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## Research Update:

# Credit Mutuel Group Outlook Revised To Negative On Potential Government Support Reduction; 'A/A-1' Ratings Affirmed

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## Research Update:

# Credit Mutuel Group Outlook Revised To Negative On Potential Government Support Reduction; 'A/A-1' Ratings Affirmed

## Overview

- We consider that potential extraordinary government support for European banks will likely decrease as resolution frameworks are put into place.
- We are revising our outlook on the long-term rating on Caisse Centrale du Crédit Mutuel (CCCM) and core entities of the Crédit Mutuel group (Crédit Mutuel) to negative from stable.
- We are affirming our 'A/A-1' counterparty credit ratings on the group.
- The negative outlook reflects the possibility that we may lower the long-term rating by one notch by year-end 2015 if we believe there is a greater likelihood that senior unsecured liabilities may incur losses if the bank fails.

## Rating Action

As previously announced on April 29, 2014, Standard & Poor's Ratings Services revised to negative from stable its outlook on France-based Caisse Centrale du Crédit Mutuel (CCCM), the central financing bank of the Crédit Mutuel group (Crédit Mutuel), and the group's core entities. At the same time, we affirmed the 'A/A-1' counterparty credit ratings on CCCM and the group's core entities: Banque Federative du Credit Mutuel, Credit Industriel et Commercial, Caisse Centrale du Credit Mutuel, Caisse Federale du Credit Mutuel Antilles-Guyane, Caisse Federale du Credit Mutuel de Maine-Anjou Basse Normandie, Caisse Federale du Credit Mutuel Nord Europe, Caisse Federale du Credit Mutuel Ocean, and Credit Mutuel Arkea.

## Rationale

The outlook revision follows the completion of our review of potential extraordinary government support for European banks (see "Standard & Poor's To Review Government Support In European Bank Ratings," published on March 4, 2014, on RatingsDirect). We observe that European authorities are taking steps to increase the resolvability of banks and require creditors rather than taxpayers to bear the burden of the costs of failure (see "Standard & Poor's Takes Various Rating Actions On European Banks Following Government Support Review," published on April 29, 2014). In the near term, we expect that governments will remain supportive of systemically important banks' senior unsecured creditors while resolution frameworks take shape. From January 2016, however, the EU Bank Recovery and Resolution Directive (BRRD) is set to introduce the mandatory bail-in of a minimum amount of eligible liabilities,

potentially including certain senior unsecured obligations, before governments could provide solvency support. Accordingly, we believe that the potential extraordinary government support available to Crédit Mutuel's senior unsecured bondholders will likely diminish within our two-year rating horizon.

Currently, we consider that Crédit Mutuel has "high" systemic importance to France, which we view as "supportive" of private-sector commercial banks. As a result, and in line with our criteria, the 'A' long-term counterparty credit rating on Credit Mutuel stands one notch above the 'a-' stand-alone credit profile (SACP). We could remove this notch shortly before the January 2016 introduction of the BRRD's bail-in powers for senior unsecured liabilities. These rules would indicate to us that EU governments would be much less able to support senior unsecured bank creditors, even though it may take several more years to eliminate concerns about financial stability and the resolvability of systemically important banks.

Specifically, if we perceive that support for senior unsecured creditors is less predictable under the new legislative framework, we would likely remove the government support notch from our ratings on Crédit Mutuel. This would most likely arise from a reclassification of France's support for private-sector commercial banks to "uncertain" under our criteria. Any decision to reclassify government support would be subject to our review of the final resolution legislation and technical standards, and other relevant information.

If, on the other hand, our view was that extraordinary government support may still be forthcoming to Crédit Mutuel's senior unsecured creditors, we could retain one notch of support in the ratings. This would be the case if authorities publicly confirmed their supportive stance toward senior unsecured creditors, or if we believed that precautionary capital injections would still be likely under the new legislation to minimize the wider economic impact of the resolution of a systemically important bank. In this case, we may consider that France remained "supportive" and that Crédit Mutuel had "high" or "moderate" systemic importance. We could revise our view of Crédit Mutuel's systemic importance to "moderate" from "high" if we considered that its resolution under the new framework would have a material, but manageable, adverse impact on the country's financial system and economy.

In addition to our view of potential extraordinary government support, future rating actions on Crédit Mutuel may also result from other relevant factors. These include changes in our view of the SACP, including positive or negative changes arising from the new legislation and regulation. They may also include measures to mitigate bail-in risks to senior unsecured creditors, such as building a large buffer of subordinated instruments (see "Credit FAQ: The Rating Impact Of Resolution Regimes For European Banks," published on April 29, 2014).

We base our ratings on CCCM and the core entities of Crédit Mutuel on our analysis of the group. The group comprises 18 regional cooperative bank federations and CIC, which the Crédit Mutuel Centre Est Europe federation

acquired in 1998. These two entities and 10 other federations make up the CM11-CIC banking group. Given its position as the largest and strongest of the federations, we view CM11-CIC as the driving force of Crédit Mutuel's creditworthiness and a core member of the group. BFCM is the funding arm of CM11-CIC.

## Outlook

The negative outlook indicates that we may lower the ratings on Crédit Mutuel by year-end 2015 if we believe there is a greater likelihood that senior unsecured liabilities may incur losses if the bank fails. Specifically, we may lower the long-term counterparty credit rating by one notch if we consider that extraordinary government support is less predictable under the new EU legislative framework.

In addition to potential changes in government support, we will review other relevant rating factors in making any rating actions. These include potential changes in the SACP and any steps Crédit Mutuel might take to mitigate bail-in risks to senior unsecured creditors, such as building a large buffer of subordinated instruments. The SACP is supported by the group's leading commercial position and robust franchise in its domestic market. It also factors in our assessment of its "adequate" capital position, commensurate with our RAC ratio above 7%. The SACP incorporates our view of the group's expansion in consumer finance and the lower diversity of its loan portfolio than peers'. It also reflects its strong domestic retail banking and insurance focus, and fairly low proportion of capital market activities. The group has strongly improved its structural funding and liquidity position since 2010, and we expect that it will persevere in closing the gap with international peers. We could revise the SACP downward if we saw a decline in the group's profitability, or if its funding and liquidity profile did not improve in line with our expectations.

We could revise the outlook back to stable if we consider that potential extraordinary government support for Crédit Mutuel's senior unsecured creditors is unchanged in practice, despite the introduction of bail-in powers and international efforts to increase banks' resolvability; or if we believe that other rating factors, such as a stronger SACP or a large buffer of subordinated instruments, fully offset increased bail-in risks.

## Ratings Score Snapshot

Issuer Credit Rating	A/Negative/A-1
SACP	a-
Anchor	bbb+
Business Position	Strong (+1)
Capital and Earnings	Adequate (0)
Risk Position	Adequate (0)

Funding and Liquidity	Average and Adequate (0)
Support	+1
GRE Support	0
Group Support	0
Sovereign Support	+1
Additional Factors	0

## Related Criteria And Research

### Related criteria

- Group Rating Methodology, Nov. 19, 2013
- Banks: Rating Methodology And Assumptions, Nov. 9, 2011
- Use Of CreditWatch And Outlooks, Sept. 14, 2009

### Related research

- Standard & Poor's Takes Various Rating Actions On European Banks  
Following Government Support Review, April 29, 2014
- Credit FAQ: The Rating Impact Of Resolution Regimes For European Banks,  
April 29, 2014
- Standard & Poor's To Review Government Support In European Bank Ratings,  
March 4, 2014

## Ratings List

Ratings Affirmed; CreditWatch/Outlook Action	To	From
Banque Federative du Credit Mutuel		
Credit Industriel et Commercial		
Caisse Centrale du Credit Mutuel		
Caisse Federale du Credit Mutuel Antilles-Guyane		
Caisse Federale du Credit Mutuel de Maine-Anjou Basse Normandie		
Caisse Federale du Credit Mutuel Nord Europe		
Caisse Federale du Credit Mutuel Ocean		
Credit Mutuel Arkea		
Counterparty Credit Rating	A/Negative/A-1	A/Stable/A-1

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