MOODY'S
INVESTORS SERVICE

Rating Action: Moody's takes rating actions on BFCM, CIC; outlook stable

Global Credit Research - 15 Jun 2012

Actions conclude the review announced on 15 February 2012

Paris, June 15, 2012 -- Moody's Investors Service has today taken the following rating actions on the standalone credit assessments of:

Banque Federative du Credit Mutuel (BFCM): standalone bank financial strength rating (BFSR) downgraded to C- (mapping to a standalone credit assessment of baa2) from C/a3 previously;

Credit Industriel et Commercial (CIC): BFSR confirmed at C-, but standalone credit assessment lowered to baa2 from baa1;

At the same time, the Aa3 long-term debt and deposit ratings of all these institutions were confirmed, incorporating both the strength of the broader Credit Mutuel group (unrated) and three notches of potential systemic support. The dated subordinated debt ratings of BFCM and CIC were downgraded to Baa1 from A1, and the rating of the preference shares of BFCM was confirmed at Baa3 (hyb). The Prime-1 short-term ratings of these institutions were unaffected. The outlook is stable on all ratings.

The lowering of the institutions' standalone credit assessments reflects Moody's reassessment of their standalone financial strength, driven by (i) their high -- albeit reducing -- structural reliance on wholesale funding, which renders the bank susceptible to loss of investor confidence in the highly uncertain current European operating environment; (ii) Moody's anticipation of continued pressure on profitability resulting from the weakening macro-economic environment in France; and (iii) the deteriorating asset quality of the banks' domestic and peripheral euro area exposures.

The confirmation of the long-term ratings reflects Moody's view that the risks to BFCM's and CIC's standalone credit profiles are offset by the Credit Mutuel group's retail-oriented and domestically focused business profile, its adequate capital base and the strength of its domestic franchise. These factors, taken together, underpin the adjusted standalone credit assessment of a3 for each entity and the confirmation of the Aa3 long-term debt and deposit ratings in the upper range of the French peer group.

Moody's notes several mitigating factors that have limited the extent of today's downgrades. These include (i) the sustainability of the earnings base at BFCM and CIC given their strong domestic retail franchises and the limited exposures to countries undergoing more severe stress, (ii) the likelihood of resilient earnings for domestic retail activities as Moody's expects the French economy to continue to fare relatively better than many other euro area member states, and (iii) the sound loss-absorption capacity of BFCM and CIC -- and more broadly the Credit Mutuel group.

This action concludes the review on the banks' BFSRs and long-term debt and deposit ratings initiated on 15 February 2012 (see "Moody's reviews Ratings for European Banks" - http://www.moodys.com/research/Moodys-Reviews-Ratings-for-European-Banks--PR_237914). The action on the subordinated debt instruments concludes the review of those ratings initiated on 29 November 2011 (see Moody's reviews European banks' subordinated, junior and Tier 3 debt for downgrade - http://www.moodys.com/research/Moodys-reviews-European-banks-subordinated-junior-and-Tier-3-debt--PR_231957).

Please click this link http://www.moodys.com/viewresearchdoc.aspx?docid=PBC_143133 for the List of Affected Credit Ratings. This list is an integral part of this press release and identifies each affected issuer. For additional information on bank ratings, please refer to the webpage containing Moody's related announcements: http://www.moodys.com/bankratings2012.

RATINGS RATIONALE -- STANDALONE CREDIT ASSESSMENTS

FIRST DRIVER -- RELIANCE ON WHOLESALE FUNDING AND QUALITY OF LIQUID ASSETS

Moody's says that despite the considerable improvements in deposit funding and the lengthening of the maturity profile of wholesale funding, in the highly uncertain current European operating environment BFCM and CIC remain exposed to a loss of investor confidence. This is underpinned by the still large proportion of short-term funding and more generally, by the absolute amounts of wholesale funding. Moody's also notes that the banks' liquid assets comprise a large proportion private loans and own securitisations, which, despite being eligible for central bank funding, are not easily sold in private markets or likely subject to significant discount.

In case of market disruption, these institutions would have to operate a moderate reduction in loan production, which could be detrimental to their franchises. This, together with the lower size and quality of the liquid asset pool compared to some banks, are the primary drivers for Moody's analysis of the bank's high exposure to a loss of investor confidence.

SECOND DRIVER -- NEGATIVE PRESSURE ON PRE-PROVISION INCOME

Similar to other European banks, BFCM and CIC will likely face further downward pressures on their pre-provision profitability, reflecting the weakening of macroeconomic conditions in France and a rise in funding costs. However, given that these banks are primarily focused on domestic retail activities, Moody's expects them to be less affected than their peers that typically maintain larger exposures to peripheral euro area member states, whose local economies are currently experiencing severe stress.

THIRD DRIVER -- DETERIORATING ASSET QUALITY

The group is mainly exposed to the French economy, with some degree of diversification to the rest of Europe. Although France remains one of the stronger economies in the euro area, Moody's expects that weakening economic conditions will lead to mounting negative pressures on the overall asset quality of BFCM and CIC. This, in turn, would reduce their overall profitability through higher provisioning costs.

These institutions -- and the Credit Mutuel group as a whole -- maintain large exposures to the French housing market, which is showing signs of overheating. Domestic house prices have increased significantly in the last decade, partly on the back of cyclical factors which Moody's believes are unlikely to continue to support the domestic market going forward. As a result, the rating agency expects that house prices will remain under pressure in the short to medium term, as evidenced by the recent reversal in house prices in some regions. Set against this, the highly supportive social safety net, the cap on debt affordability and the limited proportion of variable-rate mortgages in France are factors that continue to support a low probability of default. BFCM and CIC also have large exposures to domestic small and medium enterprises (SMEs), which Moody's believes to be particularly vulnerable to the current macroeconomic cycle. For these reasons, asset quality will likely deteriorate in the short to medium term.

A further significant deterioration in the public finances or the economies of these peripheral euro area member states has the potential to exert negative pressure on the standalone financial strength of BFCM and CIC.

MITIGATING FACTORS

The magnitude of today's rating actions has been limited by several mitigating factors, including the sustainability of the earnings base at BFCM and CIC given their strong domestic retail franchises and the limited exposures to countries undergoing more severe stress. In addition, the strong franchises of these institutions -- and indeed the Credit Mutuel group -- are not affected by any deleveraging. Although the French economy is clearly affected by the deterioration in the macroeconomic environment, Moody's expects it to continue to fare relatively well compared to some other euro area member states, which is likely to result in rather resilient earnings for domestic retail activities. Further, BFCM and CIC -- and more broadly the Credit Mutuel group -- have sound loss-absorption capacity that is underpinned by the solid capital base and the good recurring earnings generation capacity. In addition, the CM11-CIC group that BFCM and CIC are part of have significantly reduced their reliance on short-term wholesale funding needs and are continuing to grow their deposit bases. Moody's also notes that BFCM and CIC have maintained access to capital markets, albeit at higher prices than in the past.

RATINGS RATIONALE -- DEBT & DEPOSIT RATINGS

Despite the weakening in the standalone financial strength of BFCM and CIC, Moody's confirmed their long-term ratings based on Credit Mutuel group's retail-oriented and domestically focused business profile, its adequate capital base and the strength of its domestic franchise.

BFCM is the refinancing vehicle for the CM11-CIC group, the largest sub-group of the Credit Mutuel group, and the holding company for its non-cooperative entities. BFCM owns CIC, a domestic universal bank, and the hub for a number of activities of the CM11-CIC group. Although BFCM and CIC are outside of the cooperative perimeter of the Credit Mutuel group, Moody's considers both entities to be integral to the CM11-CIC group, the largest subset of the Crédit Mutuel group. Moody's therefore assumes a very high probability of group support for both institutions, leading to an adjusted standalone credit assessment of a3 for both entities.

Furthermore, Moody's continues to assume a very high probability of systemic support for the Credit Mutuel group, reflecting its very high importance to the French economy and the national systems of payment. This systemic support is attributed to the individual rated members of the group given the strong cooperative support mechanism underpinned by French law.

RATIONALE FOR STABLE OUTLOOK

The stable outlooks on all ratings express Moody's view that currently foreseen risks to creditors are now reflected in these ratings. Nevertheless, negative rating momentum could develop if conditions deteriorate beyond current expectations. Specifically, Moody's has factored into the ratings an increased risk of an exit of Greece from the euro area, but this is currently not Moody's central scenario. If a Greek exit became Moody's central scenario, further rating actions on European banks could well be needed.

RATINGS RATIONALE -- SUBORDINATED DEBT AND HYBRID RATINGS

The downgrade of BFCM's and CIC's subordinated debt to Baa1 (i.e. one notch below their adjusted standalone credit assessment of a3) from A1 reflects Moody's view that systemic support in many European countries, including France, may not be extended to subordinated liabilities in the future. In Moody's view systemic support in many European countries, including France, is no longer sufficiently predictable and reliable going forward to warrant incorporating rating uplift.

In addition, BFCM's ratings on its preference non-cumulative stock rating were confirmed at Baa3 (hyb) and continue to be rated three notches below the Adjusted standalone credit assessment.

WHAT COULD CHANGE RATINGS UP/DOWN

The standalone financial strength of these entities could be enhanced by a continued reduction in their wholesale funding needs and an improvement in the size and quality of their liquid assets.

Downward pressure on the banks' standalone financial strength could develop from (i) a weakening in the banks' profitability, chiefly due to a deterioration in asset quality or a material increase in the cost of funding; (ii) a material deterioration in the French housing or SME markets, which the banks are inherently exposed to, or some of the banks' largest exposures; (iii) a weakening liquidity positioning, resulting from an increasing reliance on market funding or from a deterioration in size or quality of the liquidity buffer; and (iv) an increasing risk profile, notably resulting from larger or more complex capital markets activities, resulting from their legacy investment book or from new business developments.

All of the entities' long-term ratings could be upgraded in the event of an improvement in the financial strength of the Credit Mutuel group. Conversely, their long-term ratings could be negatively impacted by (i) a further deterioration of their intrinsic financial strength of the group and its constituent members; and / or (ii) Moody's assessment of a reduced probability of group or systemic support.

The methodologies used in these ratings were Bank Financial Strength Ratings: Global Methodology, published in February 2007, and Incorporation of Joint-Default Analysis into Moody's Bank Ratings: Global Methodology, published in March 2012. Please see the Credit Policy page on www.moodys.com for a copy of these methodologies.

REGULATORY DISCLOSURES

Please click on this link http://www.moodys.com/viewresearchdoc.aspx?docid=PBC_143133 for the List of Affected Credit Ratings. This list is an integral part of this Press Release and provides, for each of the credit ratings covered, Moody's disclosures on the following items:

Releasing office

For ratings issued on a program, series or category/class of debt, this announcement provides relevant regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series or category/class of debt or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides relevant regulatory disclosures in relation to the rating action on the support provider and in relation to each particular rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides relevant regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on www.moodys.com.

The ratings have been disclosed to the rated entities or their designated agents and issued with no amendment resulting from that disclosure.

Information sources used to prepare the ratings are the following : parties involved in the ratings, public information, and confidential and proprietary Moody's Investors Service information.

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Please see Moody's Rating Symbols and Definitions on the Rating Process page on www.moodys.com for further information on the meaning of each rating category and the definition of default and recovery.

Please see ratings tab on the issuer/entity page on www.moodys.com for the last rating action and the rating history.

The date on which some ratings were first released goes back to a time before Moody's ratings were fully digitized and accurate data may not be available. Consequently, Moody's provides a date that it believes is the most reliable and accurate based on the information that is available to it. Please see the ratings disclosure page on our website www.moodys.com for further information.

Please see www.moodys.com for any updates on changes to the lead rating analyst and to the Moody's legal entity that has issued the rating.

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