

## RESEARCH

## Research Update:

**Crédit Mutuel Group's Banks Placed On Watch Neg; Bid For Citibank's German Retail Activities**

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**Primary Credit Analyst:** Francois Moneger, Paris (33) 1-4420-6688;  
[francois\\_moneger@standardandpoors.com](mailto:francois_moneger@standardandpoors.com)  
**Secondary Credit Analysts:** Bernard de Longevialle, Paris (33) 1-4420-7334;  
[bernard\\_delongevialle@standardandpoors.com](mailto:bernard_delongevialle@standardandpoors.com)  
 Cedric Moulucou, Paris (33) 1-4420-7302;  
[cedric\\_moulucou@standardandpoors.com](mailto:cedric_moulucou@standardandpoors.com)

**Rationale**

On July 11, 2008, Standard & Poor's Ratings Services placed on CreditWatch with negative implications its 'AA-/A-1+' long- and short-term counterparty credit ratings 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.

The CreditWatch placements follow an announcement by BFCM that it has signed an agreement with Citigroup Global Markets Finance Corporation & Co. for the acquisition of 100% of Citigroup's stake in Citibank Deutschland, which operates mainly in retail business. The acquisition of Citibank's German retail operations, which would be Crédit Mutuel's first significant acquisition outside France, would be a clear departure from the group's previously domestic-oriented growth strategy. It could also weigh significantly on the group's currently strong capitalization.

The rating action also reflects our concerns about the capacity of CMCEE-CIC--the largest and strongest of the regional federations of cooperative banks that form Groupe Crédit Mutuel (see section below)--to maintain profitability in line with our expectations for the 'AA-' rating, given strong domestic competitive pressure in a difficult environment.

The purchase offer concerns retail activities, with roughly 3.3 million customers and close to €11 billion in average gross loans in 2007, mainly in consumer finance, operated through 340 outlets mostly located in large urban zones. While we do not expect such a move to alter materially Crédit Mutuel's overall risk profile, at least in the short term, it is likely to have a significant impact on the group's core equity ratios. The transaction totals €4.9 billion, including a large portion of goodwill, with earnings accrued in 2008 until the closing date to be paid to Citigroup. The purchase is to be financed by BFCM predominantly through issuance of senior debt and hybrid capital up to the regulatory limit of 25% of total equity. After completion of the transaction, the CMCEE-CIC group aims to keep its Tier 1 ratio around 8% (versus 8.5% at year-end 2007).

We will resolve the CreditWatch status once the outcome of this deal is certain, which is expected to take place before the end of 2008 according to BFCM. In the coming months we will meet with BFCM's management. Among the key points we will assess are: the potential impact of such a transaction on the group's business and financial profiles; the future governance structure, risk management, integration plan, and strategic plan for the acquired entity, as well as Crédit Mutuel's future developments outside France. Also, we will carry out an additional review on future profitability prospects for CMCEE-CIC as well as for the overall Crédit Mutuel group.

Based on current available information, we expect any potential downgrade to be limited to one notch.

**Groupe Crédit Mutuel**

Groupe Crédit Mutuel, whose national clearing entity is CCCM, is the second-largest retail banking network in France, and one of the two most

successful bancassurer. It 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, the largest and strongest of the regional federations of cooperative banks that form Groupe Crédit Mutuel. 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 CCCM.

## Ratings List

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

N.B. This list does not include all ratings affected.

**Additional Contact:** Financial Institutions Ratings Europe;  
[FIG\\_Europe@standardandpoors.com](mailto:FIG_Europe@standardandpoors.com)

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