

Fitch Affirms CM11-CIC at 'A+'; Outlook Stable

Fitch Ratings, London, 26 July 2013: Fitch Ratings has affirmed CM11-CIC's Long-term Issuer Default Rating (IDR) at 'A+', Short-term IDR at 'F1' and Viability Rating (VR) at 'a+'. The Outlook on the Long-term IDR is Stable. Fitch has also affirmed the Support Rating (SR) at '1' and Support Rating Floor (SRF) at 'A'. A full list of rating actions is at the end of this rating action commentary.

KEY RATING DRIVERS – LONG- AND SHORT-TERM IDRs, VR AND SENIOR DEBT
CM11-CIC's Long- and Short-term IDR, senior debt rating and VR are driven by its healthy domestic retail banking franchise, satisfactory earnings, overall low risk profile and solid capitalisation (11.8% Fitch core capital ratio at end-2012). These ratings also reflect the group's prudent strategy. In Fitch's view, the group's cooperative ownership structure removes it from excessive market return pressure and contributes to a prudent strategy, which defines CM11-CIC's culture.

CM11-CIC's VR also takes into account its improved funding mix with an increasing share of customer deposits. The bank has significantly improved its loans/customer deposits ratio over the past five years (126% at end-2012) while lengthening the maturity of its wholesale funding. CM11-CIC's liquid assets cover more than one year short-term market funding and maturing long-term debt over the next year.

RATING SENSITIVITIES – LONG- AND SHORT-TERM IDRs, VR AND SENIOR DEBT
Any material deterioration of CM11-CIC's capital position, which provides a strong buffer, could lead to negative rating pressure, although this is not expected. In addition, weakening of CM11-CIC's funding or liquidity position, which is contrary to the current trend, or any marked deterioration in the risk profile given the current weak economic environment, could lead to pressure on the VR. An upgrade of the ratings is not expected.

KEY RATING DRIVERS – SUPPORT RATING AND SUPPORT RATING FLOOR
The SR and SRF reflect Fitch's opinion that CM11-CIC is systemically important in France given its size, significant deposit market share and the fact that it is a core provider of credit and other key financial services to the French economy. Therefore, Fitch believes there is an extremely high probability that the French authorities would support it, if required. BFCM's SR and SRF reflect Fitch's view that potential support would be provided through Banque Federative du Credit Mutuel (BFCM), which manages CM11-CIC's funding and liquidity and is the group's main issuing vehicle.

RATING SENSITIVITIES –SUPPORT RATING AND SUPPORT RATING FLOOR
CM11-CIC's SR and SRF would be sensitive to a decrease in Fitch's view of France's ability (as measured by its rating) or willingness to support these banks. These ratings are also sensitive to a change in Fitch's assumptions around the availability of sovereign support for French financial institutions. There is a clear political intention to ultimately reduce the implicit state support for systemically important banks in Europe, as demonstrated by a series of policy and regulatory initiatives aimed at curbing systemic risk posed by the banking industry. This might result in Fitch revising SRFs down in the medium term, although the timing and degree of any change would depend on ongoing developments and ongoing policy discussions around support and 'bail in' for eurozone banks. Until now, senior creditors in major global banks have been supported in full, but resolution legislation is developing quickly and the implementation of creditor "bail-in" is starting to make it look more feasible for taxpayers and creditors to share the burden of supporting large banks.

SUSBIDIARY AND AFFILIATED COMPANY KEY RATING DRIVERS

Credit Industriel et Commercial (CIC) is CM11-CIC's largest subsidiary, representing around half of group assets. CIC's main business is domestic retail banking and it runs all of CM11-CIC's limited Corporate and Investment Banking activities. It is highly integrated with its parent in terms of management, balance sheet fungibility and systems, meaning subsidiary and parent credit profiles are highly correlated. Therefore, Fitch assigns common VRs, and hence IDRs, to CM11-CIC and CIC.

BFCM is the group's main issuing vehicle. It manages the group's liquidity and coordinates the group's subsidiaries. BFCM's IDRs (and senior debt) are aligned with those of CM11-CIC as BFCM is a core subsidiary. BFCM has not been assigned a VR as it operates like a department of CM11-CIC and cannot be analysed on a standalone basis in a meaningful way.

Banque Europeenne du Credit Mutuel (BECM) is a wholly-owned subsidiary of BFCM. Its debt ratings are aligned with those of BFCM based on an extremely high probability of support if required

SUSBIDIARY AND AFFILIATED COMPANY RATING SENSITIVITIES

BFCM's, CIC's and BECM's ratings are sensitive to any evolution in those of CM11-CIC.

KEY RATING DRIVERS – SUBORDINATED DEBT AND OTHER HYBRID SECURITIES

Subordinated debt and hybrid securities issued by BFCM are notched off CM11-CIC's VR in accordance with Fitch's criteria 'Rating Bank Regulatory Capital and Similar Securities'. Subordinated lower Tier 2 debt is rated one notch below CM11-CIC's VR to reflect below average loss severity of this type of debt when compared with average recoveries. The hybrid Tier 1 securities are rated four notches below CM11-CIC's VR to reflect higher loss severity risk of these securities when compared with average recoveries (two notches from the VR) as well as a higher risk of non-performance (an additional two notches). Therefore, their respective ratings have been affirmed.

RATING SENSITIVITIES – SUBORDINATED DEBT AND OTHER HYBRID SECURITIES

Subordinated debt and hybrid securities issued by BFCM are primarily sensitive to any change in CM11-CIC's VR.

The rating actions are as follows:

CM11-CIC

Long-term IDR: affirmed at 'A+'; Outlook Stable

Short-term IDR: affirmed at 'F1'

Viability Rating: affirmed at 'a+'

Support Rating: affirmed at '1'

Support Rating Floor: affirmed at 'A'

BFCM

Long-term IDR: affirmed at 'A+'; Outlook Stable

Short-term IDR: affirmed at 'F1'

Support Rating: affirmed at '1'

Support Rating Floor: affirmed at 'A'

Senior Unsecured debt: affirmed at 'A+'
Market linked notes: affirmed at 'A+(emr)
BMTN programme: affirmed at 'A+'
EMTN programme: affirmed Long-term at 'A+' and Short-term at 'F1'
Lower Tier 2: affirmed at 'A'
Hybrid Capital Instruments: affirmed at 'BBB'
Short-term debt: affirmed at 'F1'
Commercial paper: affirmed at 'F1'
Certificate of deposit: affirmed at 'F1'

CIC

Long-term IDR: affirmed at 'A+'; Outlook Stable
Short-term IDR: affirmed at 'F1'
Viability Rating: assigned at 'a+'
Support Rating: affirmed at '1'
Senior unsecured debt: affirmed at 'A+'
BMTN programme: affirmed at 'A+'
Certificates of deposit: affirmed at 'F1'

Banque Europeenne du Credit Mutuel
BMTN programme: affirmed at 'A+'

Contact:

Primary Analyst
Alain Brancheu
Senior Director
+33 1 4429 91 41
Fitch France S.A.S.
60, rue de Monceau
75008 Paris

Secondary Analyst
Solena Gloaguen
Director
+44 2035 30 1126

Committee Chairperson
Michael Dawson Kropf
Senior Director
+49 69 7680 76113

Additional information is available on www.fitchratings.com

Applicable criteria, 'Global Financial Institutions Rating Criteria', dated 15 August 2012;
'Rating Criteria for Banking Structures Backed by Mutual Support Mechanisms', dated 11
April 2012; 'Rating FI Subsidiaries and Holding Companies' dated 10 August 2012
'Assessing and Rating Bank Subordinated and Hybrid Securities', dated 5 December 2012;
'Evaluating Corporate Governance', dated 12 December 2012 are available at
www.fitchratings.com