UPDATE NO.2 TO THE
INFORMATION DOCUMENT
dated as of 27 May 2013

of Banque Fédérative du Crédit Mutuel, a French incorporated company (*société anonyme*)
and the CM11-CIC Group, a French mutual banking group

Dated as of 14 January 2014

IMPORTANT PRELIMINARY NOTE

This document (the "**Update No. 2**" or this "**Update**") supplements information included in the 2012 Information Document dated 27 May 2013, as supplemented by Update No. 1 dated 7 October 2013 (the "**2012 Information Document**" and, together with this Update No. 2, the "**Information Document**") and should be read together with the information included or incorporated by reference therein. In the event of any inconsistency between the information contained in this Update and the 2012 Information Document, the information contained in this Update shall govern.

The Information Document contains information on the CM11-CIC Group (and its predecessors), the Banque Féderative du Crédit Mutuel (BFCM) and various other entities in the CM11-CIC Group. It may be incorporated by reference in offering documents for securities issuances by BFCM or its affiliates (including Crédit Mutuel-CIC Home Loan SFH), but it does not constitute an offer of any securities. Offers of securities may be made only by a prospectus or other offering document that describes the terms of the relevant securities and their plan of distribution.

The information in the Information Document is derived from documents published by the CM11-CIC Group, BFCM and certain of their affiliates, including CIC. Those published documents may include annual and interim reports, investor presentations and other written communications. The information in those published documents (other than that specifically contained in the Information Document) is not part of this document.

The information in the Information Document is accurate and complete only as of the date set forth on the cover page hereof. There may be additional updates to the Information Document or other documents published subsequent to the date hereof that could supersede or render obsolete some of the information in the Information Document. In addition, the prospectus or other offering document for an offering may contain or incorporate by reference information on important recent developments that is not contained in the Information Document.

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TERMINOLOGY

In this Update, the following terms have the respective meanings set forth below (and, where the context permits, are deemed to include any successors). See "Overview Description of BFCM and the CM11-CIC Group—History and Structure of the CM11-CIC Group" in the 2012 Information Document for important information relating to the entities and groups referred to in these definitions.

"**BFCM**" means the Banque Fédérative du Crédit Mutuel.

"**BFCM Group**" means BFCM and its consolidated subsidiaries and associates.

"**CF de CM**" means the Caisse Fédérale de Crédit Mutuel.

"**CIC"** means Crédit Industriel et Commercial (CIC), which is the largest subsidiary of BFCM and the CM11-Group.

"**CM11-CIC Group**", "**CM10-CIC Group**" and "**CM5-CIC Group**" means the mutual banking group that includes the local Crédit Mutuel banks that are members of the relevant Federations (11 federations, 10 federations or 5 federations, as the case may be), and of the CF de CM, as well as the entities that are part of the BFCM Group.

"**Federation**" means each of the 11 regional federations formed by groups of Local Banks to serve their mutual interests, centralizing their products, funding, risk management and administrative functions as well as the group-wide Federation of which each of the regional federations is a member.

"**Group**" means the CM11-CIC Group as from 1 January 2012, the CM10-CIC Group for the period from 1 January 2011 to 31 December 2011 and the CM5-CIC Group for the period from 1 January 2009 to 31 December 2010.

"**Local Banks**" means the local Crédit Mutuel mutual banks (*caisses locales de Crédit Mutuel*) that are members of the Group at the relevant time. The non-capitalized term "local banks" refers to the Local Banks that are members of the Group, as well as the local Crédit Mutuel mutual banks that are members of federations that are not part of the Group.

FORWARD-LOOKING STATEMENTS

This Update No. 2 contains forward-looking statements. Such statements can be generally identified by the use of terms such as "anticipates", "believes", "could", "expects", "may", "plans", "should", "will" and "would", or by comparable terms and the negatives of such terms. By their nature, forward-looking statements involve risk and uncertainty, and the factors described in the context of such forward-looking statements in this Update could cause actual results and developments to differ materially from those expressed in or implied by such forward-looking statements. We have based forward-looking statements on our expectations and projections about future events as of the date such statements were made. These forward-looking statements are subject to risks, uncertainties and assumptions about BFCM or the CM11-CIC Group, including, among other things:

- The risks inherent in banking activities including credit risks, market and liquidity risks, operational risks and insurance risks;
- Risks relating to volatile global market and weak economic conditions, and particularly current economic conditions affecting sovereigns and financial institutions in Europe;
- Risks resulting from recent and proposed legislative and regulatory action affecting financial institutions in France, in Europe and globally.
- The risk to the Group's business and profitability if BFCM were no longer to maintain high credit ratings;
- The risk that the Group's risk management policies may not be effective to prevent losses;
- The impact of competition on the Group's business and operations;
- Lower revenue generated from brokerage and other commission- and fee-based businesses during market downturns;
- The risk to the Group's liquidity if it is unable to sell assets when needed;
- Risks relating to potential changes in interest rates and their impact on profitability;
- The Group's hedging strategies may not prevent losses;
- The Group may not be able to attract and retain qualified employees;
- The Group's provisions are based on assumptions and therefore may prove to be insufficient;
- The effects of the Group's organizational structure and BFCM's position in the Group;
- The fact that local banks outside the Group operate under the Crédit Mutuel name and are part of a mutual liquidity support system to which the Group must contribute if needed; and
- Other factors described in the 2012 Information Document under "Management's Discussion and Analysis of Financial Condition and Results of Operations", and described in this Update and the 2012 Information Document under "Risk Factors".

INCORPORATION BY REFERENCE

This Update No. 2 should be read and construed in conjunction with the following documents incorporated by reference (the "**Documents Incorporated by Reference**"), which form part of this Update as of the date hereof.

1. the English translation of certain financial information of the Group as of 30 September 2013 based on the recommendations of the Financial Stability Board, available on the Group's website at http://www.bfcm.creditmutuel.fr/en/bfcm/pdf/FSBCM11CIC_sept2013_EN.pdf; and

2. certain financial information of the Group as of 30 September 2013 relating to the Group's sovereign debt exposure, available on the Group's website at http://www.bfcm.creditmutuel.fr/fr/bfcm/pdf/Dettessouveraines_sept_2013.pdf.

RISK FACTORS

This section shall supplement and, to the extent inconsistent, shall supersede and replace any such inconsistent section within, the section entitled "Risk Factors Relating to the Group and the BFCM Group" in the 2012 Information Document.

European legislative proposals regarding the resolution of financial institutions may require the write-down or conversion to equity of capital instruments and eligible liabilities issued by BFCM if BFCM is deemed to be at the point of non-viability.

The Council of the European Union published a draft directive on December 18, 2013 relating to the resolution of financial institutions. The proposed directive would, if adopted in this form, provide resolution authorities the power to ensure that capital instruments (including subordinated debt treated as capital for regulatory purposes) and eligible liabilities (including senior debt securities) absorb losses at the point of non-viability of the issuing institution, through the write-down or conversion to equity of such instruments (the "**Bail-In Tool**"). The point of non-viability is defined as the point at which the resolution authority determines that (i) the institution is failing or likely to fail, (ii) there is no reasonable prospect that private action would prevent the failure and (iii) a resolution action is necessary in the public interest.

The Bail-In Tool could result in the full or partial write-down or conversion to equity of capital instruments and eligible liabilities issued by BFCM. In addition, if BFCM's financial condition deteriorates, the existence of the Bail-In Tool could cause the market value of the capital instruments and eligible liabilities issued by BFCM to decline more rapidly than would be the case in the absence of the Bail-in Tool. It may also increase BFCM's cost of funding. Moreover, the Bail-In Tool has not yet been finalized, and it is possible that future modifications will be unfavorable to the interests of holders of capital instruments and eligible liabilities issued by BFCM.

For further information about the proposed European resolution directive, see "*Government Supervision and Regulation of Credit Institutions in France*."

GOVERNMENT SUPERVISION AND REGULATION IN FRANCE

This section shall supersede and replace the section entitled "Government Supervision and Regulation of Banks in France" in the 2012 Information Document

The French Banking System

All French credit institutions are required to belong to a professional organization or central body affiliated with the French Credit Institutions and Investment Firms Association (*Association française des établissements de crédit et des entreprises d'investissement*), which represents the interests of credit institutions, payment institutions and investment firms in particular with the public authorities, provides consultative advice, disseminates information, studies questions relating to banking and financial services activities and makes recommendations in connection therewith. Most registered banks, including BFCM, are members of the French Banking Federation (*Fédération bancaire française*).

French Banking Regulatory and Supervisory Bodies

The French Monetary and Financial Code (*Code monétaire et financier*) sets forth the conditions under which credit institutions, including banks, may operate. The French Monetary and Financial Code vests related supervisory and regulatory powers in certain administrative authorities.

The Financial Sector Consultative Committee (*Comité consultatif du secteur financier*) is made up of representatives of financial institutions (i.e. credit institutions, investment firms, insurance companies, insurance brokers and intermediaries in banking transactions and in payment services) and client representatives. This committee is a consultative organization that studies the relations between credit institutions, investment firms and insurance companies and their respective clientele and proposes appropriate measures in this area.

The Consultative Committee on Financial Legislation and Regulations (*Comité consultatif de la législation et de la réglementation financières*) reviews, at the request of the French Minister of the Economy, any draft bills or regulations, as well as any draft European regulations relating to the insurance, banking and investment service industry other than those draft regulations issued by the French *Autorité des marchés financiers* (the "**AMF**").

The Prudential and Resolution Control Authority (*Autorité de contrôle prudentiel et de résolution* or "**ACPR**") supervises financial institutions and insurance firms and is in charge of implementing measures for the prevention and resolution of banking crises and ensuring the protection of consumers and the stability of the financial system. It was granted new resolution powers by the French banking reform of July 26, 2013 (*Loi de séparation et de régulation des activités bancaires*). The ACPR is chaired by the governor of the *Banque de France*. With respect to the banking sector, the ACPR makes individual decisions, grants banking and investment firm licenses, and grants specific exemptions as provided in applicable banking regulations. It supervises the enforcement of laws and regulations applicable to banks and other credit institutions, as well as investment firms, and controls their financial standing.

Banks are required to submit periodic (either monthly or quarterly) accounting reports to the ACPR concerning their principal areas of activity. The main reports and information filed by institutions with the ACPR include periodic regulatory reports, collectively referred to as *états périodiques réglementaires*. They include, among other things, the institutions' accounting and prudential (regulatory capital) filings, which are usually submitted on a quarterly basis, as well as internal audit reports filed once a year, all the documents examined by the institution's management in its twice-yearly review of the business and operations and the internal audit findings and the key information that relates to the credit institution's risk analysis and monitoring. The ACPR may also request additional information that it deems necessary and may carry out on-site inspections (including with respect to a bank's foreign subsidiaries and branches, subject to international cooperation agreements). These reports and controls allow close monitoring of the condition of each bank and also facilitate computation of the total deposits of all banks and their use.

The ACPR may order financial institutions to comply with applicable regulations and enjoin them from conducting activities that may adversely affect the interests of clients. The ACPR may also require a financial institution to take measures to strengthen or restore its financial situation, improve its management methods and/or adjust its organization and activities to its development goals. When a financial institution's solvency or liquidity, or the interests of its clients are or could be threatened, the ACPR is entitled to take certain provisional measures, including: submitting the institution to special monitoring and restricting or prohibiting the conduct of certain activities (including deposit-taking), the making of certain payments, the disposal of assets, and/or the distribution of dividends to its shareholders.

Where regulations have been violated, the ACPR may act as an administrative court and impose sanctions, which may include warnings, fines, suspension or dismissal of managers and deregistration of the bank, resulting in its winding up. The ACPR also has the power to appoint a temporary administrator to manage provisionally a bank that it deems to be mismanaged. The decisions of the ACPR may be appealed to the French administrative supreme court (*Conseil d'Etat*). Insolvency proceedings may be initiated against banks or other credit institutions, or investment firms only after prior approval of the ACPR.

Furthermore, the ACPR may implement resolution measures, including but not limited to the Bail-In Tool described below, as provided by the French banking reform of July 26, 2013 (*Loi de séparation et de régulation des activités bancaires*).

On October 15, 2013, the European Union adopted new regulations establishing a single supervisory mechanism for the Eurozone and opt-in countries. As a result, the European Central Bank ("**ECB**") will become the supervisory authority for large European credit institutions and banking groups, including the Group, on November 4, 2014. This supervision is expected to be carried out in France in close cooperation with the ACPR (in particular with respect to reporting collection and on-site inspections). The ACPR will retain its competence for anti-money laundering and conduct of business rules (consumer protection).

Banking Regulations

In France, the Group must comply with the norms of financial management set by the Minister of the Economy, the purpose of which is to ensure the creditworthiness and liquidity of French credit institutions. These banking regulations are mainly derived from EU directives. New banking regulations implementing the Basel III reforms were adopted on June 26, 2013: Directive 2013/36/EU of the European Parliament and of the Council of June 26, 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms (the "**CRD IV Directive**") and Regulation (EU) No 575/2013 of the European Parliament and of the Council of June 26, 2013 on prudential requirements for credit institutions and investment firms (the "**CRD IV Regulation**" and together with the CRD IV Directive "**CRD IV**"). The CRD IV Regulation (with the exception of some of its provisions, which will enter into effect at later dates), became directly applicable in all EU member states including France on January 1, 2014. The CRD IV Directive became effective on January 1, 2014 (except for capital buffer provisions which shall apply as from January 1, 2016) but in practice implementation under French law will be delayed until after such date.

The French banking entities in the Group must comply with minimum capital ratio requirements. In addition to these requirements, the principal regulations applicable to credit institutions concern risk diversification and liquidity, monetary policy, restrictions on equity investments and reporting requirements. As of the date hereof, in the various countries in which BFCM's subsidiaries operate, it complies with the specific regulatory ratio requirements in accordance with procedures established by the relevant supervisory authorities.

French credit institutions are required to maintain minimum capital to cover their credit, market, counterparty and operational risks. Since January 1, 2014, pursuant to CRD IV Regulation, credit institutions are required to maintain a minimum total capital ratio of 8%, a Tier 1 capital ratio of 6% and a common equity Tier 1 ratio of 4.5%, each to be obtained by dividing the institution's relevant eligible regulatory capital by its risk-weighted assets. In addition, they will have to comply with certain common equity Tier 1 buffer requirements, including a capital conservation buffer of 2.5% that will be applicable to all institutions as well as other common equity Tier 1 buffers to cover countercyclical and systemic risks. These measures will be implemented progressively until 2019.

Each French credit institution is required to calculate, as of the end of each month, the ratio of the weighted total of certain short-term and liquid assets to the weighted total of short-term liabilities. This liquidity ratio (*coefficient de liquidité*) is required to exceed 100% at all times. French credit institutions are entitled to opt for the "advanced" approach with respect to liquidity risk, upon request to the ACPR and under certain conditions. Under the advanced approach, the credit institution is able to use its internal methodologies to determine the liquidity risk and ensure that it has sufficient liquidity at all times to honor its commitments. The CRD IV Regulation introduces liquidity requirements from 2015, after an initial observation period. Institutions will be required to hold liquid assets, the total value of which would cover the net liquidity outflows that might be experienced under gravely stressed conditions over a period of 30 days. This liquidity coverage ratio ("**LCR**") will be phased in gradually, starting at 60% in 2015 and reaching 100% in 2018. Until the LCR is fully introduced, EU member states may maintain or introduce national liquidity requirements.

French credit institutions must satisfy, on a consolidated basis, certain restrictions relating to concentration of risks (*ratio de contrôle des grands risques*). The aggregate of a French credit institution's loans and a portion of certain other exposure (*risques*) to a single customer (and related entities) may not exceed 25% of the credit institution's regulatory capital as defined by French capital ratio requirements. Individual exposures exceeding 10% (and in some cases 5%) of the credit institution's regulatory capital are subject to specific regulatory requirements.

French credit institutions are required to maintain on deposit with the *Banque de France* a certain percentage of various categories of demand and short-term deposits. Deposits with a maturity of more than two years are not included in calculating the amount required to be deposited. The required reserves are remunerated at a level corresponding to the average interest rate over the maintenance period of the main refinancing operations of the European System of Central Banks.

The CRD IV Regulation will introduce a leverage ratio from January 1, 2018, if implemented by the Council and European Parliament following an initial observation period beginning January 1, 2015, during which institutions will be required to disclose their leverage ratio. The leverage ratio is defined as an institution's tier 1 capital divided by its average total consolidated assets.

The Group's commercial banking operations in France are also significantly affected by monetary policies established from time to time by the European Central Bank in coordination with the *Banque de France*. Commercial banking operations, particularly in their fixing of short-term interest rates, are also affected in practice by the rates at which the *Banque de France* intervenes in the French domestic interbank market.

French credit institutions are subject to restrictions on equity investments and, subject to various specified exemptions for certain short-term investments and investments in financial institutions and insurance companies "Qualifying Shareholdings" held by credit institutions must comply with the following requirements: (a) no "Qualifying Shareholding" may exceed 15% of the regulatory capital of the concerned credit institution and (b) the aggregate of such "Qualifying Shareholdings" may not exceed 60% of the regulatory capital of the concerned credit institution. An equity investment is a "qualifying shareholding" for the purposes of these provisions if (i) it represents more than 10% of the share capital or voting rights of the company in which the investment is made or (ii) it provides, or is acquired with a view to providing, a "significant influence" (*influence notable*, presumed when the credit institution controls at least 20% of the voting rights) in such company. Further, the ACPR must authorize certain participations and acquisitions.

French regulations permit only licensed credit institutions to engage in banking activities on a regular basis. Similarly, institutions licensed as banks may not, on a regular basis, engage in activities other than banking, bank-related activities and a limited number of non-banking activities determined pursuant to the regulations issued by the French Minister of the Economy. A regulation issued in November 1986 and amended from time to time sets forth an exhaustive list of such non-banking activities and requires revenues from those activities to be limited in the aggregate to a maximum of 10% of total net revenues.

Examination

Besides the resolution powers set out below, the principal means used by the ACPR to ensure compliance by large deposit banks with applicable regulations is the examination of the detailed periodic (monthly or quarterly) financial statements, *états périodiques réglementaires* and other documents that these banks are required to submit to the ACPR. In the event that any examination were to reveal a material adverse change in the financial condition of a bank, an inquiry would be made, which could be followed by an inspection. The ACPR may also inspect banks (including with respect to a bank's foreign subsidiaries and branches, subject to international cooperation agreements) on an unannounced basis.

Deposit Guarantees

All credit institutions operating in France are required by law to be a member of the deposit and resolution guarantee fund (*Fonds de Garantie des Dépôts et de Résolution*), except branches of European Economic Area banks that are covered by their home country's guarantee system. Domestic customer deposits denominated in euro and currencies of the European Economic Area are covered up to an amount of €100,000 and securities up to an aggregate value of €70,000, per customer and per credit institution, in both cases. The contribution of each credit institution is calculated on the basis of the aggregate deposits and one-third of the gross customer loans held by such credit institution and of the risk exposure of such credit institution.

Additional Funding

The governor of the *Banque de France*, as chairman of the ACPR, can request that the shareholders of a credit institution in financial difficulty fund the institution in an amount that may exceed their initial capital contribution. However, credit institution shareholders have no legal obligation in this respect and, as a practical matter, such a request would likely be made to holders of a significant portion of the institution's share capital.

Internal Control Procedures

French credit institutions are required to establish appropriate internal control systems, including with respect to risk management and the creation of appropriate audit trails. French credit institutions are required to have a system for analyzing and measuring risks in order to assess their exposure to credit, market, global interest rate, intermediation, liquidity and operational risks. Such system must set forth criteria and thresholds allowing the identification of significant incidents revealed by internal control procedures. Any fraud generating a gain or loss of a gross amount superior to 0.5% of the Tier 1 capital is deemed significant provided that such amount is greater than €10,000.

With respect to credit risks, each credit institution must have a credit risk selection procedure and a system for measuring credit risk that permit, *inter alia,* centralization of the institution's on- and off-balance sheet exposure and for assessing different categories of risk using qualitative and quantitative data. With respect to market risks, each credit institution must have systems for monitoring, among other things, its proprietary transactions that permit the institution to record on at least a day-to-day basis foreign exchange transactions and transactions in the trading book, and to measure on at least a day-to-day basis the risks resulting from trading positions in accordance with the capital adequacy regulations. The institution must prepare an annual report for review by the institution's board of directors and the ACPR regarding the institution's internal procedures and the measurement and monitoring of the institution's exposure.

Compensation Policy

French credit institutions and investment firms are required to ensure that their compensation policy is compatible with sound risk management principles. A significant portion of the compensation of employees whose activities may have a significant impact on the institution's risk exposure must be performance-based, and a significant fraction of this performance-based compensation must be non-cash and deferred. Under the CRD IV Directive, the aggregate amount of variable compensation of the above-mentioned employees cannot exceed the aggregate amount of their fixed salary (the shareholders' meeting may, however, decide to increase this ceiling to two times their fixed salary). EU member states will retain discretion to set stricter standards. The implementation in France of CRD IV, which began with the French banking reform of July 26, 2013 (*Loi de séparation et de régulation des activités bancaires*), requires further government action to conform to such standards. Subject to the enactment of such measures, the cap of variable compensation will apply to compensation awarded for services or performance as from the year 2014.

Money Laundering

French credit institutions are required to report to a special government agency (TRACFIN) placed under the authority of the French Minister of the Economy all amounts registered in their accounts that they suspect come from drug trafficking or organized crime, from unusual transactions in excess of certain amounts, as well as all amounts and transactions that they suspect to be the result of offence punishable by a minimum sentence of at least one-year imprisonment or that could participate in the financing of terrorism.

French credit institutions are also required to establish “know your customer” procedures allowing identification of the customer (as well as the beneficial owner) in any transaction and to have in place systems for assessing and managing money laundering and terrorism financing risks in accordance with the varying degree of risk attached to the relevant clients and transactions.

French Bail-In Tool and Other Resolution Measures

Among other things, the French banking law dated July 26, 2013 (*Loi de séparation et de régulation des activités bancaires*) charges the ACPR with implementing measures for the prevention and resolution of banking crises and gives the ACPR very broad powers with respect to “failing banks,” i.e., banks that, currently or in the near future (i) no longer comply with regulatory capital requirements, (ii) are not able to make payments that are, or will be imminently, due or (iii) require extraordinary public financial support.

In particular, the ACPR may implement a write-down of shareholders’ equity and thereafter a write-down or the conversion into equity of subordinated instruments, but not unsubordinated debt, in accordance with their seniority. The ACPR will also be entitled to (i) transfer all or part of the bank's assets and activities, including to a bridge bank, (ii) force a bank to issue new equity, (iii) temporarily suspend payments to creditors and (iv) terminate executives or appoint a temporary administrator (*administrateur provisoire*). Conversion ratios and transfer prices are decided upon by the ACPR on the basis of a “fair and realistic” assessment.

The ACPR must use its powers “in a proportionate manner” to achieve the following objectives: (i) to preserve financial stability, (ii) to ensure the continuity of banking activities, services and transactions of financial institutions, the failure of which would have systemic implications for the French economy, (iii) to protect deposits and (iv) to avoid, or limit to the fullest extent possible, any public bail-out.

Further, recovery and resolution plans are required from credit institutions, or groups of credit institutions, whose balance sheet exceeds a certain threshold that will be fixed by a decree of the French Government. No separate obligation will arise with respect to an entity within the group that is already supervised on a consolidated basis. Each such credit institution or banking group must prepare a recovery plan (*plan préventif de rétablissement*) that will be reviewed by the ACPR. The ACPR is, in turn, required to prepare a resolution plan (*plan préventif de résolution*) for such credit institution or banking group.

Recovery plans must set out measures contemplated in case of a significant deterioration of a credit institution’s financial situation. Such plans must be updated on a yearly basis (or immediately following a significant change in a credit institution’s organization or business). The ACPR must assess the recovery plan to determine whether its resolution powers could in practice be effective, and, as necessary, can request changes in a credit institution’s organization. More generally, the ACPR will comment on the draft recovery plan and can require modifications. Resolution plans must set out, in advance of any failure, how the various resolution powers set out above are to be implemented for each credit institution, given its specific circumstances.

European Resolution Directive

On December 18, 2013, the Council of the European Union published a revised draft of the legislative proposal for a directive providing for the establishment of an EU-wide framework for the recovery and resolution of credit institutions and investment firms (the “**Draft RRD**”) initially published by the European Commission on June 6, 2012. The stated aim of the Draft RRD is to provide relevant authorities with common tools and powers to address banking crises pre-emptively in order to safeguard financial stability and minimize taxpayers' exposure to losses.

The powers provided to “resolution authorities” in the Draft RRD include write down/conversion powers to ensure that capital instruments (including subordinated debt treated as regulatory capital) and eligible liabilities (including senior debt securities) fully absorb losses at the point of non-viability of the issuing institution. Accordingly, the Draft RRD contemplates that resolution authorities may require the write down of such capital instruments and eligible liabilities in full on a permanent basis, or convert them in full into common equity tier 1 instruments (“**RRD Non-Viability Loss Absorption**”). The Draft RRD provides, inter alia, that resolution authorities shall exercise the write down power in a way that results in (i) common equity tier 1 instruments being written down first in proportion to the relevant losses, (ii) thereafter, the principal amount of other capital instruments (including tier 2 capital instruments) being written down or converted into common equity tier 1 instruments on a permanent basis and (iii) thereafter, eligible liabilities being written down or converted in accordance with a set order of priority.

The point of non-viability under the Draft RRD is the point at which the national authority determines that:

(a) the institution is failing or likely to fail, which includes situations where:

(i) the institution has incurred/will incur in a near future losses depleting all or substantially all its own funds;

(ii) the assets are/will be in a near future less than its liabilities;

(iii) the institution is/will be in a near future unable to pay its debts or other liabilities when they fall due; and/or

(iv) the institutions require public financial support;

(b) there is no reasonable prospect that a private action would prevent the failure; or

(c) a resolution action is necessary in the public interest.

Except for the Bail-In Tool with respect to eligible liabilities, which is expected to apply as from January 1, 2016, the Draft RRD contemplates that the measures set out therein, including the Bail-In Tool with respect to capital instruments, will apply as from January 1, 2015.

The Draft RRD currently represents the official proposal at the EU level for the implementation in the European Economic Area of the non-viability requirements set out in the press release dated January 13, 2011 issued by the Basel Committee on Banking Supervision (the "**Basel Committee**") entitled "Minimum requirements to ensure loss absorbency at the point of non-viability" (the "**Basel III Non-Viability Requirements**"). The Basel III Non-Viability Requirements form part of the broader Basel III package of new capital and liquidity requirements intended to reinforce capital standards and to establish minimum liquidity standards for credit institutions. The Basel Committee contemplated implementation of the Basel III reforms as of January 1, 2013. However, although the CRD IV Directive and the CRD IV Regulation, which were published in the Official Journal of the European Union on June 27, 2013, and became effective on January 1, 2014 (except for capital buffer provisions which shall apply as from January 1, 2016), it is possible that in practice implementation of the CRD IV Directive will be delayed until after such date. The CRD IV Regulation contemplates that the Basel III Non-Viability Requirements will be implemented in the European Economic Area by way of the Draft RRD and the RRD Non Viability Loss Absorption.

In addition to RRD Non-Viability Loss Absorption, the Draft RRD provides resolution authorities with broader powers to implement other resolution measures with respect to banks which reach non-viability, which may include (without limitation) the sale of the bank's business, the separation of assets, the replacement or substitution of the bank as obligor in respect of debt instruments, modifications to the terms of debt instruments (including altering the maturity and/or the amount of interest payable and/or imposing a temporary suspension on payments) and discontinuing the listing and admission to trading of financial instruments.

The Draft RRD is not in final form and changes may be made to it in the course of the legislative process. Accordingly, it is not yet possible to assess the full impact of the relevant loss absorption provisions. There can be no assurance that, once implemented, the existence of applicable loss absorption provisions or the taking of any actions currently contemplated or as finally reflected in such provisions would not adversely affect the price or value of a holder's investment in capital instruments or eligible liabilities issued by BFCM and/or the ability of BFCM to satisfy its obligations under any such issued capital instruments or eligible liabilities.