

Credit Opinion: Caisse Centrale du Crédit Immobilier de France

Global Credit Research - 19 Dec 2014

Paris, France

Ratings

Category	Moody's Rating
Outlook	Stable
Bank Deposits	Baa2/P-2
Bkd Bank Deposits (ST) -Dom Curr	--/P-1
Bank Financial Strength	E
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

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Opinion

SUMMARY RATING RATIONALE

The Baa2 long-term debt and deposit ratings assigned to Caisse Centrale du Crédit Immobilier de France (3CIF, the rated funding entity of Crédit Immobilier de France group [CIF; unrated]) reflect the limited risks for non-guaranteed debt holders in view of (1) the limited risks in the bank's loan portfolio; and (2) the bank's strong capitalisation which offers sufficient loss absorption buffer in the most plausible scenarios.

3CIF's standalone bank financial strength rating of E - which is equivalent to a baseline credit assessment (BCA) of ca - is based on (1) the fact that CIF has avoided default owing to the French government's support; and (2) its reliance on ongoing support until the full completion of its wind down.

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.

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 BFSR, 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.

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

The group's long-term ratings have a stable outlook, reflecting our view that they adequately capture the balance of risks entailed with the bank's run-off.

On the one hand, with the recent adoption of the Bank Recovery and Resolution Directive (BRRD) and the Single Resolution Mechanism (SRM) regulation in the EU, the balance of risk for banks' senior unsecured creditors has shifted to the downside because of the explicit inclusion of burden-sharing with unsecured creditors as a means of reducing the public cost of bank resolutions. As entities placed in run-off are not excluded from the scope of the BRRD, the risk of a resolution being resorted to at CIF cannot be ruled out.

On the other hand, we believe that the likelihood of a resolution being triggered for this run-off entity is very low as the expected benefits arising from this scenario are very limited. As a result, we maintain a stable outlook on 3CIF's long-term ratings. CIF's non-guaranteed senior unsecured debt outstanding will be limited to approximately EUR900 million when the bail-in of senior creditors will be implemented from January 2016. At that date, there will be EUR10-12 billion of government-guaranteed debt outstanding, which ranks *pari passu* with non-guaranteed unsecured debt. A bail-in of senior debt as a means of generating internal capital is a scenario which is not plausible, in our opinion, because it would trigger a call on the government guarantee, while the capital gain from non-guaranteed creditors would be very limited.

For further details, please refer to our Special Comment: "Reassessing Systemic Support for EU Banks," published on 29 May 2014.

What Could Change the Rating - Up / Down

Upwards rating pressure on the debt and deposit ratings may develop over time as the loan portfolio matures along with outstanding non-guaranteed debt and the prospect of a bail-in of non-guaranteed debt holders becomes more remote.

Downwards pressure would develop on 3CIF's debt and deposit ratings if we considered that the permanent guarantee is insufficient to cover the bank's funding needs, although we consider this event to be unlikely.

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 EUR21 billion of covered bonds outstanding, 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 EUR650 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).

Even if this mechanism was not sufficient to absorb a deterioration in asset quality, we do not expect senior unsecured debt holders to be bailed in. 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 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.

Global Local Currency Deposit Rating (Joint Default Analysis)

3CIF's long-term debt and deposit ratings of Baa2, stable outlook, are based on our expectation that the French authorities will provide sustained financial support to CIF, until completion of the run-off. The short-term ratings are Prime-2.

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. BFSRs 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 honour its domestic or foreign currency obligations. Factors considered in the assignment of BFSRs include bank-specific elements such as financial fundamentals, franchise value, and business and asset diversification. Although BFSRs 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.

Global Local Currency Deposit Rating

A deposit rating, as an opinion of relative credit risk, incorporates the BFSR 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, they are intended to incorporate those aspects of credit risk relevant to the prospective payment performance of rated banks with respect to deposit obligations, which 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 recognise 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 external elements of support into the bank's BCA. In calculating the global local currency deposit rating for a bank, the JDA methodology also factors in the rating of the support provider, in the form of the local currency deposit ceiling for a country, Moody's assessment of the probability of systemic support for the bank in the event of a stress situation and the degree of dependence between the issuer rating and the local currency deposit ceiling.

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

CAISSE CENTRALE DU CREDIT IMMOBILIER DE FRANCE

Rating Factors [1]	A	B	C	D	E	Total Score	Trend
Qualitative Factors (50%)						D+	
Factor: Franchise Value						D	Weakening
Market share and sustainability					x		
Geographical diversification			x				
Earnings stability			x				
Earnings Diversification [2]					x		
Factor: Risk Positioning						E+	Neutral
Corporate Governance [2]							
- Ownership and Organizational Complexity							
- Key Man Risk							
- Insider and Related-Party Risks							
Controls and Risk Management							
- Risk Management			x	x			
- Controls					x		
Financial Reporting Transparency							
- Global Comparability	x			x			
- Frequency and Timeliness					x		
- Quality of Financial Information					x		
Credit Risk Concentration							
- Borrower Concentration					x		
- Industry Concentration					x		
Liquidity Management							
Market Risk Appetite	x				x		
Factor: Operating Environment						B-	
Economic Stability							
Economic Stability			x				
Integrity and Corruption							
Integrity and Corruption		x					
Legal System							
Legal System		x					
Financial Factors (50%)						D-	
Factor: Profitability						E+	Weakening
PPI % Average RWA (Basel II)				0.83%			
Net Income % Average RWA (Basel II)					-0.73%		
Factor: Liquidity						E	Neutral
(Market Funds - Liquid Assets) % Total Assets					78.83%		
Liquidity Management					x		
Factor: Capital Adequacy						A	Neutral
Tier 1 Ratio (%) (Basel II)	12.25%						
Tangible Common Equity % RWA (Basel II)	8.17%						
Factor: Efficiency						E	Weakening
Cost / Income Ratio					82.36%		
Factor: Asset Quality						E+	Weakening
Problem Loans % Gross Loans				5.48%			
Problem Loans % (Equity + LLR)					99.19%		
Lowest Combined Financial Factor Score (15%)						E	
Economic Insolvency Override						Neutral	
Aggregate BFSR Score						D	
Aggregate BCA Score						ba2	

Assigned BFSR		E	
Assigned BCA		ca	

- [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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