MOODY'S
INVESTORS SERVICE

Credit Opinion: Caisse Centrale du Crédit Immobilier de France

Global Credit Research - 26 Mar 2015

Paris, France

Ratings

Category	Moody's Rating
Outlook	Rating(s) Under Review
Bank Deposits	*Baa2/P-2
Bkd Bank Deposits (ST) -Dom Curr	--/P-1
Baseline Credit Assessment	**ca
Adjusted Baseline Credit Assessment	**ca
Issuer Rating	**Baa2
Senior Unsecured -Dom Curr	**Baa2
Other Short Term -Dom Curr	(P)P-2

* Rating(s) within this class was/were placed on review on March 17, 2015
** Placed under review for possible upgrade on March 17, 2015

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Opinion

SUMMARY RATING RATIONALE

On March 17, we placed Caisse Centrale du Crédit Immobilier de France (3CIF)'s long-term deposit and senior unsecured senior debt ratings of Baa2 on review for upgrade, with the most likely outcome at an unchanged Baa2. Both short-term deposit and debt ratings remained unchanged at Prime-2. On the same day, we also placed 3CIF's ca baseline credit assessment (BCA) on review for upgrade, with the most likely outcome at ba2.

Loss-given-faiture (LGF) will most likely be very low for 3CIF's deposits and senior unsecured debt, resulting in expected Preliminary Rating Assessments (PRA) two notches above the BCA for both instruments. We expect the systemic support uplift to be reduced from the current 11 notches, although we believe that the probability of government support will remain high.

3CIF(*) is the rated funding entity of Crédit Immobilier de France group [CIF; unrated]). Its's current BCA of ca reflects the view that the entity, which is managed in a run-off, had reached a highly speculative standalone strength and had avoided default owing to the French government's support. CIF's orderly resolution plan, which consists of the disposal of the group's viable businesses, the run-off of all the other assets and the guarantee scheme extended by the French government, was approved by the European Commission (EC) on 27 November 2013. The guarantee scheme was calibrated in order to ensure that all 3CIF's obligations vis-à-vis third parties and other entities within the group would be met until the full completion of the run-off. An "external" guarantee allows 3CIF to issue state-guaranteed senior unsecured debt up to a maximum amount of EUR16 billion while an "internal" guarantee covers CIF's intra-group obligations for a maximum amount of EUR12 billion.

We believe that the existing state guarantee scheme, including the fee deferral mechanism that ensures the stability of the group's capitalisation, has stronly improved CIF's credit profile. Given also the resilience of the orderly resolution plan to stress scenarios, we opened a review to reconsider 3CIF's BCA. The review will focus on the degree to which the group's creditworthiness has improved, which will have a bearing on its standalone credit strength against the specific backdrop of the current run-off.

(*) As the issuer of senior unsecured debt on behalf of the group, 3CIF is the sole entity of the group to which we assign a BCA, as well as long- and short-term debt ratings. 3CIF's loan portfolio only includes loans granted to CIF operating entities and to social housing associations. However, as the firm's financial strength mainly lies with the group's franchise and lending activities, we consider the financial strength of the consolidated group, Crédit Immobilier de France Développement (CIFD), when conducting our standalone credit analysis and map 3CIF's scores on those of the consolidated group.

3CIF'S RATING IS SUPPORTED BY FRANCE'S VERY STRONG- MACRO PROFILE

As a purely domestic bank, CIF's operating environment is heavily influenced by France and its Macro Profile is thus aligned with that of the France at Very Strong-.

French banks benefit from operating in a country with a large and broadly diversified economy, a robust institutional framework and a very low susceptibility to event risk. Nevertheless, France's long-term economic performance will continue to be constrained by subdued growth prospects, a loss in competitiveness relative to its trading partners, a gradual erosion of its export-oriented industrial base and rigidities in labour, goods and service markets. French banks' high reliance on wholesale funding is and will remain a source of vulnerability: this reliance arises both from the large stock of loans and financial assets to finance and from the intense competition on deposits, stemming from regulated savings accounts and insurance products. The French banking sector is relatively concentrated, with several banks benefiting from high retail market share in their core regions.

Rating Drivers

- The state guarantee ensures adequate funding until extinction

- Capitalisation will remain strong throughout run-off

- Asset quality has displayed moderate deterioration but is likely to remain adequate

- The run-off offers strong indirect protection to non-guaranteed debt holders

Rating Outlook

3CIF's BCA is on review for upgrade. The review will focus on the degree to which the group's creditworthiness has improved as a result of the existing state aid.

The bank's long-term deposit and senior unsecured ratings are on review for upgrade. The review was triggered by the upward pressure on the BCA but also the introduction of the new methodology, and specifically our advanced Loss Given Failure (LGF) analysis. This analysis applies as CIF is subject to an operational resolution regime under the Bank Recovery and Resolution Directive (BRRD). The outcome of the review will depend on whether the positive impact of these factors more than offsets the reduction in government support from the current 11-notch uplift.

What Could Change the Rating - Up

3CIF's BCA could be upgraded as a result of the incorporation in the BCA of the positive impact of the state aid received in 2013on the group's creditworthiness.

The bank's long-term deposit and senior unsecured ratings could be upgraded as a combined effect of (1) an upgrade in the BCA, (2) the introduction of the LGF analysis, and (3) a reduction in government support, if the negative impact of the latter is lower than the positive impact of the first two factors.

What Could Change the Rating - Down

3CIF's BCA is currently at ca and cannot be downgraded.

Downwards pressure would develop on 3CIF's debt and deposit ratings if we considered that the current guarantee is insufficient to cover the bank's funding needs, although we consider this event to be unlikely. The ratings could also be downgraded in the case of worse than expected asset performance resulting in a significant decline in capital that is not offset by the guarantee fee deferral mechanism.

DETAILED RATING CONSIDERATIONS

THE STATE GUARANTEE ENSURES ADEQUATE FUNDING UNTIL EXTINCTION

As of 31 December 2013, CIF had approximately EUR3 billion of non-guaranteed senior debt and EUR17.4 billion of covered bonds outstanding (placed outside the group), with around 35% of this funding maturing in 2014-15. In addition, EUR3.1 billion of ECB funding (long-term refinancing operation or LTRO) will also mature in February 2015. As the bank's housing loans have greater average maturities than the bank's funding, debt redemptions result in significant funding gaps in the early stage of the run-off.

In order to meet its funding obligations, CIF relies on a guarantee from the French government to refinance its loan portfolio. Although this guarantee is capped at EUR16 billion, its maximum usage in the EC's central scenario is around EUR10.4 billion in 2016, leaving significant room for further issuances if loan amortisation is slower than planned. Under the EC's stress scenario, usage would peak at EUR12.1 billion in 2016. In view of the large buffer resulting from this guarantee, we believe that the orderly resolution plan has been structured in a very conservative manner.

CAPITALISATION WILL REMAIN STRONG THROUGHOUT RUN-OFF

According to the central scenario of the orderly resolution plan, the bank's net income will be negative over the next 10 years, mainly because of the cost of the state guarantees. This mechanism will deplete the bank's capital as a means of imposing a burden-sharing onto shareholders. The cost of the EUR16 billion external guarantee and the EUR12 billion internal guarantee represent 150 basis points and 153 basis points per annum respectively (both composed of a base fee of 5 basis points and « additional » fees of 145 basis points and 148 basis points respectively; the payment of the « additional » fees can be deferred under certain conditions, as explained below). The bank's cumulative losses should lower shareholders' equity down to EUR1.1 billion in 2018 from around EUR1.9 billion at year-end 2013 under the central scenario of the orderly resolution plan.

Nonetheless, the bank's Tier 1 ratio remains above 12% during the entire run-off period under the plan's central scenario and above 11% in the stress scenario. We note that CIF calculates its risk-weighted assets (RWA) under the standardised approach and is therefore more conservative than most peers (the RWA on mortgages is above 45%). In addition, should the bank's Tier 1 ratio fall below 12%, the payment of the « additional » fees on the guarantee would be deferred until the bank's Tier 1 ratio has been restored above 12%. This mechanism ensures that the bank is adequately capitalised at all times during the orderly resolution. Despite large restructuring costs provisioned in 2013, the bank's Tier 1 ratio remained above 12% at the end of that year.

We also note that no payment can be made to the shareholders until 2018. Moreover, as per the EC's decision, the total amount that can be recovered by the shareholders from CIF's distributable amounts from 2018 onwards cannot exceed EUR650 million when discounted at 8% as at year-end 2013. Any future distribution to the shareholders will also remain subject to the prior payment to the state of the deferred portion of guarantee fees and CIF's compliance with a minimum 12% Tier 1 ratio. As a result, shareholders have a strong incentive to achieve an efficient run-off.

ASSET QUALITY HAS DISPLAYED MODERATE DETERIORATION BUT IS LIKELY TO REMAIN ADEQUATE

We expect a moderate deterioration of asset quality in the early stages of the run-off. The orderly resolution plan forecasts that problem loans will represent 6.6% of gross loans by 2016, versus 5.5% at year-end 2013. This would result in an increase in the cost of risk to 0.6% of loans by 2015 from 0.3% in 2013. After 2015, the plan forecasts an improvement in CIF's asset quality, as is usually the case for vintage housing loans (defaults are usually front-loaded) since the group no longer extends loans.

The stress scenario contemplates an increase by 3.8 times of current default probabilities, as well as a 23% decrease in house prices affecting recovery rates by the same proportion. We view this scenario as relatively severe, especially in view of the low cost of risk in France since the beginning of the global financial crisis. We acknowledge, nonetheless, that CIF's customers are more exposed than the average to over-indebtedness and to economic cycles. Under the stress scenario, the bank's cumulative cost of risk would amount to EUR1.1 billion versus EUR570 million in the central scenario. Nonetheless, under this scenario, asset quality would remain satisfactory and the bank's Tier 1 ratio would remain above 11% at all times.

THE RUN-OFF OFFERS STRONG INDIRECT PROTECTION TO NON-GUARANTEED DEBT HOLDERS

Although senior debt issued prior to the intervention of the French state are not guaranteed, we believe that the guarantee scheme approved by the EC ensures effective protection to holders of this debt.

Firstly, non-guaranteed senior debt runs until only 2024, whereas the guarantee scheme allows guaranteed issuance until 2035, thereby covering all maturities of non-guaranteed debt. Secondly, the orderly resolution offers adequate capital throughout the run-off period even under the stress scenario. The ability to defer the payment of the « additional » fees on the guarantee ensures that the capital ratio will remain at a high level until the completion of the run-off. The guarantee fees represent more than EUR170 million per annum until 2022 (this amount falls quickly thereafter, as the use the guarantee decreases).

Notching Considerations

LOSS GIVEN FAILURE AND ADDITIONAL NOTCHING

CIF and its subsidiaries in France are subject to the EU Bank Resolution and Recovery Directive (BRRD), which we consider to be an Operational Resolution Regime. Our LGF analysis is based on the consolidated liability structure of CIF. We assume residual tangible common equity of 3% and losses post-failure of 8% of tangible banking assets, a 25% run-off in "junior" wholesale deposits, a 5% run-off in preferred deposits, and assign a 25% probability to deposits being preferred to senior unsecured debt. These are in line with our standard assumptions.

We believe deposits are likely to face very low loss-given-failure, due to the loss absorption provided by the combined volume of deposits and senior unsecured debt of CIF (representing around 18% of the group's tangible banking assets at failure) and the subordination provided by equity (3% of tangible banking assets at failure). We expect this will result in a Preliminary Rating Assessment (PRA) two notches above the BCA.

We believe senior unsecured debt are also likely to face very low loss-given-failure, due to the loss absorption provided by the volume of senior unsecured debt (representing around 18% of the group's tangible banking assets at failure) and the subordination provided by equity (3% of tangible banking assets at failure). We expect this will result in a Preliminary Rating Assessment (PRA) two notches above the BCA.

GOVERNMENT SUPPORT

The implementation of the BRRD has caused us to reconsider the potential for government support to benefit the bank's creditors.

We nevertheless expect government support to remain high in the case of CIF. Due to the high exposure of the French government to the group through state-guaranteed debt issued by 3CIF, we believe the cost for the state to recapitalise the entity in the case of a potential breach in capital adequacy will be far less than the loss they would incur in a liquidation process.

Additionnally, as soon as 2016, the remaining non-guaranteed debt outstanding will be around EUR900 million, whereas guaranteed debt will amount to EUR10-12 billion. A bail-in of this outstanding debt would trigger the bail-in of pari-passu guaranteed debt and a call on the guarantee provided by the French state, which is an unlikely scenario in our view.

ABOUT MOODY'S BANK SCORECARD

Our Scorecard is designed to capture, express and explain in summary form our Rating Committee's judgment. When read in conjunction with our research, a fulsome presentation of our judgment is expressed. As a result, the output of our Scorecard may materially differ from that suggested by raw data alone (though it has been calibrated to avoid the frequent need for strong divergence). The Scorecard 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

Credit Immobilier de France Developpement

Macro Factors	

Weighted Macro Profile	**Very Strong -**

Financial Profile						
Factor	**Historic Ratio**	**Macro Adjusted Score**	**Credit Trend**	**Assigned Score**	**Key driver #1**	**Key driver #2**
Solvency						
Asset Risk						
Problem Loans / Gross Loans	5.5%	baa2	←→	baa3	Quality of assets	Long-run loss performance
Capital						
TCE / RWA	-	-	←→	baa1	Risk-weighted capitalisation	Expected trend
Profitability						
Net Income / Tangible Assets	-1.3%	caa3	←→	caa3	Return on assets	
Combined Solvency Score		-		ba1		
Liquidity						
Funding Structure						
Market Funds / Tangible Banking Assets	83.7%	caa3	←→	baa2	Market funding quality	Term structure
Liquid Resources						
Liquid Banking Assets / Tangible Banking Assets	4.5%	b2	←→	b2	Asset encumbrance	Additional liquidity resources
Combined Liquidity Score		caa1		ba2		

Financial Profile	**ba1**

Qualitative Adjustments	**Adjustment**
Business Diversification	-1
Opacity and Complexity	0
Corporate Behavior	0
Total Qualitative Adjustments	**-1**

Sovereign or Affiliate constraint	Aa1
Scorecard Calculated BCA range	**ba1 - ba3**
Assigned BCA	**Private**
Affiliate Support notching	**–**
Adjusted BCA	**Private**

Instrument Class	**Loss Given Failure notching**	**Additional notching**	**Preliminary Rating Assessment**	**Government Support notching**	**Local Currency rating**	**Foreign Currency rating**
Deposits	--	--	--	--	Baa2 RUR Possible	Baa2 RUR Possible

					Upgrade	Upgrade
Senior unsecured bank debt	--	--	--	--	Baa2 RUR Possible Upgrade	

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