CM11-CIC GROUP
BASEL PILLAR 3 DISCLOSURE
FINANCIAL YEAR 2012

Disclosure published in connection with the transparency required by the French Decree of February 20, 2007 relating to capital requirements

Crédit Mutuel
LA banque à qui parler

Risk management

Risk management policy and procedures

The risk management policy and procedures are presented in the "Risk Report" sectionof the CM11-CIC Group 2012 annual report.

Risk management function's structure and organization

The Group's internal controls and risk management system is organized around the Risk Department, the Risk Committee and the Risk Monitoring Committee.
Risks are monitored in accordance with the provisions of the French Decree of January 19, 2010, amending CRBF 97-02, concerning the risk function, for which it defines the missions involved.

Risk Department

The aim of the Group Risk Department, which regularly analyzes and reviews all types of risks with an eye toward the return on allocated regulatory capital, is to contribute to the Group's growth and profitability while ensuring the quality of the risk management systems.

Risk Committee

This committee meets quarterly and includes the operational risk managers, who are the head of the Risk Department and the heads of the business lines and functions involved together with the executive management team. The head of the Risk Department prepares the agenda and reports, presents the main risks and developments in the main risks, and presides over the meetings. This Committee is responsible for overall ex-post and ex-ante risk monitoring.

Risk Monitoring Committee

This committee consists of members of the deliberative bodies and meets twice a year to review the Group's strategic challenges and opportunities in the risk area. Based on the findings presented, it makes recommendations on all decisions of a prudential nature applicable to all Group entities.

The head of the Risk Department presides over this committee's meetings and presents the files prepared for the various risk areas based on the work of the Risk Committee. Executive management also participates in the meetings of this committee, which may also invite the heads of the business lines that have a stake in the items on the meeting agenda.

Scope and nature of risk measurement and reporting systems

Coordinating operations with the various business lines, the CM11-CIC Risk Department regularly compiles management reports summarizing a review of the various risks: credit, market, global interest rate, intermediation, settlement, liquidity and operational risks. All of the Group's main business lines are covered by monitoring and reports. More specifically, these management reports are prepared using the Group-wide Basel II tools and interface with the accounting system.

Equity structure

Regulatory capital levels are determined in accordance with French banking and financial regulations committee regulation 90-02 of February 23, 1990.
They are broken down into Tier 1 capital and Tier 2 capital, from which a certain number of deductions are carried out.

Tier 1 capital

This core capital is determined based on the Group's reported shareholders' equity, calculated on the prudential scope, after applying "prudential filters". These adjustments primarily concern:

- dividend payment forecasts;
- deduction of goodwill on acquisitions and other intangible assets;
- deduction of unrealized capital gains on equity instruments net of the tax already deducted for accounting purposes (calculated for each currency) for Tier 1, and the inclusion of these unrealized capital gains in Tier 2 capital for 45%;
- net unrealized capital losses on equity instruments for each currency are not restated;
- unrealized capital gains or losses recognized directly in equity due to a cash flow hedging operation, as well as those relating to other financial instruments, including debt instruments, are eliminated.

Tier 1 capital admitted with cap

Hybrid securities are admitted as Tier 1 capital with a maximum limit, as approved by the general secretariat of the French Prudential Supervisory Authority, provided that they satisfy the eligibility criteria defined in Regulation 90-02, amended by the Decree of August 25, 2010.

More specifically, this concerns super subordinated notes issued under Article L. 228-97 of the French Commercial Code.

"Innovative" hybrid instruments, i.e. those with strong incentives for redemption, particularly through step-up payments, and dated instruments are limited to 15% of the Tier 1 capital.

All of these hybrid instruments – "innovative and non-innovative" – are limited to 35% of the Tier 1 capital. In addition, a grandfather clause plans to keep hybrid instruments at 100% over 30 years when they have already been issued, but may not be compliant with the new eligibility criteria introduced in August 2010, provided that they do not exceed a certain Tier 1 capital limit.

A detailed breakdown of the-Group's super subordinated notes at December 31, 2012 is presented below:

Issuer	Issue date	Issue amount (in €m)	Maturity date	Call date	Remuneration	Innovative (Yes/No)	Amount at Dec. 31, 2012 (in €m)
BFCM	10/17/2008	700	No fixed maturity	As of 10/17/2018	10.30% then 3-month Euribor + 6.65% from 10/17/2018	Yes	700
BFCM	12/15/2004	750	No fixed maturity	As of 12/15/2014	6% then EUR CMS10 + 0.10% or 8% maximum from 06/15/2006	No	750
BFCM	04/28/2005	600	No fixed maturity	As of 10/28/2015	4.471% then 3-month Euribor + 1.85% from 10/28/2015	Yes	404
BFCM	02/25/2005	250	No fixed maturity	As of 02/25/2015	7% then EUR CMS10 + 0.10% or 8% maximum from 02/25/2007	No	250

Tier 2 capital structure

The Tier 2 capital comprises:

- subordinated notes or securities issued which satisfy the conditions of CRBF Regulation 90-02 relating to shareholders' equity (perpetual or redeemable subordinated notes);
- net unrealized capital gains on equity instruments, which are reversed for 45%, currency by currency, before tax;
- the positive difference between expected losses calculated using internal rating approaches and the total amount of collective impairments and value adjustments relating to the exposures concerned.

Deductions

The following deductions are booked against the Tier 1 capital and the Tier 2 capital for 50% of their amount in each tier.

More specifically, this concerns equity investments representing more than 10% of the capital of a credit institution or investment company, as well as the subordinated debt and any other related equity capital components.

This also concerns expected losses on exposure through equities as well as outstanding loans treated in line with the internal rating approach and not covered by value adjustments and provisions.

In addition, the Group applies the transitional method authorized by CRBF Regulation 90-02 concerning the treatment of equity investments in insurance companies. During a period through to December 31, 2012, financial conglomerates may deduct from their overall equity the consolidated value of their insurance securities (acquired prior to January 1, 2007), as well as the corresponding subordinated debts, with an equity value.

In € billions	Dec. 31, 2012	Dec. 31, 2011
TIER 1 CAPITAL, net of deductions	0.0	21.5
Capital	5.8	5.6
Eligible reserves	23.1	21.0
Hybrid securities retained with the ACP's agreement	2.1	2.1
Deductions from Tier 1 capital including, in particular, intangible assets	-9.1	-7.2
TIER 2 CAPITAL, net of deductions		
Subordinated securities and other Tier 2 elements	3.1	4.1
Additional deductions from capital (including insurance securities)	-3.1	-4.1
TOTAL CAPITAL FOR CAPITAL ADEQUACY RATIO CALCULATION	21.8	21.5
Capital requirement in respect of credit risk	10.1	12.1
Capital requirement in respect of market risks	0.3	0.4
Capital requirement in respect of operational risk	1.2	1.3
TOTAL CAPITAL REQUIREMENT before taking account of additional requirements (transitional measures)	11.5	13.7
Additional requirements in respect of floor levels	0.8	2.0
TOTAL CAPITAL REQUIREMENT	12.4	15.7
SOLVENCY RATIOS		
Tier 1 ratio	14.1%	11.0%
Total ratio	14.1%	11.0%

Capital adequacy

Pillar 2 of the Basel agreement requires banks to carry out their own economic capital assessments and apply stress scenarios to evaluate their capital needs in the event of a deterioration in the economic environment. This pillar structures the dialogue between the Bank and the French Prudential Supervisory Authority concerning the level of capital adequacy retained by the institution.

The work carried out by the Group to bring itself into line with the demands of Pillar 2 ties in with improvements to the credit risk measurement and monitoring system. In 2008, the Group rolled out its internal capital assessment framework as part of the Internal Capital Adequacy Assessment Process (ICAAP). The methods for measuring economic requirements have been further strengthened, while management and control procedures have been drawn up, also with a view to defining a framework for the risk policy. Alongside this, various stress scenarios have been determined.

The difference between the economic capital and the regulatory capital constitutes the margin making it possible to secure the Bank's level of capital. The latter depends on the Group's risk profile and aversion.

In € millions	Dec. 31, 2012	Dec. 31, 2011
CAPITAL REQUIREMENTS IN RESPECT OF CREDIT RISK	**10,080.3**	**12,098.7**
Standardized approach		
Central governments and central banks	5.8	7.2
Credit institutions	153.1	149.1
Corporates	652.3	6,166.1
Retail customers	1,520.5	1,539.1
Equities	42.5	54.6
Securitization positions under the standardized approach	41.1	29.8
Other assets not corresponding to credit obligations	43.9	64.2
Internal ratings-based approach		
Credit institutions	409.6	469.9
Corporates	3,742.8	
Retail customers		
Small and medium-sized entities	495.6	506.3
Renewable exposure	53.0	42.2
Real estate loans	791.8	718.9
Other exposures to retail customers	382.6	440.5
Equities		
Private equity *(190% weighting)*	234.9	223.9
Listed equities *(290% weighting)*	108.8	200.7
Other equities *(370% weighting)*	171.7	122.6
Other assets not corresponding to credit obligations	389.9	362.8
Securitization positions	840.5	1,000.8
CAPITAL REQUIREMENTS IN RESPECT OF MARKET RISK	**285.4**	**380.7**
Interest rate risk	**147.7**	**175.0**
Specific risk relating to securitization positions	**60.8**	**64.6**
Specific risk relating to correlation portfolio positions	**12.9**	**57.7**
Equity price risk	**63.9**	**83.4**
Market risk under standardized approach relating to positions on commodities	**0.1**	
CAPITAL REQUIREMENT IN RESPECT OF OPERATIONAL RISK	**1,183.5**	**1,265.5**
Internal ratings-based approach (IRBA)	**807.4**	**823.2**
Standardized approach	**273.2**	**237.7**
TOTAL CAPITAL REQUIREMENTS	**11,549.2**	**13,744.9**

Concentration risk

Exposure for each category

Historically, the Group's priority has been to develop a customer base of private individuals. CIC, which was originally geared more toward the corporates market, has gradually gained strength in the personal banking segment. However, it continues to serve corporates.

The composition of the Group's portfolio clearly reflects these principles, as evidenced by the fact that the share of retail customers has been maintained, representing 52% at December 31, 2012.

In € billions	Exposure at Dec. 31, 2012			Exposure at Dec. 31, 2011			Average exposure 2012
	IRB	Standardiz	Total	IRB	Standardiz	Total	
Central governments and central banks		63	63		49	49	58
Credit institutions	33	9	42	33	9	43	40
Corporates	90	10	100		102	102	101
Retail customers	199	36	235	195	36	231	234
Equities	3	0	3	3	0	3	3
Securitization	4	0	4	5	1	6	4
Other assets not corresponding to credit obligations	5	1	5	5	1	5	5
TOTAL	**333**	**119**	**453**	**241**	**198**	**439**	**445**

The Group has aligned itself to the most advanced components from the Basel 2 agreement, in particular with respect to its retail customers, its core business.

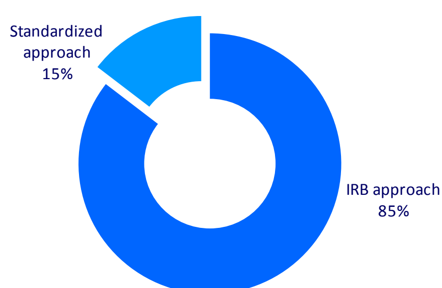
The French Prudential Supervisory Authority has authorized the Group to use its internal rating system for calculating its regulatory capital requirements on the credit risk:

- with the advanced approach, from June 30, 2008, for the retail customer portfolio;
- with the foundation approach, from December 31, 2008, then the advanced approach, from December 31, 2012 for the Bank's portfolio;
- with the advanced approach, from December 31, 2012, for the Corporate portfolio.

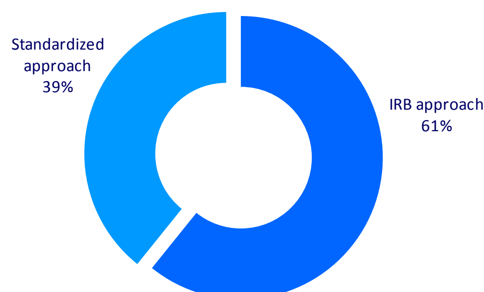
The percentage of exposures approved with advanced internal methods for the regulatory portfolios concerning Institutions, Corporates and Retail Customers came to 85% at December 31, 2012.

Capital adequacy requirements for the Government and Central Bank portfolios are evaluated on a long-term basis using the standard method as approved by the general secretariat of the French Prudential Supervisory Authority. Foreign subsidiaries are subject to the standard approach at December 31, 2012.

Proportion of gross IRB exposure at December 31, 2012



Proportion of gross IRB exposure at December 31, 2012



Exposure by counterparty country of residence

Breakdown at December 31, 2012

as %

Exposure category	France	Germany	Other EEA member states	Rest of the world	Total
Central governments and central banks	11.4%	0.5%	1.2%	1.6%	14.7%
Credit institutions	5.9%	0.3%	0.7%	1.0%	7.9%
Corporates	18.3%	0.7%	2.0%	1.8%	22.8%
Retail customers	48.7%	3.2%	1.5%	1.1%	54.6%
TOTAL	**84.2%**	**4.8%**	**5.5%**	**5.5%**	**100%**

Breakdown at December 31, 2011

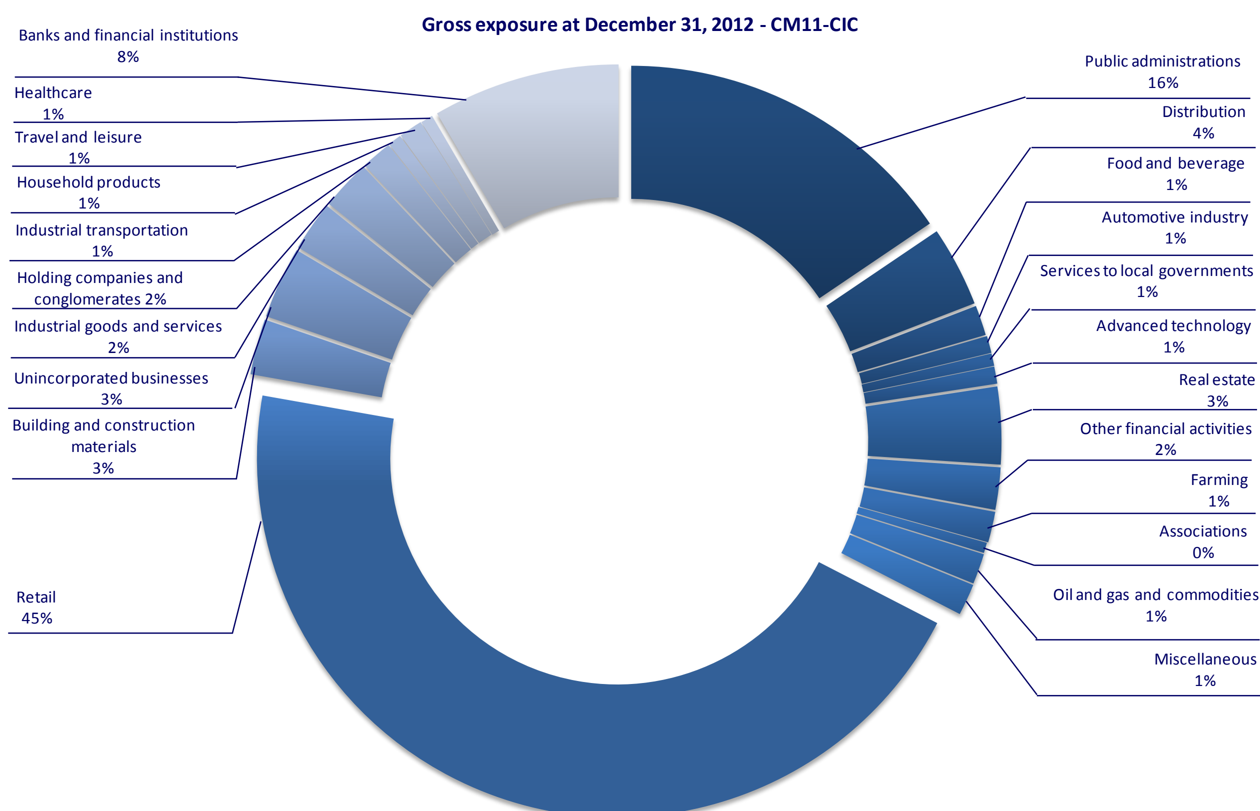
as %

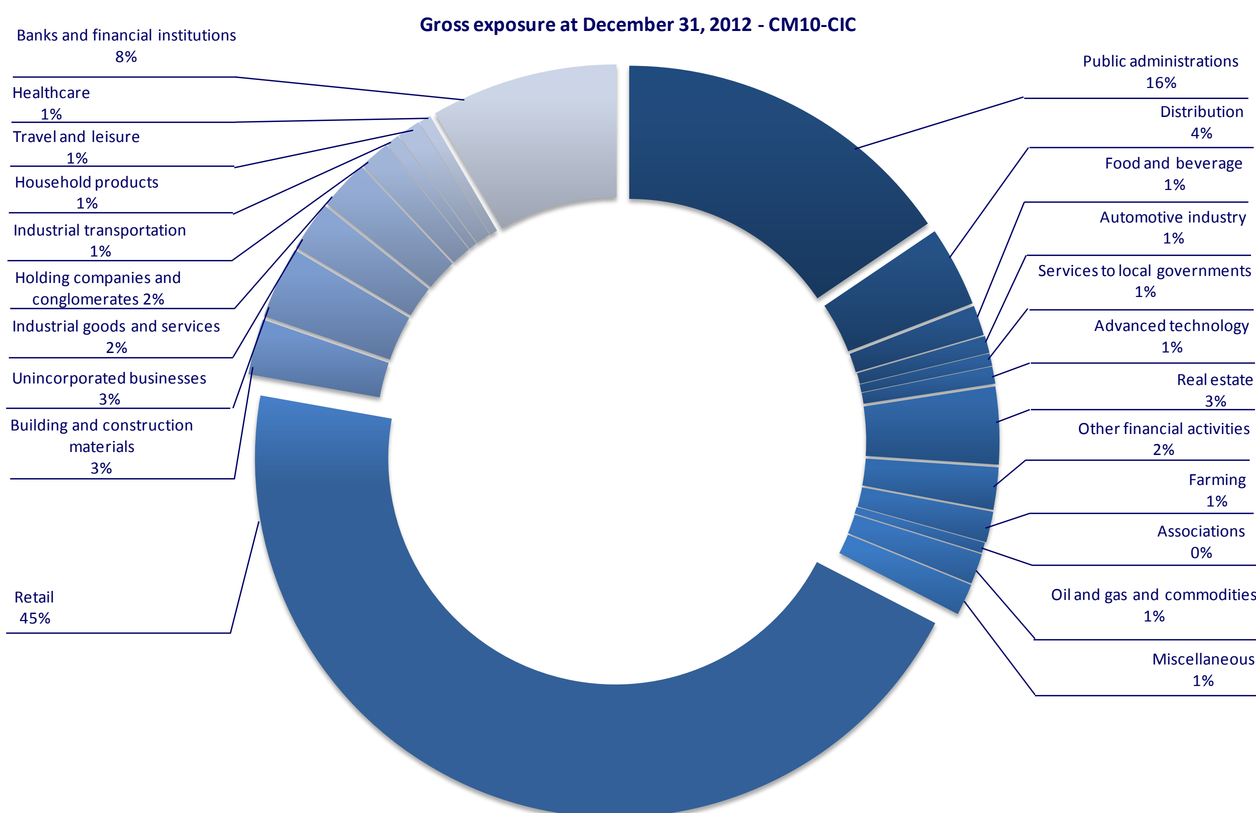
Exposure category	France	Germany	Other EEA member states	Rest of the world	Total
Central governments and central banks	8.7%	0.5%	1.7%	0.8%	11.6%
Credit institutions	6.8%	0.3%	1.2%	1.1%	9.4%
Corporates	19.1%	0.8%	2.0%	2.0%	23.9%
Retail customers	49.0%	3.4%	1.6%	1.2%	55.2%
TOTAL	**83.6%**	**4.9%**	**6.6%**	**5.0%**	**100.0%**

The geographic breakdown of gross exposure at December 31, 2012 reflects the fact that the Group is primarily a French and European player, with 94.5% of commitments in the European Economic Area.

Exposure by sector

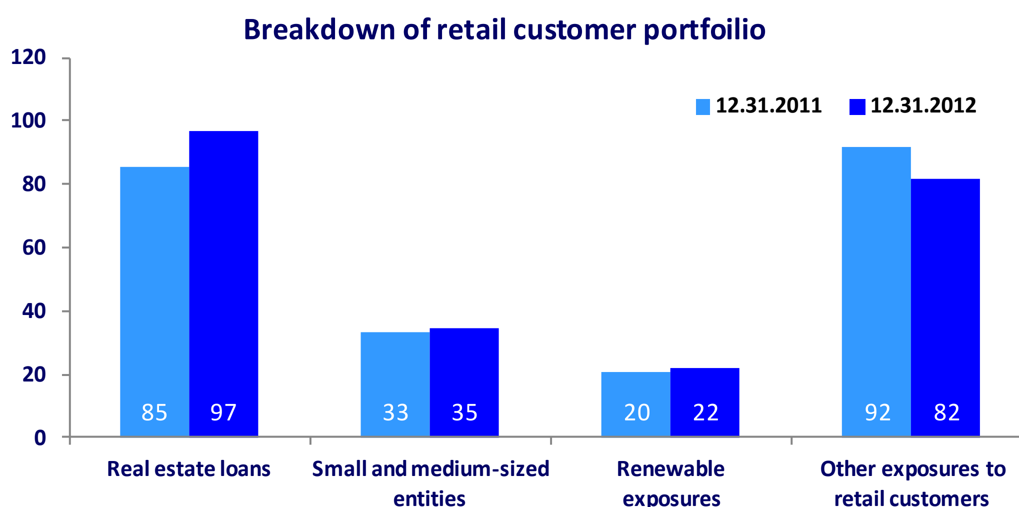
The sector breakdown reflects loans to governments and central banks, institutions, corporates and retail customers.





Breakdown of the retail customer portfolio

Outstanding loans to retail customers totaled €235 billion at December 31, 2012, compared with €231 billion at December 31, 2011. The breakdown of this portfolio by regulatory subcategory is presented in the following chart.



Standard approach

The Group uses assessments by the rating agencies Standard & Poor's, Moody's and Fitch Ratings to measure the sovereign risk on exposure relating to governments and central banks. The cross-reference table used to reconcile credit rating levels with the external ratings taken into consideration is based on that defined by the regulations in force.

Exposure with the standard approach

Exposure to governments and central banks is weighted almost exclusively at 0%. The capital requirements associated with this portfolio reflect a limited sovereign risk for the Group with good-quality counterparties.

In € billions	Weightings				
GROSS EXPOSURES	0%	20%	50%	Total Dec. 31, 2012	Total Dec. 31, 2011
Central governments and central banks	62.6		0.4	**63.1**	48.7
Local and regional authorities		5.1		**5.1**	4.4

VALUE EXPOSED TO RISK	*0%*	*20%*	*50%*	Total Dec. 31, 2012	Total Dec. 31, 2011
Central governments and central banks	62.6		0.3	**62.9**	47.9
Local and regional authorities		4.8		**4.8**	3.9

Rating system

Rating system description and control

Single rating system for the entire CM11-CIC Group

Rating algorithms and expert models have been developed to improve the Group's credit risk assessment and to comply with regulatory requirements regarding internal rating processes.

Rating methodologies are defined under the responsibility of the National Confederation for all portfolios. However, the regional entities are directly involved in developing and approving working group projects on specific issues, as well as work on data quality and application acceptance testing. The rating system for the Group's counterparties is used across the entire Group.

The Group's counterparties who are eligible for internal processes are rated by a single system which is based on:

- statistical algorithms or "mass ratings", based on one or more models, factoring in a selection of representative and predictive variables concerning the risk for the following segments:
  - Private individuals;
  - Retail entities;
  - Real estate trusts;
  - Sole traders;
  - Farmers;
  - Non-profit organizations;
  - Corporates;
  - Corporate acquisition financing.
- rating grids prepared by experts for the following segments:
  - Banks and covered bonds;
  - Key accounts;
  - Financing of large corporate acquisitions;
  - Real estate companies;
  - Insurance companies.

These models (algorithms or rating grids) are used to ensure proper risk assessment and rating. The scale of values reflects risk progressivity and is divided into 11 positions, including nine non-default positions (A+, A-, B+, B-, C+, C-, D+, D-, E+) and two default positions (E- and F).

Unified definition of default based on Basel and accounting requirements

A unified definition of default was introduced for the entire CM11-CIC Group. Based on an alignment of prudential rules to accounting regulations (CRC 2002-03), this definition draws a correlation between the Basel concept of default and the accounting notion of non-performing loans and loans in litigation. The computer applications take contagion into account, which also allows related loans to be downgraded. Controls carried out by the Internal Inspection unit and the Statutory Auditors ensure the reliability of the arrangements for identifying defaults used for calculating capital requirements.

Formalized monitoring framework for the internal rating system

The quality of the internal ratings system is monitored based on national procedures which detail the topics reviewed, the disclosure thresholds and the responsibilities of the participants. These documents are updated by the Risk Department from Crédit Mutuel's National Confederation as required in accordance with decisions that have been approved.
Reporting on the monitoring of mass rating models involves three main areas of study: stability, performance and various additional analyses. This reporting is carried out for each mass rating model on a quarterly basis and supplemented with half-year and annual controls and monitoring work, for which the levels of details are higher.

In terms of the expert grids, the system includes full annual monitoring based on performance tests (analysis of rating concentrations, transition matrices, correspondences with the external rating system), supplemented for key accounts and related structures with interim monitoring on a half-yearly basis.

The parameters used for calculating weighted risks are national and applied for all the Group's entities. Default probabilities are monitored annually before any new estimates of the regulatory parameter. Depending on the portfolios, this is supplemented with interim monitoring, on a half-yearly basis. The approach for monitoring the LGD (loss given default) and CCF (conversion factors from off-balance sheet to on-balance sheet equivalents) is annual and intended primarily to validate the values taken by these parameters for each segment. With regard to the loss given default, this validation is notably carried out by checking the robustness of the methods for calculating the prudential margins and comparing the LGD estimators with the latest data and actual results. For the CCF, validations are carried out by comparing the estimators with the latest CCF observed.

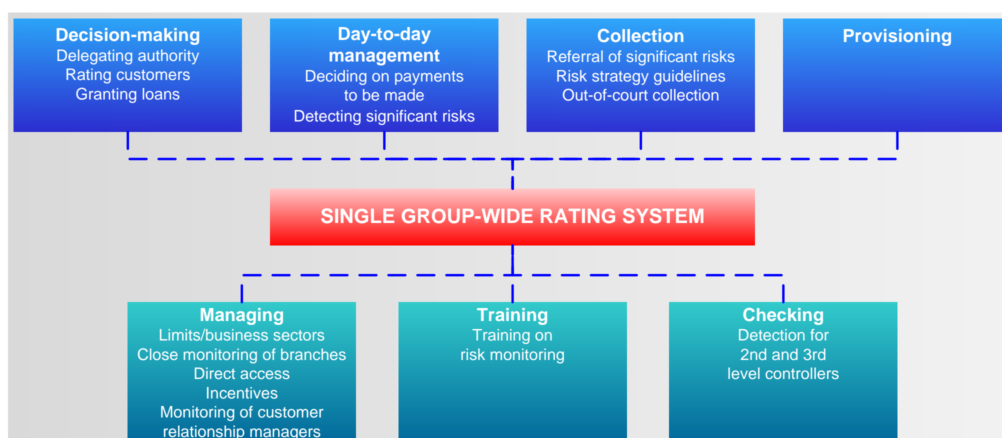
Internal rating system included within the control scope of permanent and periodic control

The Group's permanent control plan in relation to Basel 2 is based on two levels. At national level, permanent control is involved in validating new models and significant adjustments made to existing models on the one hand, and on the other, the permanent monitoring of the internal rating system (particularly the parameters). At regional level, it verifies the overall adoption of the internal rating system, as well as operational aspects linked to the production and calculation of ratings, the credit risk management procedures relating directly to the internal rating system, and data quality.

In terms of periodic control, the Group's inspection unit carries out an annual review of the internal rating system. A framework procedure defines the type of assignments to be carried out on an ongoing basis with the Basel 2 approach, as well as the breakdown of responsibilities between regional and national-level inspection bodies.

Operational integration of the internal rating system

Regional groups implement the national Basel 2 arrangements under specific conditions (make-up of committees, risk management procedures, etc.). In accordance with the regulations, the Basel 2 framework is put in place in the Group's various entities at all levels within the credit management function, as illustrated in the following diagram concerning the use of ratings:



The overall consistency of the arrangements is ensured by the following:

- national governance for the internal rating system;
- distribution of national procedures by Crédit Mutuel's National Confederation;
- exchanges of practices between the entities (during plenary meetings or bilateral CNCM/group or inter-group exchanges);
- adoption of two IT systems by virtually all the entities, structuring the Group's organization (same approach for applications nationally, possibility of common applications being used on a federation-wide basis);
- national reporting tools, which check the consistency of practices in the regional groups;
- audits carried out by permanent control and confederal inspection.

These applications and assignments are intended to ensure regulatory compliance and a high level of convergence in terms of practices using the internal rating system. The methodological guidelines, progress made with the arrangements and the main consequences of the reform are regularly presented to all the Crédit Mutuel federations, as well as the subsidiaries and CIC banks.

Breakdown of risk exposure values by category

In € billion	December 31, 2012		December 31, 2011		Change 2012/2011	
	Value exposed to risk	Value adjustments*	Value exposed to risk	Value adjustments*	Value exposed to risk	Value adjustments*
Foundation internal ratings-based approach						
Credit institutions			32.2	0.0	-32.2	0.0
Advanced internal ratings-based approach						
Institutions	**32.2**	**0.0**			32.2	0.0
Corporates	**75.1**	**0.9**			75.1	0.9
Retail customers						
Revolving	6.0	0.1	5.7	0.1	0.3	0.0
Residential real estate	92.7	0.6	82.3	0.5	10.4	0.1
Other	89.7	2.0	96.5	2.1	-6.9	0.0
TOTAL	**295.7**	**3.7**	**216.8**	**2.6**	**78.9**	**1.0**

(*) These value adjustments are made in relation to individual provisions. Information concerning collective provisions is provided in the annual report.

Breakdown of risk exposure values based on an advanced internal rating approach by category and internal rating (excluding exposures at default)

Credit institutions and Corporates

In €m December 31, 2012	Credit quality step	Gross exposure	Exposure At Default (EAD)	Risk Weighted Assets	Risk Weight (RW) %	Expected Loss (EL)
Credit Institutions	1	2,733	2,730	198	7.2	-
	2	14,915	14,862	379	2.6	0
	3	11,953	11,407	2,949	25.8	-
	4	913	887	229	25.8	-
	5	1,113	979	396	40.5	-
	6	699	555	322	58.0	-
	7	749	652	581	89.1	-
	8	75	68	38	56.3	-
	9	16	12	28	228.6	-
Corporates - Large accounts	1	65	45	7	15.3	
	2	982	662	121	18.2	
	3	3,984	2,726	705	25.9	
	4	9,549	6,493	2,162	33.3	
	5	12,930	9,591	5,530	57.7	
	6	8,554	6,154	5,457	88.7	
	7	4,170	3,224	3,609	111.9	
	8	5,456	4,682	7,169	153.1	
	9	1,673	1,360	3,154	232.0	
Corporates - Excl. large accounts	1	1,790	1,638	249	15.2	0
	2	5,354	4,921	1,171	23.8	3
	3	5,973	5,550	1,873	33.7	8
	4	6,340	5,926	2,478	41.8	15
	5	7,102	6,592	3,250	49.3	31
	6	4,499	4,227	2,751	65.1	41
	7	2,642	2,491	2,009	80.6	42
	8	773	729	707	97.0	20
	9	442	411	405	98.6	19
Corporates under the IRB slotting approach		5,785	5,655	3,487	60.8	23

Retail - Individuals

In €m December 31, 2012	Credit quality step	Gross exposure	Exposure At Default (EAD)	Risk Weighted Assets	Risk Weight (RW) %	Expected Loss (EL)
Real estate	1	5,196	5,131	67	1.3	0
	2	27,144	26,856	418	1.6	1
	3	14,910	14,764	565	3.8	3
	4	13,305	13,190	1,006	7.6	6
	5	7,122	7,060	978	13.9	7
	6	3,286	3,208	776	24.2	8
	7	1,929	1,915	636	33.2	8
	8	2,033	2,025	919	45.4	16
	9	1,285	1,281	811	63.3	31
Revolving	1	306	127	1	0.8	0
	2	2,633	1,212	12	1.0	0
	3	2,462	1,260	30	2.4	0
	4	2,368	1,349	74	5.5	2
	5	1,117	698	84	12.0	2
	6	717	474	101	21.4	3
	7	344	245	83	33.9	3
	8	301	233	112	48.1	5
	9	138	117	92	78.6	7
Other loans	1	4,993	4,775	72	1.5	0
	2	20,772	20,099	343	1.7	1
	3	9,818	9,403	439	4.7	2
	4	7,642	7,338	680	9.3	4
	5	3,801	3,647	579	15.9	6
	6	2,895	2,396	472	19.7	10
	7	1,168	1,124	291	25.9	9
	8	1,012	989	281	28.5	14
	9	595	585	246	42.1	23

Retail - Other

In €m December 31, 2012	Credit quality step	Gross exposure	Exposure At Default (EAD)	Risk Weighted Assets	Risk Weight (RW)%	Expected Loss (EL)
Real estate	1	2,907	2,873	126	4.4	1
	2	4,009	3,973	309	7.8	2
	3	2,358	2,336	312	13.3	2
	4	1,820	1,795	351	19.5	3
	5	1,483	1,465	396	27.1	4
	6	1,084	1,073	385	35.9	5
	7	787	781	373	47.7	7
	8	570	567	324	57.2	8
	9	614	608	398	65.5	19
Revolving	1	79	39	1	2.9	0
	2	66	35	2	6.1	0
	3	35	20	2	10.8	0
	4	26	15	2	14.2	0
	5	18	11	2	21.4	0
	6	34	22	7	31.4	0
	7	17	12	5	43.9	0
	8	16	11	7	58.5	0
	9	13	10	8	82.1	1
Other loans	1	7,701	7,175	536	7.5	3
	2	7,761	7,354	845	11.5	6
	3	5,480	5,184	873	16.8	8
	4	4,510	4,231	892	21.1	13
	5	4,256	3,980	945	23.8	20
	6	2,883	2,688	691	25.7	24
	7	2,649	2,482	717	28.9	39
	8	1,584	1,508	532	35.3	39
	9	1,384	1,336	598	44.8	67

Retail - Individuals

In €m December 31, 2011	Credit quality step	Gross exposure	Exposure At Default (EAD)	Risk Weighted Assets	Risk Weight (RW)	Expected Loss (EL)
Real estate	1	4,404	4,329	64	1.5	0
	2	23,557	23,241	394	1.7	1
	3	13,406	13,246	543	4.1	3
	4	12,243	12,117	960	7.9	6
	5	6,741	6,669	900	13.5	7
	6	2,994	2,924	709	24.3	8
	7	1,704	1,688	566	33.5	8
	8	1,704	1,694	749	44.2	14
	9	1,119	1,114	669	60.1	26
Revolving	1	271	116	1	0.8	0
	2	2,321	1,101	10	0.9	0
	3	2,230	1,173	23	2.0	0
	4	2,203	1,290	58	4.5	1
	5	1,065	684	65	9.6	2
	6	697	468	81	17.3	3
	7	330	237	66	27.7	3
	8	296	231	90	38.9	4
	9	144	121	76	62.6	6
Other loans	1	5,294	4,999	91	1.8	0
	2	22,651	21,848	422	1.9	1
	3	11,349	10,909	518	4.8	2
	4	9,195	8,843	804	9.1	5
	5	4,660	4,476	679	15.2	7
	6	3,311	2,805	507	18.1	11
	7	1,396	1,349	327	24.2	10
	8	1,162	1,139	300	26.3	15
	9	722	709	274	38.7	26

Retail - Other

In €m December 31, 2011	Credit quality step	Gross exposure	Exposure at Default (EAD)	Risk Weighted Assets (RWA)	Risk Weight (RW) %	Expected Loss (EL)
Real estate	1	2,371	2,337	114	4.9	1
	2	3,435	3,398	267	7.9	2
	3	2,077	2,052	291	14.2	2
	4	1,646	1,621	362	22.3	4
	5	1,424	1,404	421	30.0	5
	6	1,057	1,045	369	35.3	5
	7	765	758	352	46.4	7
	8	552	549	302	55.0	8
	9	513	511	313	61.2	16
Revolving	1	67	34	1	2.3	0
	2	59	32	2	4.9	0
	3	30	17	2	8.9	0
	4	23	14	2	11.9	0
	5	19	12	2	17.0	0
	6	33	21	5	25.5	0
	7	16	11	4	35.3	0
	8	16	12	6	47.2	0
	9	12	10	6	65.2	1
Other loans	1	7,200	6,689	554	8.3	3
	2	7,526	7,105	841	11.8	6
	3	5,436	5,111	905	17.7	9
	4	4,540	4,238	926	21.9	15
	5	4,568	4,208	1,029	24.5	25
	6	3,105	2,868	736	25.7	27
	7	2,935	2,710	793	29.3	44
	8	1,746	1,625	581	35.7	44
	9	1,543	1,447	647	44.7	74

RWA refers to the risk weighted assets and EL the expected losses. Exposures at default are not included in the above table.
The LGD used for calculating the expected losses proposes an average cycle estimate, while the accounting information recorded concerns a given year. As a result, comparisons between ELs and losses are not relevant for a given year.

Counterparty risk for trading desks

The counterparty risk concerns derivative instruments and repo transactions from the banking and trading portfolios. These transactions are primarily covered by the CM-CIC Marchés business.

Within this framework, netting and collateral agreements have been set up with the main counterparties, limiting the counterparty risk exposure levels.

Counterparty risk	Value exposed to risk	
in € billions	Dec. 31, 2012	Dec. 31, 2011
Derivatives	9.8	4.8
Repurchase agreements	0.4	0.5
Total	**10.2**	**5.3**

Credit risk mitigation techniques

Netting and collateralization of repos and over-the-counter derivatives

When a framework agreement is entered into with a counterparty, the signatory entity nets the exposure with the latter. With credit institution counterparties, CM-CIC Marchés supplements these agreements with collateralization agreements (CSA).
The operational management of these contracts is based on the TriOptima platform.
Due to margin calls, in most cases daily, significantly reduce the residual net credit risk on over-the-counter derivatives and repos.

Description of the main categories of collateral taken into account by the institution

The Group uses guarantees in different ways when calculating weighted risks, depending on the type of borrower, the calculation method applied for the exposure covered and the type of guarantee.

For retail banking customer contracts based on an advanced IRB approach, the guarantees are used as an element for segmenting the loss given default, calculated statistically on all the Group's non-performing loans and loans in litigation.

For contracts concerning the "sovereign" and "institution" portfolios and, to some extent, the "corporate" portfolio, personal collateral and financial collateral are used as risk mitigation techniques, as defined by the regulations:

- Personal collateral corresponds to a commitment made by a third party to take the place of the primary debtor if the latter defaults. By extension, credit derivatives (acquisition of protection) are included in this category;
- Financial collateral is defined by the Group as a right for the institution to liquidate, retain or obtain the transfer of ownership of certain amounts or assets, such as pledged cash deposits, debt securities, equities or convertible bonds, gold, UCITS units, life insurance policies and instruments of all kinds issued by a third party and redeemable on request.

The guarantee's use is only effective if the guarantee is compliant with the legal and operational criteria set by the regulations.

Operational procedures describe the features of the guarantees used, the eligibility conditions, the operating principles and the resolution of alerts triggered in the event of non-compliance. Downstream processing operations for calculating weighted risks taking risk mitigation techniques into consideration are automated to a great extent.

Procedures applied for valuing and managing instruments comprising physical collateral

The valuation procedures for guarantees vary depending on the type of instrument comprising the physical collateral. For general cases, the studies carried out within the Group are based on statistical estimation methodologies, integrated directly into the applications, using external indices with potential discounts applied depending on the type of asset accepted as collateral. On an exceptional basis, specific procedures include provisions for expert valuations, particularly in cases when the limits set for outstandings are exceeded on transactions.

These procedures are drawn up at national level. The Group's entities are then responsible for managing operational aspects, monitoring valuations and activating guarantees.

Main categories of protection providers

With the exception of intra-group guarantees, the main categories of protection providers taken into account are mutual guarantee companies such as Crédit Logement.

Securitization

Objectives

In connection with capital markets activities, the Group carries out operations on the securitization market by taking up investment positions with three objectives: achieving returns, taking risks and diversifying. The risks primarily concern the credit risk on the underlying assets and the liquidity risk, particularly with changes to the European Central Bank's eligibility criteria.

The activity is exclusively an investor activity with senior or mezzanine tranches, which always have external ratings.

For specialized financing facilities, the Group supports its customers as a sponsor (arranger or co-arranger) or sometimes as an investor with the securitization of commercial loans. The conduit used is General Funding Ltd (GFL), which subscribes for the senior units in the securitization vehicle and issues commercial paper. The Group is primarily exposed to a credit risk on the portfolio of transferred loans, as well as a risk of the capital markets drying up. This conduit benefits from a liquidity line granted by the Group, which provides it with a guarantee for the placement of its commercial paper.

Irrespective of the business context, the Group is not an originator and may only marginally be considered as a sponsor. It does not invest in any resecuritizations.

Control and monitoring procedures for capital markets activities

Market risks on securitization positions are monitored by the risk and results control function, focusing on various areas, with day-to-day procedures making it possible to monitor changes in market risks. Each day, this function analyzes changes in the results of securitization strategies and explains them in relation to the risk factors. It monitors compliance with the limits defined by the set of rules.

The credit ratings of securitization tranches are also monitored on a daily basis through the monitoring of ratings from the external agencies Standard & Poors, Moody’s and Fitch Ratings. The actions taken by these agencies (upgrades, downgrades or watches) are analyzed. In addition, a quarterly summary of rating changes is drawn up.

In connection with the procedure for managing counterparty limits, the following work is carried out: in-depth analysis of securitizations that have reached the level of delegation for Group commitments, analysis of certain sensitive securitizations (from the eurozone's peripheral countries or subject to significant downgrades). More specifically, these analyses are intended to assess the position's level of credit and the underlying asset's performances.

In addition, each securitization tranche, irrespective of the delegation level, is covered by a form. These forms incorporate the main characteristics of the tranche held, as well as the structure and the underlying portfolio. For securitizations issued from January 1, 2011, information on the underlying asset's performances has been added. This information is updated once a month. The branches’ pre-sales documentation and the issue prospectuses are also recorded and made available with the forms, in addition to the investor reports for securitizations issued from January 1, 2011.

Lastly, the capital markets activities have an application for measuring the impact of various scenarios on the positions (notably changes in prepayments, defaults and recovery rates).

Credit risk hedging policies

The credit markets activities traditionally buy securities. Nevertheless, purchases of credit default swaps for hedging may be authorized and, as applicable, are governed by the capital markets procedures.

Prudential methods and approaches

The entities included within the scope for approval of the credit risk internal rating approach apply the method based on the ratings. Otherwise, the standard approach is retained. The regulatory formula method is used exclusively for the capital markets activities' correlation portfolio.

Accounting principles and methods

Securitization securities are recognized in the same way as other debt securities, i.e. depending on their accounting classification. The accounting principles and methods are presented in Note 1 to the financial statements.

Exposure by type of securitization

Securitization by category

EAD in € billions	December 31, 2012				December 31, 2011			
	Banking portfolio		Trading portfolio	Correlation portfolio	Banking portfolio		Trading portfolio	Correlation portfolio
	Standardized approach	internal ratings-based approach	internal ratings-based approach	internal ratings-based approach	standardized approach	internal ratings-based approach	internal ratings-based approach	internal ratings-based approach
Investor								
Traditional securitization	0.3	3.5	1.8		0.5	4.4	2.0	
Synthetic securitization				0.8				1.3
Traditional resecuritization								
Synthetic resecuritization								
Sponsor		0.3				0.3		
Total	**0.3**	**3.8**	**1.8**	**0.8**	**0.5**	**4.7**	**2.0**	**1.3**

Detailed breakdown of outstandings by credit rating

EAD in € billions	December 31, 2012				December 31, 2011			
	Banking portfolio		Trading portfolio	Correlation portfolio	Banking portfolio		Trading portfolio	Correlation portfolio
Credit quality step	standardized approach	internal ratings-based approach	internal ratings-based approach	internal ratings-based approach	standardized approach	internal ratings-based approach	internal ratings-based approach	internal ratings-based approach
E1	0.1	0.6	1.7		0.3	1.5	1.8	
E2		1.3				1.4	0.1	
E3		0.1				0.0	0.0	
E4		0.2				0.3	0.0	
E5		0.1				0.0		
E6	0.1	0.1	0.1		0.1	0.1		
E7		0.0				0.1		
E8		0.2			0.0	0.4		
E9	0.1	0.0			0.1	0.0	0.0	
E10		0.0				0.0	0.1	
E11		0.0						
Positions weighted at 1250%	0.0	1.2			0.0	0.9	0.0	
Total	**0.3**	**3.8**	**1.8**	**0.8**	**0.5**	**4.7**	**2.0**	**1.3**

Capital requirements

Capital requirement in € billions	December 31, 2012				December 31, 2011			
	Banking portfolio		Trading portfolio	Correlation portfolio	Banking portfolio		Trading portfolio	Correlation portfolio
	standardized approach	internal ratings-based approach	internal ratings-based approach	internal ratings-based approach	standardized approach	internal ratings-based approach	internal ratings-based approach	internal ratings-based approach
Total	**0.0**	**0.8**	**0.1**	**0.0**	**0.0**	**1.0**	**0.1**	**0.1**

The external agencies used are Standard & Poor's, Moody's and Fitch Ratings.

Operational risks

The elements relating to the assessment of capital requirements in terms of operational risk are presented in the “Risk Management” section.
This report also satisfies the disclosure requirements in terms of the policy and arrangements put in place on the one hand, and on the other, the type of systems for declaring and measuring risks.

Description of the AMA method

In connection with the implementation of the advanced measurement approach (AMA) for assessing capital requirements in terms of operational risks, these risks are managed by a dedicated independent function. The operational risk control and measurement procedure is based on the risk mapping carried out for each business line and each type of risk, liaising closely with the functional departments and the day-to-day risk management measures. More specifically, these define a standard framework for analyzing the loss experience and lead to modeling based on expert opinions compared with scenario-based probabilistic estimates.

For modeling purposes, the Group relies mainly on the national database of internal losses. This application is populated in line with the national collection procedure, which sets a standard limit of €1,000 above which each loss must be entered and which defines the framework for reconciliations between the loss base and the accounting information.

In addition, the Group has a subscription to an external database which is used in line with long-term procedures, as well as the methodologies for integrating this data into the operational risk measurement and analysis system.

The Group's general steering and reporting system incorporates the requirements of CRBF 97-02. The executive body is informed of operational risk exposures and losses on a regular basis and at least once a year.

The Group's procedures relating to governance, loss collection, risk measurement and management systems enable it to take appropriate remedial action. These procedures are subject to regular controls.

Scope for approval with the AMA method

The Group is authorized to use its advanced measurement approach to calculate its capital adequacy requirements in respect of operational risk, with the exception of the deduction of expected losses from its capital adequacy requirements. This authorization came into effect on January 1, 2010 for the consolidated group excluding foreign subsidiaries and the Cofidis group, and was extended to include CM-CIC Factor from January 1, 2012.

Operational risk mitigation and hedging policy

Operational risk mitigation techniques include:

- preventative actions identified during the mapping process and implemented directly by operational or permanent control staff;
- safeguard initiatives, which focus on the widespread implementation of disaster recovery plans, classified into two categories: business-specific disaster recovery plans, which relate to a given banking function that is associated with one of the business lines identified in accordance with Basel, and cross-functional disaster recovery plans, which relate to activities that constitute business support services (logistics, HR and IT issues).

The disaster recovery plans can be split into three components:

- emergency plan: this is triggered immediately and involves measures designed to handle emergencies and institute solutions for operating in a weakened environment;

- business continuity plan: this involves resuming business under adverse conditions in accordance with predefined procedures;
- back-on-track plan.

A long-term national procedure sets out the methodology for drawing up a disaster recovery plan. This represents a reference document that may be consulted by all the teams concerned by the disaster recovery plans. It is applied by all the regional groups.

Use of insurance techniques

The French Prudential Supervisory Authority has authorized the Group to take into account the deduction of insurance as a factor for reducing capital requirements in terms of operational risk based on an advanced measurement approach, with effective application for the period ended June 30, 2012.

The principles applied for operational risk financing within the Group depend on the frequency and severity of each potential risk, and involve:

- setting up insurance cover or financing by withholding amounts on the operating account for non-severe frequency risks;
- taking out insurance for insurable serious or major risks;
- developing self-insurance for losses below insurers' excess levels;
- allocating reserves of regulatory capital or provisions financed through underlying assets for serious risks that cannot be insured.

The Group's insurance programs are compliant with the provisions of Articles 371 – 1 to 3 of the French Decree of February 20, 2007 concerning the deduction of insurance with the AMA method.

The insurance included in the deduction process covers damage to real and personal property (multi-risk), specific banking risks and fraud, as well as professional third-party liability.

Equities

	Value exposed to risk	
In € billions	Dec. 31, 2012	Dec. 31, 2011
Equities	**2.9**	**3.2**
Internal ratings-based approach		
Private equity (190%)	1.5	1.5
Exposure to listed equities (290%)	0.5	0.9
Other exposures to equities (370%)	0.6	0.4
Standardized approach		
Equities under standardized approach weighted at 150%	0.4	0.5
Investments deducted from capital	**-7.4**	**-6.1**
Total amount of unrealized gains and losses included in Tier 1 capital	**0.0**	**0.0**

The equity investments deducted from the capital primarily concern equity investments in associate credit institutions or insurance companies.

The private equity business is split between the private equity line, with an internal ratings approach for leveraged transactions, and the equities line, with a standard approach in other cases.

Banking portfolio interest rate risk

These risks are calculated on the trading portfolio. In the vast majority of cases, they result from the CM-CIC Marchés activities for interest rate and equities risks.
The counterparty risks for derivatives and repo transactions are covered in the “counterparty risks” section.

In € millions **Capital requirements in respect of market risks**	**Dec. 31, 2012**	**Dec. 31, 2011**
Specific interest rate risk (excl. securitization and correlation portfolios)	72	89
Specific interest rate risk - securitization and correlation portfolios	73	122
General interest rate risk	76	86
Equity price risk	64	83
Currency risk	-	-
Commodity risk	0	
Total capital requirements	**285**	**381**