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Summary:

Banque Federative du Credit Mutuel

Primary Credit Analyst:

Francois Moneger, Paris (33) 1-4420-6688; francois_moneger@standardandpoors.com

Secondary Credit Analyst:

Bernard de Longevialle, Paris (33) 1-4420-7334; bernard_delongevialle@standardandpoors.com

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Banque Federative du Credit Mutuel

Credit Rating: AA-/Stable/A-1+

Rationale

The ratings on Banque Fédérative du Crédit Mutuel (BFCM) are based on its core position as the funding arm of the French regional retail banking group Crédit Mutuel Centre Est Europe - Crédit Industriel et Commercial (CMCEE-CIC). In Standard & Poor's Ratings Services' view, BFCM's credit risk mirrors that of its parent group, CMCEE-CIC, given the bank's total operational integration.

CMCEE-CIC is the largest and strongest of the regional federations of cooperative banks that form Groupe Crédit Mutuel, whose national clearing entity is Caisse Centrale du Crédit Mutuel (CCCM; AA-/Stable/A-1+). CMCEE-CIC held 68% and 65% of group loans and deposits, respectively, at year-end 2006. We view CMCEE-CIC as the driving force behind Groupe Crédit Mutuel's creditworthiness. Groupe Crédit Mutuel is the second-largest retail banking network in France, and the most successful bancassurer.

The creditworthiness of CMCEE-CIC is underpinned by its strong franchise in domestic retail banking, with a leading position in non-life bancassurance, and a satisfactory financial profile. CMCEE-CIC benefits from a large base of 7.7 million clients, served through the third-largest domestic combined branch network. The group has strong market shares in its northeastern home region, and a national presence through Crédit Industriel et Commercial (CIC; AA-/Stable/A-1+). CMCEE-CIC has been a pioneer in developing non-life bancassurance in France, where it is the largest player, with premiums collected of €1.6 billion in 2006.

The group's earnings are diversified through retail banking, insurance, development capital, financing, and market activities. The limited size of its market activities should reduce volatility in the coming years. Modest subprime exposure that impacted revenues and strong domestic retail margin pressure should translate into an overall decline in revenues in 2007. This, combined with still relatively dynamic cost increases related to the organic growth strategy, should result in a moderate deterioration of operating efficiency in 2007. We expect financial performance to continue to be constrained until 2009, while remaining satisfactory overall. Given strong domestic competitive pressure and the dynamic branch opening policy since 1999, we believe that further improvements in financial performance will be very slow to materialize. The announced reform of the "Livret Bleu" tax-exempt deposit account stands to have a limited impact on CMCEE-CIC's performance.

The group enjoys sound asset quality and has consistently posted low cost-of-risk figures for many years. Capitalization is strong, with the ratio of adjusted total equity to risk-weighted assets reaching 8.5% at year-end 2006. We expect the group to maintain sound capitalization. CMCEE-CIC's funding profile remains favorable--despite rising funding needs due to the strong growth in housing lending--and we believe the group is adequately managing this appetite, notably through covered bond issues.

Outlook

The current ratings and stable outlook reflect the maintenance of the group's low risk profile, satisfactory profitability, and sound capital position. The tighter coherence and efficiency at both the CMCEE-CIC and the Groupe Crédit Mutuel levels have brought steady benefits. We expect retail banking and insurance to remain strong and stable contributors to earnings in spite of margin pressure and limited revenue growth--albeit comparable with peers'--due to a strategy focused on the domestic retail market.

We will continue to monitor improvement in risk management, to be supported by the creation in 2007 of an integrated group risk department, and CIC's implementation of tighter and more comprehensive market risk management tools. Though unexpected, any risk issue in capital-market related activities could put pressure on the ratings. The current ratings do not factor in any significant acquisition.

Additional Contact:

Financial Institutions Ratings Europe; FIG_Europe@standardandpoors.com

Additional Contact:

Financial Institutions Ratings Europe; FIG_Europe@standardandpoors.com

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