

**Rating Action: Moody's upgrades BFCM and CIC's long-term deposit and senior unsecured ratings to Aa2**

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Global Credit Research - 30 Jun 2015

**Rating action concludes methodology-related review**

London, 30 June 2015 -- Moody's Investors Service has today concluded its rating reviews on Banque Federative du Credit Mutuel (BFCM) and Credit Industriel et Commercial (CIC). These reviews were initiated on 17 March (see press release at [https://www.moody.com/research/--PR\\_321005](https://www.moody.com/research/--PR_321005)) following the publication of the agency's new bank rating methodology (see "Banks," published on 16 March 2015, available at [https://www.moody.com/researchdocumentcontentpage.aspx?docid=PBC\\_179038](https://www.moody.com/researchdocumentcontentpage.aspx?docid=PBC_179038)).

Moody's upgraded BFCM and CIC's long-term deposit ratings and long-term senior unsecured debt ratings to Aa2 from Aa3. Both banks' short-term deposit and senior unsecured ratings were affirmed at Prime-1. Moody's upgraded BFCM and CIC's Baseline Credit Assessments (BCAs) to baa1 from baa2, and their adjusted BCAs to a2 from a3. Moody's also upgraded BFCM and CIC's subordinated debt to A3 from Baa1 and BFCM's non-cumulative preferred stock to Baa2(hyb) from Baa3(hyb). The long-term deposit and senior unsecured debt ratings carry a negative outlook, reflecting a potential downgrade in the event of a downgrade of the government of France (Aa1 negative).

Concurrently, Moody's assigned long and short-term Counterparty Risk Assessments (CR Assessments) of Aa1(cr)/Prime-1(cr) to BFCM and CIC.

**RATINGS RATIONALE**

**--UPGRADE OF ADJUSTED BCA**

The material improvements in liquidity and funding at the main operating sub-groups of Groupe Credit Mutuel (unrated) over the past two years -- increasing customer deposits and lengthening the term structure of their wholesale funding -- prompted the upgrade of BFCM and CIC's adjusted BCAs to a2.

The upgrade also captures the incorporation in the adjusted BCA of (1) the relatively stable nature of Groupe Credit Mutuel's consolidated profits over the past six years, reflecting its resilient earnings and low-risk profile based on a domestic and robust bancassurance-focused franchise; and (2) its ability to retain the majority of these profits to consistently increase its capital base, as allowed by the cooperative structure. The adjusted BCA of a2 is also underpinned by Groupe Credit Mutuel's sound asset quality and the high solvency it has managed to preserve while achieving reasonable business growth.

BFCM and CIC are owned by 11 regional federations of the cooperative Groupe Credit Mutuel. These regional federations -- together with BFCM and CIC -- make up the 'CM11' group (unrated), the largest sub-group within the wider Groupe Credit Mutuel, accounting for around 80% of its consolidated total assets, loan book and deposits. As common law subsidiaries, BFCM and CIC do not directly fall within the cooperative solidarity mechanisms of Groupe Credit Mutuel group, implying that the group's central body (Confederation Nationale du Credit Mutuel) does not assume legal responsibility for the solvency and liquidity of both entities. However, these entities are core to the strategy and operations of CM11 group, and thus benefit from a very high probability of support from Groupe Credit Mutuel, in Moody's view.

**--UPGRADE OF BFCM AND CIC'S STANDALONE BCA**

Improvements in CM11 group's liquidity and solvency, which will directly benefit both banks that are strategically and operationally integrated in CM11, prompted the upgrade of BFCM and CIC's BCAs.

BFCM is the main issuing vehicle of CM11 group, and also consolidates CIC as well as other specialized businesses that provide products and services to CM11 group and CIC's network. BFCM's BCA reflects the strong retail franchise of its subsidiaries, which results in resilient and predictable earnings, as well as the sound liquidity and capital management centralized at CM11. It also incorporates the institution's somewhat higher-risk profile on a standalone basis compared to CM11 associated with the group's consumer lending activities, which

are booked at two of the institution's subsidiaries, Cofidis (unrated) and Targobank Germany (unrated).

CIC, owned by and consolidated within BFCM, has its own franchise in the domestic retail, SME and corporate markets. It also operates as the hub for the CM11 group's modest capital market activities. The BCA of baa1 reflects the bank's solid franchise and the sound liquidity management centralized at CM11. Although adequate, CIC's lower solvency compared to the rest of the group, as well as the higher single-name concentrations related to its corporate banking business and the marginal risk stemming from its capital market activities, constrain its BCA.

#### --UPGRADE OF BFCM AND CIC'S LONG-TERM RATINGS

Moody's upgrade of BFCM and CIC's long-term deposit and senior unsecured ratings to Aa2 results from (1) their respective adjusted BCAs of a2; (2) two notches of uplift under the Advanced Loss Given Failure (LGF) analysis stemming from Groupe Credit Mutuel's significant volume of senior debt and junior deposits; and (3) a one-notch uplift for government support reflecting a "moderate" probability of such support.

The negative outlook reflects the negative outlook on the Aa1 rating of the government of France and the fact that BFCM and CIC's deposit and senior unsecured ratings could be downgraded if the sovereign rating is downgraded.

#### ASSIGNMENT OF COUNTERPARTY RISK ASSESSMENTS

As part of today's rating action, Moody's has assigned CR Assessments to BFCM and CIC. CR Assessments are opinions of how counterparty obligations are likely to be treated if a bank fails, and are distinct from debt and deposit ratings in that they (1) consider only the risk of default rather than both the likelihood of default and the expected financial loss incurred in the event of default; and (2) apply to counterparty obligations and contractual commitments rather than debt or deposit instruments. The CR Assessment is an opinion of the counterparty risk related to a bank's covered bonds, contractual performance obligations (servicing), derivatives (e.g., swaps), letters of credit, guarantees and liquidity facilities.

Moody's CR Assessments for banks subject to a going-concern operational resolution regime, which includes BFCM and CIC, start with the banks' adjusted BCA and use an advanced LGF approach that takes into account the volume of liabilities subordinated to counterparty obligations in the bank's liability structure as well as any assumption of government support. As a result, the CR Assessment is one notch higher than the deposit rating for BFCM and CIC, at Aa1(cr)/Prime-1(cr).

#### WHAT COULD CHANGE THE RATINGS UP/DOWN

BFCM and CIC's adjusted BCAs are already at the higher end of banks' BCAs globally, making any further upgrade unlikely. However they could be upgraded if there are further material improvements in Groupe Credit Mutuel's solvency, asset quality, profitability and liquidity, although Moody's does not expect this in the medium term.

BFCM and CIC's deposit ratings could be upgraded if (1) their respective adjusted BCAs are upgraded; or (2) if Groupe Credit Mutuel's liability structure results in a lower loss-given-failure for deposits through a material increase in subordinated liabilities.

Their senior unsecured ratings could be upgraded if (1) their adjusted BCAs are upgraded; or (2) Groupe Credit Mutuel's liability structure results in lower loss-given-failure for senior unsecured debt through higher instrument volume or higher subordination.

The main factors that would exert negative pressure on BFCM and CIC's adjusted BCAs include (1) a material weakening of Groupe Credit Mutuel's underlying profitability, chiefly as a result of asset quality deterioration or a structural increase in the cost of funding; or (2) a weakening liquidity position or funding profile.

BFCM and CIC's deposit ratings could be downgraded as a result of (1) a deterioration of the standalone financial strength of Groupe Credit Mutuel, resulting in lower adjusted BCAs; or (2) Groupe Credit Mutuel's liability structure resulting in higher loss-given failure for deposits through a lower volume of deposits or reduced subordination; or (3) a downgrade of France's government bond rating.

BFCM and CIC's long-term senior debt ratings could be downgraded as a result of (1) a deterioration of the standalone financial strength of Groupe Credit Mutuel, resulting in lower adjusted BCAs; or (2) Groupe Credit Mutuel's liability structure resulting in higher loss-given-failure for senior unsecured debt through lower instrument

volume or reduced subordination; or (3) a downgrade of France's government bond rating.

#### PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Banks published in March 2015. Please see the Credit Policy page on [www.moodys.com](http://www.moodys.com) for a copy of this methodology.

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