

France  
Credit Update

# Banque Federative du Credit Mutuel (BFCM)

## Ratings

<b>Foreign Currency</b>	
Long-Term IDR	AA-
Short-Term IDR	F1+
Individual Rating	n.a.
Support Rating	1
Support Rating Floor	A+
<b>Sovereign Risk</b>	
Foreign-Currency Long-Term IDR	AAA
Local-Currency Long-Term IDR	AAA

## Outlooks

Foreign-Currency Long-Term IDR	Stable
Sovereign Foreign-Currency Long-Term IDR	Stable
Sovereign Local-Currency Long-Term IDR	Stable

## Financial Data

	30 Jun 09	31 Dec 08
<b>Crédit Mutuel Centre Est Europe</b>		
Total assets (USDm)	605,695	613,122
Total assets (EURm)	428,535	440,559
Total equity (EURm)	20,007	17,509
Operating profit (EURm)	820	430
Published net income (EURm)	573	509
Comprehensive income (EURm)	970	-1,082
Operating ROAA (%)	0.38	0.10
Operating ROAE (%)	8.82	2.38
Eligible capital/weighted risks (%)	7.31	6.02
Tier 1 ratio (%)	10.44	8.78

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## Related Research

### Applicable Criteria

- *Global Financial Institutions Rating Criteria (December 2009)*
- *Rating Criteria for European Banking Structures Backed by Mutual Support Mechanisms (December 2009)*
- *Rating Hybrid Securities (December 2009)*

### Other Research

- *Credit Mutuel: Structure, Solidarity Mechanism and Rating Rationale (February 2010)*
- *Banque Federative du Credit Mutuel (BFCM): Insurance Activities (October 2009)*

## Rating Rationale

- The ratings assigned to Banque Fédérative du Crédit Mutuel (BFCM) reflect its integral role within Crédit Mutuel Centre Est Europe (CMCEE). BFCM is the issuing vehicle of CMCEE, the entity that manages the group's liquidity, and the banking subsidiary through which CMCEE controls its subsidiaries. As it performs no banking business of its own, a stand-alone analysis of BFCM is irrelevant. Fitch's analysis is based on CMCEE's consolidated figures and considers the group's significant franchise in French retail banking, sound earnings generation and solid capitalisation, but also some asset quality deterioration.
- Performance is supported by resilient retail and insurance operations and the decision to exit risky investment banking activities in 2005. It was affected in 2008 by impairment charges on Lehman Brothers exposure and temporary write-downs on securities. Profitability across divisions has been sound since early 2009, although loan impairment charges increased from a very low base. At 64%, the cost/income ratio is the lowest among the large French retail banks.
- Recent acquisitions have helped CMCEE address two of its three main weaknesses: insignificant geographical diversification and concentration on low-margin housing loans. Nevertheless, international and consumer loans remain moderate, at 11% and 12% of the loan book, respectively. Some dependence on wholesale funding, the group's third weakness, remains to be addressed, as the loan book was only 74% funded by customer resources at end-June 2009.
- Retail customers account for 87% of the loan book. Impaired loans rose to 4% of gross loans at end-June 2009 due to the consolidation of recently acquired consumer finance companies and the worsened economic environment. This ratio is offset by a satisfactory 69% coverage ratio and virtually no market risks.
- CMCEE has fully repaid the state aid received at the peak of the crisis in 2008 (EUR1bn). With a Fitch eligible capital ratio above 7% and a Tier 1 ratio of 10.44% at end-June 2009, CMCEE's capitalisation is solid given its risk profile.

## Support

- The Confédération Nationale de Crédit Mutuel (CNCM) is Crédit Mutuel's (CM) central body and is responsible for the liquidity and solvency of its affiliates. CMCEE would therefore look to CNCM in case of need. However, given CMCEE's size relative to CM, support from CNCM may prove insufficient. Any default by CMCEE would pose a systemic risk and therefore there is extremely high probability that support from the French state would be forthcoming if needed. The Support Rating assigned to BFCM reflects its integral role within CMCEE.

## Key Rating Drivers

- While downward rating pressure would likely come from significant asset quality deterioration or increased reliance on wholesale funding, these are unlikely in the short to medium term.

## Profile

CMCEE is the name given to the group of CM entities in north-eastern France, south-eastern France, the Paris region, the Savoy Mont-Blanc region and south-west France. Retail banking and insurance account for 75% of revenue. CMCEE's major subsidiaries (consolidated in BFCM) are Crédit Industriel et Commercial (CIC; 'AA-'),

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