My Credit Profile
Banque Federative du Credit Mutuel, 'A+/Stable/A-1'

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Summary: Banque Federative du Credit Mutuel

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Rationale

The ratings on Banque Fédérative du Crédit Mutuel (BFCM) are based on Standard & Poor's Ratings Services' view of the BFCM's core position as the funding arm of the French regional retail banking group Crédit Mutuel Centre Est Europe – Crédit Industriel et Commercial (CM5-CIC). In our opinion, BFCM's credit risk mirrors that of CM5-CIC, given the bank's total operational integration within the parent group.

CM5-CIC is the largest banking group of regional federations of cooperative banks that form Groupe Crédit Mutuel, which is the third-largest retail banking network in France, and one of the two most successful bancassurers. The creditworthiness of CM5-CIC is underpinned by its strong franchise in domestic retail banking, along with a leading position in non-life bancassurance, and a satisfactory financial profile.

Standard & Poor's views the CM5-CIC group as having high systemic importance in France. We classify France as a supportive country under our methodology, reflecting our opinion that the government relies on prudential policies to maintain a sound banking sector. The ratings on BFCM reflect CM5-CIC's stand-alone credit profile and do not incorporate any explicit uplift for potential external extraordinary support.

CM5-CIC's focus on domestic retail banking and insurance has enabled it to weather the economic downturn better than peers, but acquisitions of consumer finance activities, carrying high credit risk, have in our opinion increased its risk profile.

Confronted with modest organic growth prospects in its core domestic business, CM5-CIC recently shifted its strategy, making two large consumer finance acquisitions given the bank's size. In late 2008, CM5-CIC acquired the activities of Citibank Deutschland, renamed Targobank in February 2010, and in March 2009 a controlling stake in Cofidis Participations, the parent company of Cofidis S.A. (Cofidis, A/Stable/A-1). We recognize the medium-term strategic rationale of these moves, which will provide CM5-CIC with business and geographic diversification. However, the anticipated benefits are outweighed in our opinion, at least in the short term, by our pessimistic outlook for consumer finance, and the operational risk associated with acquiring businesses in which CM5-CIC has little expertise.

In 2009, CM5-CIC's profitability rebounded to a more adequate level at this stage of the cycle; pretax profit stood at €2.1 billion, following a modest performance in 2008 due to strong domestic competition amid the economic slowdown and poor results in market activities. The Targobank and Cofidis acquisitions boosted retail revenues and enhanced the group's overall cost-to-income ratio, at below 60% in 2009.

In our view, loans outstanding should stabilize in 2010 as a result of a sharp decrease in new loan generation since 2008. CM5-CIC's cost of credit risk increased significantly in 2009 to a still-below-average level, at about 0.9% of average net customer loans, partly due to the recently acquired riskier consumer finance activities, representing close to 10% of gross loans. In 2010, we expect a moderate decrease in earnings, reflecting flat revenues pro forma, a low single-digit increase in expenses, and a further rise in cost of risk. Still, at the current point of the economic cycle, CM5-CIC's risk-adjusted performance remains satisfactory in our view; coverage of credit risk exceeded 2x in 2009.

Since 2005, CM5-CIC has focused on client-driven operations. The group's sensitivity to market volatility primarily stems from CIC's securitization portfolio, managed in run-off mode.

At year-end 2009 CM5-CIC's tier 1 ratio improved materially to 10.3%, versus 8.8% in 2008. We expect the group to maintain similar capitalization in 2010. Our risk-adjusted capital framework (RACF) indicated a satisfactory 7.2% ratio for CM5-CIC at year-end 2008.

Outlook

The stable outlook incorporates our expectation for some deterioration in CM5-CIC's risk profile. Still, we think it will likely remain stronger than the average for European peers. We also expect CM5-CIC to maintain a satisfactory capital position and some resilience in profitability. We believe in the short term that the operational risk and the high credit risk associated to integrating Cofidis and Targobank will counterbalance anticipated revenues and diversification benefits.

The ratings could come under downward pressure in the event of unexpected major risk issues either in domestic banking, consumer finance operations, or in capital market activities.

Conversely, a clear recovery in the performance of domestic banking would be a positive rating factor.

Related Research

Updated Assumptions: Risk-Adjusted Capital Framework For Financial

Institutions, March 17, 2010

Methodology And Assumptions: Risk-Adjusted Capital Framework For Financial Institutions, April 21, 2009

Principles Of Corporate And Government Ratings, June 26, 2007

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