	6,63	5,92	6,87	-0,19	6,67
Return on Assets before Taxes (ROAbT)	0,65	0,70	0,68	-0,04	0,65
Return on Equity before Taxes (ROEbT)	10,01	10,57	10,46	-0,60	9,87
Return on Risk-Weighted Assets (RORWA)	1,27	1,22	1,40	-0,00	1,39
Return on Risk-Weighted Assets before Taxes (RORWAbT)	1,91	2,18	2,13	-0,07	2,06
Net Interest Margin (NIM)	1,24	1,19	1,34	-0,02	1,32
Pre-Impairment Operating Profit / Assets	0,78	0,84	0,81	-0,03	0,78
Cost of Funds (COF)	2,06	2,13	1,62	-0,19	1,43
Change in %Points					

The peer group analysis is conducted using three box plot charts of representative earnings figures for the overall peer group and a peer group of large French banks each. At just under 64%, the CIR is comparatively low compared with the general peer group. The above-average characteristic can be recognized in comparison with the French peers, with CMAF occupying first place. ROA and ROE are average in comparison with the general peer group and do not indicate a general above-average outperformance. However, a different picture emerges in comparison with the French peer banks. With ROA and ROE, the CMAF occupies first and second place in the French domestic comparison. The peer group comparison of the profitability ratios proves the convincing profitability of CMAF, especially in comparison with the French peer group.

Chart 2: CIR, ROA & ROE of CMAF in comparison to the peer Group | Source: eValueRate / CRA





Asset Situation and Asset Quality

The balance sheet total was extended by €51.1bn (+7.7%) in 2019, following equally strong growth in the previous year. Lending business grew at a similarly strong rate to the previous year at €26bn (+7%, after 7.5% in the previous year). At the same time, cash on hand and balances with central banks grew by €14.5bn, representing an increase of more than a quarter. The remainder of the growth came mainly from securitized collateral (+€4.35bn) and insurance assets (+€7.87bn), down by €3.34bn on balances with banks.

The balance sheet size increased by almost €80bn in the first half of 2020, with customer loans accounting for almost €29bn of the increase. Of customer loans on 30 June 2020, 49% were home loans, 27% were equipment loans, 12% operating loans and 10% consumer loans granted. Operating loans increased by €10bn, including State guaranteed loans, up 25.9%.

A detailed look at the development of the asset side of the balance sheet for the years of 2016 through 2019 can be taken in Figure 3 below:

Figure 3: Development of assets | Source: eValueRate / CRA

Assets (€m)	2016	2017	2018	%	2019
Cash and Balances with Central Banks	61.044	57.049	56.696	+25,5	71.171
Net Loans to Banks	28.644	28.263	44.168	-7,6	40.825
Net Loans to Customers	329.958	344.942	370.886	+7,0	396.895
Total Securities	138.898	140.962	45.459	+9,6	49.806
Total Derivative Assets	9.024	6.698	7.111	+5,6	7.510
Other Financial Assets	9.344	9.533	-	-	-
Financial Assets	**576.912**	**587.447**	**524.320**	**+8,0**	**566.207**
Equity Accounted Investments	5.095	3.963	719	-13,8	620
Other Investments	1.961	2.816	86	+3,5	89
Insurance Assets	-	419	122.004	+6,4	129.869
Non-current Assets & Discontinued Ops	-	119	-	-	726
Tangible and Intangible Assets	7.785	7.777	7.810	+9,1	8.522
Tax Assets	2.883	3.087	3.325	-5,6	3.140
Total Other Assets	15.120	13.571	9.100	+2,7	9.346
Total Assets	**609.756**	**619.199**	**667.364**	**+7,7**	**718.519**

The asset quality of CMAF continued to improve in 2019. The RWA ratio fell slightly to 31.4% and the NPL ratio, measured by Stage 3 exposures to net customer loans, fell from 3.1% to 2.9%. However, the problem loan ratio, measured by stage 2 exposures, increased from 3.4% to 5.5%. However, the ratio was still quite low compared to the peer group average. The reserves to NPL were high at almost 73%.

On 30 June 2020, risk-weighted assets came to €229.2bn, up from €225.7bn at the end of 2019. The NPL-ratio was 3.0%, practically unchanged compared to the end of 2019.

A detailed overview of the asset quality for the years of 2016 through 2019 can be found in Figure 4 below:

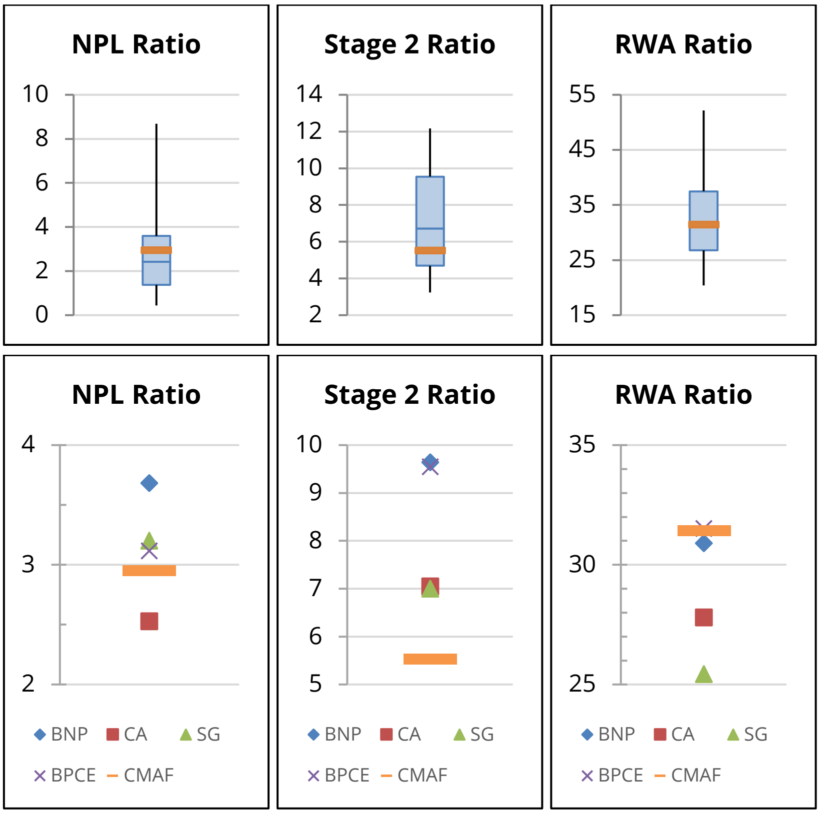
Figure 4: Development of asset quality | Source: eValueRate / CRA

Asset Ratios (%)	2016	2017	2018	%	2019
Net Loans/ Assets	54,11	55,71	55,57	-0,34	55,24
Risk-weighted Assets/ Assets	33,97	32,04	32,07	-0,66	31,41
NPLs*/ Net Loans to Customers	4,16	3,45	3,12	-0,20	2,92
NPLs*/ Risk-weighted Assets	6,63	5,99	5,41	-0,28	5,13
Potential Problem Loans**/ Net Loans to Customers	1,09	1,14	3,35	+2,17	5,52
Reserves/ NPLs*	61,85	59,01	70,04	+2,90	72,95
Reserves/ Net Loans	2,57	2,03	2,19	-0,06	2,13
Net Write-offs/ Net Loans	0,25	0,25	0,24	+0,02	0,27
Net Write-offs/ Risk-weighted Assets	0,40	0,44	0,42	+0,05	0,47
Net Write-offs/ Total Assets	0,14	0,14	0,14	+0,01	0,15
Level 3 Assets/ Total Assets	0,98	1,17	0,94	-0,09	0,85
Change in %Points					

* NPLs are represented from 2017 onwards by Stage 3 Loans.
** Potential Problem Loans are Stage 2 Loans where available.

The peer group analysis of asset quality is conducted using three box plots of representative asset ratios for the overall peer group and a peer group of French banks. The NPL ratio of the CMAF is slightly higher compared to the median of the general peer group. Compared to the French peer group, the NPL ratio is slightly below the average in second place. The problem loan exposures (Stage 2) at 5.5% are quite clearly below the median of 6.7%.The comparison with the French banks is particularly noteworthy, the problem loan ratio of the CMAF is comparatively low. The RWA ratio is in the region of the median of the general peer group, while it is relatively high compared to the French banks. However, the range between the lowest and the highest ratio is quite small. The asset quality can be described as generally good, especially in a French comparison.

Chart 3: NPL and RWA ratios of CMAF in comparison to the peer Group | Source: eValueRate / CRA



Refinancing and Capital Quality

Even more than in the previous year, deposit growth contributed to the expansion of the balance sheet total. Deposits from customers grew by €32.5bn (+10.7%), compared to 6.2% in the previous year. Customer deposits thus grew more than customer loans in the reporting period. Deposits from banks decreased by €16.8bn or almost one third. Securitized liabilities increased by €6.12bn (+4.8%). The increase in Other Financial Liabilities is due to a reclassification in the context of a repo transaction relating to pensions. Good insurance business in 2019 also led to a strong increase of €9.72bn (+8.4%) in insurance liabilities. Balance sheet equity increased by €3.55bn (+8.1%), mainly due to profit retention, capital increase through co-operative shares and gains recognized directly in equity.

On a group level, customer deposits increased greatly by 19.8%, largely due to current account balances jumping by more than 30% in light of the severe change in spending habits due to the lockdown. In the first half of 2020, CMAF issued €5.8bn in public debt issues. The shareholder's equity was €47.5bn, compared to €47.15bn at year-end 2019.

A detailed overview of the development of liabilities for the years of 2016 through 2019 can be found in Figure 5 below:

Figure 5: Development of refinancing and capital adequacy| Source: eValueRate / CRA

Liabilities (€m)	2016	2017	2018	%	2019
Total Deposits from Banks	28.844	24.915	53.985	-31,1	37.176
Total Deposits from Customers	274.690	286.515	304.319	+10,7	336.806
Total Debt	119.243	120.253	126.904	+4,8	133.027
Derivative Liabilities	8.236	5.978	5.529	-8,2	5.073
Securities Sold, not yet Purchased	-	-	-	-	-
Other Financial Liabilities	29.277	27.759	1.232	> +100	16.068
Total Financial Liabilities	**460.290**	**465.420**	**491.969**	**+7,4**	**528.150**
Insurance Liabilities	93.597	96.626	115.565	+8,4	125.289
Non-current Liabilities & Discontinued Ops	-	14	-	-	725
Tax Liabilities	2.032	2.104	1.679	+24,0	2.082
Provisions	2.835	3.041	3.266	+7,1	3.498
Total Other Liabilities	11.415	11.004	11.289	+3,0	11.628
Total Liabilities	**570.169**	**578.209**	**623.768**	**+7,6**	**671.372**
Total Equity	**39.587**	**40.990**	**43.596**	**+8,1**	**47.147**
Total Liabilities and Equity	**609.756**	**619.199**	**667.364**	**+7,7**	**718.519**

Capitalization improved again in the 2019 reporting year. The equity ratio increased slightly by 3 basis points as equity grew faster than the rest of the liabilities. Regulatory capital also experienced a solid increase, as common equity at 10% grew almost twice as fast as risk-weighted assets at 5.5%. The Leverage ratio increased slightly to 6.5%. All ratios were well outside of regulatory minimums, that is 3% for the Leverage Ratio and 8.5% for CET1 (4.5% P1R, 2.5% CCB, 1,5% P2R). The 0.2% countercyclical buffer was released as per design due to the COVID-19 epidemic.

As of this date, regulatory capital ratios are only available for the end of Q1 2020. CET1 was recorded at 16.9%, the Tier 1 ratio was 17% and the Total Capital ratio was 19.9%. The Leverage Ratio was reported as 6.2%.

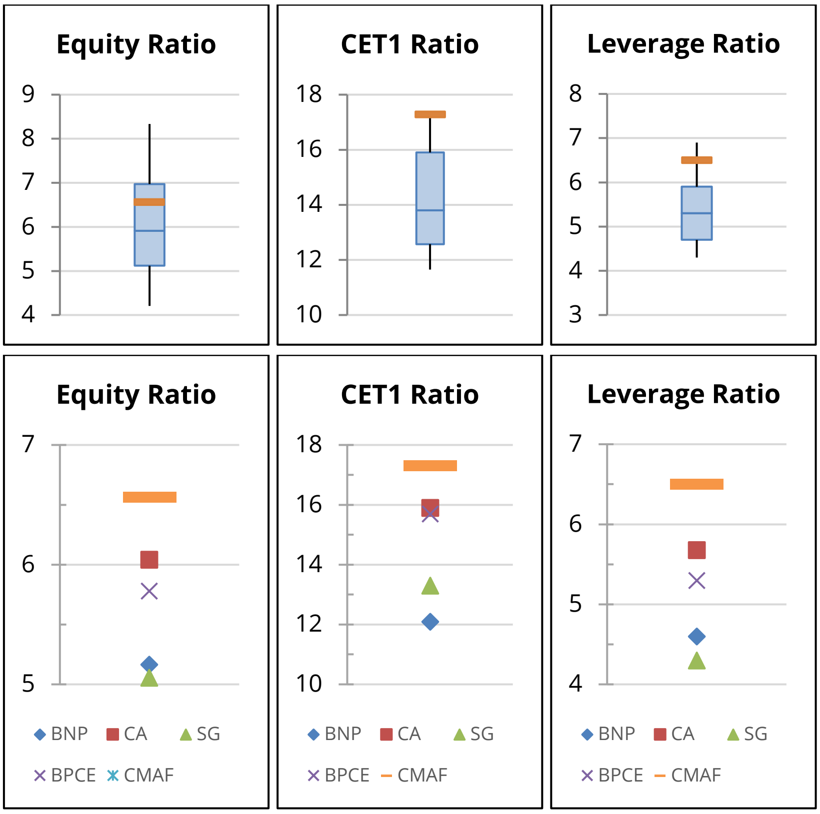
A detailed overview of the development of capital ratios for the years of 2016 through 2019 can be found in Figure 6 below:

Figure 6: Development of capital ratios | Source: eValueRate / CRA

Capital Ratios (%)	2016	2017	2018	%	2019
Total Equity/ Total Assets	6,49	6,62	6,53	+0,03	6,56
Leverage Ratio	6,00	6,10	6,40	+0,10	6,50
Phased-in: Common Equity Tier 1 Ratio (CET1)	15,08	16,44	16,56	+0,72	17,28
Phased-in: Tier 1 Ratio (CET1 + AT1)	15,70	17,02	17,00	+0,61	17,61
Phased-in: Total Capital Ratio (CET1 + AT1 + T2)	18,47	20,31	19,74	+0,67	20,41
Fully Loaded: Common Equity Tier 1 Ratio (CET1)	15,00	16,50	16,57	+0,73	17,30
Fully Loaded: Tier 1 Ratio (CET1 + AT1)	-	16,50	16,61	+0,69	17,30
Fully Loaded: Total Capital Ratio (CET1 + AT1 + T2)	18,00	19,90	19,74	+0,66	20,40
Change in %Points					

The peer group analysis of the capital ratios is conducted using three representative box plots for the overall peer group and a peer group of large French banks each. The equity ratio of CMAF was 6.6% in 2019, significantly higher than the corresponding median of the general peer group. Compared to the French peers, CMAF is even by a considerable margin the leading bank. CMAF is also convincing in terms of the CET1 ratio; compared with the general peer group, the CMAF even takes the top position and is also in the top spot in a French comparison. The Leverage ratio is also very high and differs significantly from the median of the general peer group. In comparison, the Leverage ratio is also outperforming the French peer group by a significant margin.

Chart 4: CET1 and Leverage ratios of CMAF in comparison to the peer Group | Source: eValueRate / CRA



Due to the capital and debt structure, the class of Preferred Senior Unsecured Bonds at Group level is not downgraded compared to the Long-Term Issuer Rating. Due to the seniority structure, bonds in the Non-Preferred Senior Unsecured class are downgraded one notch below the Long-Term Issuer Rating. Tier 2 capital is downgraded four notches below the Long-Term Issuer Rating due to the capital and debt capital structure and due to the seniority structure, Additional Tier 1 capital is downgraded five notches below the Long-Term Issuer Rating reflecting the high bail-in risk in case of a resolution.

Liquidity

The liquidity situation has changed inconsistently compared to the previous year. While net loans decreased in comparison to deposits, the interbank ratio increased quite dramatically. Overall, however, the interbank exposure has decreased quite significantly. The liquidity coverage ratio (LCR) also rose sharply by almost 28 percentage points to 153.7%. Customer deposits accounted for around half of the Bank's total funding in 2019, a figure that remained relatively stable over the period under review.

In the first half of 2020, the average LCR was 159.8%, indicating no liquidity problems whatsoever in a difficult economic setting. The liquidity reserve stood at €169.7bn at June 30, 2020.

A detailed overview of the development of liquidity for the years of 2016 through 2019 can be found in Figure 7 below.

Figure 7: Development of liquidity | Source: eValueRate / CRA

Liquidity (%)	2016	2017	2018	%	2019
Net Loans/ Deposits (LTD)	120,12	120,39	121,87	-4,03	117,84
Interbank Ratio	99,31	113,44	81,82	+28,00	109,82
Liquidity Coverage Ratio	140,30	130,90	125,80	+27,90	153,70
Customer Deposits / Total Funding (excl. Derivates)	48,88	50,07	49,22	+1,33	50,55

Change in %Points

Environmental, Social and Governance (ESG) Score Card

CMAF has one significant and two moderate ESG rating drivers

• Corporate Governance is identified as a highly significant rating driver. The relevance for the credit rating results from the impact of the Corporate Governance factor on all other ESG factors and the overall well-being of the bank. This sub-factor is rated positive due to CMAF's very high capitalization figures, good earnings and solid asset quality, beating French peers.

• Corporate Behaviour and Green Financing / Promoting are identified as moderate rating drivers. Both Green Financing / Promoting and Corporate Behaviour are rated positive, because convincing green financing ventures and existing green bond issues as well as thorough exit from projects harming the environment in the former and the commendable corporate behavior in terms in regards of code of conduct and code of ethics application, in addition to no major scandals in recent years.

ESG Score
3,8 / 5

ESG Score Guidance	
> 4,25	Outstanding
>3,5 - 4,25	Above-average
>2,5 - 3,5	Average
>1,75 - 2,5	Substandard
< = 1,75	Poor

Factor	Sub-Factor	Consideration	Relevance Scale 2020	Eval.
Environmental	1.1 Green Financing / Promoting	The sub-factor "Green Financing/Promoting" has a moderate relevance for the credit rating, and is rated neutral in terms of the CRA ESG criteria.	3	( )
Environmental	1.2 Exposure to Environmental Factors	The sub-factor "Exposure to Environmental Factors" has a low relevance for the credit rating, and is rated positive in terms of the CRA ESG criteria.	2	(+)
Environmental	1.3 Resource Efficiency	The sub-factor "Resource Efficiency" has no significant relevance for the credit rating, and is rated positive in terms of the CRA ESG criteria.	1	(+)
Social	2.1 Human Capital	The sub-factor "Human Capital" has low relevance for the credit rating, and is rated positive in terms of the CRA ESG criteria.	2	(+)
Social	2.2 Social Responsibility	The sub-factor "Social Responsibility" has no significant relevance for the credit rating, and is rated positive in terms of the CRA ESG criteria.	1	(+)
Governance	3.1 Corporate Governance	The sub-factor "Corporate Governance" is highly relevant for the credit rating, and is rated positive in terms of the CRA ESG criteria.	4	(+)
Governance	3.2 Corporate Behaviour	The sub-factor "Corporate Behaviour" has a moderate relevance for the credit rating, and is rated positive in terms of the CRA ESG criteria.	3	(+)
Governance	3.3 Corporate Transparency	The sub-factor "Corporate Transparency" has no significant relevance for the credit rating, and is rated neutral in terms of the CRA ESG criteria.	1	( )

ESG Relevance Scale	
5	Highest Relevance
4	High Relevance
3	Moderate Relevance
2	Low Relevance
1	No significant Relevance

ESG Evaluation Guidance	
(+ +)	Strong positive
(+)	Positive
( )	Neutral
(-)	Negative
(- -)	Strong negativ

The ESG Score is based on the Methodology "Environmental, Social and Governance Score of Banken (Version 1.0)" of Creditreform Rating AG, which is available on our homepage https://creditreform-rating.de/en/about-us/regulatory-requirements.html. In addition, we refer to CRA's position paper "Consodering the Impact of ESG Factors".

Conclusion

The 2019 financial year was another successful year for CMAF, with net profit increasing once more. Operating income increased in the light of industry-beating increases in net interest income, while costs increased only moderately. As a result, operating profit improved once again. The risk costs were again relatively low, although they increased steadily over the period considered. With tax expenses essentially unchanged, net profit increased further. The already healthy cost basis was again improved, and the CIR fell again compared to the previous year. However, the remaining key earnings figures declined in view of the very dynamic business and balance sheet development. Lending and deposit generation was again very robust, and equity also rose sharply due to the high net profit for the year. The capitalization of CMAF remains excellent, but did not change significantly over the period under review in view of the stagnating equity ratio and Leverage ratio. Only the regulatory capital ratios rose sharply year-on-year due to the declining RWA ratio. Prior to the COVID-19 health crisis, CMAF was well underway to reach the goals outline in its new strategic plan that was introduced in the previous year.

The COVID-19 crisis has made the forecasts for 2020 an exercise in futility in the banking industry as a whole, and CMAF has set its strategic plan up for review in light of the events of 2020. Across the sector, risk provisions and the volume of problem loan exposures are rising sharply, with only the NPL ratios so far showing little sign of being affected. In the medium term, CRA expects decreasing margins and high risk costs, which will have a severe impact on results. Banks in the euro zone, which are already under strain, will find it increasingly difficult to live off traditional sources of income. The general shift towards commission and other income will not remain unaffected by the crisis, as income from payment transactions in particular is increasingly disappearing due to the crisis in the retail sector.

This development has a severe impact on the business model of CMAF. Retail banking will experience an accelerated shift towards online banking. At the same time, the commission-based business in retail payments is likely to be permanently lower, as shopping habits continue to steer towards online business and large online retailers with established proprietary payment methods or affiliated fintechs. Small and medium-sized enterprises, especially in the service sector, are severely affected by the crisis due to lack of reserves, possibly devastating local service based economies. France is one of the most severely affected countries, and credit exposure to the home market of France was still almost 80%. In addition, the other big markets of operation are similarly ravaged by COVID-19, such as the Spain and Belgium (2% combined exposure) and Germany to a lesser extent (7.5% exposure). Nevertheless, CMAF is still fairly diversified across income segments, especially in the insurance and asset management and curiously telecommunications segments, for example. Net interest income accounted for less than 50% of operating income. Interim results indicate a sharp decline in annual results, especially with the currently deteriorating situation of the second COVID-19 wave and the renewed lockdown in many European countries. Risk costs in particular are clouding CMAF's results, but the Group still expects a positive net profit for 2020, unlike some of its competitors. The very good cost basis contributes to this development. Meanwhile, asset quality has not yet deteriorated significantly, and the true effects will probably not become apparent until next year.

The COVID-19 crisis and with it the worsening earnings prospects as well as declining asset quality put negative pressure on the Long-Term Issuer Rating of CMAF. The excellent capital situation, as well as the updated rating methodology, which amongst others rewards size and diversification, exert positive pressure on the rating of CMAF. Hence, the Long-Term Issuer Rating is confirmed at 'A'. The Short-Term Issuer Rating is confirmed at 'L2'.

Outlook

The outlook of the Long-Term Issuer Rating of CMAF is 'stable'. In the medium term, CRA expects a deterioration in profitability and asset quality, with the recent Europe-wide lockdowns aggravating the situation. The bank already reported a drastic decrease in net profit in the first wave, but CRA expects no negative result for the whole of 2020. However, CMAF's outperformance in terms of earnings, general asset quality as well as excellent capitalization lead to above mentioned outlook.

Scenario Analysis

Best-case scenario: A+

Worst-case scenario: BBB+

Please note:

The scenarios are based on information available at the time of the rating. Within the forecast horizon, circumstances may occur that could lead to a change of the rating out of the indicated range.

In a scenario analysis, the bank is able to reach an 'A+' Long-Term Issuer Rating in the "best case" scenario and a 'BBB+' Long-Term Issuer Rating in the "worst case scenario". If the bank finds a way keeping costs low and improving the general asset quality even further, we could upgrade CMAF's rating. On the downside, if the COVID-19 crisis lingers on and the world experiences recurring waves of infections, the bank might find itself amidst a continuously worsening earnings and asset quality situation. An accelerated drive towards e-commerce and online banking might leave the Group in a complicated situation to keep costs down while at the same time to deliver the same level of financial services that customers are used to. At this stage, CRA expects the downside risks to prevail over the chances of a rating upgrade.

The ratings of bank capital and (preferred/non-preferred) senior unsecured debt would behave similarly due to our rating mechanics. These ratings are especially sensitive to changes in total equity and to the bank capital and debt structure in general.

Appendix

Bank ratings

The bank ratings are dependent on a host of quantitative and qualitative factors. An improvement in either sub-category may result in a higher rating score.

LT Issuer / Outlook / Short-Term **A / stable / L2**

Bank Capital and Debt Instruments Ratings

The ratings for bank capital and debt instruments are inter alia dependent on subordination and relative size of the instrument class, based on the long-term issuer rating of the bank.

Preferred Senior Unsecured Debt (PSU): **A**
Non-Preferred Senior Unsecured Debt (NPS): **A-**
Tier 2 (T2): **BBB-**
Additional Tier 1 (AT1): **BB+**

Rating History

Please consult our website www.creditreform-rating.de for additional information regarding the dates of publication.

Figure 8: Rating History

Bank Issuer Rating	Rating Date	Result
LT / Outlook / Short-Term (Initial)	21.09.2018	A / stable / L2
Rating Update	19.12.2019	A / stable / L2
Monitoring	24.03.2020	A / NEW / L2
Rating Update	19.11.2020	A / stable / L2
Bank Capital and Debt Instruments	**Rating Date**	**Result**
Senior Unsecured / T2 / AT1 (Initial)	21.09.2018	A / BBB- / BB+
PSU / NPS / T2 / AT1	19.12.2019	n.r. / - / n.r. / n.r.
Subsidiaries of the Bank	**Rating Date**	**Result**
Banque Fédérative du Crédit Mutuel SA (BFCM)		
LT / Outlook / Short-Term (Initial)	21.09.2018	A / stable / L2
Rating Update	19.12.2019	A / stable / L2
Monitoring	24.03.2020	A / NEW / L2
Rating Update	19.11.2020	A / stable / L2
Bank Capital and Debt Instruments of Banque Fédérative du Crédit Mutuel SA (BFCM)		
Senior Unsecured / T2 / AT1 (Initial)	21.09.2018	A / BBB- / BB+
PSU / NPS / T2 / AT1	19.12.2019	A / A- / BBB- / BB+
Monitoring	24.03.2020	A / A- / BBB- / BB+ (NEW)
Rating Update	19.11.2020	A / A- / BBB- / BB+

Figure 9: BFCM income statement | Source: eValueRate / CRA

Income Statement	2016	2017	2018	%	2019
Income (€m)					
Net Interest Income	-	4.272	4.783	+7,6	5.147
Net Fee & Commission Income	-	2.521	2.598	-0,4	2.588
Net Insurance Income	-	1.993	2.026	+3,8	2.102
Net Trading Income	-	1.104	769	+4,7	805
Equity Accounted Results	-	-300	130	-43,1	74
Dividends from Equity Instruments	-	127	8	+25,0	10
Other Income	-	967	756	+2,5	775
Operating Income	**-**	**10.684**	**11.070**	**+3,9**	**11.501**
Expenses (€m)					
Depreciation and Amortisation	-	265	193	+46,1	282
Personnel Expense	-	3.140	3.256	+2,4	3.333
Tech & Communications Expense	-	-	-	-	-
Marketing and Promotion Expense	-	-	-	-	-
Other Provisions	-	-	-	-	-
Other Expense	-	3.152	3.189	-0,5	3.174
Operating Expense	**-**	**6.557**	**6.638**	**+2,3**	**6.789**
Operating Profit & Impairment (€m)					
Pre-impairment Operating Profit	**-**	**4.127**	**4.432**	**+6,3**	**4.712**
Asset Writedowns	-	783	805	+24,1	999
Net Income (€m)					
Non-Recurring Income	-	12	47	> +100	96
Non-Recurring Expense	-	14	10	> +100	22
Pre-tax Profit	**-**	**3.342**	**3.664**	**+3,4**	**3.787**
Income Tax Expense	-	1.541	1.224	-8,2	1.124
Discontinued Operations	-	22	-	-	-
Net Profit (€m)	**-**	**1.823**	**2.440**	**+9,1**	**2.663**
Attributable to minority interest (non-controlling interest)	-	275	356	+6,7	380
Attributable to owners of the parent	-	1.548	2.084	+9,5	2.282

Figure 10: BFCM key earnings figures| Source: eValueRate / CRA

Income Ratios (%)	2016	2017	2018	%	2019
Cost Income Ratio (CIR)	-	61,37	59,96	-0,93	59,03
Cost Income Ratio ex. Trading (CIRex)	-	68,44	64,44	-0,97	63,47
Return on Assets (ROA)	-	0,37	0,46	+0,01	0,47
Return on Equity (ROE)	-	6,60	8,23	+0,08	8,30
Return on Assets before Taxes (ROAbT)	-	0,68	0,68	-0,02	0,66
Return on Equity before Taxes (ROEbT)	-	12,11	12,36	-0,55	11,81
Return on Risk-Weighted Assets (RORWA)	-	-	-	-	-
Return on Risk-Weighted Assets before Taxes (RORWAbT)	-	-	-	-	-
Net Interest Margin (NIM)	-	1,15	1,36	+0,01	1,37
Pre-Impairment Operating Profit / Assets	-	0,84	0,83	-0,00	0,83
Cost of Funds (COF)	-	2,41	1,76	-0,18	1,58

Change in % Points

Figure 11: Development of assets of BFCM | Source: eValueRate / CRA

Assets (€m)	2016	2017	2018	%	2019
Cash and Balances with Central Banks	-	55.941	55.518	+16,7	64.764
Net Loans to Banks	-	41.165	50.145	-0,2	50.034
Net Loans to Customers	-	224.682	234.619	+6,2	249.227
Total Securities	-	129.599	44.673	+9,3	48.845
Total Derivative Assets	-	6.698	7.157	+5,2	7.527
Other Financial Assets	-	9.778	16.924	-8,0	15.570
Financial Assets	**-**	**467.863**	**409.036**	**+6,6**	**435.967**
Equity Accounted Investments	-	2.231	782	-7,0	727
Other Investments	-	2.628	53	+5,7	56
Insurance Assets	-	419	108.740	+5,9	115.200
Non-current Assets & Discontinued Ops	-	119	-	-	726
Tangible and Intangible Assets	-	6.436	6.391	+8,6	6.939
Tax Assets	-	2.075	2.243	-2,7	2.183
Total Other Assets	-	11.814	7.867	+3,6	8.149
Total Assets	**-**	**493.585**	**535.112**	**+6,5**	**569.947**

Figure 12: Development of asset quality of BFCM | Source: eValueRate / CRA

Asset Ratios (%)	2016	2017	2018	%	2019
Net Loans/ Assets	-	45,52	43,84	-0,12	43,73
Risk-weighted Assets/ Assets	-	-	-	-	-
NPLs*/ Net Loans to Customers	-	4,20	3,80	+0,10	3,90
NPLs*/ Risk-weighted Assets	-	-	-	-	-
Potential Problem Loans**/ Net Loans to Customers	0,00	1,14	5,43	+0,59	6,02
Reserves/ NPLs*	-	61,37	72,06	-0,84	71,22
Reserves/ Net Loans	-	2,64	2,91	-0,03	2,89
Net Write-offs/ Net Loans	-	0,35	0,34	+0,06	0,40
Net Write-offs/ Risk-weighted Assets	-	-	-	-	-
Net Write-offs/ Total Assets	-	0,16	0,15	+0,02	0,18
Level 3 Assets/ Total Assets	-	1,16	1,20	-0,08	1,12

Change in %Points

* NPLs are represented from 2017 onwards by Stage 3 Loans.

** Potential Problem Loans are Stage 2 Loans where available.

Figure 13: Development of refinancing and capital adequacy of BFCM | Source: eValueRate / CRA

Liabilities (€m)	2016	2017	2018	%	2019
Total Deposits from Banks	-	27.335	33.740	-18,6	27.463
Total Deposits from Customers	-	181.997	191.435	+13,4	217.099
Total Debt	-	124.690	127.479	+16,8	148.930
Derivative Liabilities	-	6.322	5.534	-8,3	5.072
Securities Sold, not yet Purchased	-	-	-	-	-
Other Financial Liabilities	-	27.664	32.063	-55,8	14.159
Total Financial Liabilities	**-**	**368.008**	**390.251**	**+5,8**	**412.723**
Insurance Liabilities	-	84.490	102.868	+8,1	111.192
Non-current Liabilities & Discontinued Ops	-	14	-	-	725
Tax Liabilities	-	1.710	1.331	+32,6	1.765
Provisions	-	2.437	2.601	+3,8	2.700
Total Other Liabilities	-	9.322	8.406	+4,3	8.770
Total Liabilities	**-**	**465.981**	**505.457**	**+6,4**	**537.875**
Total Equity	**-**	**27.604**	**29.655**	**+8,2**	**32.072**
Total Liabilities and Equity	**-**	**493.585**	**535.112**	**+6,5**	**569.947**

Figure 14: Development of capital ratios of BFCM | Source: eValueRate / CRA

Capital Ratios (%)	2016	2017	2018	%	2019
Total Equity/ Total Assets	-	5,59	5,54	+0,09	5,63
Leverage Ratio	-	-	-	-	-
Phased-in: Common Equity Tier 1 Ratio (CET1)	-	-	-	-	-
Phased-in: Tier 1 Ratio (CET1 + AT1)	-	-	-	-	-
Phased-in: Total Capital Ratio (CET1 + AT1 + T2)	-	-	-	-	-
Fully Loaded: Common Equity Tier 1 Ratio (CET1)	-	-	-	-	-
Fully Loaded: Tier 1 Ratio (CET1 + AT1)	-	-	-	-	-
Fully Loaded: Total Capital Ratio (CET1 + AT1 + T2)	-	-	-	-	-
Change in %Points					

Figure 15: Development of liquidity of BFCM | Source: eValueRate / CRA

Liquidity (%)	2016	2017	2018	%	2019
Net Loans/ Deposits (LTD)	-	123,45	122,56	-7,76	114,80
Interbank Ratio	-	150,59	148,62	+33,57	182,19
Liquidity Coverage Ratio	-	-	-	-	-
Customer Deposits / Total Funding (excl. Derivates)	-	39,59	38,29	+2,45	40,75
Change in %Points					

Regulatory

Creditreform Rating AG was neither commissioned by the rating object nor by any other third party for the rating. The analysis took place on a voluntary basis by Creditreform Rating AG and is to be described in the regulatory sense as an unsolicited rating. The following scheme clarifies the level of participation of the rated entity (rating object):

Unsolicited Credit Rating	
With Rated Entity or Related Third Party Participation	No
With Access to Internal Documents	No
With Access to Management	No

The rating is based on publicly available information and internal evaluation methods for the rated bank. The quantitative analysis is based mainly on the latest annual accounts, interim reports, other investor relations information of the bank, and calculated key figures by eValueRate / CRA. Subject to a peer group analysis were 24 competing institutes.

The information and documents processed met the requirements of the rating system of Creditreform Rating AG as published on the website www.creditreform-rating.de. The rating was carried out on the basis of the rating methodology for bank ratings as (Version 2.0), the methodology for the rating of bank capital and unsecured debt instruments (Version 2.0) as well as the rating methodology for Environmental, Social and Governance Score for Banks (Version 1.0) in conjunction with Creditreform's basic document Rating Criteria and Definitions (Version 1.3).

The complete presentation of the rating methodologies used by Creditreform Rating AG and the basic document Rating Criteria and Definitions (Version 1.3) are published on our homepage:

https://www.creditreform-rating.de/en/about-us/regulatory-requirements.html

On 19 November 2020, the rating was presented by the analysts to the rating committee and adopted in a resolution.

The rating result was communicated to Crédit Mutuel Alliance Fédérale, and the preliminary rating report was made available to the bank. There was no change in the rating score.

The rating is valid until withdrawal and is subject to monitoring from the rating date (see cover page). The rating will be comprehensively reviewed at least once every year. Within this period, the rating can be updated.

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No conflicts of interest were identified during the rating process that might influence the analyses and judgements of the rating analysts involved or any other natural person whose services are placed at the disposal or under the control of Creditreform Rating AG and who are directly involved in credit rating activities or approving credit ratings and rating outlooks.

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The approval of credit ratings and rating outlooks follows our internal policies and procedures. In line with our policy "Rating Committee," all credit ratings and rating outlooks are approved by a rating committee based on the principle of unanimity.

To prepare this credit rating, CRA has used following substantially material sources:

1. Aggregated data base by eValueRate
2. Annual Report and interim reports
3. Investors relations information and other publications
4. Website of the rated bank
5. Public and internal market analyses
6. Internet research

There are no other attributes and limitations of the credit rating or rating outlook other than displayed on the CRA website. Furthermore CRA considers satisfactory the quality and extent of information available on the rated entity. In regard to the rated entity Creditreform Rating AG regarded available historical data as sufficient.

Between the disclosure of the credit rating to the rated entity and the public disclosure no amendments were made to the credit rating.

The "Basic data" information card indicates the principal methodology or version of methodology that was used in determining the rating, with a reference to its comprehensive description.

In case where the credit rating is based on more than one methodology or where reference only to the principal methodology might cause investors to overlook other important aspects of the credit rating, including any significant adjustments and deviations, Creditreform Rating AG explains this fact in the credit rating and indicates how the different methodologies or these other aspects are taken into account in the credit rating. This information is integrated in the credit rating report.

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The date at which the credit rating was released for distribution for the first time and when it was last updated including any rating outlooks is indicated clearly and prominently in the "Basic data" card as a "Rating action"; first release is indicated as "initial rating", other updates are indicated as an "update", "upgrade or downgrade", "not rated", "confirmed", "selective default" or "default".

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Creditreform Rating AG

Contact information

Creditreform Rating AG
Europadamm 2-6
D-41460 Neuss

Phone +49 (0) 2131 / 109-626
Fax +49 (0) 2131 / 109-627

E-Mail info@creditreform-rating.de
www.creditreform-rating.de

CEO: Dr. Michael Munsch

Chairman of the Board: Dr. Hartmut Bechtold
HR Neuss B 10522