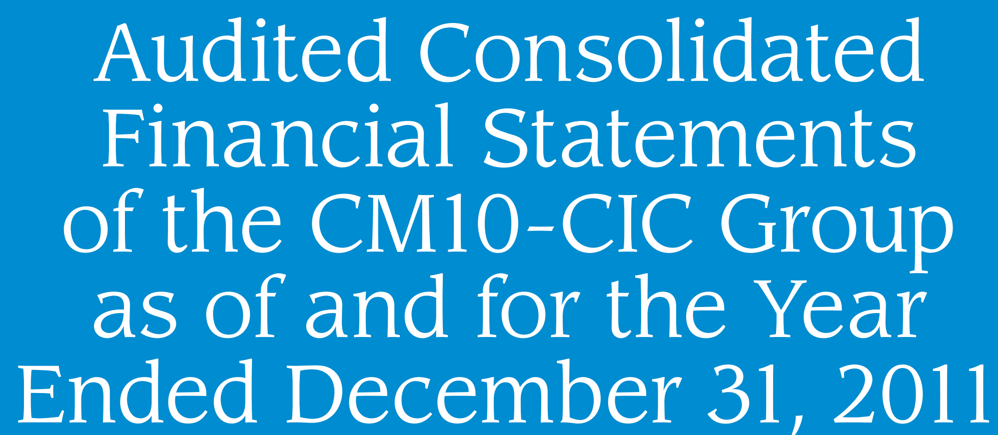

Audited Consolidated Financial Statements of the CM10-CIC Group as of and for the Year Ended December 31, 2011

Consolidated balance sheet

(in millions of euros)

◆ Assets

	Notes	December 31st, 2011	December 31st, 2010
Cash and amounts due from central banks	4a	6,307	7,217
Financial assets at fair value through profit or loss	5a, 5c	38,063	41,229
Hedging derivative instruments	6a, 5c, 6c	935	135
Available-for-sale financial assets	7, 5c	72,204	76,529
Loans and receivables due from credit institutions	4a	38,603	40,113
Loans and receivables due from customers	8a	263,906	229,304
Remeasurement adjustment on interest-risk hedged investments	6b	738	594
Held-to-maturity financial assets	9	16,121	10,733
Current tax assets	13a	1,607	1,122
Deferred tax assets	13b	1,755	1,362
Accruals and other assets	14a	17,272	15,610
Investments in associates	15	1,671	1,481
Investment property	16	909	832
Property and equipment	17a	2,940	2,803
Intangible assets	17b	1,004	1,006
Goodwill	18	4,298	4,192
Total assets		**468,333**	**434,262**

◆ Liabilities

	Notes	December 31st, 2011	December 31st, 2010
Due to central banks	4b	282	44
Financial liabilities at fair value through profit or loss	5b, 5c	31,009	34,551
Hedging derivative instruments	6a, 5c, 6c	3,923	3,073
Due to credit institutions	4b	36,422	27,850
Due to customers	8b	200,086	163,467
Debt securities	19	87,227	95,035
Remeasurement adjustment on interest-risk hedged investments	6b	- 2,813	- 1,963
Current tax liabilities	13a	561	527
Deferred tax liabilities	13b	842	939
Accruals and other liabilities	14b	10,030	12,098
Technical reserves of insurance companies	20	65,960	66,018
Provisions	21	1,747	1,529
Subordinated debt	22	6,563	7,155
Shareholders' equity		26,494	23,939
Shareholders' equity attributable to the Group		24,109	20,508
– Subscribed capital and issue premiums	*23a*	*5,596*	*5,139*
– Consolidated reserves	*23a*	*17,878*	*13,698*
– Unrealised or deferred gains and losses	*23c, 23d*	*- 988*	*- 291*
– Net income for the year		*1,623*	*1,961*
Non-controlling interests		2,385	3,431
Total liabilities and shareholders' equity		**468,333**	**434,262**

Consolidated income statement

(in millions of euros)

	Notes	December 31st, 2011	December 31st, 2010
Interest income	25	17,960	16,776
Interest expenses	25	- 11,660	- 10,586
Fee and commission income	26	3,653	3,662
Fee and commission expenses	26	- 951	- 903
Net gains (losses) on financial instruments at fair value through profit or loss	27	- 70	75
Net gains (losses) on available-for-sale financial assets	28	11	125
Income from other activities	29	10,994	12,648
Expenses on other activities	29	- 8,885	- 10,909
Net banking income		**11,053**	**10,889**
Operating expenses	30a, 30b	- 6,437	- 5,846
Depreciation, amortization and impairment for non-current assets	30c	- 505	- 510
Gross operating income		**4,111**	**4,533**
Net additions to/reversals from provisions for loan losses	31	- 1,456	- 1,305
Operating income		**2,656**	**3,228**
Share of net income (loss) of associates	15	6	26
Gains (losses) on other assets	32	66	16
Change in value of goodwill	33	- 9	- 45
Net income before tax		**2,718**	**3,225**
Corporate income tax	34	- 913	- 884
Net income		**1,805**	**2,341**
Non-controlling interests		182	380
Net income attributable to the Group		**1,623**	**1,961**

Net income and gains and losses recognized directly in shareholders' equity

	Notes	December 31st, 2011	December 31st, 2010
Net income		**1,805**	**2,341**
Translation adjustments		- 5	0
Remeasurement of available-for-sale financial assets		- 766	- 270
Remeasurement of hedging derivative instruments		- 16	- 45
Remeasurement of non-current assets		0	0
Share of unrealized or deferred gains and losses of associates		- 18	4
Total gains and losses recognized directly in shareholders' equity	**23c, 23d**	**- 805**	**- 311**
Net income and gains and losses recognized directly in shareholders' equity		**1,000**	**2,030**
– attributable to the Group		*871*	*1,675*
– Non-controlling interests		*130*	*355*

The items relating to gains and losses recognized directly in shareholders' equity are presented net of related tax effects.

Consolidated statement of net cash flows

(in millions of euros)

	2011	2010
Net income	1,805	2,341
Corporate income tax	913	884
Income before tax	**2,718**	**3,225**
Net depreciation/amortization expense on property and equipment and intangible assets	494	507
Impairment of goodwill and other non-current assets	34	2
Net additions to/reversals from provisions and impairment losses	608	179
Share of net income/loss of associates	- 34	- 27
Net loss/gain from investing activities	- 181	- 24
Income/expense from financing activities	0	0
Other movements	3,394	- 3,094
Total non-monetary items included in income before tax and other adjustments	**4,316**	**- 2,458**
Cash flows relating to interbank transactions	8,759	- 10,580
Cash flows relating to customer transactions	6,101	679
Cash flows relating to other transactions affecting financial assets and liabilities	- 21,264	8,577
Cash flows relating to other transactions affecting non-financial assets and liabilities	- 3,340	682
Corporate income tax paid	- 1,157	- 911
Net decrease/increase in assets and liabilities from operating activities	**- 10,901**	**- 1,553**
Net cash flows from (used in) operating activities	**- 3,866**	**- 787**
Cash flows relating to financial assets and investments in non-consolidated companies	- 4,789	- 468
Cash flows relating to investment property	- 105	- 126
Cash flows relating to property, equipment and intangible assets	- 337	- 397
Net cash flows from (used in) investing activities	**- 5,232**	**- 991**
Cash flows relating to transactions with shareholders	- 334	- 10
Other cash flows relating to financing activities	7,057	3,097
Net cash flows from (used in) financing activities	**6,723**	**3,087**
Impact of movements in exchange rates on cash and cash equivalents	**103**	**127**
Net increase (decrease) in cash and cash equivalents	**- 2,271**	**1,437**
Net cash flows from (used in) operating activities	- 3,866	- 787
Net cash flows from (used in) investing activities	- 5,232	- 991
Net cash flows from (used in) financing activities	6,723	3,087
Impact of movements in exchange rates on cash and cash equivalents	103	127
Cash and cash equivalents at beginning of year	**5,729**	**4,292**
Cash accounts and accounts with central banks and post office banks	7,173	7,920
Demand loans and deposits, credit institutions	- 1,444	- 3,628
Cash and cash equivalents at end of period	**3,458**	**5,729**
Cash accounts and accounts with central banks and post office banks	6,025	7,173
Demand loans and deposits, credit institutions	- 2,566	- 1,444
Change in cash and cash equivalents	**- 2,271**	**1,437**

Consolidated statement of changes in shareholders' equity

(in millions of euros)

	Capital stock	Additional paid in capital	Retained earnings [1]	Translation reserve
Shareholders' equity at January 1st, 2010	**4,918**	**0**	**12,662**	**- 36**
Capital increase	222			
Appropriation of 2009 earnings			1,194	
2010 dividend paid out of 2009 earnings			- 172	
Sub-total: movements arising from shareholder relations	**222**	**0**	**1,022**	**0**
Change of unrealized or deferred gains and losses recognized in shareholder's equity				
2010 net income				
Sub-total	**0**	**0**	**0**	**0**
Impact of changes in group structure			9	
Translation adjustments	0			42
Other changes	0	0	0	- 1
Shareholders' equity at December 31st, 2010	**5,139**	**0**	**13,693**	**5**
Shareholders' equity at January 1st, 2011	**5,139**	**0**	**13,693**	**5**
Capital increase	- 59			
Appropriation of 2010 earnings			1,961	
2011 dividend paid out of 2010 earnings			- 164	
Sub-total: movements arising from shareholder relations	**- 59**	**0**	**1,797**	**0**
Change of unrealized or deferred gains and losses recognized in shareholder's equity				
2011 net income				
Sub-total	**0**	**0**	**0**	**0**
Impact of changes in group structure	516		2,368	
Translation adjustments	0			16
Other changes	0	0	0	- 1
Shareholders' equity at December 31st, 2011	**5,596**	**0**	**17,858**	**20**

1. Reserves at December 31st, 2011 include a legal reserve of 179 million euros, regulatory reserves for a total of 2,744 million euros and other reserves amounting to 14,935 million euros.

Unrealized or deferred gains and losses, net of tax		Net income attributable to the Group	Equity attributable to the Group	Non-controlling interests	Total shareholders' equity
Relating to changes in fair value of available-for-sale financial assets	Relating to changes in fair value of hedging derivative instruments				
39	**- 43**	**1,194**	**18,733**	**3,146**	**21,879**
			222		222
		- 1,194	0		0
			- 172	- 60	- 232
0	**0**	**- 1,194**	**50**	**- 60**	**- 10**
- 241	- 45		- 286	- 24	- 311
		1,961	1,961	380	2,341
- 241	**- 45**	**1,961**	**1,675**	**355**	**2,030**
			9	- 23	- 14
			42	12	54
0	0	0	- 1		- 1
- 202	**- 89**	**1,961**	**20,508**	**3,431**	**23,939**
- 202	**- 89**	**1,961**	**20,508**	**3,431**	**23,939**
			- 59		- 59
		- 1,961	0		0
			- 164	- 111	- 275
0	**0**	**- 1,961**	**- 224**	**- 111**	**- 334**
- 737	- 16		- 753	- 53	- 805
		1,623	1,623	182	1,805
- 737	**- 16**	**1,623**	**870**	**130**	**1,000**
56			2,940	- 1,069	1,871
			16	4	20
0	0	0	- 1	0	- 1
- 883	**- 105**	**1,623**	**24,109**	**2,385**	**26,494**

Notes to the
consolidated financial
statements

Accounting policies and methods

Note 1.1 Accounting reference system

Pursuant to regulation (EC) 1606/2002 on the application of international accounting standards and regulation (EC) 1126/2008 on the adoption of such standards, the consolidated financial statements for the year ended December 31st, 2011 have been drawn up in accordance with IFRS as adopted by the European Union at December 31, 2010. These standards include IAS 1 to 41, IFRS 1 to 8 and any SIC and IFRIC interpretations adopted at that date. Standards not adopted by the European Union have not been applied. The financial statements are presented in accordance with CNC recommendation 2009-R.04.

All IAS and IFRS were updated on November 3, 2008 by regulation 1126/2008, which replaced regulation 1725/2003. The entire framework is available on the European Commission's website at: http://ec.europa.eu/internal market/accounting/ias/index en.htm

The information on risk management required by IFRS 7 is shown in a specific section of the management report.

Standards IAS/IFRS	Name of the standard	Date of application specified by the IASB (fiscal years beginning on)	Date of application in the EU (fiscal years beginning on)
New accounting standards applicable as of January 1st, 2011			
IAS 32	Classification of Rights Issues	February 1st, 2010	February 1st, 2010
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments	July 1st, 2010	July 1st, 2010
IAS 24	Related Party Disclosures	January 1st, 2011	January 1st, 2011
IFRIC 14	Prepayments of a Minimum Funding Requirement	January 1st, 2011	January 1st, 2011
Improvements to existing standards			
Amendment IFRS 3	Business Combinations	July 1st, 2010	July 1st, 2010
Amendment IFRS 7	Financial Instruments - Disclosures	January 1st, 2011	January 1st, 2011
Amendment IAS 1	Presentation of Financial Statements	January 1st, 2011	January 1st, 2011
Amendment IFRIC 13	Customer Loyalty Programs	January 1st, 2011	January 1st, 2011
Amendment IAS 34	Interim Financial Reporting	January 1st, 2011	January 1st, 2011
Standards and interpretations not yet applied			
Amendment IFRS 7	Disclosures – Transfers of Financial Assets	July 1st, 2011	July 1st, 2011
Amendment IAS 12	Deferred tax: Recovery of Underlying Assets	January 1st, 2012	Not adopted
IFRS 9	Financial Instruments	January 1st, 2015	Not adopted
IFRS 10	Consolidated Financial Statements	January 1st, 2013	Not adopted
IFRS 11	Joint arrangements	January 1st, 2013	Not adopted
IFRS 12	Disclosures of interests in other entities	January 1st, 2013	Not adopted
IFRS 13	Fair value measurement	January 1st, 2013	Not adopted
IAS 28	Investments in associates and joint ventures	January 1st, 2013	Not adopted
IAS 19	Employee benefits	January 1st, 2013	Not adopted
Amendment IAS 1	Presentation of Financial Statements – Presentation of items of other comprehensive income	January 1st, 2013	Not adopted
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine	January 1st, 2013	Not adopted

Note 1.2 Scope and basis of consolidation

◆ The consolidating entity

The Crédit Mutuel CM10 Group [1] (Centre Est Europe, Sud-Est, Ile-de-France, Savoie-Mont Blanc and Midi-Atlantique) is a mutual banking group with membership of a central body in the meaning of articles L 511-30 et sequentes of the monetary and financial code. The local branches of the Crédit Mutuel, which are fully held by members, are at the base of the Group, using a capital control structure that is an upside-down pyramid.

In order to reflect the community of interests of members as faithfully as possible in the consolidation, the consolidating entity is defined so as to reflect the common links of working, financial solidarity and governance.

As part of that, the consolidating entity at the head of the Group is made up of companies placed under the same collective approval for practicing the banking activity issued by the committee of credit institutions and investment companies (CECEI).

Thus, the consolidating entity is made up of:

– the Fédération du Crédit Mutuel Centre Est Europe (FCMCEE), the Fédération du Crédit Mutuel du Sud-Est (FCMSE), the Fédération du Crédit Mutuel Ile-de-France (FCMIDF), the Fédération du Crédit Mutuel Savoie-Mont Blanc (FCMSMB), the Fédération du Crédit Mutuel Midi-Atlantique (FCMMA), the Fédération du Crédit Mutuel Loire-Atlantique et Centre-Ouest (FCMLACO), the Fédération du Crédit Mutuel du Centre (FCMC), the Fédération du Crédit Mutuel de Normandie (FCMN), the Fédération du Crédit Mutuel Dauphiné-Vivarais (FCMDV), the Fédération du Crédit Mutuel Méditerranéen (FCMM). These are the policy bodies of the Groups, and they identify the broad orientations, decide strategy and organise the representation of the branches;

– the Caisse Fédérale de Crédit Mutuel (CF de CM), the Caisse Régionale du Crédit Mutuel du Sud-Est (CRCMSE), the Caisse Régionale du Crédit Mutuel Ile-de-France (CRCMIDF), the Caisse Régionale du Crédit Mutuel Savoie-Mont Blanc (CRCMSMB) and the Caisse Régionale du Crédit Mutuel Midi-Atlantique (CRCMMA), the Caisse Régionale du Crédit Mutuel Loire-Atlantique et Centre-Ouest (CRCMLACO), the Caisse Régionale du Crédit Mutuel du Centre (CRCMC), the Caisse Régionale du Crédit Mutuel de Normandie (CRCMN), the Caisse Régionale du Crédit Mutuel Dauphiné-Vivarais (CRCMDV), and the Caisse Régionale du Crédit Mutuel Méditerranéen (CRCMM). At the service of local branches, the CF de CM is responsible for common services of the network, coordinating the work and taking charge of Group logistics. It centralises the deposits of branches, funding them at the same time, and carries all the regulatory appropriations on their behalf (mandatory reserves, allocated resources, deposits with the Caisse Centrale du Crédit Mutuel, etc.);

– the Crédit Mutuel branches that are members of FCMCEE, FCMSE, FCMIDF, FCMSMB, FCMMA, FCMLACO, FCMC, FCMN, FCMDV and FCMM: these form the basis of the banking network of the Group.

The analysis of the verification of the consolidating entity complies with standard IAS 27, making it possible to prepare consolidated accounts according to IFRS references.

1. The CM5-CIC Group became CM10-CIC on January 1st, 2011, when the Crédit Mutuel Loire-Atlantique et Centre-Ouest, Centre, Normandie, Dauphiné-Vivarais and Méditerranéen Federations joined the Caisse Fédérale de Crédit Mutuel.

◆ Scope of consolidation

The general principles for the inclusion of an entity in the consolidation scope are defined in IAS 27, IAS 28 and IAS 31.

The consolidation scope comprises:

– entities under exclusive control: exclusive control is considered as being exercised in cases where the Group holds a majority of the shares, directly or indirectly, and either the majority of the voting rights or the power to appoint the majority of members of the board of directors, executive board or supervisory board, or when the Group exercises a dominant influence. Entities that are controlled exclusively by the Group are fully consolidated;

– entities under joint control: joint control is exercised by virtue of a contractual agreement, and is the shared control of an economic activity, irrespective of the structure or form under which that activity is conducted. Jointly controlled companies are consolidated using the proportional method;

– entities over which the Group exercises significant influence: these are the entities that are not controlled by the consolidating entity, but in which the Group has the power to participate in determining their financial and operating policies. The share capital of the entities in which the Group exercises a significant influence is consolidated using the equity method.

Entities controlled by the Group or over which it exercises significant influence and which are not material in relation to the consolidated financial statements are not consolidated. This situation is presumed if the total statement of financial position or the income statement of an entity represents less than 1% of the related consolidated or sub-consolidated (if applicable) totals. This is a purely relative criterion: an entity may be included in the consolidated group regardless of the 1% threshold if it is regarded as a strategic investment given its activity or its development.

Special purpose entities (SPE) are consolidated if they meet the conditions for consolidation set out in SIC 12 (where the activities are conducted exclusively on behalf of the Group; the Group has the decision-making or management powers to obtain the majority of the benefits of the ongoing operations of the SPE; the Group has the capacity to benefit from the SPE; the Group retains the majority of the risks related to the SPE).

Shareholdings owned by private equity companies over which joint control or significant influence is exercised are excluded from the scope of consolidation and their value is accounted for under the fair value option.

◆ Changes in the scope of consolidation

Changes in the scope of consolidation as of December 31st, 2011 were as follows:

Additions to the scope of consolidation

– Banking network and network subsidiaries: Caisses de Crédit Mutuel Loire-Atlantique et Centre-Ouest, Caisses de Crédit Mutuel du Centre, Caisses de Crédit Mutuel Dauphiné-Vivarais, Caisses de Crédit Mutuel Méditerranéen, Caisses de Crédit Mutuel de Normandie, Caisse Régionale du Crédit Mutuel Loire-Atlantique Centre-Ouest, Caisse Régionale du Crédit Mutuel du Centre, Caisse Régionale du Crédit Mutuel Dauphiné-Vivarais, Caisse Régionale du Crédit Mutuel Méditerranéen, Caisse Régionale du Crédit Mutuel de Normandie, Fédération du Crédit Mutuel Loire-Atlantique et Centre-Ouest, Fédération du Crédit Mutuel du Centre, Fédération du Crédit Mutuel Dauphiné-Vivarais, Fédération du Crédit Mutuel Méditerranéen, Fédération du Crédit Mutuel de Normandie, Banque Casino.

– Insurance companies: Voy Mediacion, Atlancourtage.

– Other companies: Actimut, CM-CIC Immobilier, Euro Protection Surveillance, France Est, L'Est Républicain, Journal de la Haute-Marne, Affiches d'Alsace-Lorraine, Alsatic, Alsace Média Participations, Alsacienne de Portage des DNA, A. Télé, Les Dernières Nouvelles d'Alsace, Les Dernières Nouvelles de Colmar, France Régie, Publicité Moderne, Société Alsacienne de Presse de l'Audiovisuel, SDV Plurimédia, Société de Presse Investissement, Top Est 88, SEHLJ, Est Bourgogne Média.

Mergers/acquisitions

CIC Investissements with CM-CIC Investissement, Financière Voltaire with CM-CIC Capital Finance, GPK Finance with Transatlantique Gestion, Société Foncière et Financière with CM-CIC Capital Finance, IPO with CM-CIC Investissement and IPO Ingénierie with CM-CIC Capital Finance, le Journal de Saône-et-Loire with Est Bourgogne Media and le Bien Public with Est Bourgogne Media.

Removals from the scope of consolidation

Alsace Publicité, Cofidis Romania, ICM Ré, Vizille de Participations.

◆ Consolidation methods

The consolidation methods used are as follows:

Full consolidation

This method involves substituting for the value of the shares each of the assets and liabilities of each subsidiary and recognizing the interests of non-controlling shareholders in shareholders' equity and in the income statement. This method is applicable to all entities under exclusive control, including those that do not share the same accounting structures, whether or not the business of the consolidated party is an extension of the business of the consolidating party.

Proportionate consolidation

This method involves the consolidation by the consolidating entity of the representative share of its interests in the accounts of the consolidated entity, after restatements if necessary, so that no allowance is made for non-controlling interests. This method is applicable to all entities under joint control, including entities that do not share the same accounting structures, whether or not the business of the consolidated party is an extension of the business of the consolidating party.

Consolidation using the equity method

This involves substituting for the value of the shares the Group's interest in the equity and in the earnings of the relevant entities. This method applies to entities over which the Group exercises significant influence.

◆ Closing date

All Group companies falling within the scope of consolidation have a December 31st closing date.

◆ Elimination of intercompany transactions

Intercompany transactions and the profits arising from transfers between Group entities that have a significant effect on the consolidated financial statements are eliminated. Receivables, payables, reciprocal commitments, internal expenses and income are eliminated for entities subject to full and proportionate consolidation.

◆ Translation of financial statements expressed in foreign currencies

The statements of financial position of foreign entities are translated into euro at the official year-end exchange

rate. Differences arising from the retranslation at the year-end rate of the opening capital stock, reserves and retained earnings are recorded as a separate component of equity, under "Translation adjustments". Their income statements are translated into euros at the average exchange rate for the year (the Group considers that any differences between the average rate for the year and the rates applicable on each transaction date are immaterial), and the resulting differences are recorded under "Translation adjustments". On liquidation or disposal of some or all of the interests held in a foreign entity, these amounts are recognized through the income statement.

As allowed by IFRS 1, the balance of cumulative translation adjustments was reset to zero in the opening statement of financial position as of January 1st, 2004.

◆ Goodwill

Measurement differences

On taking control of a new entity, its assets, liabilities and any operating contingent liabilities are measured at fair value. Any difference between carrying amounts and fair value is recognized as goodwill.

Acquisition goodwill

In accordance with IFRS 3R, when the Bank acquires a controlling interest in a new entity, said entity's identifiable assets, liabilities and contingent liabilities that meet the criteria for recognition under IFRS are measured at fair value at the acquisition date, with the exception of non-current assets classified as assets held for sale, which are recognized at fair value net of selling costs. IFRS 3R permits the recognition of full goodwill or partial goodwill and the choice of method is made separately for each business combination.

In the case of full goodwill, non-controlling interests are measured at fair value, whereas in the case of partial goodwill, they are measured based on their share of the values attributed to the assets and liabilities of the acquired entity. If goodwill is positive, it is recognized as an asset and, if negative, it is recognized immediately in the income statement under "Positive net effect of business combinations".

If the Group's stake in an entity it already controls increases/decreases, the difference between the acquisition cost/selling price of the shares and the portion of consolidated equity that said shares represent on the acquisition/sale date is recognized within equity. Goodwill is presented on a separate line of the statement of financial position when it relates to fully-consolidated companies and under the heading "Investments in associates" when it relates to equity-accounted companies. Goodwill does not include direct expenses associated with acquisitions, which are required to be expensed under IFRS 3R. Goodwill is tested for impairment regularly and at least once a year. The tests are designed to identify whether goodwill has suffered a prolonged decline in value. If the recoverable amount of the cash-generating unit (CGU) to which goodwill has been allocated is less than its carrying amount, an impairment loss is recognized for the amount of the difference. These impairment losses on goodwill — which are recognized through the income statement — cannot be reversed. In practice, cash-generating units are defined on the basis of the Group's business lines.

◆ Non-controlling interests

These correspond to interests that do not provide control, as defined in IAS 27, and incorporate those instruments representing current ownership interests that entitle the owner to a pro-rata share of the net assets of the entity in the event of liquidation, and other equity instruments issued by the subsidiary and not owned by the Group.

Note 1.3 Accounting policies and methods

IFRS offer a choice of accounting methods for certain items. The main options adopted by the Group relate to the following:

– the use of fair value or of remeasurement to assess the presumed cost of non-current assets at the time of translation: this option may apply to any tangible asset or intangible asset that satisfies the remeasurement criteria, or to any investment property valued on a cost basis. The Group has chosen not to adopt this option;

– the Group has not opted for the immediate recognition in shareholders' equity of actuarial gains and losses related to employee benefits;

– the Group has opted to reset translation adjustments to zero in the opening statement of financial position;

– the valuation at market price of certain liabilities issued by the company and not included in the trading book;

– the Group has opted for the principle of eligibility for fair value hedge accounting for macro-hedges established within the framework of asset-liability management concerning fixed income positions (including in particular customer sight deposits) as authorized by regulation n° 2086/2004 of the European Commission;

– the Group used the October 2008 amendment to IAS 39 to reclassify certain financial instruments recognized at fair value as loans and receivables or as assets held-to-maturity. Reclassifications to available-for-sale assets are also possible.

Note 1.3.1 Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market and which are not intended at the time of their acquisition or grant to be sold. They include loans granted directly by the Group or its share in syndicated loans, purchased loans and debt securities that are not listed on an active market. Loans and receivables are measured at fair value, which is usually the net amount disbursed at inception.

The interest rates applied to loans granted are deemed to represent market rates, since they are constantly adjusted in line with the interest rates applied by the vast majority of competitor banks. They are subsequently carried at amortized cost using the effective interest rate method (other than for loans and receivables carried at fair value by option).

Commissions received or paid that are directly related to setting up the loan and are treated as an additional component of interest are recognized over the life of the loan using the effective interest rate method and are shown under interest items in the income statement.

The fair value of loans and receivables is disclosed in the notes to the financial statements at the end of each reporting period and corresponds to the net present value of future cash flows estimated using a zero-coupon yield curve that includes an issuer cost inherent to the debtor.

Note 1.3.2 Impairment of loans and receivables, financing commitments and financial guarantees given, and available-for-sale or held-to-maturity instruments

◆ Individual impairment of loans

Impairment is recognized when there is objective evidence of a measurable decrease in value as a result of an event occurring after inception of a loan or group of loans, and which may lead to a loss. Loans are tested for impairment on an individual basis at the end of each reporting period. The amount of impairment is equal to the difference between the carrying amount and the present value of the estimated future cash flows associated with the loan, taking into account any guarantees, discounted at the original effective interest rate. For variable-rate loans, the last known contractual interest rate is used.

Loans on which one or more installments are more than 3 months past due (6 months in the case of real estate loans and 9 months for local authority loans) are deemed to represent objective evidence of impairment. Likewise, an impairment loss is recognized when it is probable that the borrower will not be able to repay the full amount due, when an event of default has occurred, or where the borrower is subject to court-ordered liquidation.

Impairment charges and provisions are recorded in net additions to/reversals from provisions for loan losses. Reversals of impairment charges and provisions are recorded in net additions to/reversals from provisions for loan losses for the portion relating to the change in risk and in net interest for the portion relating to the passage of time. Impairment provisions are deducted from the asset in the case of loans and receivables and the provision is recorded under "provisions" in liabilities for financing and guarantee commitments.

Loan losses are recorded in losses and the corresponding impairments and provisions are written back.

◆ Collective impairment of loans

Customer loans that are not individually impaired are risk-assessed on the basis of loans with similar characteristics. This assessment draws upon internal and external rating systems, the estimated probability of default, the estimated loss rate, and the amount of loans outstanding. Portfolio-based impairment is deducted from the carrying amount of the assets concerned, while any movements in impairment are included in "Net additions to/reversals from provisions for loan losses" in the income statement.

Note 1.3.3 Leases

A lease is an agreement whereby the lessor conveys to the lessee in return for a payment or a series of payments the right to use an asset for an agreed period of time.

A finance lease is a lease that transfers substantially all the risks and rewards incidental to ownership of an asset. Title may or may not eventually be transferred.

An operating lease is a lease other than a finance lease.

◆ Finance leases-lessor accounting

In accordance with IAS 17, finance lease transactions with non-Group companies are included in the consolidated statement of financial position in an amount corresponding to the net investment in the lease.

In the lessor's financial statements, the analysis of the economic substance of the transaction results in:
– the recognition of a financial receivable due from the customer, reduced in line with the lease payments received;
– the breakdown of lease payments between principal repayments and interest, known as financial amortization;

– the recognition of an unrealized reserve, equal to the difference between:
• the net financial outstanding amount, being the debt of the lessee in the form of the outstanding principal and the interest accrued at the end of the financial year;
• the net carrying amount of the leased non-current assets;
• the deferred tax provision.

◆ Finance leases-lessee accounting

In accordance with IAS 17, assets acquired under finance leases are included in property and equipment and an amount due to credit institutions is recorded as a liability. Lease payments are broken down between principal repayments and interest.

Note 1.3.4 Acquired securities

The securities held are classified into the three categories defined in IAS 39, namely financial instruments at fair value through profit or loss, financial assets held to maturity, and financial assets available for sale.

◆ Financial assets and liabilities at fair value through profit or loss

Classification

Financial instruments at fair value through profit or loss comprise:

1. financial instruments held for trading purposes, consisting mainly of instruments that:
a. were acquired or incurred principally for the purpose of selling or repurchasing them in the near term; or
b. are part of a portfolio of financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking; or
c. represent derivatives not classified as hedges;

2. financial instruments designated at inception as at fair value through profit or loss in accordance with the option provided by IAS 39, for which application guidance was given in the amendment published in June 2005. This option is designed to help entities produce more relevant information, by enabling:
a. certain hybrid instruments to be measured at fair value without separating out embedded derivatives whose separate measurement would not have been sufficiently reliable;
b. a significant reduction in accounting mismatches regarding certain assets and liabilities;
c. a group of financial assets and/or liabilities to be managed and monitored for performance in accordance with a documented risk management or investment strategy on a fair value basis.

This Group used this option mainly in connection with insurance business units of account contracts in line with the treatment for liabilities, as well as the securities held in the private equity portfolio and certain debt securities with embedded derivatives.

Basis for recognition and measurement of related income and expenses

Financial instruments included in this category are recognized in the statement of financial position at fair value up to the date of their disposal. Changes in fair value and in interest received or accrued on fixed-income securities are taken to the income statement under "Net gains/(losses) on financial instruments at fair value through profit or loss".

Purchases and sales of securities at fair value through profit or loss are recognized on the settlement date. Any changes in fair value between the transaction date and settlement date are taken to income. Fair value also incorporates an assessment of counterparty risk on these securities.

Fair value or market value

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arm's length transaction. The fair value of an instrument upon initial recognition is generally its transaction price. If the instrument is traded on an active market, the best estimate of fair value is the quoted price. The appropriate quoted market price for an asset held or liability to be issued is usually the current bid price, and for an asset to be acquired or liability held, the ask price.

When the bank has assets and liabilities with offsetting market risks, the net position is valued at the bid price for a net asset held or a net liability to be issued and at the ask price for a net asset to be acquired or liability held.

A market is deemed to be active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions in very similar instruments carried out on an arm's length basis.

If the market for a financial instrument is not active, fair value is established using a valuation technique.

Derivatives are remeasured based on available observable market data such as yield curves to which the bid/ask price is then applied.

A multi-criteria approach is adopted to determine the value of securities held in the private equity portfolio, backed by historical experience of valuing unlisted companies.

Criteria for classification and rules of transfer

Market conditions may cause the Crédit Mutuel-CIC Group to review its investment and management strategy of these securities. Thus, when it appears inappropriate to sell securities initially acquired for the purpose of selling them in the near term, these securities may be reclassified under

the specific provisions provided for by the October 2008 amendment to IAS 39. Transfers to "Available for sale financial assets" or "Held to maturity financial assets" categories are authorized in exceptional circumstances. Transfers to the "Loans and receivables" category are contingent upon the Group's intention and ability to retain ownership of such securities in the foreseeable future or until maturity. The purpose of these portfolio transfers is to better reflect the new intention to manage these instruments, and to give a more faithful picture of their impact on the Group profit or loss.

◆ Available for sale financial assets

Classification

Available-for-sale financial assets are financial assets that have not been classified as "Loans and receivables", held to "Maturity financial assets" or "Financial assets at fair value through profit or loss".

Basis for recognition and measurement of related income and expenses

Available-for-sale financial assets are carried at fair value until disposal. Changes in fair value are shown on the "Unrealized or deferred gains and losses" line within a specific equity account, excluding accrued income. These unrealized or deferred gains or losses recognized in equity are only transferred to the income statement in the event of disposal or a lasting impairment in value. On disposal or recognition of a lasting impairment in value, the unrealized gains and losses recorded in equity are transferred to the income statement under "Net gains/(losses) on available-forsale financial assets". Purchases and sales are recognized at the settlement date.

Income received or accrued from fixed-income available-for-sale securities is recognized in the income statement under "Interest income". Dividend income relating to variable-income available-for-sale securities is taken to income under "Net gains/(losses) on available-for-sale financial assets".

Impairment of available-for-sale debt instruments

Impairment losses are recognized in "Net additions to/ reversals from provisions for loan losses" and are reversible. In the event of impairment, any unrealized or deferred gains or losses are written back to the income statement.

Impairment of available-for-sale equity instruments

An equity instrument is impaired when there is objective evidence of impairment, either in the event of a) a significant or lasting decline in the fair value to below cost; or b) information regarding significant changes that have a negative impact and have arisen in the technological environment prevailing in the economic or legal market in which the issuer operates and which indicates that the cost of the investment may not be recovered.

In the case of an equity instrument, the loss of at least 50% of its value compared with its acquisition cost or a loss of value lasting more than 36 consecutive months implies an impairment. Such instruments are analyzed on a line-by-line basis. Judgment must also be exercised for securities that do not meet the above criteria but for which it is considered that recovery of the amount invested in the near future cannot reasonably be expected.

Impairment is recognized under "Net gains/(losses) on available-for-sale financial assets" and is irreversible so long as the instrument is carried in the statement of financial position. Any subsequent impairment is also recognized in the income statement. In the event of impairment, any unrealized or deferred gains or losses are written back to the income statement.

Criteria for classification and rules of transfer

Fixed-income securities may be reclassified:

– into "Held-to-maturity financial assets" in the event of a change in the management intention, and provided that they qualify for this category;

– into "Loans and receivables" in the event of a change in the management intention, the ability to hold the securities in the foreseeable future or until maturity, and provided that they fulfill the eligibility conditions of this category.

In the event of transfer, the fair value of the financial asset at the date of reclassification becomes its new cost or amortized cost. No gain or loss recognized before the date of transfer can be written back.

In the event of a transfer of instruments with a fixed maturity from "Available-for-sale financial assets" to the "Held-to-maturity financial assets" or "Loans and receivables" categories, the unrealized gains and losses, previously deferred in equity are amortized over the remaining life of the asset. In the case of a transfer of instruments without a fixed maturity date to the "Loans and receivables" category, the previously deferred unrealized gains and losses remain in equity until the disposal of the securities.

◆ Held-to-maturity financial assets

Classification

Held-to-maturity financial assets are financial assets listed on an active market, with fixed or determinable payments that the Group has the positive intention and ability to hold to maturity, other than those that the Group has designated at fair value through profit or loss or as available for sale. The positive intention and ability to hold to maturity are assessed at the end of each reporting period.

Basis for recognition and measurement of related income and expenses

Held-to-maturity investments are recognized at fair value upon acquisition. Transaction costs are deferred and included in the calculation of the effective interest rate, unless they are not material in which case they are recognized immediately through profit or loss. Held-to-maturity investments are subsequently measured at amortized cost using the effective interest rate method, which builds in the actuarial amortization of premiums and discounts corresponding to the difference between the purchase price and redemption value of the asset. Income earned from this category of investments is included in "Interest income" in the income statement.

Impairment

Should a credit risk arise, impairment on held-to-maturity financial assets is calculated in the same way as for loans and receivables.

Criteria for classification and rules of transfer

This category includes fixed or determinable income securities, with a fixed maturity date, and which the Crédit Mutuel-CIC Group has the intention and ability to hold until maturity. Any interest-rate risk hedges applicable to this category do not qualify for hedge accounting as defined in IAS 39.

Furthermore, disposals or transfers of securities in this portfolio are very restricted, due to the provisions laid down in IAS 39; breaching this rule would entail the declassification of the whole portfolio at the Group level, and forbid access to this category for two years.

◆ Fair value hierarchy of financial instruments

There are three levels of fair value of financial instruments, as defined by IFRS 7:
– level 1: prices quoted on active markets for identical assets or liabilities;
– level 2: data other than the level 1 quoted prices, which are observable for the asset or liability concerned, either directly (i.e. prices) or indirectly (i.e. data derived from prices);
– level 3: data relating to the asset or liability that are not based on observable market data (non-observable data).

◆ Derivatives and hedge accounting

Financial instruments at fair value through profit or loss – derivatives

A derivative is a financial instrument:
– whose fair value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, credit rating or credit index, or other variable, sometimes called the "underlying";
– which requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts exhibiting a similar response to changes in market factors;
– which is settled at a future date.

Derivatives are classified as financial instruments held for trading except when they are part of a designated hedging relationship.

Derivatives are recorded in the statement of financial position under financial instruments at fair value through profit or loss. Changes in fair value and interest accrued or payable are recognized in "Net gains/(losses) on financial instruments at fair value through profit or loss".

Derivatives qualifying for hedge accounting in accordance with IAS 39 are classified as "Fair value hedges" or "Cash flow hedges", as appropriate. All other derivatives are classified as trading "Assets or liabilities", even if they were contracted for the purpose of hedging one or more risks.

Embedded derivatives

An embedded derivative is a component of a hybrid (combined) instrument that also includes a non-derivative host contract, with the effect that some of the cash flows of the combined instrument vary in a way similar to a standalone derivative.

Embedded derivatives are separated from the host contract and accounted for as a derivative at fair value through profit or loss provided that they meet the following three conditions:
– the hybrid instrument is not measured at fair value through profit or loss;
– the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract;
– the separate measurement of the embedded derivative is sufficiently reliable to provide useful information.

Financial instruments at fair value through profit or loss – derivatives – structured products

Structured products are products created by bundling basic instruments, generally options, to exactly meet client needs. There are various categories of structured products based on plain vanilla options, binary options, barrier options, Asian options, look back options, options on several assets and index swaps.

There are three main methods of valuing these products: methods consisting of solving a partial differential equation, discrete time tree methods and Monte Carlo methods. The

first and third methods are used. The analytical methods used are those applied by the market to model the underlyings.

The valuation parameters applied correspond to observed values or values determined using a standard observed values model at the end of the reporting period. If the instruments are not traded on an organized market, the valuation parameters are determined by reference to the values quoted by the most active dealers in the corresponding products or by extrapolating quoted values. All these parameters are based on historical data. The parameters applied to measure the value of unquoted forward financial instruments are determined using a system that provides a snapshot of market prices. Every day, at a fixed time, the bid and ask prices quoted by several market players, as displayed on the market screens, are recorded in the system. A single price is fixed for each relevant market parameter.

Certain complex financial instruments, mainly customized equity barrier options with single or multiple underlyings presenting low levels of liquidity and long maturities, are measured using internal models and valuation inputs such as long volatilities, correlations, and expected dividend flows where no observable data can be obtained from active markets. Upon initial recognition, these complex financial instruments are recorded in the statement of financial position at their transaction price, which is deemed to be the best indication of fair value even though the result of the model-based valuation may differ. The difference between the price at which a complex instrument is traded and the value obtained from internal models, which generally represents a gain, is known as "Day one profit". IFRS prohibit the recognition of a margin on products valued using models and parameters that are not observable on active markets. The margin is therefore deferred. The margin realized on options with a single underlying and no barrier is recognized over the life of the instrument. The margin on products with barrier options is recognized upon maturity of the structured product, due to the specific risks associated with the management of these barriers.

Hedge accounting

IAS 39 permits three types of hedging relationship. The hedging relationship is selected on the basis of the type of risk being hedged. A fair value hedge is a hedge of the exposure to changes in fair value of a financial asset or liability and is mainly used to hedge the interest rate risk on fixed-rate assets and liabilities and on demand deposits, as permitted by the European Union. A cash flow hedge is a hedge of the exposure to variability in cash flows relating to a financial asset or liability, firm commitment or highly probable forecast transaction. Cash flow hedges are used in particular for interest rate risk on variable-rate assets and liabilities, including rollovers, and for foreign exchange risk on highly probable foreign currency revenues. Hedges of a net investment in a foreign operation are a special type of cash flow hedge.

At the inception of the hedge, the Group documents the hedging relationship, i.e. that between the item being hedged and the hedging instrument. This documentation describes the management objectives of the hedging relationship, as well as the type of risk covered, the hedged item and hedging instrument, and the methods used to assess the effectiveness of the hedging relationship.

Hedge effectiveness is assessed at the inception of the hedge and subsequently at least at the end of each reporting period.

The ineffective portion of the hedge is recognized in the income statement under "Net gains/(losses) on financial instruments at fair value through profit or loss".

Fair value hedging instruments

The portion corresponding to the rediscounting of a derivative financial instrument is recorded in the income statement under the line item "Interest income, interest expense and equivalent, hedging derivative instruments", symmetrically to the interest income or expenses relating to the hedged item. In a fair value hedging relationship, the derivative instrument is measured at fair value through profit or loss, under the line item "Net gains/(losses) on financial instruments at fair value through profit or loss" symmetrically to the remeasurement of the hedged item to reflect the hedged risk through profit or loss. This rule also applies if the hedged item is accounted for at amortized cost or if it is a financial asset classified as available for sale. If the hedging relationship is perfectly effective, the fair value change in the hedging instrument offsets the change in fair value of the hedged item.

The hedge must be considered as "highly effective" to qualify for hedge accounting. The change in fair value or cash flows attributable to the hedging instrument must practically offset the change in the hedged item's fair value or cash flows. The ratio between those two changes must lie within the range of 80% and 125%.

If the hedging relationship is interrupted, or the effectiveness criteria are not fulfilled, the hedge accounting ceases to be applied on a prospective basis. Hedge derivatives are reclassified as trading instruments and are recognized as per the principles applied to that category. The value of the hedged element in the statement of financial position is subsequently not adjusted to reflect changes in fair value, and the cumulative adjustments related to the hedge are amortized over the remaining life of the hedged item. If the hedged item no longer appears in the statement of financial position, in particular due to early repayments, the cumulative adjustment is immediately recognized in income.

Fair value hedging instruments – interest rate risk

The amendments introduced by the European Union to IAS 39 in October 2004 make it possible to include customer demand deposits in fixed rate liability portfolios. For each portfolio of assets or liabilities, the bank checks that there is no excess hedging, and does so by pillar business line and at each reporting date.

The liability portfolio is scheduled over time, under the estimates for future cash flows defined by the ALM unit.

Changes in fair value of the interest rate risk on the hedged instrument portfolios are recorded in a special line item of the statement of financial position called "Remeasurement adjustment on investments hedged against interest rate risk", the counterparty being an income statement line item.

Cash flow hedging instruments

In the case of a cash flow hedge relationship, the gains or losses on effective hedging instruments are recognized in shareholders' equity under the line item "Unrealized or deferred gains and losses relating to cash flow hedging derivatives", while the ineffective portion is recognized in the income statement under the "Net gains and losses on financial instruments at fair value through profit or loss" heading.

The amounts recognized in shareholders' equity are carried to the income statement under the "Interest income, interest expense and equivalent" heading, at the same rate as the cash flows of the hedged item affect the income statement. The hedged items remain recognized in accordance with the specific provisions for their accounting category.

If the hedging relationship is interrupted, or if the effectiveness criteria are not fulfilled, the hedge accounting ceases to be applied. Cumulative amounts recognized in shareholders' equity as a result of the remeasurement of a hedging derivative, remain recognized in equity until the hedged transaction affects earnings or when it becomes apparent that the transaction will not take place. These amounts are subsequently carried to the profit and loss account.

Reclassifications of debt instruments

Fixed income securities or debt instruments valued at fair value through profit or loss can be reclassified into the following categories:

a. "Financial assets held to maturity", only in rare cases, if management's intention has changed, and provided that they fulfill the eligibility conditions of this category;

b. "Loans and receivables" in the event of a change in management's intention or ability to hold the securities in the foreseeable future or until maturity, and provided that they qualify for this category;

c. "Available for sale" only in rare cases.

Fixed income securities or debt instruments available for sale may be reclassified into the following categories:

a. "Financial assets held to maturity", in the event of a change in management's intention or ability, and provided that they fulfill the eligibility conditions of this category;

b. "Loans and receivables", in case the Group has the intention and ability to hold the financial assets in the foreseeable future or until maturity, and provided that they qualify for this category.

In the event of a reclassification, the fair value of the financial asset at the date of reclassification becomes its new cost or amortized cost. No gain or loss recognized before the date of transfer can be derecognized.

In the event of a transfer of debt instruments with a fixed maturity from the category "Financial assets available for sale" to the "Financial assets held to maturity" or "Loans and receivables" categories, the unrealized gains and losses, previously deferred in equity are amortized over the remaining life of the asset. In case of a reclassification of debt instruments with no fixed maturity to the "Loans and receivables" category, the previously deferred unrealized gains and losses remain in equity until the disposal of the securities.

Note 1.3.5 Debt represented by a security

Debt evidenced by certificates (certificates of deposit, interbank market securities, bonds, etc.), not classified under the fair value option, are accounted for at their issue value minus, usually, the transaction costs.

These debt securities are subsequently measured at amortized cost using the effective interest method.

Some "structured" debt instruments may include embedded derivatives. These embedded derivatives are separated from the host contracts if the separation criteria are satisfied and they can be valued reliably.

The host contract is recognized at amortized cost at a later stage. Its fair value is determined based on quoted market prices or valuation models.

Note 1.3.6 Subordinated debt

Term or perpetual subordinated debt is separated from debt securities, because their redemption, should the debtor enter liquidation, is only possible after all the other creditors have been paid. Such debt is valued at amortized cost.

Note 1.3.7 Distinction between Debt and Shareholders' equity

According to the IFRIC 2 interpretation, shares owned by member-shareholders are equity if the entity has an unconditional right to refuse the redemption, or if there are legal or statutory provisions prohibiting or seriously restricting the redemption. In view of the existing legal or statutory

provisions, the shares issued by the structures making up the consolidating entity of the Crédit Mutuel-CIC Group, are recognized in equity.

The other financial instruments issued by the Group qualify as debt instruments for accounting purposes, where there is a contractual obligation for the Group to provide cash to the security holders. This is in particular the case for all the subordinated securities issued by the Group.

Note 1.3.8 Provisions

Additions to and reversals from provisions are classified according to the nature of the corresponding income and expense items. The provision is shown within liabilities on the statement of financial position.

A provision is recognized when it is likely that an outflow of resources embodying economic benefits will be required to settle an obligation arising from a past event, and a reliable estimate can be made of the amount of the obligation. The amount of this obligation is discounted, where appropriate, to determine the amount of the provision.

The provisions made by the Group cover in particular:

– legal risk;
– social commitments;
– execution risk on off-statement of the financial position commitments;
– litigation risk and guarantee commitments given;
– tax risks;
– risks related to home savings accounts and plans.

Note 1.3.9 Amounts due to customers and credit institutions

Debt includes fixed-or determinable income financial liabilities. They are recognized at their market value when they are posted to the statement of financial position, and are subsequently valued at reporting date at amortized cost using the effective interest method, except for those that have been recognized under the fair value option.

◆ Regulated savings contracts

The “comptes épargne-logement” (CEL, home savings accounts) and “plans épargne-logement” (PEL, home savings plans) are products regulated by French law, which are available to customers (natural persons). These products combine a stage of interest-bearing savings, which give right to a preferential housing loan in a second stage. They generate two types of commitments for the distributing institution:

– a commitment to pay future interest on the amounts deposited as savings at a fixed rate for the PEL and variable-rate equivalent for the CEL (periodically revised on the basis of an indexation formula);
– a commitment to grant a loan to the customers who request it at predetermined conditions (both for the PEL and the CEL).

These commitments have been estimated on the basis of customer behavior statistics and market inputs. A provision has been made on the liabilities side of the statement of financial position to cover future charges related to the potentially unfavorable conditions of such products, compared to the interest rates offered to individual customers for similar products, but not regulated in terms of their interest rate. This approach results in the generation of homogeneous regulated terms for the PEL and the CEL. The impact on the income statement is recognized as “Interest paid to customers”.

Note 1.3.10 Cash and cash equivalents

Cash and cash equivalents consolidate the cash accounts, deposits and demand loans and borrowings relating to central banks and credit institutions.

In the statement of cash flows, UCITS are classified as an “operational activity” and therefore do not need to be reclassified.

Note 1.3.11 Employee benefits

Employee benefits are recognized in accordance with IAS 19. Social obligations are subject, where relevant, to a provision reported under the line item “Provisions for risks and charges”. A change in this item is recognized in the income statement under the “Employee expense” heading.

◆ Defined post-employment benefits

These benefits include retirement plans, early retirement pensions, and additional retirement plans, under which the Group has a formal or implicit liability to provide benefits promised to employees.

These obligations are calculated using the projected unit credit method, which involves awarding benefits to periods of service under the contractual formula for calculating the retirement plan benefits, subsequently discounted on the basis of demographic and financial assumptions, including:

– the discount rate, determined by reference to the long-term interest rates of high-quality corporate bonds, at year-end;
– the rate of wage increase, assessed according to the age group, the management/non-management category, and regional features;
– the rate of inflation, estimated on the basis of a comparison between the OAT (French government bond) yields and OAT yields inflated for different maturities;
– rates of employee turnover determined by age group on the basis of an average ratio over three years of the num-

ber of resignations and dismissals over the total number of employees working in the company under non-fixed term contracts at the financial year-end;
– the age of retirement: an estimate is made by individual on the basis of real or estimated date of entry in the working life and assumptions related to the retirement reform legislation (Fillon law), with a maximum ceiling at age 67;
– the mortality according to INSEE (the French National Institute for Statistics and Economic Studies) TF 00-02 table.

The differences arising from changes in these assumptions and from the differences between previous assumptions and actual results represent actuarial variances. If the retirement plan has assets, these are valued at their fair value, and affect the income statement for the expected yield. The difference between the real and expected yield is also an actuarial variance.

The Group has opted for the immediate recognition of actuarial gains and losses in the income statement for the year, in the form of provisions not spread over the remaining working life of the employees. Any reductions in terms or liquidation of the plan generate changes in the obligation, which are recognized in income for the year.

Supplementary benefits provided by pension funds

The AFB stepping stone agreement of September 13th, 1993 modified the pension plans of credit institutions. Since January 1st, 1994, all banks are members of the French pension plans of Arrco and Agirc. The four pension funds of which the Group's banks are members have been merged. They provide for the payment of the various charges required by stepping stone agreement, drawing on their reserves completed if necessary by additional annual contributions paid in by the member banks concerned and whose average rate over the next ten years is capped at 4% of the payroll expense. After the merger, the pension fund was transformed into an IGRS (public institution to manage additional retirement benefits) in 2009. It has no asset shortfall.

Other post-employment defined benefits

A provision is recognized for long service awards and supplementary retirement benefits, including special plans. They are valued on the basis of entitlements acquired by all the staff in active service, notably on the basis of staff turnover in the consolidated entities and the estimated future salaries and wages to be paid to the beneficiaries at the time of their retirement, increased where appropriate by social security contributions. The long service awards of the Group's banks in France are covered up to at least 60% by an insurance contract taken out with ACM Vie, an insurance company of the Crédit Mutuel-CIC Group, which is fully consolidated.

◆ Defined contribution post-employment benefits

The Group's entities contribute to a number of pension plans managed by organizations that are independent from the Group, for which the entities have no additional formal or implicit payment obligation, in particular if the assets in the pension plans are not sufficient to meet liabilities.

As these plans do not represent obligations of the Group, they are not subject to a provision. The related expenses are recognized in the financial year in which the contributions must be paid.

◆ Long-term benefits

These are benefits to be paid, other than post-employment benefits and termination benefits, which fall due wholly more than 12 months after the end of the period during which the employee rendered the related service, for example work medals, time savings accounts, etc.

The Group's obligation in respect of other long-term benefits is quantified using the projected unit credit method. However, actuarial gains and losses are recognized immediately in the income statement for the accounting period, as the "corridor" method is not allowed.

Obligations in respect of work medals are sometimes covered by insurance policies. A provision is established only the uncovered part of these obligations.

◆ Employee supplementary retirement plans

Employees of the Crédit Mutuel CM10 and CIC Groups benefit from, as a complement to the mandatory retirement plans, a supplementary retirement plan offered by ACM Life SA.

Employees of the CM10 Group benefit from two supplementary retirement plans, one with defined contributions and the other with defined benefits. The rights under the defined contributions plan are vested even if the employee leaves the company, unlike the rights under the defined benefits plan which, in accordance with the new regulation, only vest definitively when the employee leaves the company to retire. The total amount of the obligation was 719 million euros as of December 31st, 2011, covered by technical reserves of 692 million euros and 39 million euros worth of mathematical reserves for defined benefits plans recognized on the liabilities side of the ACM VIE SA statement of financial position. These figures represent all the beneficiaries.

In addition to the mandatory retirement plans, CIC Group's employees benefit from a supplementary defined contribution plan from ACM Vie SA. The obligation relating to this plan amounted to 287 million euros as of December 31st, 2011, covered by 302 million euros worth of special techni-

cal provisions recognized on the liabilities side of the ACM Vie statement of financial position, including all beneficiaries.

◆ Termination benefits

These benefits are granted by the Group on termination of the contract before the normal retirement date, or following the employee's decision to accept voluntary termination in exchange for an indemnity. The related provisions are updated if their payment is to occur more than 12 months after the reporting date.

◆ Short-term benefits

These are benefits payable within the twelve months following the end of the financial year, other than termination benefits, such as salaries and wages, social security contributions and a number of bonuses.

An expense is recognized relating to these short-term benefits for the financial year during which the service rendered to the Company has given rise to such entitlement.

Note 1.3.12 Insurance

The accounting principles and valuation rules of the assets and liabilities generated by the issuance of insurance policies have been drawn up in accordance with IFRS 4. This also applies to reinsurance policies, whether issued or subscribed, and to financial contracts including a discretionary profit-sharing clause. The other assets held and liabilities issued by insurance companies follow the rules common to all of the Group's assets and liabilities.

◆ Assets

Financial assets, investment properties and fixed assets follow the accounting methods described elsewhere. However, financial assets representing technical provisions related to unit-linked contracts are shown under the line item "Financial assets at fair value through profit or loss".

◆ Liabilities

Insurance liabilities, which represent liabilities to policyholders and beneficiaries, are shown under the line item "Technical reserves of insurance policies". They are measured, accounted for and consolidated as under the French standards.

Technical reserves of life insurance policies consist mainly of mathematical reserves, which generally correspond to the surrender value of the policies. The risks covered mainly include death, disability and incapacity for work (for borrower's insurance).

Technical reserves of unit-linked contracts are measured, on the reporting date, based on the realizable value of the assets underlying these contracts. Reserves of non-life insurance policies correspond to unearned premiums (portion of premiums issued related to subsequent years) and claims payable.

Insurance policies that have a discretionary profit-sharing clause are subject to "shadow accounting". The resulting provision for deferred profit-sharing represents the share of capital gains and losses accruing to policyholders. These provisions for deferred profit-sharing are recognized on the assets or liabilities side, by legal entity and without compensation between entities in the scope of consolidation. On the assets side, these are recorded under a separate heading.

On the reporting date, the liabilities carried for these policies (net of other related asset or liability items such as deferred acquisition expenses and the value of the portfolios acquired) are tested to check that they are sufficient to cover the future cash flows estimated at this date. Any shortfall in technical provisions is recognized in income for the period (and may be reversed at a later stage).

◆ Income statement

Income and expenses recognized for the insurance policies issued by the Group are shown under the "Income from other activities" and "Expenses on other activities" line items.

Income and expenses pertaining to the proprietary trading activities of the insurance entities are recognized under the line items related to them.

Note 1.3.13 Property and equipment and intrangible assets

Property and equipment and intangible assets shown in the statement of financial position comprise assets used in operations and investment property. Assets used in operations are those used in the provision of services or for administrative purposes. Investment property comprises assets held to earn rentals or for capital appreciation, or both. Investment property is accounted for at cost, in the same way as assets used in operations.

Property and equipment and intangible assets are recognized at acquisition cost plus any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Borrowing costs incurred in the construction or adaptation of property assets are not capitalized.

Subsequent to initial recognition, property and equipment are measured using the historical cost method, which represents cost less accumulated depreciation, amortization and any accumulated impairment losses.

Where an asset consists of a number of components that may require replacement at regular intervals, or that have different uses or different patterns of consumption of economic benefits, each component is recognized separately and depreciated using a depreciation method appropriate to that component. The Group has adopted the component approach for property used in operations and investment property.

The depreciable amount is cost less residual value, net of costs to sell. Property and equipment and intangible assets are presumed not to have a residual value as their useful lives are generally the same as their economic lives.

Depreciation and amortization is calculated over the estimated useful life of the assets, based on the manner in which the economic benefits embodied in the assets are expected to be consumed by the entity. Intangible assets that have an indefinite useful life are not amortized.

Depreciation and amortization of assets used in operations is recognized in "Allowance/write-back of amortization and provisions for fixed operating assets" in the income statement.

Depreciation and amortization relating to investment properties is recognized in "Expenses of the other activities" in the income statement.

The depreciation and amortization periods are:

Property and equipment:

– Land, fixtures, utility services	15-30 years
– Buildings – structural work	20-80 years
(depending on the type of building in question)	
– Construction – equipment	10-40 years
– Fixtures and installations	5-15 years
– Office equipment and furniture	5-10 years
– Safety equipment	3-10 years
– Rolling stock	3-5 years
– Computer equipment	3-5 years

Intangible fixed assets:

– Software bought or developed in-house	1-10 years
– Businesses acquired	9-10 years
(if acquisition of customer contract portfolio)	

Depreciable and amortizable assets are tested for impairment when there is evidence at the end of the reporting period that the items may be impaired. Non-depreciable and non-amortizable non-current assets (such as leasehold rights) are tested for impairment at least annually.

If there is an indication of impairment, the recoverable amount of the asset is compared with its carrying amount. If the asset is found to be impaired, an impairment loss is recognized in income, and the depreciable amount is adjusted prospectively. This loss is reversed in the event of a change in the estimated recoverable amount or if there is no longer an indication of impairment. The carrying amount after reversal of the impairment loss cannot exceed the carrying amount which would have been calculated if no impairment had been recognized.

Impairment losses relating to operating assets are recognized in the income statement in "Depreciation, amortization and impairment of property, plant and equipment and intangible assets".

Impairment losses relating to investment properties are recognized in "Expenses on other activities" (for additional impairment losses) and "Income from other activities" (for reversals) in the income statement.

Gains and losses on disposals of non-current assets used in operations are recognized in the income statement in "Net gains/(losses) on disposals of other assets". Gains and losses on disposals of investment property are shown in the income statement under "Income from other activities" or "Expense on other activities".

Note 1.3.14 Corporate income tax

This item includes all current or deferred income taxes.

Current income tax is calculated based on applicable tax regulations.

◆ Deferred taxes

In accordance with IAS 12, deferred taxes are recognized for temporary differences between the carrying amount of assets and liabilities and their tax basis, except for goodwill.

Deferred taxes are calculated using the liability method, based on the latest enacted tax rate applicable to future periods.

Net deferred tax assets are recognized only in cases where their recovery is considered highly probable. Current and deferred taxes are recognized as tax income or expense, except deferred taxes relating to unrealized or deferred gains and losses recognized in equity, for which the deferred tax is taken directly to equity.

Deferred tax assets and liabilities are offset when they arise within a single tax entity or tax group, are subject to the tax laws of the same country, and there is a legal right of offset. They are not discounted.

Note 1.3.15 Interest paid by the French Government on some loans

Within the framework of aid to the rural and agricultural sector, as well as the purchase of residential property, some Group entities provide loans at low interest rates, set by the government. Consequently, these entities receive from the government a contribution equal to the rate differential between the interest rate offered to customers and the prede-

fined benchmark rate. Therefore, no discount is recognized in respect of the loans benefiting from these subsidies.

The structure of the offset mechanism is reviewed by the government on a periodic basis.

The contribution received from the government is recorded in the "Interest and similar income" line and spread over the life of the corresponding loans, pursuant to IAS 20.

Note 1.3.16 Financial guarantees and financing commitments given

Financial guarantees are treated like an insurance policy when they provide for specified payments to be made to reimburse the holder for a loss incurred because a specified debtor fails to make payment on a debt instrument on the due date.

In accordance with IFRS 4, these financial guarantees are still measured using French GAAP (i.e. as off-balance sheet items), pending an addition to the standards to enhance the current mechanism. Consequently, these guarantees are subject to a provision in liabilities in the event of a likely outflow of resources.

By contrast, financial guarantees that provide for payments in response to changes in a financial variable (price, credit rating or index, etc.) or a non-financial variable, provided that in this event the variable is not specific to one of the parties to the agreement, fall within the scope of application of IAS 39. These guarantees are thus treated as derivatives.

Financing commitments that are not regarded as derivatives within the meaning of IAS 39 are not shown in the statement of financial position. However, a provision is made in accordance with IAS 37.

Note 1.3.17 Foreign exchange transactions

Assets and liabilities denominated in a currency other than the local currency are translated at the year-end exchange rate.

◆ Monetary financial assets and liabilities

Foreign currency gains and losses on the translation of such items are recognized in the income statement under "Net gains/(losses) on financial instruments at fair value through profit or loss".

◆ Non-monetary financial assets and liabilities

Foreign currency gains and losses on the translation of such items are recognized in the income statement if the items are classified at fair value through profit or loss under "Net gains/(losses) on financial instruments at fair value through profit or loss", or under "Unrealized or deferred gains and losses" if they are classified as available-for-sale.

When consolidated investments denominated in a foreign currency are financed by a loan taken out in the same currency, the loan concerned is covered by a cash flow hedge.

Differences arising from the retranslation at the year-end rate of the opening capital stock, reserves and retained earnings are recorded as a separate component of shareholders' equity, under "Cumulative translation adjustment". The income statements of foreign subsidiaries are translated into euro at the average exchange rate for the year, and the resulting translation differences are recorded under "Cumulative translation adjustment". On liquidation or disposal of some or all of the interests held in a foreign entity, the corresponding portion of this cumulative translation adjustment is recognized through the income statement.

Note 1.3.18 Non-current assets held for sale and discontinued operations

A non-current asset (or group of assets) is classified in this category if it is held for sale and it is highly probable that the sale will occur within 12 months of the end of the reporting period.

The related assets and liabilities are shown separately in the statement of financial position, on the lines "Non-current assets held for sale" and "Liabilities associated with non-current assets held for sale". Items in this category are measured at the lower of their carrying amount and fair value less costs to sell, and are no longer depreciated/amortized.

When assets held for sale or the associated liabilities become impaired, an impairment loss is recognized in the income statement.

Discontinued operations include operations that are held for sale or which have been shut down, and subsidiaries acquired exclusively with a view to resale. All gains and losses related to discontinued operations are shown separately in the income statement, on the line "Post-tax gains/(losses) on discontinued operations and assets held for sale".

Note 1.3.19 Judgments made and estimates used in the preparation of the financial statements

Preparation of the financial statements may require the use of assumptions and estimates that are reflected in the measu-

rement of income and expense in the income statement and of assets and liabilities in the statement of financial position, and in the disclosure of information in the notes to the financial statements. This requires managers to draw upon their judgment and experience and make use of the information available at the date of preparation of the financial statements when making the necessary estimates. This applies in particular to:

– the impairment of debt and equity instruments,
– the use of calculation models when valuing financial instruments that are not listed on an active market and are classified in "Available-for-sale financial assets", "Financial assets at fair value through profit or loss" or "Financial liabilities at fair value through profit or loss",
– the assessment of the active nature of certain markets,
– calculation of the fair value of financial instruments that are not listed on an active market and are classified in "Loans and receivables" or "Held-to-maturity financial assets" for which this information must be provided in the notes to the financial statements,
– impairment tests performed on intangible fixed assets,
– measurement of provisions, including retirement obligations and other employee benefits.