

## ISSUER COMMENT

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## Credit Mutuel Alliance Federale

Societal dividend will weigh on capital, but build reputational benefits

On 5 January, [Credit Mutuel Alliance Federale](#) (CMAF), which issues debt through subsidiary [Banque Federative du Credit Mutuel](#) (Aa3/Aa3 stable, a3<sup>1</sup>), said it would pay a so called “societal dividend” equivalent to 15% of its annual net income (€500 million based on 2021 results) to environmental and social projects. The dividend will partially erode CMAF’s capital, a credit negative.

Under the plan, CMAF will invest 50% of the dividend in a nonprofit fund that finances a range of projects. Because CMAF will treat the fund as a consolidated investment, contributions will not deplete the bank’s capital (i.e. the numerator of the capital ratio), unlike regular dividend payments yet will result in higher risk-weighted assets (i.e. corresponding to the projects). CMAF will direct 35% of the dividend to initiatives aiming to make banking and insurance more socially inclusive, and the remaining 15% will be paid out as grants to French charitable foundations, both of which will weigh directly on CMAF’s capital.

CMAF’s decision to pay a societal dividend partly reflects its capital strength. The bank’s Common Equity Tier 1 (CET1) capital ratio as of end-June 2022 was 18.2%, well above the 2023 regulatory requirement of 7.8%. It was underpinned by the structural retention of more than 90% of its profits. A 2021 societal dividend of €500 million, which corresponds to 15% of 2021 net profit, would have accounted for less than 1% of CMAF’s equity at 30 June 2022.

Dividend allocations to environmental and social projects could make CMAF eligible for tax deductions that would mitigate the adverse effect on capital. The bank may also bring some of its existing social and environmental commitments under the scope of the dividend, limiting the additional cost.

CMAF’s supervisor, the European Central Bank, is likely to prefer a societal dividend commitment expressed as a percentage of net income rather than a predetermined amount, similar to a bank’s commitment on its financial payout ratio.

We also believe that the societal dividend, which dovetails with CMAF’s status as a mutual, will enhance CMAF’s reputation at a time when consumers and investors increasingly expect financial institutions to play a role in resolving environmental, social and governance (ESG) issues.

CMAF is already a regular issuer of ESG bonds, whose proceeds fund environmental and social projects. In 2020, the bank committed to reducing its corporate credit and investment portfolio’s carbon footprint by 15% by this year. It also became the first bank to adopt the

French status of an "Entreprise à mission" (benefit corporation), which commits it to meet specific sustainability goals. The societal dividend will form part of CMAF's 2024-27 strategic plan, which it will announce in full at the end of this year.

## Endnotes

<sup>1</sup> The ratings shown are Banque Federative's du Credit Mutuel's deposit rating, senior unsecured debt rating and Baseline Credit Assessment.

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