MOODY'S
INVESTORS SERVICE

Credit Opinion: Banque Fédérative du Crédit Mutuel

Global Credit Research - 17 Feb 2012

Strasbourg, France

Ratings

Category	Moody's Rating
Outlook	Rating(s) Under Review
Bank Deposits	*Aa3/P-1
Bank Financial Strength	*C
Senior Unsecured	*Aa3
Subordinate -Dom Curr	**A1
Pref. Stock Non-cumulative -Dom Curr	*Baa3 (hyb)
Commercial Paper -Dom Curr	P-1
Other Short Term -Dom Curr	(P)P-1
Banque de l'Economie-du Commerce et Monetique	
Outlook	Rating(s) Under Review
Bkd Bank Deposits	*Aa3/P-1
Credit Industriel et Commercial	
Outlook	Rating(s) Under Review
Bank Deposits	*Aa3/P-1
Bank Financial Strength	*C-
Senior Unsecured -Dom Curr	*Aa3
Subordinate -Dom Curr	**A1
Other Short Term	(P)P-1
Credit Industriel de l'Ouest (CIO)	
Outlook	Rating(s) Under Review
Bank Deposits (ST) -Dom Curr	--/P-1
Senior Unsecured MTN -Dom Curr	*(P)Aa3

* Placed under review for possible downgrade on February 16, 2012
** Placed under review for possible downgrade on November 29, 2011

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Key Indicators

Banque Federative du Credit Mutuel (Consolidated Financials)[1]

	[2]**6-11**	[2]**12-10**	[2]**12-09**	[2]**12-08**	[3]**12-07**	**Avg.**
Total Assets (EUR million)	**390,629.0**	**375,264.0**	**420,516.0**	**424,281.0**	**395,910.0**	[4]**-0.3**
Total Assets (USD million)	**566,350.6**	**503,433.0**	**603,331.5**	**589,770.6**	**578,841.2**	[4]**-0.5**
Tangible Common Equity (EUR million)	**7,232.0**	**6,563.0**	**4,976.0**	**4,849.0**	**8,522.0**	[4]**-4.0**
Tangible Common Equity (USD million)	**10,485.3**	**8,804.6**	**7,139.3**	**6,740.3**	**12,459.6**	[4]**-4.2**
Net Interest Margin (%)	**1.2**	**1.2**	**1.1**	**0.4**	**0.0**	[5]**0.8**
(Market Funds - Liquid Assets) / Total Assets (%)	**6.1**	**4.5**	**7.6**	**5.4**	**0.6**	[5]**4.8**
Core Deposits / Average Gross Loans (%)	**71.3**	**71.6**	**67.5**	**64.0**	**61.9**	[5]**67.3**
Cost / Income Ratio (%)	**55.9**	**57.8**	**56.2**	**105.0**	**57.2**	[5]**66.4**
Problem Loans / Gross Loans (%)	**5.6**	**5.8**	**5.9**	**3.8**	**3.2**	[5]**4.8**
Problem Loans / (Equity + Loan Loss Reserves) (%)	**50.5**	**54.1**	**59.2**	**48.3**	**32.7**	[5]**49.0**

Source: Moody's

[1] All ratios are adjusted using Moody's standard adjustments [2] Basel II; IFRS [3] Basel I; IFRS [4] Compound Annual Growth Rate based on IFRS reporting periods [5] IFRS reporting periods have been used for average calculation

Opinion

RECENT CREDIT DEVELOPMENTS

On February 15, 2012, Moody's placed on review for downgrade Banque Fédérative du Crédit Mutuel (BFCM)'s C Bank Financial Strength Rating (BFSR) and its Aa3 long-term rating. During the review, we will consider a potential downgrade to the long-term ratings of up to two notches, i.e. to A2.

This review is part of a wider action, placing a number of European banks on review for downgrade, reflecting the multiple challenges we consider these banks face, notably (1) a weakening macroeconomic environment; (2) costly and constrained market funding; and (3) pressure on profits.

These challenges may lead us to reduce our assessment of several important rating factors, notably economic stability, franchise value, risk positioning, liquidity, profitability and capital. Moreover, some governments are becoming more constrained in their ability to provide support for banks over the medium term. As a consequence, European banks face immediate pressures centred on their ability to retain the confidence of investors. For more details please see our reports "Global Bank Ratings Likely To Decline In 2012", "Euro Area Debt Crisis Weakens Bank Credit Profiles" and "European Banks: How Moody's Approach Reflects Evolving Challenges", published on 19 January, 2012.

For more details, please refer to Moody's Press Release "Moody's Reviews Ratings for European Banks" dated 15 February 2012, available on moodys.com.

SUMMARY RATING RATIONALE

Moody's assigns a Bank Financial Strength Rating (BFSR) of C under review for downgrade to Banque

Fédérative du Crédit Mutuel (BFCM), which is the entity dedicated to the refinancing of the CM11-CIC group. BFCM is also the holding company of CM11-CIC's non-cooperative subsidiaries, such as Crédit Industriel et Commercial (CIC) group and Groupe des Assurances du Crédit Mutuel (GACM).

BFCM's BFSR of C under review for downgrade (equivalent to A3 on the long-term scale), reflects the strong franchise of some of its subsidiaries such as CIC group, but also the strategic role within CM11-CIC of some of its subsidiaries. These include GACM, which produces and administers all insurance products sold through the retail cooperative network of the CM11-CIC group. The BFSR also benefits from the growing diversification thanks to recent acquisitions (Targobank Germany, Targobank Spain and Cofidis), which is partly offset by the significant market risks of CIC's trading activities, a high concentration on Italian sovereign bonds and further deterioration of the macro-economic environment.

BFCM's long-term global local currency (GLC) deposit rating is of Aa3 under review for downgrade, and reflects the bank's A3 intrinsic financial strength rating and our assessment of the very high probability of support from CM11-CIC group, even though BFCM is outside of the cooperative perimeter of the Crédit Mutuel group and as such it does not fall under the legal scope of its solidarity mechanisms. It also reflects the very high systemic support assumptions for the wider Credit Mutuel group.

BFCM's Aa3 long-term debt and deposit ratings are under review for downgrade, reflecting the review on the bank's BFSR. The short-term ratings are affected at Prime-1.

Rating Drivers

- Successful bancassurance strategy deployed through the networks of its subsidiaries, and further enhanced by recent acquisitions

- Retail and SME oriented franchise, resulting in relative stability of earnings, in part offset by the higher volatility in earnings on CIC's financial markets activities

- Strategic role as liquidity provider within the CM11-CIC group

- Mounting macro-economic risks, and potential impact on the bank's earnings and asset quality

- High, albeit reducing, reliance on short-term funding and expectation of more costly/constrained market access for financial institutions going forward

- Manageable exposure to GIIPS sovereign exposure overall, albeit with a large concentration on Italian government bonds

Rating Outlook

The C BFSR is under review for downgrade, reflecting the multiple challenges we consider BFCM faces, notably (1) a weakening macroeconomic environment; (2) costly and constrained market funding; and (3) pressure on profits. These challenges may lead us to reduce our assessment of several important rating factors, notably economic stability, franchise value, risk positioning, liquidity, profitability and capital.

The long-term debt and deposit ratings of BFCM are also under review for downgrade, in line with the review on the BFSR.

What Could Change the Rating - Up

The intrinsic financial strength rating and the long-term ratings are under review for downgrade, and are thus unlikely to be upgraded.

What Could Change the Rating - Down

BFCM's ratings are currently under review for downgrade. Our review will consider the weakening macroeconomic environment, combined with more costly/more restricted market funding and pressure on margins and their impact on the bank's financial fundamentals, notably economic stability, franchise value, risk positioning, liquidity, profitability and capital.

The main factors that could lead us to lower BFCM's BFSR include:

- A further material increase in the probability of a recession leading to higher credit losses on the bank's loan portfolio

- Any broader reappraisal of the implications of the highly fragile funding environment for banks that are reliant on wholesale funding and vulnerable to a loss of investor confidence

- A deterioration of the credit quality of some of the bank's largest exposures, notably Italian government bonds

- Unexpected losses within the capital markets activity;

The long-term ratings could be negatively impacted by:

- A downgrade of BFCM's intrinsic financial strength rating

- Adeterioration in the financial strength of the wider Credit Mutuel group or of a lower probability of its support

- A deterioration in the probability of systemic support

Recent Results and Developments

On 1 January 2011 five regional cooperative federations of the Crédit Mutuel group joined the CM5 - CIC group, in order to form CM10-CIC. On 1 January 2012, another federation joined the CM10-CIC group (now CM11-CIC). BFCM's mandate to manage group's liquidity has therfore been broadened.

In July 2010, BFCM announced the acquisition of 50% of Banque Casino. Banque Casino was formally 50%-owned by LaSer Cofinoga, a French specialized consumer lender. Following the exercise of a call by the Groupe Casino retailer, the 50% stake was purchased and has been subsequently sold to BFCM. Banque Casino offers consumer loans and related insurance products and has a EUR1 billion loan portfolio for around 1 million clients.

At end-June 2011, BFCM reported un-audited consolidated net income of EUR 745 million, up from EUR 680 million at end-June 2011. The bank reported higher revenues (EUR 4.5 billion at end-June 2011, up from EUR 4.2 billion a year earlier), which were however partially offset by increasing operating expenses (EUR 2.4 billion, up from EUR 2.3 billion) and a slight increase in the cost of risk. At end-June 2011, total assets stood at EUR 391 billion, up from EUR 375 billion at year-end 2010.

Given the high level of integration between BFCM and CM11-CIC, the French regulator (Autorité de Contrôle Prudentiel - ACP) focuses on CM11-CIC's consolidated capital adequacy levels and hence, no capital adequacy ratios are imposed on BFCM. At end-June 2011, CM11-CIC disclosed a Core Tier 1 ratio of 10.5% and a Tier 1 ratio of 11.4%.

DETAILED RATING CONSIDERATIONS

Detailed considerations for BFCM's currently assigned ratings are based on the most recent reports available, i.e. for the first half of 2011 and for FY 2010. Moreover, the quantitative scores are based on figures for three-year averages for FY 2008 to FY 2010.

Bank Financial Strength Rating

Franchise Value

Moody's considers BFCM's franchise (i.e. the franchise of its subsidiaries) to be strong in the domestic market, especially in retail and SME segments of the market. Although the bank's business mix has resulted in relatively stable earnings thus far, BFCM's franchise may yet be undermined by the expected deterioration of the macro-economic environment in France, and more broadly in Europe. This may result in lower earnings stability and exert pressure on the bank's profitability. These factors, together with signs of slowdown in the French housing market and more costly/constrained access to wholesale funding, will be considered when concluding our review on BFCM's ratings.

BFCM is part of the CM11-CIC, one of the main French bancassurance group with market shares of approximately 14% and 15% in domestic housing loans and deposits, respectively (Moody's own estimates). CM11-CIC is a sub-group of Crédit Mutuel group, the third largest retail bank in the French banking system, by outstanding housing loans and deposits. CM11-CIC accounts for the majority of the Crédit Mutuel group, as it consolidates 11 out of 18 regional federations of the group, some with high regional market shares (e.g. east of France), as well as CIC group.

BFCM's role within the CM11-CIC group is twofold: it is the internal refinancing vehicle for CM11-CIC as well as the holding company for non-cooperative entities consolidated by CM11-CIC. BFCM does not have any commercial activity on its own. Its franchise therefore mirrors that of its subsidiaries, the most notable of which are the CIC group and GACM. The CIC group has market shares of approximately 7% for both domestic housing loans and deposits on its own. For more details on the CM11-CIC group structure, business activities and market shares, please refer to Moody's Credit Analysis on CM11-CIC and BFCM, published in December 2011.

Historically, the CM11-CIC group had only limited international activities, mostly in corporate banking (chiefly in Germany and the United States, but also in the euro area) and private banking (Switzerland, Luxembourg). In the last couple of years, BFCM has been the vehicle for the international expansion of the CM11-CIC group, as it acquired a number of entities, including Citibank Deutschland (a German consumer lender, later renamed as Targobank Germany), Cofidis (a European consumer lender) and created a 50% joint venture with Banco Popular Espanol (Bando Popular Hipotecario, a Spanish retail bank later renamed as Targobank Spain).

These acquisitions, while positive in the longer-term from a geographical and business diversification point of view, bring potential earnings volatility in the current environment, given the further deterioration of the macroeconomic environment in the countries where they operate and the current underperformance and increasingly tighter regulation of consumer lending in Europe. Moreover, as the group was historically not active in these activities and geographies, it needs to develop the risk management and experience to operate effectively in these new markets.

Risk Positioning

We consider BFCM's risk positioning to be modest, primarily reflecting the bank's large wholesale refinancing risks and large borrower concentration on Italy. Our review will consider whether the current BFSR adequately reflects the aforementioned factors, as well as the mounting macroeconomic risks in the euro area.

At end-June 2011, BFCM's 20 largest exposures accounted for a high 450% of its Tangible Common Equity (TCE). This is distorted by BFCM's role as the refinancing vehicle of the CM11-CIC group, which results in large interbank and government bond exposures. It is also swollen by the financial markets activities of the CIC group, which it consolidates. CM10-CIC's 20 largest exposures for the same period accounted for 180% of its TCE (and 170% of its Tier 1 capital), which we view as a better reflection of the credit risk concentration for the group, which is highly retail oriented.

CM11-CIC group, and more particularly BFCM, are exposed to Greece, Ireland, Italy, Portugal and Spain (GIIPS), either through government bond holdings, or through exposures to the local economy (interbank, but more largely to private individuals and corporates). At end-September 2011 the CM10-CIC group had a EUR 4.3 billion single exposure to Italian government bonds. We understand that EUR 4.1 billion form part of the direct investment portfolio at BFCM while EUR 0.2 billion are held by BFCM's financial market activities and are thus consolidated by BFCM as well.

Although the exposures appear manageable at the level of BFCM (and CM11-CIC), during our review we will focus on the impact on the bank's proftability and asset quality of a further deterioration in the local economy or public finances in the countries where BFCM operates.

Risk management is managed centrally at CM11-CIC and the reporting is aligned with and integrated within the risk management framework of the wider Crédit Mutuel group. We view this positively as it avoids concentration at a wider level of consolidation, which would not necessarily be captured at the level of CM11-CIC.

The risk management infrastructure has generally improved In recent years, but BFCM and more broadly the CM11-CIC group still lag behind other French financial institutions in terms of market risk indicators, in our view. Following the losses linked to CIC's structured equity derivatives portfolio in 2005, the group established historical VaRs and stress-testing models for the bulk of market related activities. These models established in late 2007 still haven't been validated by the French banking regulator (for more details, please refer to Moody's Credit Analysis on BFCM and CM10-CIC, published in December 2011).

Although the group has scaled down the financial markets activities since the beginning of the crisis, CIC has maintained some proprietary trading activities, which induce some degree of earnings volatility at BFCM, in our view. In this respect, we note that in Q3 2011, CIC reported a drop in revenue of 43% year-on-year, mainly as a result of the negative performance of its financial markets activities.

Operating Environment

This factor is common to all French banks. For detailed discussion on the French operating environment, please refer to Moody's latest Banking System Outlook on France, published in December 2011.

In December 2011, Moody's outlook on the French banking system was revised to negative from stable, to reflect the challenges faced by financial institutions. One of the factors underpinning the change in outlook is the highly adverse and uncertain environment in France, resulting from the ongoing euro area debt crisis, weak GDP growth prospects in 2012 and a potential deterioration of the solvency of borrowers. We believe that BFCM's profitability and asset quality may be negatively affected by these weakening macroeconomic developments.

BFCM is also exposed to other economies in the euro area currently under severe stress. In Spain, Portugal and Ireland, it is mostly exposed to local economy, reflecting the group's local retail and corporate banking activities and to a more limited extent to government bonds. The macro-economic forecast in these countries remains weak and could hamper the bank's profitability, asset quality and potentially capital adequacy, should it deteriorate further, in Moody's view.

For more details, please refer to Moody's Special Comments "Global Bank Ratings Likely To Decline In 2012", "Euro Area Debt Crisis Weakens Bank Credit Profiles" and "European Banks: How Moody's Approach Reflects Evolving Challenges", published on January 19, 2012, and available on moodys.com.

Profitability

We consider BFCM's profitability to be adequate but expect it to come under pressure as a result of the weakening macroeconomic environment, more costly/constrained wholesale market access and more volatile financial markets. Our review will therefore focus on these aforementioned factors may induce on

the bank's profitability and potentially on its asset quality and franchise value.

BFCM is predominantly a retail bank (for the first half of 2011, retail banking and insurance business activities accounted for 66% and 14% of total revenues, respectively) which provides some stability in earnings, through the cycle. However, we expect the cost of risk to increase in the short-to-medium term, reflecting the challenging macroeconomic environment, both domestically and for its foreign operations.

BFCM also consolidates all financial markets activities which are booked under its subsidiary CIC. These activities induce higher volatility in earnings, as evidenced by the drop in the net result in FY 2008, on the back of impairments on CIC's structured credit and securities portfolios but also by more recently, by the decline in third quarter 2011 earnings at CIC, owing to the poor performance of its financial markets activities. We expect further volatility in earnings going forward in light of the current macro-economic environment and the highly volatile financial markets.

Despite its large retail network, CM11-CIC fares relatively well from an efficiency point of view, with a cost-to-income ratio of 58% in the first half of 2011 (under Moody's chart of account). This ratio is slightly better at BFCM, at 56% for the same period. These ratios reflect the centralized and highly integrated systems in place at the group, and the less dense branch network within BFCM, which is in part a product factory for the group with inherently lower cost-to-income characteristics. Over the longer term, we would expect efficiency to further improve as the group continues its expansion and leverage on its existing systems.

Liquidity

Liquidity and funding of the banking activities of CM11-CIC are managed centrally by BFCM, the main issuing vehicle of the group. As such, we believe that liquidity is better analysed at the level of CM11-CIC than at BFCM standalone. While reliant on wholesale funding, we believe the group fares relatively well compared to some of its domestic competitors, thanks to a limited amount of funding needs in USD and the increasing proportion of long-term market funding. Despite this relative positioning, we expect conditions to access debt markets to remain difficult, or even to worsen given the current environment. Our review will therefore also incorporate a reassessment of the bank's liqudity/funding and how it may affect the bank's franchise and profitability.

BFCM updates its internal liquidity pricing grid on a monthly basis, which is used to price liquidity transfers of all the entities of the CM11-CIC group. Pricing varies according to the duration and reflects BFCM's own refinancing costs. BFCM can also update its pricing grid more regularly in order to effectively reflect market conditions in the new loan production.

CM11-CIC's measures short-term liquidity risk on its banking book through the ACP 1-month liquidity ratio while the medium-to-long term risk is assessed through three types of liquidity measures based on static, dynamic and stressed scenarios, respectively. For each of these scenario, internal limits are set up by time bands to ensure that assets maturing within each time band cover at least 90% of the relevant liabilities.

Historically, CM11-CIC has financed only part of its loan portfolio through deposits. As is the case for other major French banking groups, CM11-CIC was able to attract a higher proportion of customers' savings, but these were collected as off-balance sheet life insurance policies. CM11-CIC's loan-to-deposit ratio peaked at 173% at end-March 2009, following the acquisition of Cofidis, a wholesale funded consumer lender. This ratio has since then been brought down to 142% at end-June 2011, reflecting the efforts to re-intermediate off-balance sheet customers' savings and the introduction of a group policy requiring loan growth to be matched by new deposits.

Despite the recent improvements in the group's loan-to-deposit ratio, CM11-CIC continues to rely on wholesale funding, which totaled EUR164 billion as at end-June 2011 (CM10-CIC scope). However, the group's reliance on short-term debt has reduced to EUR 42 billion at end-June 2011 as a result the

decision to issue new debt with significantly longer tenors, initiated in 2009. In addition, the group has only a limited amount of medium-to-long term debt maturing in 2012 and 2013 (ca. EUR 10 billion and EUR 11 billion, respectively vs. planned issuances of EUR 17 billion per year), which should further lengthen the maturity profile.

Like other French banks and European banks generally, the groups's US dollar funding activity has been affected since June 2011, as money market funds reduced their exposures to the European economy. This has resulted in reduced availability of funding in US dollar and increased funding costs. The impact was nevertheless subdued as the group has limited US dollar funding needs (EUR 14 billion overall), primarily to fund its legacy structured credit exposures of CIC's New-York branch as well as a small corporate loan book. Funding from US money market funds was replaced by a combination of US dollar funding from Asia and middle-east, as well as Euro funding swapped into dollar.

Besides US dollar, the group has very limited funding needs in other currencies, essentially in CHF to fund housing loans, and which are partly funded through Caisse de Refinancement à l'Habitat (CRH) and SFEF CHF-denominated funding. The group publicly reported that its liquidity buffer covers 85% of short-term funding requirements, estimated by us as ca. EUR 50 billion as of end-September 2011. However, we understand that the publicly reported liquidity buffer includes assets which could be used for future covered bond issuances/securitization. This is excluded from our own analysis as we believe new issuances may take time to be put in place and may also be subject to higher than expected haircuts.

Capital Adequacy

We view BFCM's capital as sufficient to absorb potential credit losses on the bank's exposures, under our base scenario. However, a sharper deterioration of the macro-economic outlook in France or to the countries BFCM is exposed (chiefly Spain and Italy) would have more a more pronounced impact on the bank's stressed capital levels and potentially on its intrinsic creditworthiness.

Given the high level of integration between BFCM and CM11-CIC, the French regulator (Autorité de Contrôle Prudentiel - ACP) focuses on CM11-CIC's consolidated capital adequacy levels and hence, no capital adequacy ratios are imposed on BFCM.

Moody's however assesses the capital adequacy for BFCM on a standalone basis, through Moody's Tangible Common Equity (TCE) indicator. On a nominal basis, this indicator appears to be weaker at BFCM than at its subsidiary CIC. This primarily reflects the high level of goodwill accumulated by BFCM through the acquisition of several entities, and which is not included within TCE. Some of these entities are active in the fields of consumer finance (e.g. Targobank Germany and Cofidis), which is undergoing a severe stress both in terms of business perspective and more stringent regulation, which may negatively affect the goodwill valuation.

CIC does not have any outstanding Tier 1 hybrid instrument, while BFCM has issued several instruments. The face value of these instruments is adjusted within our analysis to reflect our view of their loss absorbency. In the case of BFCM, the instruments are assigned a equity credit of 25%.

Asset Quality

Asset quality at BFCM is weaker than at CM11-CIC group, reflecting the higher proportion of riskier activities at BFCM. This reflects the role of holding of specialized subsidiaries, chiefly in consumer lending (through Cofidis and Targobank Germany) and the focus of CIC on large corporate lending and financial activities. This translates intoa ratio of impaired loans to gross loans of 5.6% at end-June 2011 (YE 2010: 5.8%), vs. 4.3% for CM10-CIC (YE 2010: 4.6%).

We expect asset quality to remain under pressure in the short-to-medium term, primarily as a result of the weak macro-economic outlook in France, as well as in the other European countries where BFCM has significant activities (Spain, Italy, Portugal and, to a lesser extent, Germany).

CM11-CIC has significant exposures to the GIIPS countries, which we understand are booked under BFCM - either in its unconsolidated accounts or at CIC, which it consolidates. The most significant government bond exposure is to Italy, with EUR 4.3 billion at end-September 2011 (CM10-CIC scope). We however note that the GIIPS government bond exposures have generally been reduced in recent months (at end-June 2011, Italian government bond exposures amounted to EUR 4.6 billion). Any further deterioration of the local economies or public finances of the GIIPS countries may be negative in terms of asset quality at BFCM.

Part of the group's strategy has been to strengthen its presence in the European consumer lending market. This was achieved through the acquisition of Targobank Germany and Cofidis. While potentially positive in the long-run in terms of product and geographical diversiciation, the performance of consumer loans is inherently exposed to macro-economic downturns and will likely be further impacted by the recent implementation of more stringent regulation in France ("Loi sur le Crédit à la Consommation"). We would therefore expect asset quality on consumer loans to remain under pressure in the foreseeable future.

Asset quality on the bank's housing loans has thus far remained strong at BFCM. While Moody's generally views French retail activities as a source of stable earnings, we note that the French housing market is showing signs of overheating, which may expose French banks, like BFCM, to higher-than-anticipated credit losses. For more details, please refer to Moody's Special Comment "French Banks: Ability to Absorb Moderate House Price Correction, but Risks Increase" published in June 2011.

Global Local Currency Deposit Rating (Joint Default Analysis)

BFCM's senior debt and deposit ratings are of Aa3 under review for downgrade/Prime-1. As per our Joint-Default Analysis (JDA), they are based on BFCM's intrinsic financial strength of A3 under review for downgrade.

Although not part of the cooperative perimeter of the Crédit Mutuel group, BFCM is fully integrated within CM11-CIC both strategically and operationally and fulfils a core role as (i) liquidity provider to the group members; and (ii) as the holding company for the various specialized subsidiaries of the group.

The ratings therefore also incorporate a very high probability of support from the CM11-CIC group and in turn, from Confédération Nationale du Crédit Mutuel (CNCM), the central body of the Crédit Mutuel group, should a stress at BFCM jeopardize the financial strength of the 11 regional cooperative federations of CM11-CIC. In turn, the rating benefits from a very high probability of systemic support that would be extended to the Crédit Mutuel group through CNCM.

Moody's cautions that, given the group's structure and BFCM's specific role within the group, BFCM's BFSR - which expresses its financial strength as if it were a standalone entity - conveys only part of the information. Moody's does not rate the CM11-CIC group or its central institution, CFCM.

For more details on the structure of the CM11-CIC group and its relationship with the wider Crédit Mutuel group, please refer to Moody's Credit Analysis on BFCM and CM10-CIC, dated December 2011 and published on www.moodys.com.

Notching Considerations

On 28 November 2011, Moody's placed under review for possible downgrade BFCM's dated subordinated debt, now rated A1 under review for downgrade. This wass part of a wider action on subordinated debt issued by a number of European financial institutions. This review will contemplate the potential complete removal of systemic support from our ratings on subordinated debt, where these ratings currently incorporate such support. This reflects Moody's belief that the probability of subordinated bank debt in Europe benefiting from systemic support will be lower than assumed in the past, further to possible legislative changes, including the European Commission's proposed framework on resolution regimes, which would allow the imposition of losses on subordinated debt holders outside a

bankruptcy. In countries where this is already the case, such as the UK and Germany, our approach is to notch down subordinated debt securities from the institution's Adjusted Baseline Credit Assessment. For more details on the wider rating action, please refer to Moody's Press Release "Moody's Reviews Bank Hybrids, Subordinated Debt for Downgrade" and Special Comment "Reassessment of Government Support Assumptions in European Bank Subordinated Debt", both dated 28 November 2011.

The starting point in Moody's approach to rating hybrid securities is the Adjusted Baseline Credit Assessment (Adjusted BCA). The Adjusted BCA reflects the bank's standalone credit strength, including the probability of parental and/or cooperative support, if applicable. The Adjusted BCA excludes systemic support expectations.

The Adjusted BCA for BFCM is A3 and reflects our expectation of support from the 11 federations (see Global Local Currentcy Deposit Rating above). BFCM's undated deeply subordinated instruments are rated Baa3 (hyb) under review for downgrade. The undated deeply subordinated instruments are rated three notches below BFCM's Adjusted Baseline Credit Assessment, in line with Moody's view of such instruments, which reflects: (i) their deeply subordinated claim in liquidation; (ii) the issuer's option to skip coupon payments on a non-cumulative basis; and (iii) the mandatory coupon skip mechanism in case of breach of minimum regulatory capital requirements.

Foreign Currency Deposit Rating

BFCM's long-term and short-term foreign currency deposit ratings are of Aa3 under review for downgrade / Prime-1.

Foreign Currency Debt Rating

BFCM's long-term and short-term foreign currency debt ratings are of Aa3 under review for downgrade / Prime-1.

ABOUT MOODY'S BANK RATINGS

Bank Financial Strength Rating

Moody's Bank Financial Strength Ratings (BFSRs) represent Moody's opinion of a bank's intrinsic safety and soundness and, as such, exclude certain external credit risks and credit support elements that are addressed by Moody's Bank Deposit Ratings. Bank Financial Strength Ratings do not take into account the probability that the bank will receive such external support, nor do they address risks arising from sovereign actions that may interfere with a bank's ability to honor its domestic or foreign currency obligations. Factors considered in the assignment of Bank Financial Strength Ratings include bank-specific elements such as financial fundamentals, franchise value, and business and asset diversification. Although Bank Financial Strength Ratings exclude the external factors specified above, they do take into account other risk factors in the bank's operating environment, including the strength and prospective performance of the economy, as well as the structure and relative fragility of the financial system, and the quality of banking regulation and supervision.

Moody's uses the Baseline Credit Assessment (BCA) to map BFSRs onto the 21-point Aaa-C rating scale and like the BFSR, it reflects a bank stand- alone default risk. Each point on the Aaa-C scale represents a specific probability of default and therefore allows Moody's to use the BCA as an input to Moody's Joint Default Analysis (JDA), described below. The baseline credit assessment reflects what the local currency deposit rating of the bank with the given BFSR would be without any assumed external support from a government or third party

Global Local Currency Deposit Rating

A deposit rating, as an opinion of relative credit risk, incorporates the Bank Financial Strength Rating as

well as Moody's opinion of any external support. Specifically, Moody's Bank Deposit Ratings are opinions of a bank's ability to repay punctually its deposit obligations. As such, Moody's Bank Deposit Ratings are intended to incorporate those aspects of credit risk relevant to the prospective payment performance of rated banks with respect to deposit obligations, and includes: intrinsic financial strength, sovereign transfer risk (in the case of foreign currency deposit ratings), and both implicit and explicit external support elements. Moody's Bank Deposit Ratings do not take into account the benefit of deposit insurance schemes which make payments to depositors, but they do recognize the potential support from schemes that may provide assistance to banks directly.

According to Moody's joint default analysis (JDA) methodology, the global local currency deposit rating of a bank is determined by the incorporation of any external elements of support into the bank's Baseline Credit Assessment. In assigning the local currency deposit rating to a bank, the JDA methodology also factors in the rating of the various potential support providers (parent company, cooperative group, regional or national governments), as well as the degree of dependence that may exist between each one of them and the bank. Moody's assessment of the probability of systemic support (by a national government) is derived from the analysis of the capacity of a government and its central bank to provide support on a system-wide basis. The systemic support indicator is determined for a particular country and serves as an input for all bank ratings in that country. The support indicator can be set at, above or, in rare cases, below the government's local currency bond rating for that country.

National Scale Rating

National scale ratings are intended primarily for use by domestic investors and are not comparable to Moody's globally applicable ratings; rather they address relative credit risk within a given country. A Aaa rating on Moody's National Scale indicates an issuer or issue with the strongest creditworthiness and the lowest likelihood of credit loss relative to other domestic issuers. National Scale Ratings, therefore, rank domestic issuers relative to each other and not relative to absolute default risks. National ratings isolate systemic risks; they do not address loss expectation associated with systemic events that could affect all issuers, even those that receive the highest ratings on the National Scale.

Foreign Currency Deposit Rating

Moody's ratings on foreign currency bank obligations derive from the bank's local currency rating for the same class of obligation. The implementation of JDA for banks can lead to high local currency ratings for certain banks, which could also produce high foreign currency ratings. Nevertheless, it should be noted that foreign currency deposit ratings are in all cases constrained by the country ceiling for foreign currency bank deposits. This may result in the assignment of a different, and typically lower, rating for the foreign currency deposits relative to the bank's rating for local currency obligations.

Foreign Currency Debt Rating

Foreign currency debt ratings are derived from the bank's local currency debt rating. In a similar way to foreign currency deposit ratings, foreign currency debt ratings may also be constrained by the country ceiling for foreign currency bonds and notes; however, in some cases the ratings on foreign currency debt obligations may be allowed to pierce the foreign currency ceiling. A particular mix of rating factors are taken into consideration in order to assess whether a foreign currency bond rating pierces the country ceiling. They include the issuer's global local currency rating, the foreign currency government bond rating, the country ceiling for bonds and the debt's eligibility to pierce that ceiling.

About Moody's bank financial strength scorecard

Moody's bank financial strength model (see scorecard below) is a strategic input in the assessment of the financial strength of a bank, used as a key tool by Moody's analysts to ensure consistency of approach across banks and regions. The model output and the individual scores are discussed in rating committees and may be adjusted up or down to reflect conditions specific to each rated entity.

Rating Factors

Banque Fédérative du Crédit Mutuel

Rating Factors [1]	**A**	**B**	**C**	**D**	**E**	**Total Score**	**Trend**
Qualitative Factors (50%)						**C**	
Factor: Franchise Value						**B-**	**Weakening**
Market Share and Sustainability			**x**				
Geographical Diversification		**x**					
Earnings Stability		**x**					
Earnings Diversification [2]							
Factor: Risk Positioning						**D-**	**Weakening**
Corporate Governance [2]							
- Ownership and Organizational Complexity							
- Key Man Risk							
- Insider and Related-Party Risks							
Controls and Risk Management				**x**			
- Risk Management				x			
- Controls				x			
Financial Reporting Transparency			**x**				
- Global Comparability	x						
- Frequency and Timeliness				x			
- Quality of Financial Information				x			
Credit Risk Concentration					**x**		
- Borrower Concentration					x		
- Industry Concentration			x				
Liquidity Management			**x**				
Market Risk Appetite					**x**		
Factor: Operating Environment						**B+**	**Weakening**
Economic Stability	**x**						
Integrity and Corruption		**x**					
Legal System		**x**					
Financial Factors (50%)						**D+**	
Factor: Profitability						**D**	**Weakening**
PPI / Average RWA - Basel II	--	--	--	--	--		
Net Income / Average RWA - Basel II	--	--	--	--	--		
Factor: Liquidity						**C**	**Weakening**
(Mkt funds-Liquid Assets) / Total Assets			5.82%				
Liquidity Management			x				
Factor: Capital Adequacy						**B+**	**Neutral**
Tier 1 Ratio - Basel II	--	--	--	--	--		
Tangible Common Equity / RWA -	--	--	--	--	--		

Basel II							
Factor: Efficiency						**D**	**Neutral**
Cost / Income Ratio				72.99%			
Factor: Asset Quality						**E+**	**Weakening**
Problem Loans / Gross Loans				5.16%			
Problem Loans / (Equity + LLR)					53.88%		
Lowest Combined Score (15%)						**E+**	
Economic Insolvency Override						**--**	
Aggregate Score						**C-**	
Assigned BFSR						**C**	

[1] - Where dashes are shown for a particular factor (or sub-factor), the score is based on non public information [2] - A blank score under Earnings diversification or Corporate Governance indicates the risk is neutral

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