

Research Update:

Credit Mutuel Group Long-Term Rating Lowered To 'A' On France's Rising Banking Industry Risks; Outlook Stable

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Overview

- We think France's banking sector is facing increased industry risks, including pressure on revenues from the slowing economy and recent reforms that have constrained the environment for banks.
- We are lowering our long-term ratings on Caisse Centrale du Crédit Mutuel (CCCM) and core entities of the Crédit Mutuel group (Crédit Mutuel) to 'A' from 'A+', and affirming our 'A-1' short-term ratings.
- The stable outlook incorporates our view that Crédit Mutuel will continue to deliver resilient performances, and reflects our expectation that it will further adapt its funding and liquidity profile in the increasingly complex operating environment.

Rating Action

On June 20, 2013, Standard & Poor's Ratings Services lowered to 'A' from 'A+' its long-term counterparty credit rating on Caisse Centrale du Crédit Mutuel (CCCM), the central financing bank of Crédit Mutuel, and the group's core entities: Banque Federative du Crédit Mutuel (BFCM), Crédit Industriel et Commercial (CIC), Caisse Fédérale du Crédit Mutuel Nord Europe, Crédit Mutuel Arkea, Caisse Fédérale du Crédit Mutuel Antilles-Guyane, Caisse Fédérale du Crédit Mutuel de Maine-Anjou Basse Normandie, and Caisse Fédérale du Crédit Mutuel Océan.

At the same time, we affirmed the 'A-1' short-term counterparty credit ratings on CCCM and Crédit Mutuel's core entities. The outlook is stable.

We also lowered to 'A-/A-2' from 'A/A-1' the long- and short-term ratings on Crédit Foncier et Communal d'Alsace et de Lorraine-Banque (CFCAL-Banque), which we view as a strategic subsidiary of Crédit Mutuel's core regional group Crédit Mutuel Arkéa. This is because our group methodology does not allow a subsidiary of strategic importance to be rated at the same level as its parent, and because CFCAL-Banque already stood one notch below Crédit Mutuel Arkéa. The outlook on CFCAL-Banque is stable.

We lowered by one notch our long-term issue ratings on all debt issued by the above-mentioned entities. We lowered our short-term issue ratings on CFCAL-Banque's debt.

Rationale

We base our ratings on CCCM and the core entities of Crédit Mutuel on our analysis of the group.

The downgrade reflects our opinion that French banks are facing a difficult domestic operating environment. Low economic growth prospects, historically low interest rates, and increased government interference, through the "Livret A" savings plan and high level of consumer protection, will challenge banks' profitability. As a result, we lowered the anchor for banks operating primarily in France, which includes Crédit Mutuel, to 'bbb+' from 'a-'. Consequently, as regards Crédit Mutuel, we lowered the stand-alone credit profile (SACP) to 'a-' and our long-term rating to 'A'. We lowered our ratings on the subordinated debt by one notch, in tandem with the SACP.

The current ratings incorporate our view that Crédit Mutuel strongly improved its structural funding and liquidity position since 2011, and that it will persevere in closing the gap with international peers. We also expect the group's consolidated profits to be resilient, despite persistently low interest rates and the still-high cost of domestic deposits, which we believe will continue to weigh on interest margins.

Our ratings factor in our expectation that our risk-adjusted capital ratio (RAC) before diversification for Crédit Mutuel, will increase to about 8% by year-end 2014, from 7.2% at year-end 2012--calculated using our historic Banking Industry Country Risk Assessment scores at that date.

The ratings continue to benefit from a one-notch uplift over the SACP, reflecting Crédit Mutuel's "high" systemic importance in France and our assessment of the French government as "supportive" toward its banking sector.

The group comprises 18 regional cooperative bank federations and CIC, which the Crédit Mutuel Centre Est Europe federation acquired in 1998. These two entities and ten other federations make up the CM11-CIC banking group. Given its position as the largest and strongest of the federations, we view CM11-CIC as the driving force of Crédit Mutuel's creditworthiness and a core member of the group. BFCM is the funding arm of CM11-CIC.

Outlook

Our stable outlook reflects our view that the group will continue to deliver resilient performances, despite our general concerns about the economic situation in Europe. It also factors in our expectation that Crédit Mutuel will manage to preserve its capitalization, and to further adapt its funding and liquidity profile in the increasingly complex operating environment.

We could revise the SACP downward if we saw a decline in the group's

profitability, or if its funding and liquidity profile did not improve in line with our expectations. In line with our methodology for rating banks, a downward revision of the SACP by one notch would be cushioned by extraordinary government support, if all other factors remained the same, but it could affect negatively the ratings if combined with any downgrade of France.

We might consider an upgrade if Crédit Mutuel's risk position improved materially, notably through higher diversification, or if the group's capital strengthened very significantly. We consider such scenarios as remote, however.

Related Criteria And Research

- Various Rating Actions Taken On French Banks Due To Rising Industry Risks, June 20, 2013
- Group Rating Methodology, May 7, 2013
- Banks: Rating Methodology And Assumptions, Nov. 9, 2011
- Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9, 2011
- Bank Hybrid Capital Methodology And Assumptions, Nov. 1, 2011
- Bank Capital Methodology And Assumptions, Dec. 6, 2010
- Use Of CreditWatch And Outlooks, Sept. 14, 2009

Ratings List

Downgraded; Ratings Affirmed

	To	From
Banque Federative du Credit Mutuel		
Credit Industriel et Commercial		
Caisse Centrale du Credit Mutuel		
Caisse Federale du Credit Mutuel Antilles-Guyane		
Caisse Federale du Credit Mutuel de Maine-Anjou Basse Normandie		
Caisse Federale du Credit Mutuel Nord Europe		
Caisse Federale du Credit Mutuel Ocean		
Credit Mutuel Arkea		

Counterparty Credit Rating	A/Stable/A-1	A+/Negative/A-1
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Downgraded

	To	From
Credit Foncier et Communal d'Alsace et de Lorraine-Banque		
Counterparty Credit Rating	A-/Stable/A-2	A/Negative/A-1

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Complete ratings information is available to subscribers of RatingsDirect at www.globalcreditportal.com and at spcapitaliq.com. All ratings affected by this rating action can be found on Standard & Poor's public Web site at www.standardandpoors.com. Use the Ratings search box located in the left column. Alternatively, call one of the following Standard & Poor's numbers: Client Support Europe (44) 20-7176-7176; London Press Office (44) 20-7176-3605; Paris (33) 1-4420-6708; Frankfurt (49) 69-33-999-225; Stockholm (46) 8-440-5914; or Moscow 7 (495) 783-4009.

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