

Research Update:

Credit Mutuel Outlook Revised To Negative On France's Rising Economic Risks; 'A+/A-1' Ratings Affirmed

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Overview

- The economic risks under which French banks, including Crédit Mutuel, operate have increased in our view, leaving them moderately more exposed to the potential lengthier recession in the eurozone.
- We have revised our outlook on French banking group Crédit Mutuel (rated entity Caisse Centrale du Crédit Mutuel) to negative from stable, and affirming our 'A+/A-1' long- and short-term ratings.
- The negative outlook reflects our view that France's banking industry risks could increase in the near term as competition in the domestic market intensifies and market conditions remain volatile.

Rating Action

As previously announced on Oct. 25, 2012, Standard & Poor's Ratings Services revised to negative from stable its outlook on Caisse Centrale du Credit Mutuel (CCCM), the central financing bank of the Crédit Mutuel group (GCM), and its core entities. At the same time, we affirmed our 'A+/A-1' long- and short-term counterparty credit ratings on CCCM.

Rationale

The outlook revision reflects our view that the economic risks under which French banks operate have increased, leaving them moderately more exposed to the potential of a more protracted recession in the eurozone (European Economic and Monetary Union). France's rising economic risks led us to revise our Banking Industry Country Risk Assessment (BICRA) economic risk score on the country to '3' from '2' (see "Various Rating Actions Taken On French Banks Due To Rising Economic Risks," published Oct. 25, 2012). The revision also reflects our view that industry risks for France's banking sector could rise in the near term as competition in the domestic market could intensify and market conditions remain volatile.

We base our ratings on CCCM and the core entities of GCM on the analysis of the group. We assess CCCM's stand-alone credit profile (SACP) at 'a', reflecting the group's "strong" business position, "adequate" capital and earnings, "adequate" risk position, "average" funding, and "adequate" liquidity, as our criteria define these terms.

Our bank criteria use our BICRA economic risk and industry risk scores to determine a bank's anchor, the starting point in assigning an issuer credit rating. Our anchor for a commercial bank operating only in France is 'a-', based on an economic risk score of '3' and an industry risk score of '2' on a scale of 1-10 (1 is the lowest risk and 10 is the highest). Because of its overwhelming exposure to France, GCM's weighted economic risk score is rounded to '3', from '2' before the revision of France's economic risk score. Our industry risk assessment for GCM remains at '2', based solely on its home market of France. Consequently, the group's anchor is 'a-'.

Our ratings on CCCM reflect the group's strong domestic franchise in retail banking and insurance. They also factor in our expectation that our risk-adjusted capital ratio (RAC) for the group, before diversification, will increase to above 7.5% by mid-2014, from 7.3% at year-end 2011. Our projection takes into account the negative impact on the ratio from changes to our BICRA scores since Dec. 31, 2011. We expect the group's consolidated profits to be resilient, despite persistently low interest rates and higher cost of domestic deposits, affected by rates on regulated saving products, which we believe will likely further weigh on interest margins. Our ratings also incorporate our view that GCM significantly improved its structural funding and liquidity position since 2011.

GCM comprises 18 regional cooperative bank federations and Crédit Industriel et Commercial, 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 (formerly the CM10-CIC; see "Caisse Federale de Credit Mutuel d'Anjou Ratings Discontinued On Activity Transfer To Caisse Federale de Credit Mutuel," published March 6, 2012). Given its position as the largest and strongest of the federations, we view CM11-CIC as the driving force of GCM's creditworthiness and a core member of the group. Banque Federative du Credit Mutuel (BFCM, A+/Negative/A-1) is the funding arm of CM11-CIC.

The long-term counterparty credit rating on CCCM is one notch higher than the SACP, reflecting GCM's "high" systemic importance in France and our assessment of the French government as "supportive" toward its banking sector.

Outlook

The negative outlook on CCCM reflects our view that there is a one-in-three possibility that France's banking industry risks could increase, which could lead us to lower the bank's anchor to 'bbb+' from 'a-'. In line with our methodology for rating banks, the downward revision of the anchor would translate into a lowering of the SACP and of the long-term counterparty credit rating on the bank by one notch.

We note that, under our criteria, if all other factors remained the same, we would not automatically downgrade CCCM if we were to lower the ratings on France. We would, however, reassess our opinion of the French banking system to include the underlying reasons for the downgrade and their potential impact

on the bank's SACP.

We might revise the outlook to stable if we considered that France's banking industry risks were easing, provided that we believed there would be no serious deterioration in the French and eurozone economic and operating environments in the foreseeable future.

Ratings Score Snapshot

Issuer Credit Rating	A+/Negative/a-1
SACP	a
Anchor	a-
Business Position	Strong (+1)
Capital and Earnings	Adequate (0)
Risk Position	Adequate (0)
Funding and Liquidity	Average and Adequate (0)
Support	1
GRE Support	0
Group Support	0
Sovereign Support	1
Additional Factors	0

Related Criteria And Research

- Various Rating Actions Taken On French Banks Due To Rising Economic Risks, Oct. 25, 2012
- Banks: Rating Methodology And Assumptions, Nov. 9, 2011
- Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9, 2011
- Group Rating 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

Ratings Affirmed; Outlook Action

To From

Banque Federative du Credit Mutuel
Credit Industriel et Commercial

Caisse Centrale du Credit Mutuel
Caisse Federale du Credit Mutuel Nord Europe
Credit Mutuel Arkea
Caisse Federale du Credit Mutuel Antilles-Guyane
Caisse Federale du Credit Mutuel de Maine-Anjou Basse Normandie
Caisse Federale du Credit Mutuel Ocean
Counterparty Credit Rating A+/Negative/A-1 A+/Stable/A-1

NB. This list does not include all ratings affected.

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Complete ratings information is available to subscribers of RatingsDirect on the Global Credit Portal at www.globalcreditportal.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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