Covered Bonds/France
Presale Report

CM-CIC Covered Bonds

Expected Rating*

Covered Bonds	Max Amount (EURbn)	Extended Final Maturity	Rating
Series 1	2.5	TBD	AAA (EXP)

Analysts
Cosme de Montpellier
+44 20 7862 4161
cosme.demontpellier@fitchratings.com

Helene M. Heberlein
+44 20 7417 4218
helene.heberlein@fitchratings.com

Henri de Mont-Serrat
+33 1 4429 9139
henri.demontserrat@fitchratings.com

* Expected ratings do not reflect final ratings. This report is based on information provided by the issuer as of June 2007.

Summary

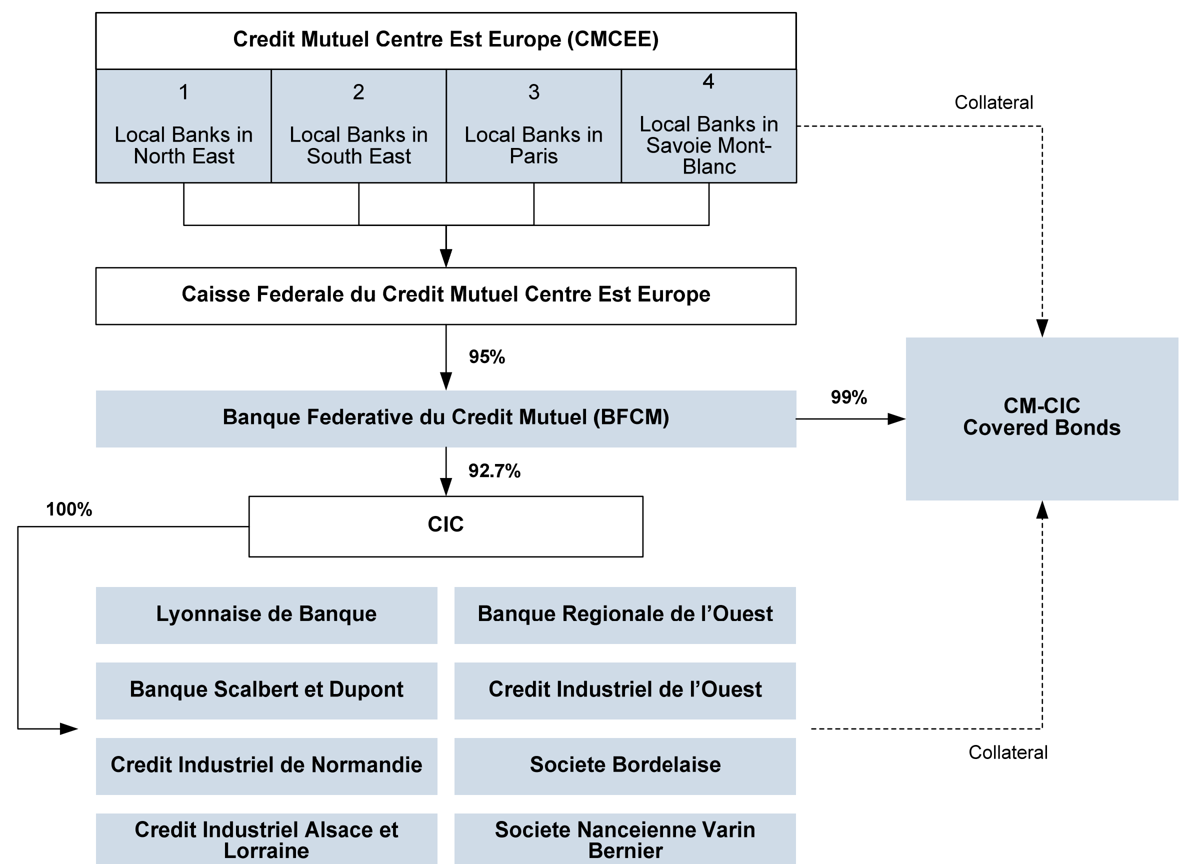
Crédit Mutuel Centre Est Europe (CMCEE or the group) is a French cooperative banking group that is a major player in French retail banking, with deposit and loan market shares of 7.7% and 11.4%. Its refinancing arm is Banque Fédérative du Crédit Mutuel (BFCM, rated 'AA–/F1+'). The group has set up a covered bonds programme based on contractual undertakings, ie outside the legal framework for issuance of French obligations foncières, and similar to the one set up in December 2006 by another French bank, BNP Paribas. The structure has been adapted to the specificities of the group and gives CMCEE a flexible tool for the refinancing of the French mortgage or otherwise secured residential loan portfolio originated by local mutual banks as well as subsidiaries of CIC, which also belong to the group. The covered bonds programme has a limit of EUR15bn.

The covered bonds are direct, unsecured and unsubordinated obligations of CM-CIC Covered Bonds (CM-CIC CB or the issuer), a French credit institution with a limited purpose established for the purposes of this programme and owned by BFCM. The main assets of the issuer consist of advances granted to BFCM, whose profile matches that of the covered bonds. These advances are secured under the recent French law on financial collateral arrangements, implementing the EU Collateral Directive 2002/47, by a portfolio of residential loans that will remain on the balance sheet of the group entities participating in the programme.

The expected 'AAA' rating assigned to the covered bonds is based on Fitch's new covered bonds rating methodology (See press release "*Fitch Launches New Covered Bonds Rating Methodology*", dated 19 February 2007). Fitch has assigned a discontinuity factor (D-Factor) of 12.31% to CM-CIC covered bonds, which measures the likelihood of interruption of payments on the covered bonds at the time of a default of BFCM, acting as a first debtor of recourse. This D-Factor is assigned on a scale of 0%, for perfect continuity, to 100%, for absolute discontinuity. Combined with BFCM Issuer Default Rating (IDR) of 'AA–', this D-factor enables CM-CIC CB's covered bonds to be rated as high as 'AAA' on a probability of default basis.

A dynamic asset cover test (ACT) is calculated to ensure that sufficient overcollateralisation (OC) is available to provide full repayment of the covered bonds in a 'AAA' stress scenario. Under the ACT, the asset percentage cannot exceed 92.5%, and will therefore provide a minimum of 7.5% credit enhancement at any time. This is sufficient, in Fitch's opinion, to avert a default under the covered bonds in a 'AAA' stress scenario, assuming a default of BFCM and the run-down of the loans pledged as collateral under the management of a third party. In the event of a default of BFCM under the secured advances, the covered bonds will not accelerate, but they would accelerate upon an issuer default. The issuer will have a residual unsecured claim against BFCM if the collateral is ultimately insufficient to repay the secured advances.

Simplified Diagram of CMCEE



Source: Fitch

Background

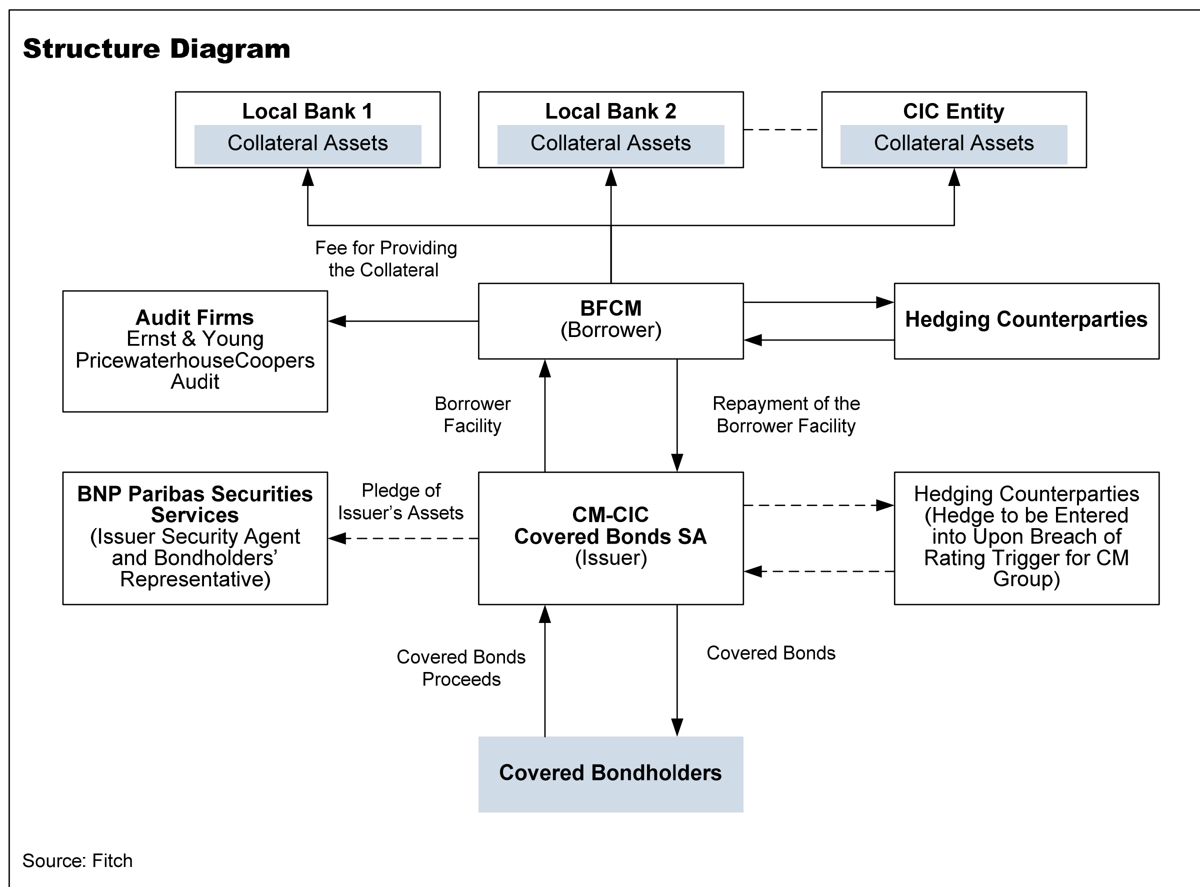
The Credit Mutuel Group

Crédit Mutuel is a French cooperative banking group composed of 18 regional federations, each of which is formed by many individual local banks (about 1,200 in total across France). Local banks are essentially not-for-profit organisations. The independence of each local bank stems from the fact that it is owned by its members. However, the autonomy of each bank is restricted through its integration into a regional federation, which imposes common operating rules – notably regarding the collection of deposits and the granting of loans. Excess cash must be invested with the federal bank. In theory, local banks may borrow in their own name, but in practice their funding deficits are met through their federal bank. In addition, the federation plays an internal control role, and can use a solidarity fund constituted by contributions from all its local banks to support one of them should it incur losses.

CMCEE is the name given to the grouping of four federations of Crédit Mutuel (Centre-Est Europe, Sud Est, Ile-de-France and Savoie Mont-Blanc). It consists of 635 local banks (Caisses de Crédit Mutuel) that function as network branches. These local banks have put in place a common federal bank, Caisse Fédérale de Crédit Mutuel Centre Est Europe, which, in turns, owns 95% of BFCM.

BFCM has a triple role: it is the issuing vehicle of CMCEE, the entity that manages the group's liquidity, and the banking subsidiary through which CMCEE controls and coordinates its subsidiaries. Prominent among these subsidiaries is the CIC group, which was purchased in 1998 and operates across France through eight regional banks.

The group's outstanding residential loans (including those of CIC) totalled EUR76.463bn in 2006 – an increase of 24.7% from 2005. The group has a 13.22% share of the French residential loan market.



Source: Fitch

The Issuer

CM-CIC CB is a 99.9%-owned subsidiary of BFCM, licensed as a credit institution. It is subject to the supervision of the French banking authorities but not under the scope of the regulations applicable to Sociétés de Crédit Foncier.

The issuer's statutes restrict its indebtedness solely to covered bonds and subordinated loans, and impose clauses of limited recourse and non-petition upon all its counterparties. In addition, the issuer cannot merge or have subsidiaries, and undertakes to observe separateness covenants – such as maintaining separate records, accounts and financial statements from its parent – thereby isolating it from the bankruptcy risk of BFCM. It will have no employees and will subcontract all administrative, servicing and management tasks to BFCM under an administrative agreement. The administrator must be replaced if its rating falls below 'BBB'. These provisions give Fitch comfort that the issuer should not become bankrupt as a result of a bankruptcy of BFCM. The issuer's assets will essentially consist of advances granted to BFCM and cash accounts.

The terms and conditions of the advances granted to BFCM as borrower will exactly match those of the covered bonds that will have been issued to finance these advances. The facility agreement also provides that BFCM will pay commissions to the issuer to cover all its costs related to the programme. This includes all administrative costs. Finally, if BFCM prepays the advances under the borrower facility, it will have to pay an indemnity fee to the issuer. The fee amount will be calculated to compensate for the lower yield achieved from the cash received versus the original advance.

To secure the advances made by the issuer under the borrower facility agreement, the entities of the group participating into the programme (the CM-CIC entities) have pledged a portfolio of residential loans in favour of the issuer. This security is created under the provisions of articles L. 431-7 of the French Monetary Code, which were passed in 2005 and which implement the stipulations of EU Collateral Directive 2002/47. The purpose of the directive is to protect the validity and enforceability of financial collateral arrangements, including the substitution of assets, from the adverse effects of bankruptcy. Under this legal mechanism, the creation and perfection of the security only require a written agreement between the parties and for the assets to be properly identified. The collateral security will be effective vis-à-vis third parties without further formalities. Upon enforcement of the security, the collateral

assets will be transferred to the beneficiary of the security, together with the guarantees securing these assets (such as mortgages or mutual insurance guarantees). This security will be called in the event that a borrower enforcement notice is served, at the latest when BFCM defaults under the advances.

634 mutual banks and the eight subsidiaries of CIC have all taken a board resolution approving their participation to the programme. If one entity wants to exit the programme, it will have to notify all the other entities, and can only stop granting collateral if the Asset Coverage Test is still met (See below).

Continuity Analysis

The covered bonds rated by the agency are assigned a D-Factor between 0% (best) and 100% (worst), which expresses the likelihood of the covered bonds defaulting in the immediate aftermath of a default by the debtor of recourse. The D-Factor has four weighted components, which are analysed below in the context of the specific aspects of the CM-CIC CB programme.

Asset Segregation (50% Weight)

The contractual agreements in the CM-CIC CB covered bonds programme are designed to ensure that the collateral assets will be available for the issuer, and therefore for the covered bonds investors, in the event of the insolvency of BFCM. The legal opinion received by Fitch supports the view that the collateral should be available for the issuer at the time of a default by BFCM. However, the tripartite collateral agreement should be analysed in the light of the corporate benefit to the collateral providers of entering the programme.

Indeed, even if the collateral agreement should be valid, unsecured creditors of a collateral provider would be tempted to go to court to challenge it if the benefit of the collateral provider in the programme is not clear. This is especially the case as they provide collateral to guarantee the obligations of another entity, BFCM. However, this benefit should be clear for the following reasons:

1. The collateral providers are part of the same group and refinance themselves through the group financial arm, BFCM.

2. The covered bonds programme will lower the funding cost of BFCM and, by extension, the funding cost of the entities of the group.

3. The collateral providers will be paid a guarantee fee in exchange for granting the collateral. The total fees will represent the savings made by BFCM in issuing covered bonds rather than other debts, and will be distributed to the collateral providers in proportion to the total eligible collateral available for the programme. Therefore, a group entity which chooses not to act as collateral provider will not benefit from better funding provided through the programme. Notably, since the collateral loans will be selected on a random basis among all the eligible collateral from all the collateral providers, the proportion of collateral granted by one entity in relation to all the collateral granted will be the same as the proportion of its eligible collateral in relation to all the loans eligible for the programme.

4. Also, provisions are in place to ensure that at the time when all covered bonds have been repaid in full the excess collateral will be redistributed to each provider according to the market value of the collateral it has provided. As a consequence, entities with comparatively better assets will ultimately have a fair redistribution of their contribution.

Furthermore, Fitch has identified the following points that could, if not properly addressed, hinder the effectiveness of the segregation and the privilege.

Availability of OC

One crucial issue is the availability of collateral, including contractually committed OC, in the event of an enforcement. In particular, the collateral agreement may be deemed void if the OC provided is considered excessive by a court. This would only be possible if the agreement were viewed as an abuse of French law. However, a provision in the French law on financial collateral should exclude this case.

Set-Off Risk

Borrowers in the cover pool generally have at least a current account opened with the originator of their loans, and often keep their savings with the bank as well. In the event of an insolvency of the group, they may try to set off any losses suffered on their deposits against amounts they owe to the bank under their residential loan, creating a risk for covered bond investors. Legal set-off rights can no longer be invoked after notification to the borrowers that their residential loans have been transferred to the issuer, but a case can be made that the two debts should nevertheless be considered inter-related. According to French case law, loan contracts stipulating that repayment must take place by the direct debit of a current account are not sufficient to prove inter-connection. However, the recognition of set-off would ultimately be at the discretion of French courts. In addition, all recent loan contracts provide that each borrower waives their right of set-off under sums the originator may owe them. According to a

legal memo received by the agency, this provision should be valid even in the event of the originator's bankruptcy. In Fitch's view, this introduces a strong additional mitigant to the risk of set-off.

Existence of Other Privileged Creditors

The issuer belongs to a French tax group headed by BFCM, and, as long as BFCM owns more than 95% of the issuer, it will be the only debtor of the corporate income tax of the issuer. Should BFCM fail to pay this tax, the issuer will become liable for corporate income tax, but only for the portion related to its activity. This tax has been sized for in the cash flow analysis.

Furthermore, the swap counterparties of the issuer will rank ahead of the covered bond holders in the priority of payments (See Appendix 5 on the order of priority of payments). In addition, the fees paid to the alternative manager and substitute servicers of the loans will be paid out of cover pool revenues. Fitch takes these factors into account in its cash flow analysis.

Commingling Risk

In the event of BFCM's insolvency, the issuer would face a short-term liquidity risk. Indeed, it would not receive any further payment from BFCM, and would only access instalments paid by the final debtors after they have been notified of the transfer of their loans. To bridge this period, BFCM must, upon a downgrade below 'F1', fund a cash reserve in an amount sufficient to cover 2.5 months' scheduled interest and principal payments from the collateral.

Alternative Management (15% Weight)

This section addresses the risk that the transition to an alternative manager does not occur sufficiently smoothly to ensure that all payments are made in the periods directly following the borrower's insolvency. This could happen if the alternative manager were appointed too late or if the IT systems of the issuer or the collateral providers made it too difficult for the new manager to isolate the cover pool and covered bonds from the other assets and liabilities of the bank.

The provision relating to the appointment of a third-party back-up servicer upon a downgrade of BFCM or CIC below 'BBB–' provides comfort that the pool will continue to be managed without interruption. Furthermore, an alternative manager for the issuer will be appointed when the existing manager is downgraded below 'BBB'.

In practice, a smooth transition to an alternative manager is also dependent on the quality of the issuer's systems. Although a central file archiving function is not yet fully implemented, a dedicated single system is used at the group level to manage all residential loans, regardless of where they were originated (ie whether at one of the local banks or one of the CIC subsidiaries). This system will produce monthly reporting. All loan characteristics are automatically analysed and those that do not comply with the eligibility criteria for the programme are eliminated from the selection. The eligible loans are selected and copied in the refinancing management file, which is consolidated at the group level. Loans will be selected at random from all the eligible loans provided by all the collateral providers and the selected loans will be flagged on the system. On a monthly basis, a check will be run to ensure that all selected loans still comply with the eligibility criteria for the programme, and that those which no longer comply with these criteria will be replaced. A monthly covered bonds folder will be produced, that will store all the details of the selected loans. Information on the loans will be saved on tapes, which will be stored every month in a dedicated back-up site. All the elements necessary for recovering and analysing these data are available at the back-up site. Two simulations will be carried out each year to test the efficiency of the back-up procedures. Fitch is satisfied that the group's systems can clearly isolate the cover pool, and could be used by the appointed substitute manager.

Liquidity Gaps (30% Weight)

As with most covered bonds, the maturity of the cover assets does not match the bullet maturities of the covered bonds. This can create a need for liquidity, especially if the issuer defaults just before the maturity of a covered bond. In this case, the substitute manager may not have time to raise enough funding against the cover pool to repay the covered bonds on a timely basis. This is particularly true if the assets in the cover pool are not regularly traded, as is the case for French residential loans.

For that reason, a pre-maturity test has been devised to provide the issuer with sufficient liquidity to settle scheduled principal falling due in the following nine months on a rolling basis whenever BFCM's rating falls below 'F1+'. This will be achieved by BFCM posting cash in a segregated account, failing which the security over the cover pool will be enforced (See *Pre-Maturity Test* below). This feature considerably minimises the risk of the covered bonds defaulting in the immediate aftermath of a default of BFCM as borrower under the secured advances.

Covered Bonds Oversight (5% Weight)

Although the issuer is a regulated financial institution, no specific regulation applies to

Key Information

Issuer: CM-CIC Covered Bonds, majority-owned by Banque Federative du Credit Mutuel (BFCM, rated 'AA–/F1+')

Borrower: BFCM

Administrator: BFCM

Issuer Security Agent: BNP Paribas Securities Services

Bondholder Representative: BNP Paribas Securities Services

Cash Collateral Provider: BFCM

Calculation Agent: BNP Paribas Securities Services, Luxembourg Branch

Issuer Calculation Agent: BFCM

Asset Monitors: Ernst & Young and PricewaterhouseCoopers Audit

Issuer Account Bank: BFCM

Issuer's Auditors: Ernst & Young and PricewaterhouseCoopers Audit

contractual covered bonds, so that Fitch does not give credit to any involvement of the French regulators for the benefit of the covered bond investors in this programme.

Overall, CM-CIC CB covered bonds have been assigned a D-Factor of 12.31% for its covered bonds. Combined with BFCM's IDR of 'AA–', the maximum achievable rating of the covered bonds on a probability of default basis is 'AAA' (See *Appendix 3*). Fitch has assigned an expected rating to CM-CIC CB's covered bonds on a probability of default basis by testing the minimum credit enhancement required under the ACT, which would pass 'AAA' stressed levels in both the agency's French RMBS default model and its covered bonds cash flow model (See *Cash Flow Analysis* below).

■ Cover Portfolio

Origination and Underwriting

Most of the housing loans granted by CIC or the local banks of CMCEE are originated in local branches.

When applying for a housing loan, borrowers are requested to provide their branch with documents relating to their revenues (such as bank statements and salary slips) as well as information relating to the property to be financed. All the steps of the application process are included in a single software for the entire group.

The software will automatically record all the information already available on the borrowers (if they are an existing client of the bank), such as their income, their existing loans, the management of their bank accounts and their expenses. It then derives an internal rating score for the borrower.

In addition, the property to be financed is analysed based on the information collected in the loan application.

Depending on the property information collected and on the borrower's credit profile, the software proposes a financing plan that takes into account the group's internal criteria as well as the clients' needs or wishes (such as maturity, maximum monthly instalment and interest rate type). The internal ratings give the maximum loan amount that each account manager is allowed to grant. A limit also applies at each local bank level to the amount that can be granted per borrower. If higher amounts are applied for, the decision to grant the loan is taken at the federal level (ie at the Caisse Fédérale du Crédit Mutuel Centre Est Europe).

Eligibility Criteria

The collateral providers have made a series of representations and warranties in respect of the loans provided as collateral for the secured advances, including the following:

- all scoring, lending criteria and preconditions applied by the originator of the loan under its customary lending procedures were satisfied;
- the underlying property is located in France and the loan is governed by French law;
- the loan is denominated in euros or in Swiss francs;
- all sums due under the loan are secured by a fully effective security;
- the current principal balance of the loan is no more than EUR1,000,000 (or its equivalent in CHF);
- the LTV of the loan is no more than 100%;
- the remaining term of the loan is less than 30 years;
- at least one loan payment has been made;
- the borrower is not an employee of the originator;
- the loan is not in arrears;
- the loan amortises either monthly or quarterly;
- the borrower under the loan does not benefit from a contractual right of set-off;
- the opening by the borrower of a bank account dedicated to payments due under the loan is not provided as a condition precedent to the originator making the loan available to the borrower;

- no amount reimbursed under the loan can be redrawn by the borrower (except where prior rating confirmation has been obtained);
- the above conditions will be complied with at the end of each calendar month.

Loans Guaranteed by a Financial Institution

One of the eligibility criteria stipulates that the loan must be fully secured. However, the security does not necessarily need to be a mortgage. Instead of a mortgage registration, it is common for French borrowers to opt for a mutual insurance guarantee, which compares favourably in terms of cost. Crédit Logement is the largest provider of such guarantees, but several French professional organisations offer similar guarantees for their members. They receive an upfront fee from the borrowers, which is placed in a mutual guarantee fund managed by the institution and is used to fully repay the lending banks in the event of a borrower default. It therefore provides a 100% guarantee against the default of the borrowers. In addition, the guarantee provider undertakes the recovery process in its own name.

24.96% of the cover pool is guaranteed by Crédit Logement. Fitch stressed the recoveries provided by Crédit Logement by taking into account the probability that it could still provide its guarantee in a 'AAA' scenario. In addition, the agency gave limited credit for recoveries in the event of Crédit Logement's default.

Loans Guaranteed by CMH

30.68% of the loans are guaranteed by a mutual insurance company that belongs to the group, Cautionnement Mutuel de l'Habitat (CMH). In its analysis, Fitch assumes that CMCEE becomes bankrupt, and that the same applies to CMH. Therefore, in a 'AAA' scenario, it would not be possible to rely on the guarantee given by CMH. To address this risk, provisions have been made whereby if BFCM is downgraded below 'A–', it will fund a reserve account in the issuer's books representing the cost needed to register the mortgage on the CMH loans. If it is downgraded below 'BBB', BFCM will have two months to find a guarantor rated at least 'A–' to guarantee CMH's obligations, or start to register mortgages on CMH-guaranteed loans. After a further two months, CMH loans for which a first-ranking mortgage could not be obtained will not be counted in the ACT. In a 'AAA' scenario, Fitch has assumed that a guarantor could not be found, and that a first-ranking mortgage could be registered in only a limited number of cases.

Substitution Assets

Up to 20% of the pool can also be invested in substitute assets, which are liquid and low-risk assets. Substitute assets need to be rated at least 'AAA/F1+' and must mature within one year. At inception in June 2007, no substitute assets will be included in the cover pool.

Preliminary Portfolio

As at June 2007, the preliminary portfolio analysed by Fitch consisted of 13,315 loans granted by the CM-CIC entities to prime French borrowers, with an aggregate outstanding balance of EUR1.226bn. The pool is relatively well seasoned (36.8 months) and has a weighted average remaining maturity of 14.5 years. All loans are performing. The portfolio has been selected on a random basis from the entire eligible loan portfolio of the collaterals providers.

Geographical Breakdown

All the properties are located in France. The cover pool shows the highest concentration in the Paris region (32%), the remainder being relatively well spread across the regions where the CM-CIC entities operate, ie the East of France.

Illiquid Properties

Some 16.68% of the pool finances particularly low- or high-value properties. Fitch increases its market value decline (MVD) assumptions for such properties owing to their limited liquidity, and therefore the likely increase in their price volatility.

Borrower Profile

7.06% of the borrowers are self-employed, and Fitch therefore believes them to be more likely to default than borrowers with a fixed source of income. For this reason, the default probability for loans to self-employed borrowers has been increased by 20%. Conversely, the agency observed that the probability of default on loans to civil servants is historically very low, although these borrowers generally tend to have more debts than individuals employed in the private sector. Fitch therefore decided to apply a factor of 0.85 to the stressed probability of default of the loans advanced to civil servants in France (10.04% of the pool).

Second Homes and Investment Properties

14.94% of the loans in the pool relate to second homes, and 12.25% to investment properties. Fitch believes loans financing second homes and investment properties are more likely to default than those secured by a primary residence. Financially distressed borrowers would be more likely to default on a second home or a rental property, as the consequences for their household would be less severe. The agency also considers purchasers of

investment properties to be less exposed to default than second-home buyers. This is because they benefit from the rental proceeds on the property, which makes them less sensitive to financial shocks than second-home buyers.

Credit Analysis

The cover assets' weighted average original loan-to-value (LTV) stands at 78.64%, with current non-indexed LTV of 67.30%. The borrowers' weighted average debt-to-income ratio stands at 31.59%. Fitch calculated the pool's weighted average cumulative frequency of foreclosure (WAFF) under a 'AAA' scenario, based on the property value at the time of granting the loan and the pool's weighted average recovery rate (WARR) based on the current LTV of the loans.

Fitch Default Model Output

Rating level	WAFF	WARR	WA MVD	EL
AAA	20.34	71.05	41.88	5.89

WAFF = Weighted average frequency of foreclosure
WARR = Weighted average recovery rate
WA MVD = Weighted average market-value decline
EL = Expected loss
Source: Fitch

Cash Flow Analysis

On an ongoing basis, CM-CIC CB will issue further covered bonds backed by residential assets, subject to compliance with the Asset Coverage Test. In order to assign a rating that is higher than the IDR of BFCM, Fitch tested cash flows in a wind-down scenario where, following a BFCM event of default, assets would be transferred to the issuer, no new loan would enter the cover pool to replace those that are maturing or non-performing, and further issuance of covered bonds was suspended.

Fitch's covered bonds cash flow model tests whether the cover assets, under the management of a third party, would be sufficient to service interest and principal payments on the covered bonds in a full and timely manner. The agency has also taken into account the additional credit enhancement provided by the minimal capital that the issuer should have as a credit institution. The expected cash flows from the assets were modified to reflect prepayment, delinquency, default and recovery assumptions in a 'AAA' scenario. In addition, the cost of replacing BFCM and the collateral providers as administrator and servicer was modelled. The potential negative carry arising from holding funds at sub-Euribor rates in the issuer's account was stressed according to Fitch criteria. Furthermore, liquidity and market risks arising from the different profiles of the stressed assets and privileged liabilities were simulated. The projected stressed cash flows were used, among others, to assess the price at which, in a particularly severe economic environment, the pool could be sold or securitised.

Asset Cover Test

The programme incorporates an ACT that is recalculated monthly as long as no borrower event of default has occurred. The test is designed to provide a minimum level of OC on the covered bonds to protect bondholders against specific credit and market risks (See *Appendix 3*). Each quarter, the issuer calculation agent, on behalf of the issuer, will recalculate the WAFF and WARR in a 'AAA' scenario for all relevant home loans contained in the collateral portfolio. This will act as an input into a cash flow model that will indicate the minimum OC needed to support the target rating for the covered bonds. Regardless of this calculation, the ratio of covered bonds to cover assets may not exceed 92.5% (the asset percentage) at any time.

Non-compliance with the ACT on a calculation date will prevent the issuer from issuing further covered bonds as long as it is not remedied. If compliance with the ACT were not re-established on or before the next calculation date, a borrower event of default would occur and a borrower enforcement notice would be delivered to BFCM. As a consequence, no more advances can be made to the borrower and the existing borrower advances become immediately due and payable.

Furthermore, after a borrower event of default, the amortisation test verifies whether the adjusted value of the cover pool is higher than the notional amount of outstanding covered bonds. Failure to meet the amortisation test will trigger an issuer event of default, and the acceleration of the covered bonds. These will be paid pro rata according to the then applicable priority of payments (See *Appendix 4*).

Ernst & Young and PricewaterhouseCoopers Audit have been appointed as asset monitors by the issuer to carry out various testing and notification duties in relation to the calculations performed by the calculation agent in relation to the ACT and the amortisation test.

Maturity Mismatches

Upon enforcement of the collateral security, the issuer may need to raise funds to meet payments due under the covered bonds. Indeed, the amortisation profile of the assets typically will not match those of the bullet covered bonds, as is generally the case for European covered bonds. Funds could be raised against the assets by selling parts of the cover pool.

The ability to find a buyer within the specified timeframe will depend on a number of factors,

including: (i) buyer appetite, given the economic environment, which may not be favourable if BFCM has suffered significant downgrades or has defaulted, incurring sizeable losses in its residential loan business; and (ii) the proportion of the portfolio that needs to realised: the larger it is, the fewer the buyers and the greater the potential volume discount.

For the purposes of the covered bond programme, Fitch has assumed that the issuer will be able to realise part of the residential pool. However, the amount that can be realised at any one time is limited in value, as is the frequency with which sales could be effected.

In calculating the potential purchase price for loan sales, Fitch has assumed that any purchaser will discount 'AAA' levels of loss in the portfolio. Fitch has further assumed that a purchaser would perform a discount analysis using a rate at a certain margin over Euribor that equates to its cost of funding the purchase. The agency applied a further haircut to the resulting figure to reflect a potential "volume discount" that could apply due to the size of the portfolio being realised. Given the lack of a precedent, there is no guarantee that portfolios could be realised in any prevailing economic environment.

Notably, a pre-maturity test will be in place to mitigate the risk that the issuer does not have enough time to raise liquidity by disposing of the collateral. This could happen if the borrower defaulted shortly before a covered bond was due. To avoid this situation, BFCM will have to post an amount of cash sufficient to cover the relevant covered bond principal payments for the following nine months within 30 days of its downgrade below 'F1+'. Any failure to comply with the pre-maturity test will result in a borrower event of default.

Hedging

At the start of the programme, the issuer will not be exposed to any interest rate or currency risk, as the payments from BFCM to the issuer will exactly match those due under the covered bonds. However, upon enforcement of the collateral security, the issuer's assets will consist of those residential loans and substitute assets that form part of the cover pool. At this time, the issuer may be exposed to interest rate risk arising from any disparities in the indexation of the assets and the covered bonds. Similarly, foreign-exchange risk may arise as a consequence of mismatches in the relevant currencies of denomination.

To address these risks, the transaction documents stipulate that a series of swaps must be entered into by the issuer at the time BFCM is downgraded below 'F1+', to hedge the potentially adverse effect of such market risks. These swaps will hedge against interest rate and currency risks arising from the mismatches between the collateralised assets and the covered bonds

Furthermore, the covered bonds may be exposed to further risk if it becomes necessary to sell portions of the assets to meet payments under the covered bonds, as the residential loans intended for use as collateral mostly bear a fixed rate. This means that their market value could be substantially reduced in an adverse interest rate scenario. To avoid this situation, provisions are in place to ensure that the assets will be swapped into floating rate.

The swap documentation will be in line with Fitch's swap counterparty criteria and provides for corrective options in the event that any swap provider is downgraded below 'A/F1' for interest rate swap and 'A/F1+' for currency swaps (for more details, see Fitch's "*Counterparty Risk in Structured Finance Transactions: Swap Criteria*" report, dated 13 September 2004 and available at www.fitchratings.com).

Margin Under the Swaps

At issuance, the interest and currency mismatches between the collateral assets and the borrower debt will be hedged by BFCM according to the current practices of the group. BFCM will receive on the collateral assets and pay on the borrower debt certain margins over a Euro floating rate index. It has chosen to pass the benefits of these margins on to the issuer at the time it is downgraded below F1+, when the issuer will have to hedge the mismatches between the collateral assets and the covered bonds. This will ensure that the spread between the assets and the covered bonds will be "locked in" for the issuer. If it were not, the market value of the fixed-rate assets could be below par in a rising interest rate environment at the time the issuer entered into hedging agreements. Both margins after swaps over the collateral assets and the borrower debt will be communicated to Fitch on a quarterly basis and will be taken into account in its cash flow analysis.

Mirror Swap

The issuer will enter into back-to-back swaps with BFCM, to ensure that BFCM will benefit from the hedging agreements as long as the issuer does not enforce its security over the collateral assets. The issuer has the option to terminate this swap agreement at no cost at the time of a BFCM event of default, after which the security over the collateral assets will be enforced. Also, the failure of BFCM to pay the issuer under the back-to-back swap will constitute a borrower event of default, giving the issuer the right to enforce its security.

The issuer will not have to post collateral under any of the swaps described above.

Conclusion

The collateral agreement and measures in place for the bankruptcy remoteness of the issuer from the group should ensure that the collateral assets are properly segregated for the benefit of the issuer, and, ultimately, of the covered bond holders, in case of the insolvency of BFCM and the collateral providers. Furthermore, the reserve and the pre-maturity test in place should avoid a liquidity gap at the time of the group's insolvency. Moreover, the provisions in place for the appointment of an alternative manager and replacement servicers below 'BBB' and 'BBB–', respectively, and the satisfactory IT systems of the group are positive points that should avoid any interruption of payments on the covered bonds at the time of a default of BFCM. Based on the above, Fitch has assigned a D-Factor to CM-CIC CB covered bonds of 12.31%. This, combined with BFCM's IDR of 'AA–', allows the covered bonds of CM-CIC CB to be rated as high as 'AAA' on a probability of default basis, provided that the OC is sufficient to sustain this level of stresses.

Given the asset and management rules in place – notably through the mechanisms in place to mitigate liquidity shortfalls, maturity and interest rate mismatches upon a downgrade of BFCM – and the characteristics of the cover pool, the minimum contractual credit enhancement of 7.5% was found to be sufficient to ensure full and timely payment of interest and principal on the securities under Fitch's 'AAA' stress scenarios. Although the group does not commit to maintaining a constant credit quality and margin in the cover pool, any deterioration will be captured by an adjustment of the asset percentage.

Due to the dynamic nature of the cover pool and covered bonds, Fitch will monitor the key characteristics of the cover assets and will periodically perform its cash flow analysis to assess whether the asset percentage provides a level of protection against identified risks commensurate with the rating assigned to the covered bonds issued by CM-CIC CB.

Appendix 1

CM-CIC Covered Bonds

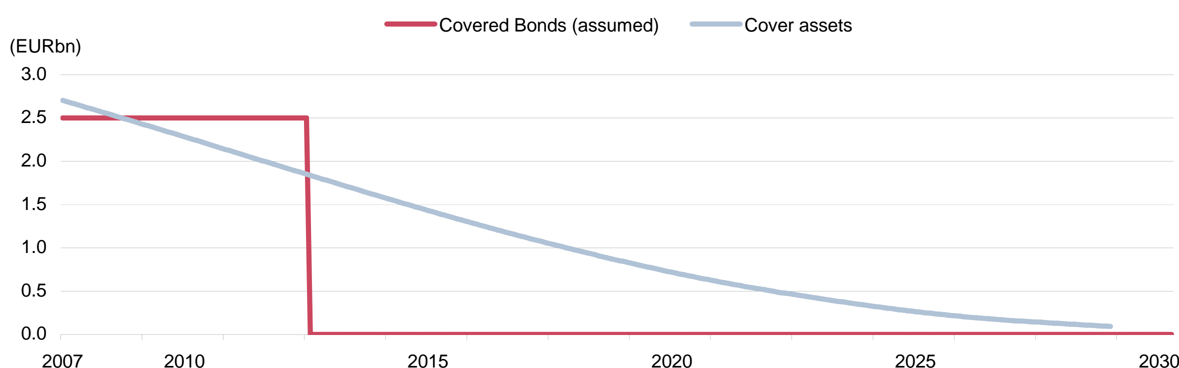
Series	Rating	Currency	Maximum size (EURbn)	Interest rate (%)	Payment frequency	Final maturity	ISIN
Series 1	AAA (EXP)	EUR	2.5	TBD	TBD	TBD	TBD

Key Information

Closing date	July 2007	Security trustee	BNP Paribas Securities Services
Country of assets	FRANCE	Asset monitors	Ernst & Young and
Asset class	Residential loans		PricewaterhouseCoopers Audit
Listing	Luxembourg stock exchange	Account bank	BFCM
Issuer	CM-CIC Covered bonds		
Seller/originator	CM-CIC entities	Short-term rating triggers (minimum)	
Servicer	CM-CIC entities	Currency swap provider	'F1+'
Cash collateral provider	BFCM	Interest rate swap provider	'F1'
		Account bank provider	'F1'

Amortisation Profile

As of June 2007



Source: Fitch

Collateral

Characteristics of representative sub-pool as of June 2007		Loans characteristics (%)	
Current principal balance (EUR)	1,251,471,533	Less liquid properties	16.68
Average current loan per borrower (EUR)	93,743	Capped rate loans	14.60
Number of loans	13,350	Fixed-rate Loans	75.91
Seasoning (months)	36.8	Owner occupied	87.75
		Investments properties	12.25
Fitch default model output (AAA rating level) (%)			
Weighted average frequency of foreclosure ("WAFF")	20.34	**Arrears (%)**	0.00
Weighted average recovery rate ("WARR")	71.05		
Weighted average marked value decline ("WA MVD")	41.88	Loans secured by a mortgage (%)	44.36
		Loans guaranteed by Crédit Logement (%)	24.96
Loan to value (LTV) (%)		Loans guaranteed by CMH (%)	30.68
WA original LTV	78.64		
WA current LTV	67.30		
WA indexed LTV (calculated with Fitch's assumptions)	59.93		
Regional concentration (%)			
Region of Paris	32.33		

Source: Fitch/Credit Mutuel

Appendix 2

Structural Summary

Event	Trigger	Consequences
Initial situation	Prior to any of the following events:	The portfolio is replenished by the collateral providers to maintain compliance with the ACT Covered bonds are paid by the issuer based on the revenues from the borrower facility
Borrower event of default	• Breach of ACT • Breach of pre-maturity test • Breach of reserve funding requirement • Default by the borrower on covered bond principal or interest (3 days) • Default by the borrower on any other obligation under the covered bonds • Any representation made by the borrower under the transaction documents proves to be incorrect • Any performance or compliance by the borrower on the transaction documents becomes unlawful • Insolvency of the borrower • Issuer fails to enter into hedging agreements with eligible counterparties following the downgrade of BFCM below 'F1+'	• Delivery of a borrower enforcement notice • Borrower advances will immediately become due and payable • Borrower facility will be cancelled • No further covered bonds can be issued • Security over the collateral will be enforced by the issuer
Issuer event of default	• Breach of amortisation test • Default by the issuer on covered bond principal or interest (5 days) • Default by the issuer on any other obligation under the covered bonds • Winding-up, administration or bankruptcy of the issuer • Issuer fails to carry on all parts of its business • Issuer fails to enter into hedging agreements with eligible counterparties following the downgrade of BFCM below 'F1+'	• Delivery of an issuer enforcement notice • Covered bonds become due and payable against the issuer • Payments are made according to the relevant priority of payments

Source: Fitch-Transaction documents

Appendix 3

Asset Cover Test (ACT)

The ACT is set such that the adjusted aggregate asset amount (defined below) is at least equal to the outstanding balance of all covered bonds in the programme on the relevant calculation date.

The adjusted aggregate asset amount of the portfolio is defined according to the following formula:

$$A + B + C + D - (Y + Z)$$

where:

A corresponds to the lower of:

a. the sum for each loan of the lesser of :

1. the loan's outstanding principal amount;

2. 80% of the indexed valuation relating to the relevant loan secured by a mortgage or guaranteed by Crédit Logement or by Cautionnement Mutuel de l'Habitat (CMH). Different cut-off percentages could apply to other types of loans.

This reflects the fact that the portion of each loan that is effectively eligible for covered bond funding only extends up to 80% LTV. This will be determined by using the PERVAL house price index in relation to residential properties in France (PERVAL is the based on house information from notaries).

and

b. the sum of the current principal balance of all loans in the portfolio multiplied by the asset percentage (which cannot exceed 92.5%).

Multiplication by the asset percentage ensures that, regardless of the LTV level of the portfolio, a minimum 7.5% credit enhancement will always be available.

In both (a) and (b), the outstanding amount of the loan will be reduced by any loss caused by a material breach of the servicing procedures. Any loan within the portfolio that does not comply with the eligibility criteria will be given no credit for the purpose of calculating the ACT.

B equals the aggregate amount of cash standing to the credit of the cash collateral account;

C equals the aggregate value of substitute assets. The portion of substitute assets above 20% of the portfolio value will be given zero credit in the ACT;

D is equal to the aggregate value of all permitted investments.

Both substitute assets and permitted investments will be accounted for at the market value assessed as at the last business day before an ACT calculation and subject to a further haircut agreed, from time to time, with Fitch.

Y is an amount intended to cover the potential shortfall in the next following payment due under the hedging agreements. This item is sized based on the period of time between two interest payment dates plus two months;

Z is an amount intended to address potential negative carry in the transaction caused by holding funds in the covered bond account and is sized by multiplying the aggregate covered bond principal outstanding by their weighted average remaining maturity and by a negative carry factor of 50 basis points.

Appendix 4

Amortisation Test

The amortisation test requires the adjusted aggregate asset amount (defined below) to be at least equal to the outstanding balance of all covered bonds in the programme on the relevant calculation date.

For the purposes of the amortisation test, the adjusted aggregate asset amount means:

$$A' + B + C + D + E - Z$$

Where:

A' is the sum for all loans of the lower of:

1. the loan balance where loans are less than three months in arrears and 70% of the loan balance where loans are three months or more in arrears; and
2. the indexed valuation where loans are less than three months in arrears and 70% of the loan indexed valuation where loans are three months or more in arrears;

B, C, D and Z have the same meaning as in the ACT, and

E is equal to the aggregate amount of the cash generated by the cover pool in the period preceding the amortisation test calculation.

Appendix 5

Priorities of Payments

Pre-Enforcement Order of Priority of Payment (Before the Delivery of a Borrower Enforcement Notice)

Interest and principal on the covered bonds are paid by the issuer based on the revenues received from BFCM under the borrower facility. The following priority of payments will apply:

- Pari passu and pro rata:
  - — fees payable to: administrator, calculation agent, asset monitor, accounts bank, paying agents, dealers, auditors, representatives, security agent, rating agencies and listing entities (**senior administrative costs**)
  - — tax costs (if applicable);
- pari passu and pro rata, amounts due to the hedging counterparties (excluding termination payments);
- pari passu and pro rata, interest payable under the covered bonds;
- pari passu and pro rata, principal payable under the covered bonds;
- pari passu and pro rata, hedging termination costs (although only when all covered bonds have been repaid in full);
- pari passu and pro rata, any dividend payable to the shareholders and interest, principal and other payments payable under the subordinated loan.

Controlled Post-Enforcement Priority Payment Order (Following the Delivery of a Borrower Enforcement Notice and Before the Delivery of an Issuer Enforcement Notice)

All payments are met by the issuer using cash proceeds from the collateral assets in the following order:

- Pari passu and pro rata, senior administrative and tax costs;
- pari passu and pro rata, amounts due to the hedging counterparties (excluding termination payments);
- pari passu and pro rata, interest payable under the covered bonds;
- pari passu and pro rata, principal payable under the covered bonds;
- pari passu and pro rata, hedging termination costs (although only when all covered bonds have been repaid in full);
- pari passu and pro rata, all surplus enforcement proceeds remaining after enforcement of the borrower collateral security and/or affiliate security.

Accelerated Post-Enforcement Priority Payment Order (Following the Delivery of an Issuer Enforcement Notice)

All outstanding covered bonds will become immediately due and payable against the issuer.

- Pari passu and pro rata, senior administrative and tax costs;
- pari passu and pro rata, amounts due to the hedging counterparties (excluding termination payments);
- pari passu and pro rata, interest payable under the covered bonds;
- pari passu and pro rata, principal payable under the covered bonds;
- pari passu and pro rata, hedging termination costs;
- pari passu and pro rata, all amounts payable to any third parties (including any dividend payable to shareholders, and interest, principal and other payments under subordinated loan).

Source: Fitch, Transaction documents

Appendix 6

Maximum Achievable Rating Based on the Discontinuity Factor

Discontinuity Factor

Issuer IDR (%)	5 yrs PD	90	80	70	60	50	40	30	20	12.3	10	5	0
AAA	0.03	AAA	AAA	AAA	AAA	AAA	AAA	AAA	AAA	AAA	AAA	AAA	AAA
AA+	0.094	AA+	AA+	AA+	AAA	AAA	AAA	AAA	AAA	AAA	AAA	AAA	AAA
AA	0.203	AA	AA	AA+	AA+	AA+	AA+	AAA	AAA	AAA	AAA	AAA	AAA
AA-	0.255	AA-	AA	AA	AA	AA+	AA+	AA+	AAA	AAA	AAA	AAA	AAA
A+	0.501	A+	A+	AA-	AA-	AA-	AA	AA	AA+	AAA	AAA	AAA	AAA
A	0.561	A+	A+	A+	AA-	AA-	AA	AA	AA+	AA+	AAA	AAA	AAA
A-	0.787	A-	A	A	A+	A+	AA-	AA-	AA	AA+	AA+	AAA	AAA
BBB+	1.016	BBB+	A-	A-	A	A+	A+	AA-	AA	AA+	AA+	AAA	AAA
BBB	1.582	BBB	BBB+	BBB+	BBB+	A-	A	A+	AA-	AA	AA	AA+	AAA
BBB-	3.361	BBB-	BBB-	BBB	BBB	BBB	BBB	BBB+	A	A+	AA-	AA	AAA
BB+	5.355	BB+	BBB-	BBB-	BBB-	BBB-	BBB	BBB	BBB+	A	A	AA-	AAA
BB	7.477	BB	BB+	BB+	BB+	BBB-	BBB-	BBB	BBB	BBB+	A-	AA-	AAA
BB-	11.007	BB-	BB	BB	BB	BB+	BB+	BBB-	BBB	BBB	BBB+	A	AAA
B+	15.37	B+	BB-	BB-	BB	BB	BB+	BB+	BBB-	BBB	BBB	A-	AAA
B	19.616	B	B+	B+	BB-	BB-	BB	BB+	BBB-	BBB	BBB	BBB+	AAA
B-	25.538	B-	B	B	B+	BB-	BB-	BB	BB+	BBB-	BBB-	BBB+	AAA
CCC+/CCC	32.475	CCC	B-	B-	B	B+	BB-	BB-	BB	BBB-	BBB-	BBB	AAA

Source: Fitch

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