



Press release

21 March 2024

**Transmission embargo until
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ECB sanctions Crédit Mutuel for breaching ECB requirements on internal models

- Crédit Mutuel did not apply floors set by ECB for calculating credit risk using internal models
- ECB imposes penalty of €3.54 million

The European Central Bank (ECB) has imposed two administrative penalties totalling €3.54 million (€3,540,000) on Confédération Nationale du Crédit Mutuel after the bank breached requirements set out in two ECB decisions on internal models.

Between May 2021 and April 2022, when using its internal models to determine its risk-weighted assets, the bank did not apply floors set by the ECB for calculating credit risk for certain exposures. This constitutes serious negligence as said floors were clearly stipulated in the relevant ECB decisions and the bank omitted to take obvious actions to avoid the breaches. It also prevented the ECB from having a comprehensive view of the bank's risk profile.

The ECB had set these floors to compensate for the underestimation of risk-weighted assets resulting from deficiencies in the bank's internal models that it needed to fix.

However, in April 2022, the ECB granted Crédit Mutuel permission to revert to a less sophisticated approach (the foundation internal ratings-based approach) for calculating credit risk for these exact exposures. As a result, at present the bank no longer uses those internal models for the exposures and is therefore no longer required to implement these floors.

With the ECB's permission, banks may use their own [internal models](#) to calculate their risk-weighted assets, which reflect the risks banks have on their books and serve as the basis for calculating minimum regulatory requirements. Banks are then subject to internal model investigations and to ongoing model monitoring by ECB Banking Supervision. This is how supervisors check whether banks continue to meet the requirements for using internal models.

European Central Bank

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Underestimating risk-weighted assets means the bank reported a higher Common Equity Tier 1 ratio than it should have done. This ratio is a key indicator of a bank's capital strength and its ability to absorb losses.

When deciding on the amount of a penalty to sanction a bank, the ECB applies its [Guide to the method of setting administrative pecuniary penalties](#). Out of the severity categories "minor", "moderately severe", "severe", "very severe" and "extremely severe", the ECB classified one of the breaches as moderately severe and the other as minor. More details on sanctions imposed by the ECB are available on the [ECB's supervisory sanctions web page](#).

The bank may challenge the ECB's decision before the Court of Justice of the European Union.

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Notes

- The ECB's power to impose sanctions stems from Article 18(7) of Council Regulation (EU) No 1024/2013 of 15 October 2013 conferring specific tasks on the European Central Bank concerning policies relating to the prudential supervision of credit institutions.
- The Decision imposing a sanction may be challenged before the Court of Justice of the European Union under the conditions and within the time limits provided for in Article 263 of the Treaty on the Functioning of the European Union.
- In the foundation internal ratings-based approach, banks use their own internal models to estimate their clients' probability of default, while other risk parameters are provided by EU banking rules.

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