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Research Update:

Crédit Mutuel Group's Banks Downgraded To 'A+/A-1'; Earnings, Capital Impact; Outlook Stable

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Rationale

On Oct. 21, 2008, Standard & Poor's Ratings Services lowered its long- and short-term counterparty credit ratings to 'A+/A-1' from 'AA-/A-1+' on France-based Banque Fédérative du Crédit Mutuel (BFCM) and related entities Caisse Centrale du Crédit Mutuel (CCCM) and Compagnie Financière du Crédit Mutuel (CFCM), which all belong to Groupe Crédit Mutuel. All of the outlooks are stable.

We removed the ratings from CreditWatch, where they had been placed with negative implications on July 11, 2008. The resolution comes with the near completion of BFCM's acquisition of 100% of Citigroup's stake in Citibank Deutschland, which operates mainly in the consumer credit business.

The downgrade reflects the significant negative effects of this transaction on the capitalization of Groupe Crédit Mutuel, our relatively pessimistic short-term perspective for consumer finance activities in Germany, and the material execution risk associated with the acquisition of a large consumer finance operation in a different country--a business where Crédit Mutuel has modest expertise. The rating action also takes into account the ongoing negative pressure on Crédit Mutuel's domestic banking earnings. Combined with the impact of the international financial crisis on the group's capital market activities, this is resulting in a steady deterioration of earnings metrics.

The Citibank Deutschland acquisition represents a clear departure from the group's previous domestic-oriented growth strategy. Although we recognize the medium-term strategic rationale of this large consumer finance acquisition, which will bring some business diversification and enhance Crédit Mutuel's expertise in the field of consumer finance, we view it as a negative factor in the short term for the ratings.

Crédit Mutuel's retail profitability is likely to erode further, given strong domestic competition and the economic slowdown. Bottom-line profits for 2008 should reach a low point as a consequence of the poor performance of market activities--including some relatively important write-downs. In 2009, we expect a partial recovery in earnings. A recovery in capital markets performance and the positive impact of the first-time integration of Citibank Deutschland are likely to more than offset a potential further moderate decline in domestic banking earnings.

The 'A+' rating reflects Crédit Mutuel's very strong domestic bank insurance franchise, relatively low-risk business mix, sound asset quality, still favorable risk-adjusted capitalization, and relatively resilient underlying performance.

Groupe Crédit Mutuel, whose national clearing entity is CCCM, comprises

several regional groups, including French regional retail banking groups Crédit Mutuel Centre Est Europe – Crédit Industriel et Commercial (CMCEE CIC) and Crédit Mutuel Groupe Arkéa. The ratings on BFCM are based on its core position as the funding arm of CMCEE-CIC. We view CMCEE-CIC as the driving force behind Groupe Crédit Mutuel's creditworthiness. CFCM's ratings are supported by its core position within Crédit Mutuel Groupe Arkéa--the second-largest of the regional federations that form the Crédit Mutuel group. Given CFCM's core membership in the Crédit Mutuel group, we equalize the bank's ratings with those on CCCM.

Outlook

The stable outlooks reflect our expectation for some deterioration in the group's risk profile, which should however remain comparatively better than the European average. We also expect the group to maintain a sound capital position, and moderate but resilient overall profitability in 2009.

The ratings could come under renewed downward pressure in case of unexpected major risk issues either in domestic banking, at Citibank Deutschland, or in capital market activities.

Conversely, a successful integration of Citibank Deutschland and a clear recovery in the performance of domestic banking could put upward pressure on the ratings.

Ratings List

Downgraded; CreditWatch Action

	To	From
Banque Federative du Credit Mutuel Credit Industriel et Commercial Compagnie Financiere du Credit Mutuel Caisse Federale du Credit Mutuel Nord Europe Caisse Centrale du Credit Mutuel Counterparty Credit Rating	A+/Stable/A-1	AA-/Watch Neg/A-1+
Banque Federative du Credit Mutuel Commercial paper	A-1	A-1+/Watch Neg

NB: This list does not include all ratings affected.

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