Creditreform Bank Rating
Banque Fédérative du Crédit Mutuel SA (Group)

Creditreform Rating

Rating Object	Rating Information	
Banque Fédérative du Crédit Mutuel SA (Group)	Long Term Issuer Rating / Outlook: **A+ / stable**	Short Term: **L2**
	Stand Alone Rating: A	
Creditreform ID: 355801929 Management: Daniel Baal (CEO)	Type: Update / Unsolicited	
Rating Date: **12 November 2021** Monitoring until: withdrawal of the rating Rating Methodology: CRA "Bank Ratings v.3.0" 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" CRA "Institutional Protection Scheme Banks v1.0" Rating History: www.creditreform-rating.de	Rating of Bank Capital and Unsecured Debt Instruments: Preferred Senior Unsecured: Non-Preferred Senior Unsecured: Tier 2: Additional Tier 1:	 A+ A BBB BBB-

Contents

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Key Rating Driver

+ Groupe Crédit Mutuel one of the largest banking groups in France,
+ Excellent capitalization and above average profitability in comparison to peers
+ Solid asset quality, negative impact from shutdowns likely temporary; quick recovery amid COVID-19 crisis
+ Consolidation of federations in Groupe Crédit Mutuel under the umbrella of CMAF
+ Strategic plan tackling digitization, diversification and simplification of brand architecture

+/- Discord between Arkéa and the rest of Groupe Crédit Mutuel federations over possible separation

+/- Decentralized organization/separation into different federations, high group structure complexity

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

Executive Summary

BFCM's long-term issuer rating is raised to 'A+' and the outlook is confirmed at 'stable'. In the course of the COVID-19 crisis, earnings and risk provisions have developed sharply negative. At the same time, Creditreform Rating does not expect these effects to have a lasting negative impact on earnings power and asset quality; the half-year figures already indicate a rapid recovery. The sharp rise in loan defaults still expected in the previous year will likely not take place due to generous government support programs, according to Creditreform Rating. BFCM benefits from an additional notching of one rating grade due to the results of the Institutional Support Assessment.

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. Within this scope, Banque Fédérative du Crédit Mutuel (hereinafter: BFCM) is the central refinancing entity for CMAF and depository for its undertakings for collective investments. Additionally, it is the holding company for CMAF's subsidiaries and coordinates their activities. Major subsidiaries are CIC-Group (a universal bank), Targobank Germany and Spain (Retail), BECM (serving regional economies/cross-country business and real estate) and Cofidis Group (consumer finance).

The rating object is BFCM, but as the central institution of the alliance it is, in our view, an integral part of CMAF and thus inseparable from it. However, CMAF is not a legal entity, but merely an alliance of currently 13 federations, 12 regional banks and over 1400 local banks. Therefore, qualitative and certain quantitative characteristics of the consolidated report of CMAF are also processed in the rating and mentioned accordingly in the report, but no separate report/long-term issuer rating is prepared for CMAF. Previous ratings for CMAF have already been withdrawn and the remaining Long-Term Issuer Rating will also be withdrawn as part of this rating update in accordance to our new rating approach (see Institutional Support Assessment below).

Chart 1 illustrates the group organization of CMAF. On January 2020, Crédit Mutuel Antilles-Guyane and Crédit Mutuel Massif Central (formerly of *Arkéa*) joined CMAF, increasing the number of federations within the CMAF scope to 13. On January 2021, the third largest regional banking group of Crédit Mutuel, Crédit Mutuel Nord Europe (CMNE) announced its intention to join CMAF, which was ratified in a protocol of convergence in September 2021. CMNE will thus join CMAF on January 1, 2022. Only four federations, two under the umbrella of Arkéa (which itself seeks independence from the Crédit Mutuel Group as a whole), will thus remain separate from CMAF.

Chart 1: Group organization chart Crédit Mutuel Alliance Fédérale, per H1 2021 | Source: Website of BFCM/CMAF

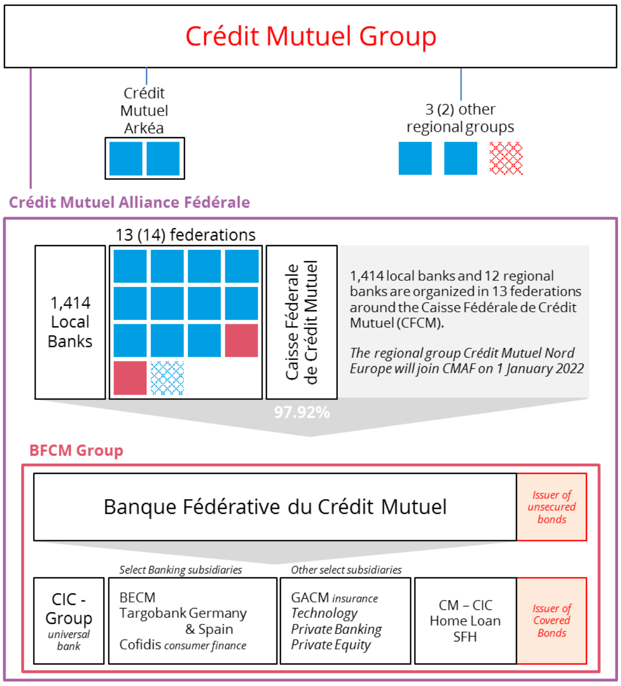
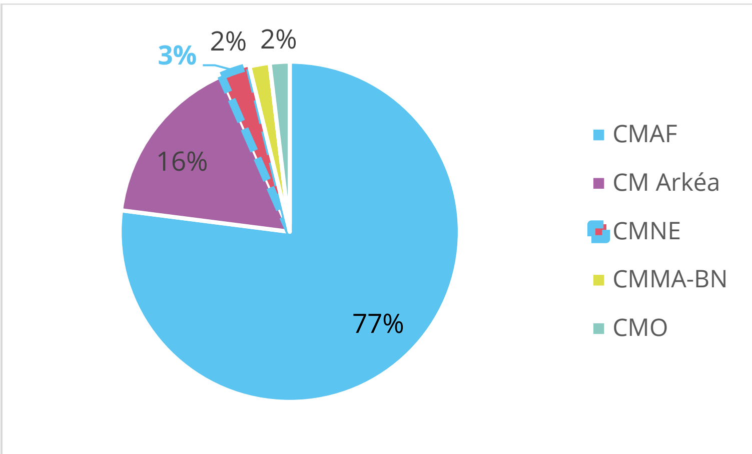


Chart 2 illustrates the difference in size of the regional groups and federations. CMAF is the single most important cooperative alliance within the Groupe Crédit Mutuel, representing more than two thirds of the Group's local banks and more than three fourths of the Group's total assets. With the incorporation of CMNE (blue highlight), it will combine about 80% of the total assets of Groupe Crédit Mutuel.

Chart 2: Share of the balance sheet of Groupe CM of the individual regional groups and federations | Source: eValueRate



BFCM is mainly active in France, with assets far in excess of EUR 500 billion or ca. 86% (mainly through CIC). Europe ex France accounts for a further 11%, where Germany

(Targobank) accounts for the main portion. Business includes the segments Retail, accounting for 41% of total assets, Logistics and holding company services (25%), Insurance (19%), Financing/Markets, Private banks and Private Equity to a lesser degree.

The 2019-2023 strategic plan was updated at the end of 2020 to face the changed business reality due to the Corona virus crisis, mainly with the aim to recover 2019 levels of profitability and capitalization, that is pre-Corona levels.

The Groupe Crédit Mutuel with its subsidiaries is grouped under the "umbrella body" of Confedédération Nationale du Crédit Mutuel (hereinafter: CNCM). CNCM is the network's central body according to the French Monetary and Financial Code (L.511-30). CNCM is responsible in particular for ensuring the solidity of its network and the proper operation of its affiliated banks. It must take all necessary measures to this end, particularly ensuring the liquidity and solvency of each of its affiliated banks and that of the network as a whole (as required under Article L.511-31 of the French Monetary and Financial Code). This system is based on a set of rules and mechanisms put in place at the regional and federative levels, each federation has to set up a solidarity mechanism between the local banks within their respective territorial jurisdiction. The mechanism seeks to enable local banks to avoid long-term deficits or to restructure a deteriorated situation. A federal fund is set up by contributions and subsidies. Contributions in case of net profits and subsidies in case of losses are meant to equalize earnings between local banks. Difficulties are meant to be resolved at a regional level first, but if a regional solidarity solution proves insufficient, a national solidarity mechanism shall be implemented. To this end, CNCM must take all necessary measures to ensure the liquidity and solvency of each institution in trouble, as well as the entire network. There is unlimited solidarity between CNCM affiliates.

In the Institutional Support Assessment, Creditreform Rating examines the extent to which an existing cross-guarantee system or IPS can have an influence on BFCM's rating. As a result, Creditreform Rating comes to the conclusion that in the case of BFCM's long-term issuer (LT issuer) rating, there is a strong connection to Groupe Crédit Mutuel's CNCM due to its mandated support required by law to ensure the liquidity and solvency of its affiliated banks and the network as a whole, which in turn enables additional notching. Crédit Mutuel's mutual support system is based on a set of rules and mechanisms put in place at the regional and federative levels. In the opinion of Creditreform Rating, a stand-alone rating of BFMC/CMAF is not appropriate due to its affiliation with Groupe Crédit Mutuel/CNCM. As the result of Institutional Support Assessment, BFCM's rating benefits from additional notching of one rating grade due to its relationship with CNCM.

Business Development

Profitability

In the 2020 financial year, operating income at BFCM level decreased significantly year-on-year to EUR 10.8 billion. The main earnings driver for BFCM in the 2020 financial year was again net interest income, which accounted for more than 50% of operating income. The strong increase in net interest income was the result of a decline in interest income and the much sharper decline in interest expense. This development cannot be attributed to any particular source; rather, income and expenses decreased in virtually all items.
Meanwhile, almost a quarter of operating income was generated by the commission business, which, however, recorded only minimal growth compared with the previous year. Here, too, both income and expenses were down on the previous year, but not as dramatically as in the interest business.
Net insurance business, on the other hand, fell significantly compared with the previous year, the decline being mainly attributable to lower premiums and investment income, while commissions declined sharper.
Trading and fair value business, which contributed more than EUR 800 million to earnings in the previous year, also experienced a slump, and in 2020 only contributed an insignificant EUR 62 million to earnings.
In the scope of CMAF consolidation, net banking income decreased by 2.3% year-on-year under the impact of the COVID-19 crisis. Only Private Banking recorded an increase, while Corporate and Retail Banking at least managed to keep income stable. Meanwhile, income from the insurance business declined sharply by -18%. Capital markets and private equity also recorded very sharp declines.

Savings were achieved in operating expenses in 2020. Personnel expense decreased slightly to EUR 3.3 billion (-1%), while headcount by FTE decreased by 1.2%. Other expenses decreased from EUR 3.2 billion to just under EUR 2.9 billion and thus accounted for the majority of the savings, with no attribution to a single cause.
Operating expenses also decreased slightly year-on-year in the scope of CMAF consolidation.

In the final result, operating profit decreased significantly to EUR 4.4 billion, compared with EUR 4.7 billion in the previous year. Operating profit decreased to €5.4 billion in the CMAF consolidation scope.

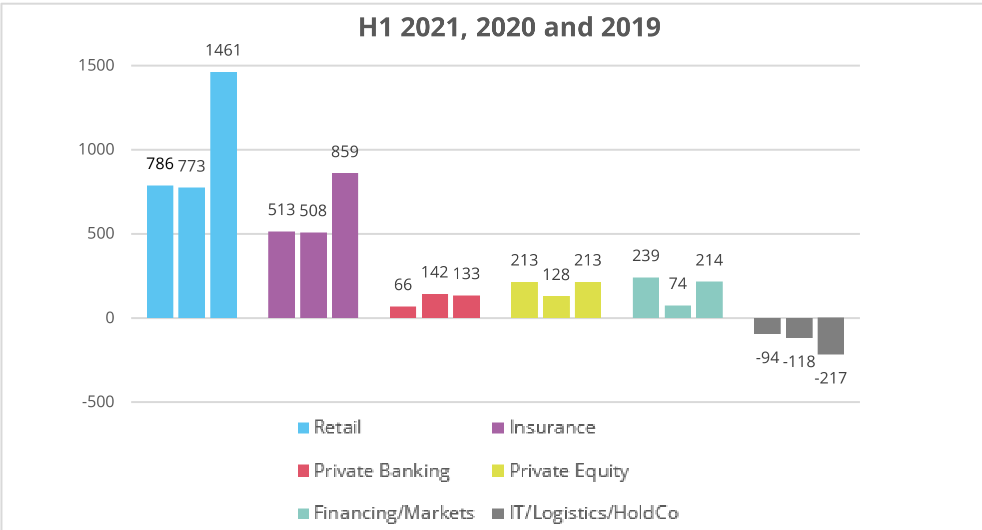
Due to COVID-19, the allowance for losses on loans and advances increased sharply to almost EUR 2.1 billion, compared with EUR 1 billion in the prior year. This was mainly due to risk provisions for Stages 1 and 2, which increased by more than €1 billion year-on-year. The allowance for losses on loans and advances actually in default (Stage 3) amounted to almost EUR 1 billion, a slight increase compared with EUR 0.9 billion in the previous year.

Cost of Risk in the CMAF consolidation scope was EUR 2.4 billion, after EUR 1.1 billion in the year prior.

In the end result, the net profit of BFCM reached EUR 1.5 billion, more than EUR 1.1 billion below the result of the previous year, the pre-tax result was even EUR 1.5 billion lower.
The net profit of CMAF was € 2.6 billion, approximately EUR 0.6 billion lower than in the year prior.

Chart 3 shows the development of net profit by business segment. All major segments showed significant decreases in 2020 with the sole exception of Private Banking, due to a healthy business environment and commercial activity. Corporate Center was able to reduce the net loss, in part due to the increase of gains on other assets and equity consolidated companies. The half-year figures for 2021 suggest that the earnings situation and thus net income will recover significantly. The recovery will be driven in particular by the reversal of risk provisions (especially in non-proven risk) and the recovery of the financial markets.

Chart 3: Net profit by business segment of BFCM in EUR million | Source: Registration Documents 2020 and H1 2021



A detailed group income statement for the years of 2017 through 2020 can be found in Figure 1 below:

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

Income Statement (EUR m)	2020	%	2019	2018	2017
Income					
Net Interest Income	5.522	+7,3	5.147	4.783	4.272
Net Fee & Commission Income	2.597	+0,3	2.588	2.598	2.521
Net Insurance Income	1.763	-16,1	2.102	2.026	1.993
Net Trading Income	62	-92,3	805	769	1.104
Equity Accounted Results	145	+95,9	74	130	-300
Dividends from Equity Instruments	8	-20,0	10	8	127
Other Income	740	-4,6	776	756	967
Operating Income	**10.837**	**-5,8**	**11.502**	**11.070**	**10.684**
Expense					
Depreciation and Amortisation	330	+17,9	280	193	229
Personnel Expense	3.300	-1,0	3.333	3.256	3.140
Tech & Communications Expense	-	-	-	-	-
Marketing and Promotion Expense	-	-	-	-	-
Other Provisions	-	-	-	-	-
Other Expense	2.879	-9,4	3.177	3.189	3.187
Operating Expense	**6.509**	**-4,1**	**6.790**	**6.638**	**6.556**
Operating Profit & Impairment					
Pre-impairment Operating Profit	**4.328**	**-8,1**	**4.712**	**4.432**	**4.128**
Asset Writedowns	2.094	> +100	999	805	783
Net Income					
Non-Recurring Income	12	-87,5	96	47	12
Non-Recurring Expense	17	-22,7	22	10	14
Pre-tax Profit	**2.229**	**-41,1**	**3.787**	**3.664**	**3.343**
Income Tax Expense	721	-35,9	1.124	1.224	1.541
Discontinued Operations	-	-	-	-	22
Net Profit	**1.508**	**-43,4**	**2.663**	**2.440**	**1.824**
Attributable to minority interest (non-controlling interest)	224	-41,1	380	356	275
Attributable to owners of the parent	1.284	-43,7	2.282	2.084	1.548

Profitability suffered in 2021 due to the crisis, which was directly reflected in the key figures based on net profit. At the same time, the cost-income ratio increased only moderately to just over 60%, compared with 59% in the previous year. Despite the high costs of risk and the uncertainties associated with the COVID-19 crisis, earnings power is below average, especially compared with previous years, but still significantly better than other major banks. Despite the high costs of risk and the uncertainties associated with the COVID-19 crisis, profitability is nevertheless better than that of most peer banks of similar size.

With the expected recovery in net income in 2021 as a whole, the majority of the earnings ratios should also recover, 2020 thus likely proving to be a one-off. Due to the sharp increase in operating income, the cost-income ratio should also improve because the cost base has been kept in check.

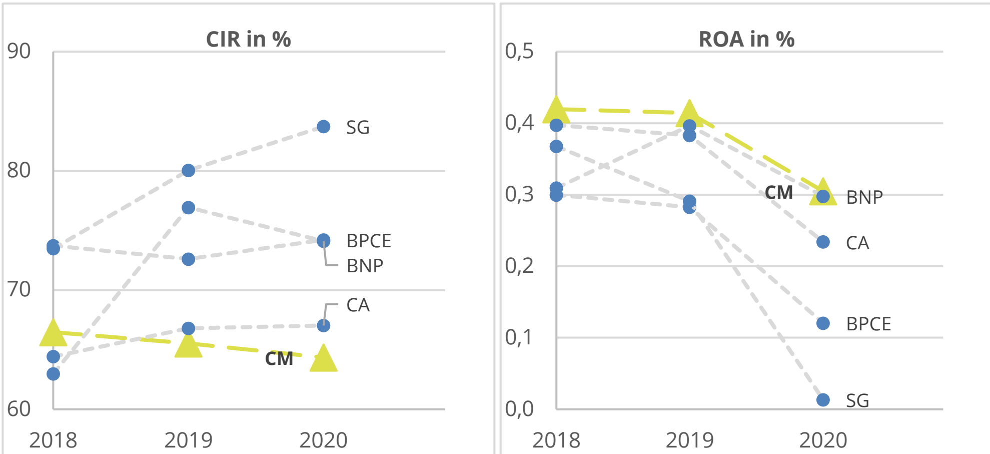
A detailed overview of the income ratios for the years of 2017 through 2020 can be found in Figure 2 below:

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

Income Ratios (%)	2020	%	2019	2018	2017
Cost Income Ratio (CIR)	60,06	+1,03	59,03	59,96	61,36
Cost Income Ratio ex. Trading (CIRex)	60,41	-3,07	63,48	64,44	68,43
Return on Assets (ROA)	0,24	-0,23	0,47	0,46	0,37
Return on Equity (ROE)	4,63	-3,67	8,30	8,23	6,61
Return on Assets before Taxes (ROAbT)	0,36	-0,31	0,66	0,68	0,68
Return on Equity before Taxes (ROEbT)	6,84	-4,97	11,81	12,36	12,11
Net Interest Margin (NIM)	1,13	-0,23	1,37	1,36	1,15
Pre-Impairment Operating Profit / Assets	0,69	-0,14	0,83	0,83	0,84
Cost of Funds (COF)	1,03	-0,55	1,58	1,76	2,41
Change in %Points					

Chart 4 compares representative key earnings figures for Groupe Crédit Mutuel with those of a peer group of French competitors. Since less than one fourth of the assets of Groupe Crédit Mutuel are not under the control of CMAF/BFCM, Creditreform Rating believes that the ratios are representative for CMAF/BFCM and serve to compare the banking groups with each other. For both the cost-income ratio and the return on assets, it is evident that Credit Mutuel is both cost-efficient and profitable by comparison; within the scope of both ratios, Crédit Mutuel beats its competitors. At the same time, the drop in earnings caused by the COVID-19 crisis is comparatively small and the cost-income ratio has been consistently reduced on the wider group level over the period under review.

Chart 4: CIR & ROA of Groupe Crédit Mutuel in comparison to the peer group | Source: eValueRate / CRA



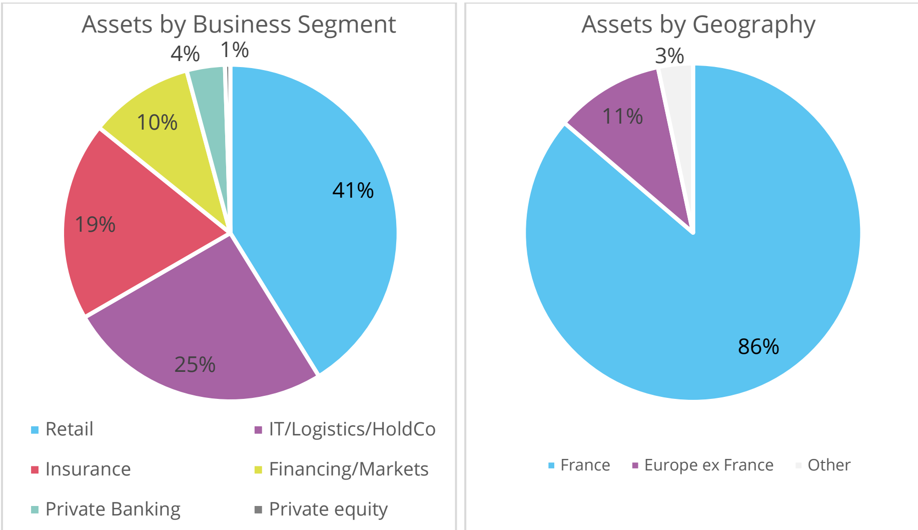
Asset Situation and Asset Quality

Compared with the previous year, total assets increased significantly. Most of the increase is attributable to liquid assets (€ +34 billion, mostly central banks) and loans to customers (€ +21 billion, mostly home loans and state-guaranteed loans). More than three quarters of customer loans are granted by the subsidiary CIC Group, Targobank Germany contributes a further 7%, followed by BECM with around 6%.

As of the first half of 2021, the asset situation is developing favorably, with home loans and consumer loans recording robust growth compared with the first half of 2020, supporting the recovery. Total assets at the end of June 2021 amounted to just under EUR 659 billion, an increase of more than EUR 32 billion or around 5% compared with 2020.

As of 2020, the largest business segments by assets are Retail and Holding (41% and 25% respectively), followed by Insurance and Financing/Markets divisions. Geographically, 86% of the business (by assets) is conducted in France and 11% in Europe (mostly Germany and Spain via Targobank). In terms of segments, BFCM is thus very diversified, but geographically limited to France for the most part.

Chart 5: Assets by Business Segment and Geography of BFCM | Source: Registration Document 2020



A detailed look at the development of the asset side of the balance sheet for the years of 2017 through 2020 can be taken in Figure 3 below:

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

Assets (EUR m)	2020	%	2019	2018	2017
Cash and Balances with Central Banks	99.110	+53,0	64.764	55.518	55.941
Net Loans to Banks	52.628	+5,2	50.034	50.145	41.165
Net Loans to Customers	269.870	+8,3	249.230	234.619	224.682
Total Securities	52.437	+6,8	49.108	44.673	128.110
Total Derivative Assets	7.314	-2,8	7.527	7.157	6.698
Other Financial Assets	12.127	-20,8	15.304	16.924	9.778
Financial Assets	**493.486**	**+13,2**	**435.967**	**409.036**	**466.374**
Equity Accounted Investments	903	+24,2	727	782	3.720
Other Investments	50	-10,7	56	53	2.628
Insurance Assets	116.567	+1,2	115.200	108.740	419
Non-current Assets & Discontinued Ops	-	-	726	-	119
Tangible and Intangible Assets	7.068	+1,9	6.939	6.391	6.436
Tax Assets	2.296	+5,2	2.183	2.243	2.075
Total Other Assets	6.874	-15,6	8.149	7.867	11.814
Total Assets	**627.244**	**+10,1**	**569.947**	**535.112**	**493.585**

BFCM's asset quality has not noticeably deteriorated despite the COVID-19 crisis. The

NPL ratio (measured by stage 3 exposures) even decreased compared to the previous year. The potential problem loan ratio (measured by stage 2 exposures) almost doubled by five percentage points compared with the previous year, but was fully in line with the industry trend. There continued to be no increase in actual defaults; the deterioration in credit quality is mostly due to updated macro scenarios. The cost of risk in terms of the loan portfolio also is not out of the ordinary even though it almost doubled compared to the previous year. On BFCM Group level, the bank publishes no RWA data. At CMAF consolidation level, RWA increased nominally by EUR 8 billion, but due to the growth of the balance sheet, the RWA ratio declined from 31.4% to 29.4%.

Asset quality has recovered a bit as of H1 2021. The NPL ratio fell further to just under 3.6%, and the potential problem loan ratio was recently well below 10% again at 9.1%. This development also reflects the general industry trend. Risk-weighted Assets stood at EUR 238.9 billion or 28.6% of total assets (CMAF consolidation scope), in part due to the large increase in cash reserves.

A detailed overview of the asset quality for the years of 2017 through 2020 can be found in Figure 4 below:

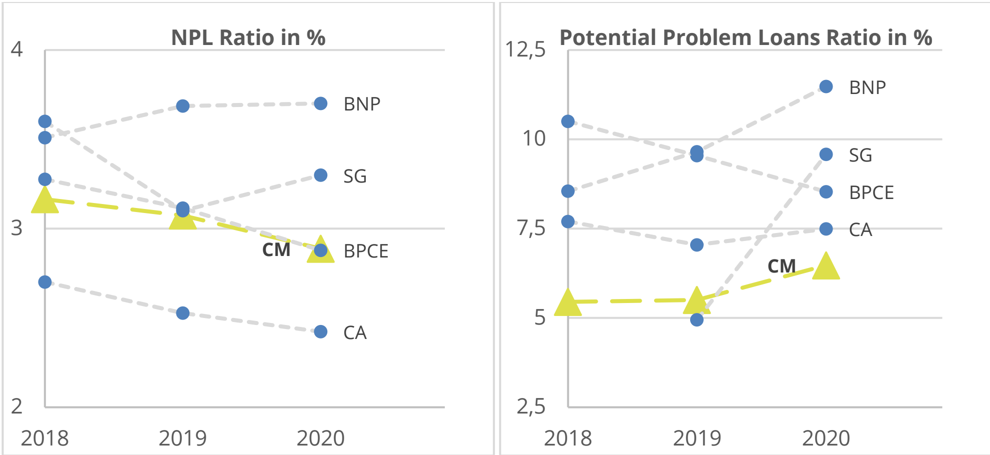
Figure 4: Development of asset quality of BFCM | Source: eValueRate / CRA

Asset Ratios (%)	2020	%	2019	2018	2017
Net Loans/ Assets	43,02	-0,70	43,73	43,84	45,52
Risk-weighted Assets/ Assets	-	-	-	-	-
NPLs*/ Net Loans to Customers	3,75	-0,18	3,93	3,78	4,16
NPLs*/ Risk-weighted Assets	-	-	-	-	-
Potential Problem Loans**/ Net Loans to Customers	10,86	+5,02	5,83	8,49	9,08
Reserves/ NPLs*	77,67	+6,45	71,22	72,06	61,38
Reserves/ Net Loans	3,01	+0,12	2,89	2,91	2,64
Net Write-offs/ Net Loans	0,78	+0,38	0,40	0,34	0,35
Net Write-offs/ Risk-weighted Assets	-	-	-	-	-
Net Write-offs/ Total Assets	0,33	+0,16	0,18	0,15	0,16
Change in %Points					

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

Chart 6 compares representative asset quality ratios for Groupe Crédit Mutuel with those of a peer group of French competitors. Groupe CM is in the upper midfield of the peer group in terms of the NPL ratio (stage 3) and at the top in terms of the disclosure of potential problem loans (PPL, stage 2). While the NPL ratios are within a range of approximately one percentage point, the reporting of potential problem loans is much more volatile with a range of well over 5% in some cases. It is noteworthy that the increase in potential problem loans on the part of Crédit Mutuel in 2020 is comparatively low, while it even falls for other banking groups. This development is contrary to the generally observed industry trend.

Chart 6: NPL and PPL ratios of Groupe Crédit Mutuel in comparison to the peer group | Source: eValueRate / CRA



Refinancing, Capital Quality and Liquidity

Growth on the asset side was refinanced by customer and bank deposits. Customer deposits increased by almost a quarter to just under €269 billion, corresponding to an increase of almost €52 billion. 79% of deposits are generated by the CIC Group, while Targobank Deutschland and BECM each account for 8% and 7% of deposits respectively. In addition, BFCM benefited from the ECB's TLTRO in fiscal year 2020. As of year-end 2020, BFCM participated in the TLTRO III program with €17.1 billion.

The growth of assets (+EUR 31 billion) was mainly refinanced by bank deposits. As of mid-year 2021, BFCM has participated with an additional EUR 25 billion as part of the TLTRO III program by the ECB. While the overall outstanding of debt decreased compared to year-end 2020, non-preferred senior securities increased by EUR 2.4 billion.

A detailed overview of the development of liabilities for the years of 2017 through 2020 can be found in Figure 5 below:

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

Liabilities (EUR m)	2020	%	2019	2018	2017
Total Deposits from Banks	25.451	-7,3	27.463	33.740	27.335
Total Deposits from Customers	268.713	+23,8	217.099	191.435	181.997
Total Debt	135.118	+1,0	133.845	127.479	127.842
Derivative Liabilities	4.816	-5,0	5.071	5.534	3.074
Securities Sold, not yet Purchased	-	-	-	-	-
Other Financial Liabilities	32.878	+12,4	29.244	32.063	27.761
Total Financial Liabilities	**466.976**	**+13,1**	**412.722**	**390.251**	**368.009**
Insurance Liabilities	112.568	+1,2	111.192	102.868	84.490
Non-current Liabilities & Discontinued Ops	-	-	725	-	14
Tax Liabilities	1.581	-10,4	1.765	1.331	1.710
Provisions	2.968	+10,0	2.699	2.601	2.437
Total Other Liabilities	10.576	+20,6	8.772	8.406	9.321
Total Liabilities	**594.669**	**+10,6**	**537.875**	**505.457**	**465.981**
Total Equity	**32.575**	**+1,6**	**32.072**	**29.655**	**27.604**
Total Liabilities and Equity	**627.244**	**+10,1**	**569.947**	**535.112**	**493.585**

Regulatory capital ratios are only reported on CMAF Group level, but due to being the integral part of BFCM in CMAF, the ratios of CMAF serve as a proper proxy. The capitalization remains very high and regulatory capital ratios have increased steadily over the observed period. Similarly, the Leverage Ratio was very high at 7%, far in excess of the required 3%. Due to the sharp increase in balance sheet size, the equity ratio declined slightly over the previous year, while increasing in nominal terms. The Liquidity Coverage Ratio (LCR) was very high at 170%.

A detailed overview of the development of capital and liquidity ratios for CMAF as a whole for the years of 2017 through 2020 can be found in Figure 6 below:

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

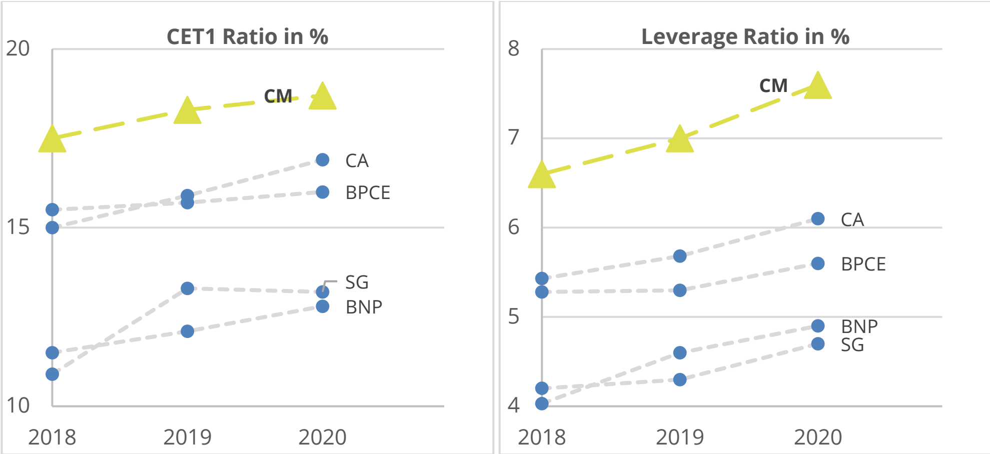
Capital Ratios and Liquidity (%)	2020	%	2019	2018	2017
Total Equity/ Total Assets	6,23	-0,33	6,56	6,53	6,62
Leverage Ratio	7,00	+0,50	6,50	6,40	6,10
Common Equity Tier 1 Ratio (CET1)*	17,80	+0,50	17,30	16,57	16,50
Tier 1 Ratio (CET1 + AT1)*	17,80	+0,50	17,30	16,61	16,50
Total Capital Ratio (CET1 + AT1 + T2)*	20,80	+0,40	20,40	19,74	19,90
SREP Capital Requirements	7,80	-0,90	8,70	7,90	11,94
Net Loans/ Deposits (LTD)	102,36	-11,54	113,90	121,87	120,39
Interbank Ratio	259,89	+96,07	163,82	81,82	113,44
Liquidity Coverage Ratio	170,20	+16,50	153,70	125,80	130,90
Customer Deposits / Total Funding (excl. Derivates)	55,13	+4,58	50,55	49,22	50,07
Change in %Points					

* Fully-loaded where available

Due to BFCM's bank capital and debt structure, the Group's Preferred Senior Unsecured Debt instruments have not been notched down in comparison to the long-term issuer rating. Due to the seniority structure, BFCM's Non-Preferred Senior Unsecured debt has been notched down by one notch. BFCM's Tier 2 capital rating is rated four notches below the long-term issuer rating based on the bank's capital structure and seniority in accordance with our rating methodology. Additional Tier 1 capital is rated five notches below the long-term issuer rating, reflecting a high bail-in risk in the event of resolution.

Chart 7 compares representative capital quality ratios for Groupe Crédit Mutuel with those of a peer group of French peers. The direct comparison with the competitors shows the already attested excellent capitalization. Groupe Crédit Mutuel beats the peer group in both the CET1 and leverage ratios. In general, the capital situation of all banks improved in the period under review.

Chart 7: CET1 and Leverage ratios of Groupe Crédit Mutuel in comparison to the peer group | Source: eValueRate / CRA



Environmental, Social and Governance (ESG) Score Card

CMAF/BFCM have 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, solid earnings and asset quality, beating French peers.

• Corporate Behaviour and Green Financing / Promoting are identified as moderate rating drivers. Green Financing / Promoting is rated neutral and Corporate Behaviour is rated positive. Green Bond issues are still low in total volume in the former case, but is commendable in terms of corporate behavior 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 2021	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	(+)

Factor	Sub-Factor	Consideration	Relevance Scale 2021	Eval.
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	(+)

Factor	Sub-Factor	Consideration	Relevance Scale 2021	Eval.
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

Creditreform Rating raises the long-term issuer rating from 'A' to 'A+'. The outlook is confirmed at 'stable'. Although net profit slumped in 2020, it already recovered strongly in the first half of 2021. In addition, the entire Group continues to be very profitable compared with its peer group. At the same time, asset quality remained at a solid level. There have been no clustered defaults to date, and an even more pronounced downturn in the economy has been prevented by generous government aid. The expected sharp rise in defaults is therefore unlikely to take place, according to the analysts; instead, Creditreform Rating expects a period of increased default rates. Capital adequacy remains very good, with Groupe Crédit Mutuel (and with it BFCM/CMAF) having the best capitalization of all the major French banking groups.

Overall, Crédit Mutuel Alliance Fédérale can look back on a satisfactory year, despite the adversity caused by the COVID-19 crisis. Loan loss provisions were the main driver of the decline in earnings, but at the same time business recovered noticeably in the first half of 2021. Profitability remained comparatively high during the crisis, and CMAF/BFCM should return to the very good results of previous years in the short term. Asset quality remained solid during the crisis, the sharp increase in potential problem loans was already partially offset by the end of the first half of 2021, and the negative scenarios did not materialize. Capitalization, which was already excellent in previous years, improved further, also due to lower RWA as a result of high liquidity in the portfolio. Overall, the half-year results point to a significant recovery of business across the board, so that a negative shock seems unlikely in the short term.

Outlook

The outlook of the Long-Term Issuer Rating of BFCM is confirmed at 'stable'. In the medium term, CRA expects no further deterioration in asset quality and return to the profitability of previous years, considering the good development in the first half of 2021. In addition, the transformation of the business model and savings that were made during the COVID-19 crisis should enhance profitability further. Creditreform Rating expects a gradual improvement in economic activity in France and Europe as a whole.

Scenario Analysis

Best-case scenario: AA-

Worst-case scenario: A-

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 'AA-' rating in the best case scenario and an 'A-' rating in the worst case scenario. The ratings of bank capital and senior unsecured debt would behave similarly, based on our rating mechanism. These ratings are especially sensitive to changes in total equity and to the bank capital and debt structure in general.

We might upgrade BFCM's long-term issuer credit rating and its bank capital and debt instruments if we see that BFCM is able to regain its profitability quickly and maintain or improve its asset and capital quality. Furthermore, an orderly exit of Arkéa from

GCM as well as further internal consolidation under the umbrella of CMAF would likely have a net positive impact on the rating.

By contrast, a downgrade of the Group's long-term issuer credit rating and its bank capital and debt instruments is likely if we see a lasting decline of BFCM's profitability and / or a reduction of the bank's capital ratios. In particular, we will observe the on-going Corona pandemic impact on BFCM's asset quality and its business activities 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): **BBB-**

Rating History

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

Figure 7: 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
Rating Update	12.11.2021	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	A / A- / BBB- / BB+
PSU / NPS / T2 / AT1	24.03.2020	A / A- / BBB- / BB+ (NEW)
PSU / NPS / T2 / AT1	19.11.2020	A / A- / BBB- / BB+
PSU / NPS / T2 / AT1	12.11.2021	A+ / A / BBB / BBB-

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.

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 (v3.0), the methodology for the rating of bank capital and unsecured debt instruments (v2.0), the methodology for the rating of Institutional Protection Scheme Banks (v1.0) as well as the rating methodology for Environmental, Social and Governance Score for Banks (v1.0) in conjunction with Creditreform's basic document Rating Criteria and Definitions (v1.3).

The complete presentation of the rating methodologies used by Creditreform Rating AG and the basic document Rating Criteria and Definitions (v1.3) are published on our homepage:

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

On 12 November 2021, the rating was presented by the analysts to the rating committee and adopted in a resolution.

The rating result was communicated to Banque Fédérative du Crédit Mutuel SA (Group), 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.

In 2011 Creditreform Rating AG was registered within the European Union according to EU Regulation 1060/2009 (CRA-Regulation). Based on the registration Creditreform Rating AG (CRA) is allowed to issue credit ratings within the EU and is bound to comply with the provisions of the CRA-Regulation.

Rating Endorsement Status: The rating of Banque Fédérative du Crédit Mutuel SA (Group) was not endorsed by Creditreform Rating AG from a third country as defined in Article 4 (3) of the CRA-Regulation.

Conflict of Interests

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.

In case of providing ancillary services to the rated entity, CRA will disclose all ancillary services in the credit rating report.

Rules on the Presentation of Credit Ratings and Rating Outlooks

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.

The meaning of each rating category, the definition of default or recovery and any appropriate risk warning, including a sensitivity analysis of the relevant key rating assumptions, such as mathematical or correlation assumptions, accompanied by worst-case scenario credit ratings as well as best-case scenario credit ratings are explained in mentioned methodologies and / or in the credit rating report.

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".

In the case of a rating outlook, the time horizon is provided during which a change in the credit rating is expected. This information is available within „Basic data" information card.

In accordance to Article 11 (2) EU-Regulation (EC) No 1060/2009 registered or certified credit rating agency shall make available in a central repository established by ESMA information on its historical performance data, including the ratings transition frequency, and information about credit ratings issued in the past and on their changes. Requested data are available at the ESMA website: https://cerep.esma.europa.eu/cerep-web/statistics/defaults.xhtml.

An explanatory statement of the meaning of Creditreform's default rates are available in the credit rating methodologies disclosed on the website.

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