MOODY'S INVESTORS SERVICE

Credit Opinion: BPCE

Global Credit Research - 06 Jan 2011

Paris, France

Ratings

Category	**Moody's Rating**
Outlook	Stable(m)
Bank Deposits	Aa3/P-1
Bank Financial Strength	C-
Senior Unsecured	Aa3
Subordinate MTN -Dom Curr	(P)A1
Jr Subordinate MTN -Dom Curr	(P)Baa2
Preferred Stock	Baa3
Commercial Paper	P-1
Other Short Term -Dom Curr	(P)P-1
Natixis	
Outlook	Stable
Bank Deposits	Aa3/P-1
Bank Financial Strength	D+
Issuer Rating	Aa3
Senior Unsecured	Aa3
Subordinate	A1
Preferred Stock	Ba2
Commercial Paper -Dom Curr	P-1
Other Short Term -Dom Curr	(P)P-1

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Key Indicators

[1]**Groupe BPCE (Consolidated Financials)**

	[2]**12-09**	[3][2]**12-08**	**Avg.**
Total Assets (EUR million)	**1,028,802.00**	**1,143,679.00**	**-1004.45%**
Tangible Common Equity (EUR million)	**38,387.86**	**25,112.67**	**5286.25%**
Total Assets (USD million)	**1,476,064.21**	**1,589,767.86**	**-715.22%**
Tangible Common Equity (USD million)	**55,076.63**	**34,907.80**	**5777.74%**
PPI / Avg RWA	**0.80%**	**-**	**0.81%**
Net Income / Avg RWA	**-0.27%**	**-**	**-0.27%**
(Market Funds - Liquid Assets) / Total Assets	**13.61%**	**13.59%**	**13.61%**
Core Deposits / Average Gross Loans	**70.06%**	**71.16%**	**70.68%**
Tier 1 Ratio	**9.10%**	**-**	**9.10%**
Tangible Common Equity / RWA	**9.34%**	**-**	**9.34%**
Cost / Income Ratio	**83.23%**	**110.21%**	**96.72%**
Problem Loans / Gross Loans	**3.57%**	**2.39%**	**2.98%**
Problem Loans / (Equity + Loan Loss Reserves)	**33.64%**	**29.83%**	**31.77%**

[1] All ratios are adjusted using Moody's standard adjustments (excluding Tier 1 and Problem Loans ratios) [2] Basel II; IFRS [3] 2008 Figures are pro forma figures

Opinion

RECENT CREDIT DEVELOPMENTS

In July 2009, BPCE was created with the French status of "Société Anonyme" and is now the central body of the newly formed broader "Groupe BPCE". This Credit Opinion refers to BPCE and its subsidiaries, known as "groupe BPCE SA".

BPCE is owned equally by the Banques Populaires (BP) and Caisses d'Epargne (CE). Banque Fédérale des Banques Populaires (BFBP), renamed "Banques Populaires Participations", and Caisse Nationale des Caisses d'Epargne (CNCE) renamed "Caisses d'Epargne Participations", were the former central bodies of the mutual banking groups, Groupe Banque Populaire (GBP) and Groupe Caisse d'Epargne (GCE), respectively. As part of the merger of both central bodies, the main assets of the old central bodies were transferred to BPCE, including the 72% stake in Natixis, the retail banking subsidiaries in France and abroad, as well as GCE Assurances (renamed BPCE Assurances) and the 17.7% indirect stake in CNP Assurances.

On 31 July 2009, Moody's assigned first-time Aa3/P-1 senior debt and bank deposit ratings and an A1 subordinated debt rating (with a stable outlook) to the newly created central body, BPCE. Simultaneously, Moody's affirmed BCPE's C- BFSR (with a negative outlook) and its A2 preferred stock rating (with a stable outlook) on the new undated deeply subordinated notes issued in four series by BPCE. These series were issued under the exchange offer for seven outstanding issuances of Tier 1 securities from Natixis, NBP Capital Trust I, and NBP Capital Trust III.

On 25 February 2010, Moody's changed the outlook on the C- BFSR of BPCE to stable from negative. At the same time, Moody's affirmed the senior debt ratings of BPCE at Aa3 with a stable outlook. The short-term ratings were also affirmed at P-1. This followed the conclusion of our review of BPCE's strategy, confirming that the Group's diversified franchise would be preserved, retail activities would continue to dominate its business mix, and that the profitability prospects of Natixis should be incrementally restored. The ratings actions also incorporate the results of Moody's stress-test scenario analysis, factoring in the guarantee that BPCE is providing to Natixis for the latter's high-risk assets, following an agreement signed in November 2009.

As part of the simplification of Groupe BPCE's organizational structure, in early August 2010, Banques Populaires Participations and Caisses d'Epargne Participations have been incorporated into BPCE. Consequently, Banque Palatine (Aa3/P-1/C-, with a stable outlook) and Credit Foncier de France (Aa3/P-1/D+/stable) are directly owned by BPCE since then.

SUMMARY RATING RATIONALE

Moody's assigns a bank financial strength rating (BFSR) of C- to BPCE, which translates into a baseline credit assessment (BCA) of Baa2and reflects (i) the leading position of the Group in the French market; and (ii) its deep entrenchment into a large and granular retail franchise, which brings good liquidity, and robust asset and business diversification. BPCE has the second-largest retail market share in France, built on its two universal networks. Furthermore, the Group can rely on its subsidiary Natixis (Aa3/P-1/D+, with a stable outlook), which delivers CIB, investment solutions and SFS (specialised financial services) . The reliance on Natixis also facilitates an integrated manufacturing platform for dedicated and specialised products to the rest of the Group.

Conversely, BPCE's C- BFSR is constrained by (i) the challenges of improving the efficiency and risk-weighted profitability of its maturing retail network; (ii) lagging, post-merger initiatives, especially the integration and rationalisation of complex functions such as risk management; and (iii) the sustained high risk profile stemming from Natixis. In particular, the structured finance assets carried on Natixis' books, which are guaranteed by BPCE, continue to pose material tail risks. Under Moody's stress-test scenario analysis, this portfolio could still weigh on BPCE's fundamentals, although capital buffers appear adequate.

The BFSR does not fully capture the creditworthiness of the broader group, in particular the two networks. In particular, it only partially incorporates the strength of BPCE's parents, i.e. the affiliated BP and CE regional banks, which are the roots of the mutualist Group and together hold 100% of BPCE. As such, BPCE's balance sheet captures a portion of the retail-based network: this is achieved via Natixis' 20% stakes in BP and CE, in the form of Cooperative Investment Certificates (CICs). Hence BPCE's BFSR benefits only marginally from both regional networks' creditworthiness.

By contrast BPCE's Aa3 senior debt and deposit ratings reflect Moody's opinion (i) that Groupe BPCE remains critical to France's retail-banking market; and (ii) of the full cooperative support expected from the solidarity mechanisms and cross-guarantees within the Group. Moody's views Groupe BPCE's internal solidarity mechanisms as very strong. There are cross-guarantees between BPCE, the BP and CE, access to a central solidarity fund, and BP as well as CE specific national-solidarity funds.

BPCE's Aa3 rating incorporates a very high probability of ongoing systemic support from the government of France (Aaa, stable), reinforced by the French government's EUR 7.05 billion temporary capital injection via subscription in deeply subordinated debt and preference shares issued by BPCE, during the crisis. This capital injection has been partly reimbursed since then. The stable outlook on the Aa3 long-term debt and deposit ratings incorporates the continuity of expected support.

Credit Strengths

- Leading domestic retail-banking franchise of the Group

- Established domestic position and brand name (via Natixis) in wholesale/investment banking, large corporate lending, asset management, and specialised services

- Diversified earnings and business mix, with a dominance of stable, predictable retail-based revenue

- Good liquidity position derived from a large and "sticky retail" deposit base

- Strong Group and systemic support

Credit Challenges

- Lower profitability and efficiency metrics than its peers in a difficult economic environment

- Improving its process industrialisation of retail activities, and positioning the Group with a more focused and effective execution of its strategy

- Limited domestic growth prospects in the mature French retail market

- Slow de-risking and repositioning process for Natixis, which has had some success and is ongoing

- Sustained high exposure to Natixis' structured assets

- Material Group exposure to real-estate, especially through acquired subsidiaries before the crisis

- Still developing Group-wide risk management and control architecture

Rating Outlook

The outlook is stable on all ratings assigned to BPCE.

The stable outlook on BPCE's C- BFSR reflects Moody's view that the Group has a clear strategic plan for 2010-2013 that appears well-balanced and achievable. Its credible implementation should not harm the diversification of the Group's franchise and should lead to a further streamlining of its organisational structure. In particular, the group expects Natixis to benefit from the strengths of BP's and CE's networks as a provider of dedicated products and services.

The stable outlook on BPCE's Aa3 long-term debt and deposit ratings reflects the full support that Moody's expects from the solidarity mechanisms and cross-guarantees within the Group, and our assessment of a high probability of systemic support for the wider Groupe BPCE.

What Could Change the Rating - Up

An upgrade of BPCE's BFSR would be essentially driven by (i) an improvement of its financial fundamentals, in particular in terms of efficiency and risk-weighted profitability; (ii) evidence of effective operational synergies and cost savings; (iii) the full reimbursement of the state aid; and (iv) a successful recovery of Natixis. In our view, these factors have a material likelihood in the medium term.

An upgrade of BPCE's long-term debt and deposit ratings would be driven by a material improvement, in our assessment, of the intrinsic financial strength of the broader Groupe BPCE . This scenario is unlikely in the short-to-medium term.

What Could Change the Rating - Down

A downgrade of BPCE's BFSR would be driven by (i) a deterioration of the Group's risk profile as a result, in particular, of a failure in risk management or dramatic changes in the credit-risk environment; (ii) a negative development within Natixis or within the GAPC (Gestion Active des Portefeuilles Cantonnés) portfolio, impairing efficiency and profitability; or (iii) a failure to bring sufficient cohesion among the Group's entities.

A downgrade of BPCE's long-term debt and deposit ratings would be triggered by (i) weakening intra-Group solidarity mechanisms, driving Group support probability downwards; (ii) a deterioration of the intrinsic financial strength of Groupe BPCE; or (iii) a change in our assumptions for systemic support.

We believe that these downgrade scenarios are unlikely in the medium term.

Recent Results

For Q3 2010, Groupe BPCE recorded net income of EUR 837 million, an 87% increase compared with Q3 2009 results of EUR 447 million. After annual net profit (after minority interests) of EUR 537 million in 2009 (net loss of EUR 75 million before minority interest) and annual net loss (after minority interests) of EUR 1.8 billion in 2008 (net loss of EUR 2.6 billion before minority interests), the Group has shown positive signs of recovery in 2010. For the first nine months of 2010, net income rose to EUR 2.8 billion from a negative EUR 310 million, as of September 2009. This was due to solid growth momentum in its core activities, particularly commercial banking and insurance. At 30 September 2010, Groupe BPCE's Tier 1 ratio was up to 9.8%, from 9.1% as of 31 December 2009.

BPCE (groupe BPCE SA) recorded a net loss after minority interests of EUR 69 million in 2009. Total assets decreased 12.5% to EUR 603 billion, down from EUR 690 billion in 2008. The Tier 1 ratio of BPCE was 9.7 % as of December 2009.

DETAILED RATING CONSIDERATIONS

Our detailed rating considerations for BPCE's currently assigned ratings are as follows.

Bank Financial Strength Rating

BPCE's C- BFSR reflects the Group's status as the second-largest bank in France following the merger of the central bodies of the two former cooperative groups, GBP and GCE. Groupe BPCE benefits from a recognised French retail franchise and a robust brand name, due to its affiliated regional banks, who are themselves the sole shareholders of BPCE. Moody's also expects synergies between Group entities, namely the two French retail networks, the retail-banking arms abroad, Natixis as well as BPCE Assurances and CNP Assurance (in which the Group holds a 17.7% indirect stake). The C- BFSR also reflects the sound liquidity and satisfactory capital base of both BPCE and the larger Group. Groupe BPCE exhibited a good Tier 1 ratio of 9.1% at the end of 2009.

Importantly, BPCE's BFSR of C- factors in Natixis' inherently higher risk profile than that of the retail entities. Despite Natixis' diversified business mix and BPCE's guarantee, the investment and specialised-services bank suffered from deteriorating profitability and efficiency metrics, driven by large impairments recognised on the GAPC portfolio. BPCE's C- BFSR also incorporates (i) deteriorated Group profitability in its core business lines, due to the higher cost of risk across the full cycle (2008-2010); (ii) the added potential stress on the Group's financial fundamentals (if Natixis' performance deteriorates again); and (iii) the challenge of building a unified Group-wide risk-management architecture and platform. We view the enhancement and the integration of risk governance and management as one of BPCE's key challenges.

As a point of reference, the assigned BFSR is in line with the outcome of Moody's bank financial strength scorecard.

Qualitative Rating Factors (50%)

Factor: Franchise Value

Trend: Neutral

Groupe BPCE, which comprises the two regional networks of BP and CE, is the second-largest banking player in France behind Groupe Crédit Agricole, with high market shares in retail banking: 25% in mortgage loans and 22% in domestic deposits. Under the Group strategy the BP and CE networks operate separately under their respective names in commercial banking. However, both are highly complementary in terms of positioning, as each network has its own particular expertise and franchise. The BP network benefit from strong market positions in France, with a particular focus on professionals and SMEs, due to a diversified product suite. The CE are stronger serving households, due to the group's real-estate and mortgage-finance focus, and the widely recognised brand name of Crédit Foncier de France (CFF) and its leading position in covered bond issuance.

Groupe BPCE has several international retail banking businesses, particularly in Northern and Sub-Saharan Africa, but the Group's exposure to emerging markets is far more limited than its French and European peers. The Group's narrow foray into growing and underbanked markets is a negative rating factor, as it has not yet yielded obvious opportunities. Despite that, Moody's believes that BPCE had achieved a good degree of geographical diversification over recent years, notably through Natixis, and mainly in the Western hemisphere. However, we note that its strategic plan favours cross-selling with Groupe BPCE's clients, mostly in France and Europe.

Through its 72% stake in Natixis, the Group is also well-positioned in corporate and investment banking both in France and Europe, with solid market positions in corporate lending and several specific structured finance activities (particularly commodities and aircraft finance). Natixis also benefits from leading market positions in a range of sophisticated financial services. For instance, Natixis ranks in the world's top 15 asset managers via a "multi-boutique franchise". The bank ranks first in France in fund administration services, second in real-estate finance, third in electronic banking and payments, and fifth in private banking. It also ranks third globally in credit insurance through Coface (A2/P-1 Stable). We believe that this multi-specialist approach across a wide suite of dedicated competencies is Natixis' core strength which, under more benign market conditions, has material potential.

Moody's considers BPCE's earnings base as relatively narrow, given that it mainly consolidates Natixis' activities. Natixis' corporate and investment banking income stream is volatile and makes BPCE's earnings-mix cyclical.

BPCE, as the Group's central body, achieves a score of C+ on franchise value.

Factor: Risk Positioning

Trend: Improving

Despite material improvements in the two former groups, we believe that BPCE's risk management has room for improvement. In particular, the integration and the development of a group-wide risk-management architecture will take time, and will remain a key challenge for Groupe BPCE. Due to their co-operative status, the former groups have historically been decentralised in their decision-making and risk-management processes. Up to the formal merger in 2009, Natixis operated largely independently from its prior major shareholders BFBP and CNCE (35% ownership each). As part of the creation of BPCE, the Group's central risk-management function has been reorganised and is now within BPCE, as the central body.

Moody's believes that the merger is positive from a risk-management standpoint, as it enables enhanced group-wide risk-management capabilities (including a single platform and group-wide risk culture), and facilitates a stronger integration and supervision of subsidiaries. We expect stronger integration and supervision of the Group's subsidiaries, especially Natixis. We also expect BPCE to gradually address the remaining key challenges: (i) harmonisation of IT platforms; (ii) improvement of some affiliates' reporting processes; (iii) improvement of the methodologies underlying the Basel II/III calculations (including the implementation of the IRB method for the CE retail exposures); and (iv) a further reinforcement of the tie-up and oversight of Natixis from BPCE.

With regard to each risk-management sub-factor of our scorecard, we note the following:

- There are no material issues to be flagged regarding BPCE's corporate governance. As such, corporate governance has a neutral impact on the scorecard's final outcome.

- The C score for "controls and risk management" takes into account the trading incident announced on 17 October 2008, as well as some weaknesses in the quality and frequency of consolidation of certain risk exposures, which the regulator has identified in the past. The trading incident was linked to CNCE's proprietary book. Although this event was a serious breach, we see improvements in the Group's risk-management practices, notably by reinforcing controls, information flows, reporting and risk-awareness across "independent" entities. The "risk-management" factor also incorporates shortfalls linked to IT constraints and our assessment of risk Natixis' oversight. As far as the risk-management structure is concerned, the function has been awarded material resources, independence and a high stature within the organisation, signalling that BPCE's management granted the issue increased importance.

- The "financial reporting transparency" factor obtains a score of C as a result, essentially, of the adequate frequency, timeliness and quality of published financial information. We note that BPCE's disclosure remains limited. More importantly, disclosure is of far better quality at the Group level, and we positively note that Groupe BPCE has aligned its disclosure frequency (quarterly) with the one of Natixis, the main listed entity of the Group.

- The size of the top 20 Group exposures is material within BPCE, relative to both Tier 1 capital and pre-provision income, largely due to the consolidation of Natixis' exposures and the low level of operating income in recent years. Sector concentrations are reasonable, after adjusting for certain low-risk exposures on an adjusted basis.

It is important to note that BPCE is materially exposed, via Natixis' legacy portfolio, to the US sub-prime mortgage-loan market and CDPCs. On 26 August 2009, BPCE announced the creation of a guarantee to support this portfolio, treated on a one-off basis. At end-September 2010, the notional of the toxic loan portfolio amounted to EUR 32.1 billion (US agencies excluded) and the net book value amounted to EUR 27.6 billion (US agencies excluded), of which Natixis will keep 15% of losses on its books. This guarantee will not have a further negative financial impact on BPCE and the Group, as the GAPC assets were already consolidated within the Group's financials. Moody's continues to monitor the composition, performance and value of this portfolio of structured exposures.

- Liquidity management, which is carried out at Group level, is satisfactory. Liquidity management was well in place within the former groups of GBP and GCE. As part of the merger, Groupe BPCE quickly implemented a new centralised ALM function, whereby specific Group committees are responsible for identifying both gaps and limits, as well as defining common rules of ALM across the Group. BPCE, as the group's central body is responsible for ensuring the liquidity and solvency of all its affiliates.

BPCE itself is largely wholesale-funded, reflecting its role as the leading issuer of long-term debt within the Group and the consolidation of wholesale-funded Natixis. The covered bond issuer CFF is also consolidated within BPCE, effective since the simplification of the group's structure announced in February 2010 and implemented in August 2010. The Group's funding base, on the other hand, is well-diversified, reflecting the deposit base of the retail network. Overall, Groupe BPCE's liquidity position remains satisfactory.

- Market risk, as expressed by VaR, is estimated to be relatively low compared with BPCE and the Group's core capital, but may not be representative of the group's market risk, as evidenced by the 2008 trading loss and the size of Natixis' trading activities. Although Natixis has exited its riskiest positions, or placed them in a run-off mode, BPCE is potentially exposed to market volatility from Natixis' legacy assets. Within the regional banks' retail network, managing interest-rate risk is the main ALM objective, which is contained by limits and appears to be well-monitored. Importantly, the definition and implementation of appropriate market-risk management tools includes clear policies, limits and stresses. Consolidated measures of market risk continue to progress at Natixis and within the Group.

BPCE achieves a score of D+ for risk positioning.

Factor: Regulatory Environment

Refer to Moody's Banking System Outlook for France last published in September 2010 for a detailed discussion on the French regulatory environment.

Factor: Operating Environment

Trend: Neutral

This factor is common to all French banks. Moody's assigns a score of B+ for the overall operating environment. Refer to Moody's Banking System Outlook for France, published in September 2010, for a detailed discussion on the French operating environment.

Quantitative Rating Factors (50%)

Financials used in our scorecard are those of groupe BPCE SA, which consolidates BPCE (central body) and its subsidiaries. Given the creation of the new group and the lack of pro forma comparable figures, the computation of all the ratios is based on FY2009 financials only.

Factor: Profitability

Trend: Improving

BPCE consolidates the results of Natixis. Unsurprisingly, profitability indicators in 2008 and 2009 - measured as pre-provision income as a percentage of average RWAs - were impacted by the losses from Natixis' discontinued activities. Natixis was heavily impacted by structured finance-related write-downs, which all together have accounted as per Moody's calculation to EUR 5.9 billion before tax since the beginning of the crisis in 2007. Consequently, BPCE's pre-provision income as a percentage of average risk-weighted assets remained low at 0.48% in 2009, while net income as a percentage of average risk-weighted assets was negative at -0.34%. In addition, these metrics were artificially sustained by the one-off reclassification of old CNCE's deeply subordinated notes (TSS). This exceptional positive item generated a EUR 1.7 billion profit for Groupe BPCE (of which EUR 1.5 billion was for BPCE and EUR 200 million for Natixis), and was booked as interest income. For more details about this reclassification, please refer to the capital adequacy section.

Apart from Natixis, BPCE also consolidates other activities, which themselves contribute positively to revenue. In particular, it captures the 15.76% participation in CNP Assurances, BPCE Assurances, the commercial banking and insurance activities of other retail networks , and the international retail banking operations of the Group. Through Natixis CICs, BPCE benefits from the 20% contribution of both the BP and CE regional networks. This 20% contribution is (par construction) stable, as it originates from the "core" activities of the Group, encompassing commercial banking and insurance emanating from the regional banks.

The regional networks are the main drivers of the Group's profitability, and Moody's expects that the underlying earning capacity of both the BP and CE networks will help BPCE to restore its revenue stream. In 2009, the regional banks' financial performance was solid, due to a strong momentum in volumes.

Nonetheless, Moody's expects profitability to remain under moderate pressure in coming quarters, because: (i) the cost synergies from the merger should materialise later rather than sooner; (ii) Natixis' segregated portfolio may give rise to further potential impairments; (iii) state aid implies additional funding costs; and (iv) there are limited drivers for volume growth within the matured French retail market, which is further constrained by the low interest-rate environment.

That said, this could be compensated by Natixis' restored profitability prospects, as illustrated by its positive performance in 2010. Moody's believes that future stable earnings for BPCE will stem from Natixis' strategic focus on its core competences, and its sustained shift to client-driven and less capital-intensive transactions. Overall, we are positive about BPCE's ability to leverage the strengths of its diversified business model that should provide more sustainable, long-term recurring earnings.

BPCE achieves a score of E for profitability with an improving outlook, reflecting our expectations of a recovery of Natixis and the stability of core recurring earnings.

Factor: Liquidity

Trend: Neutral

As the central entity, BPCE's funding originates largely from wholesale markets, reflecting the weight of Natixis in its accounting perimeter. BPCE does not have its own retail-deposit base; it therefore mainly depends on the interbank and capital markets for its funding. We note that BPCE made its debut bond issuance shortly after its creation in July 2009.

Looking at the Group`s funding and liquidity profile, BPCE's liquidity position is sound, reflecting the large retail deposit base of the two regional networks. We positively note that Groupe BPCE's funding is well-diversified, due to the "Emprunts Réseaux" program (bonds distributed to retail customers), and the existence of several covered bond issuers within the group. CFF is the principal covered bond issuer, as the Group's dedicated mortgage lender, and there are other specific vehicles related to both BP and CE. Importantly, the Group also benefits from a sizeable asset portfolio eligible for ECB repo mechanisms. This portfolio mostly comprises liquid fixed-income securities, such as covered and government bonds.

Based on this, and considering the Group's sound liquidity-management platform, BPCE earns a score of B for liquidity.

Factor: Capital Adequacy

Trend: Neutral

With a Tier 1 ratio of 9.7% at year-end 2009, BPCE's capital adequacy is satisfactory, in our view. However, this level is commensurate with the risks supported by BPCE as a central body, which mainly consolidates Natixis and guarantees the GAPC portfolio, containing Natixis' riskiest assets.

As a point of reference, BPCE received EUR 7.05 billion in temporary state aid from the French government, via the issuance of preference shares and deeply subordinated bonds (TSS) from the former central bodies. Between December 2008 and June 2009, BFBP and CNCE together issued up to EUR 4.05 billion of TSS, subscribed by the state-owned investment company (Société de Prises de Participation de l'Etat - SPPE), as part of the French government's support package to restore confidence within the financial sector. In July 2009, the French government subscribed to EUR 3 billion preference shares of BPCE, enabling the state to hold a stake of up to 20% in the Group's central body, if these preference shares are not redeemed within five years.

As stated in our rating action dated 25 February 2010, the coupon payments on these Tier 1 securities is highly likely, because of the existence of a strong dividend incentive, linked to the existence of distributable profits of any member of the Group. Given the high likelihood of payment, and the fact that the coupons attached to these securities are costly, especially on preferred shares, BPCE has prioritised the reimbursement of these securities in 2009 and for the next few years. As at December 2010, BPCE had already repaid EUR 4.85 billion in state aid (70%), of which EUR 3.05 billion was TSS to the SPPE and EUR 1.8 billion was preference shares. Given the high cost of this state aid, we understand that BPCE intends to fully repay it by 2013 and earlier if possible, mainly via internal capital generation from retained earnings, but also possibly through selective asset disposals, as illustrated by the agreement signed with Crédit du Nord for the sale of Société Marseillaise de Crédit (SMC) in June 2010. Although state aid repayment is a priority, the Group is eager to maintain its current capitalisation level (Tier 1 ratio of 9.8% as of 30 September 2010, at the Group level).

Importantly, we believe that Groupe BPCE will be materially impacted by the changes in capital requirements announced by the Basel Committee (the so-called Basel III proposals). BPCE's regulatory capital ratios would likely deteriorate due to more extensive capital deductions from Core Tier 1, notably in respect of insurance subsidiaries, minority interests and deferred tax assets. In addition, BPCE's Tier 1 capital has a substantial component of hybrid capital instruments, including perpetual instruments received from the French government, which would gradually be reduced over time. This means that BPCE is likely to seek to retain a greater proportion of its earnings to build up its Core Tier 1 capital to its target level, and potentially seek further disposals to free-up capital.

Indeed, as at December 2009, the Groupe BPCE as a whole, had slightly more than EUR 9 billion in outstanding hybrid securities, qualifying as Tier 1 capital, representing 24% of total Tier 1 capital, which is well below the 35% regulatory limit. Groupe BPCE's hybrid securities include CNCE's old issuances, Natixis' remaining Tier 1 securities after the exchange offer of June 2009, and the new issuances made since the creation of BPCE as central body, which include the TSS subscribed by the SPPE.

Additionally, the old TSS issued under CNCE were, in 2009, reclassified to equity from debt. Most TSS in France is classified as equity where coupon payment is discretionary, if for example there is a dividend payment on common shares. However, an identical instrument can be classified as debt, by virtue of the existence of another instrument that is either pari passu or subordinated vis-a-vis the TSS, and for which coupon payment is not discretionary. For CNCE, the coupon payment on some internal instruments would be compulsory if the issuing entity reports a net profit. By amending the legal features and covenants of these securities, BPCE was de facto able to eliminate the coupon payment obligation and, at the same time, reclassify the TSS. When reclassified into equity, these securities must be recognised at fair value (FV). Due to this FV recognition, Groupe BPCE generated a one-off profit of EUR 1.5 billion, corresponding to the differential between fair value and amortised cost value. Once recognised into equity, these instruments are not subject to periodic FV re-evaluation. Natixis made the same reclassification with a one-off profit of EUR 0.2 billion (in Q4 2009).

We see BPCE's capitalisation as satisfactory considering the bank's higher-than-average risk profile. Under our stress test scenario, BPCE is able to absorb further losses stemming from Natixis' loan portfolio and GAPC assets. Looking at the Group, capitalisation is ample, with a Tier 1 ratio of 9.8% and Tier 1 capital of EUR 39.5 billion as of 30 September 2010 (vs. 9.1% and EUR 37.6 billion at end-2009). BPCE obtains a score of B+ for capital adequacy.

Factor: Efficiency

Trend: Improving

BPCE's efficiency is very weak, with a cost-to-income ratio of 87.4% at year-end 2009, albeit improved from over 100% in 2008. This very poor efficiency reflects the revenue shortfalls recorded since 2008, especially the writedowns booked by Natixis. In response, the Group has contained operating expenses by way of staff cuts and salary discipline. Given the recovery at Natixis in 2010, we expect that efficiency to improve materially.

In the medium term, BPCE's efficiency should further benefit from the post-merger saving schedule engaged in the context of the 2010-2013 strategic plan, the "New Deal" plan launched at Natixis being a part of it. The Group aims at a closer integration of some Natixis activities within its parent BPCE. As such, Natixis intends to significantly enhance its operating efficiency and control its costs, with a targeted cost-to-income ratio of 62% for core activities (excluding GAPC) by 2012. We believe this is achievable for Natixis. One of the Group's main challenges will be to further increase synergies within the Group, where redundancies have resulted from the merger. The Group aims to reduce its operating expenses by EUR 1 billion between 2009 and 2013. The planned cost reduction is essentially focused on the rationalisation of IT systems and processes. In our view, this number appears large and ambitious for the Group.

We believe that efficiency will be a key challenge for BPCE and the Group in the coming years, and we will continue to closely monitor this factor. BPCE scores E for efficiency at this stage, with an improving trend, which reflects our expectation that both profitability and expenditure levels will improve in tandem.

Factor: Asset Quality

Trend: Neutral

BPCE's asset quality deteriorated sharply in 2009. As of year-end 2009, NPLs as a percentage of gross loans rose to 5.51% from 2.14% a year earlier, reflecting the further provisioning of GAPC assets and higher provisioning levels on the specific business activities of Natixis (real estate and LBOs in particular). Excluding these individual provisions, the cost of risk of BPCE's core activities remains stable. Provisioning in the network increased slightly in 2009, but remains well-contained, with an average cost of risk of 49 bps for the two networks. During the fourth quarter of 2009, the CE network's cost of risk was 32 bps, while the BP network was higher at 65 bps, reflecting its focus on SMEs and professionals.

As noted in our Banking System Outlook for France (published 21 September 2010), French banks are typically slow to write off fully-provided delinquent loans, as this can lead to their forfeiting of legal rights to any claims. As such, the stock of NPLs remains relatively high and asset-quality indicators of French banks are not fully comparable with those of banks in other countries.

While we expect a deterioration of macroeconomic conditions in the Eurozone, and as France is expected to come under increasing pressure from financial markets to tighten fiscal policy earlier than planned, we think that BPCE's cost of risk peaked in 2009. Although asset-quality indicators will certainly not revert to pre-crisis levels, we expect them to stabilise in the coming years.

BPCE records a score of D+ on the asset-quality factor with a neutral trend.

Global Local Currency Deposit Rating (Joint Default Analysis)

Moody's assigns GLC deposit ratings of Aa3/P-1 (with a stable outlook) to BPCE. The long-term rating benefits from a five-notch uplift from BPCE's BCA of Baa2.

This reflects (i) our assessment of full support from the strong solidarity mechanisms prevailing within the Group's domestic retail network, including cross-guarantee mechanisms between BPCE, the CE saving banks and BP regional banks, as well as Natixis' access to the group mutual guarantee fund; (ii) our assessment of a very high probability of support from Groupe BPCE to BPCE, as the holding company for strategic group members; and (iii) our assessment of a very high probability of systemic support in the event of need for Groupe BPCE given its nationwide retail network, its market shares in retail deposits and loans exceeding 20% in France, and the Group's key importance to France's national payment system.

The systemic support provider input for France, the ultimate support provider for the Groupe BPCE, is Aaa. France is viewed as a high-support country.

Notching Considerations

Ratings for BPCE's senior subordinated obligations are notched off its fully-supported long-term GLC deposit rating. Moody's assigns a rating of A1 (with stable outlook) to these senior subordinated obligations.

The ratings for the Bank's hybrid obligations are notched off the adjusted BCA of Baa1 according to "Moody's Guidelines for Rating Bank Hybrid Securities and Subordinated Debt" released on 17 November 2009. For more details about the ratings on BPCE hybrid securities please refer to Moody's press release published on 25 February 2010, which fully describes our latest rating action on BPCE.

Foreign Currency Deposit Rating

BPCE 's Aa3/P-1 foreign-currency deposit ratings (with a stable outlook) are at the same level as the GLC deposit ratings, and are unconstrained given that France, in common with other EU members, has a country ceiling of Aaa.

Foreign Currency Debt Rating

BPCE's Aa3/P-1 foreign-currency debt ratings (with a stable outlook) are at the same level as the Group's GLC deposit ratings. They are unconstrained given that France, in common with other EU members, has a country ceiling of Aaa.

ABOUT MOODY'S BANK RATINGS

Bank Financial Strength Rating

Moody's Bank Financial Strength Ratings (BFSRs) represent Moody's opinion of a bank's intrinsic safety and soundness and, as such, exclude certain external credit risks and credit support elements that are addressed by Moody's Bank Deposit Ratings. Bank Financial Strength Ratings do not take into account the probability that the bank will receive such external support, nor do they address risks arising from sovereign actions that may interfere with a bank's ability to honor its domestic or foreign currency obligations. Factors considered in the assignment of Bank Financial Strength Ratings include bank-specific elements such as financial fundamentals, franchise value, and business and asset diversification. Although Bank Financial Strength Ratings exclude the external factors specified above, they do take into account other risk factors in the bank's operating environment, including the strength and prospective performance of the economy, as well as the structure and relative fragility of the financial system, and the quality of banking regulation and supervision.

Global Local Currency Deposit Rating

A deposit rating, as an opinion of relative credit risk, incorporates the Bank Financial Strength Rating as well as Moody's opinion of any external support. Specifically, Moody's Bank Deposit Ratings are opinions of a bank's ability to repay punctually its deposit obligations. As such, Moody's Bank Deposit Ratings are intended to incorporate those aspects of credit risk relevant to the prospective payment performance of rated banks with respect to deposit obligations, and includes: intrinsic financial strength, sovereign transfer risk (in the case of foreign currency deposit ratings), and both implicit and explicit external support elements. Moody's Bank Deposit Ratings do not take into account the benefit of deposit insurance schemes which make payments to depositors, but they do recognize the potential support from schemes that may provide assistance to banks directly.

According to Moody's joint default analysis (JDA) methodology, the global local currency deposit rating of a bank is determined by the incorporation of external elements of support into the bank's Baseline Risk Assessment. In calculating the GLC rating for a bank, the JDA methodology also factors in the rating of the support provider, in the form of the local currency deposit ceiling for a country, Moody's assessment of the probability of government support for the bank in case a stress situation occurs and the degree of dependence between the issuer rating and the LCDC.

National Scale Ratings

National scale ratings are intended primarily for use by domestic investors and are not comparable to Moody's globally applicable ratings; rather they address relative credit risk within a given country. An Aaa rating on Moody's National Scale indicates an issuer or issue with the strongest creditworthiness and the lowest likelihood of credit loss relative to other domestic issuers. National Scale Ratings, therefore, rank domestic issuers relative to each other and not relative to absolute default risks. National ratings isolate systemic risks; they do not address loss expectation associated with systemic events that could affect all issuers, even those that receive the highest ratings on the National Scale.

Foreign-Currency Deposit Rating

Moody's ratings on foreign currency bank obligations derive from the bank's local currency rating for the same class of obligation. The implementation of JDA for banks can lead to a high local currency ratings for certain banks, which could also produce high foreign currency ratings. Nevertheless, it should be reminded that foreign currency deposit ratings are in all cases constrained by the country ceiling for foreign currency bank deposits. This may result in the assignment of a different, and typically lower, rating for the foreign currency deposits relative to the bank's rating for local currency obligations.

Foreign-Currency Debt Rating

Foreign currency debt ratings are derived from the bank's local currency debt rating. In a similar way to foreign currency deposit ratings, foreign currency debt obligations may also be constrained by the country ceiling for foreign currency bonds and notes, however, in some cases the ratings on foreign currency debt obligations may be allowed to pierce the foreign currency ceiling. A particular mix of rating factors are taken into consideration in order to assess whether a foreign currency bond rating pierces the country ceiling. They include the issuer's global local currency rating, the foreign currency government bond rating, the country ceiling for bonds and the debt's eligibility to pierce that ceiling.

Rating Factors

BPCE

Rating Factors [1]	A	B	C	D	E	Total Score	Trend
Qualitative Factors (50%)						C+	
Factor: Franchise Value						C+	Neutral
Market Share and Sustainability			x				
Geographical Diversification		x					
Earnings Stability			x				
Earnings Diversification [2]							
Factor: Risk Positioning						D+	Improving
Corporate Governance [2]							
- Ownership and Organizational Complexity	--	--	--	--	--		
- Key Man Risk	--	--	--	--	--		
- Insider and Related-Party Risks	--	--	--	--	--		
Controls and Risk Management			x				
- Risk Management			x				
- Controls			x				
Financial Reporting Transparency			x				
- Global Comparability	x						
- Frequency and Timeliness				x			
- Quality of Financial Information			x				
Credit Risk Concentration	--	--	--	--	--		
- Borrower Concentration	--	--	--	--	--		
- Industry Concentration	--	--	--	--	--		
Liquidity Management		x					
Market Risk Appetite				x			
Factor: Operating Environment						B+	Neutral
Economic Stability	x						
Integrity and Corruption		x					
Legal System		x					
Financial Factors (50%)						D+	
Factor: Profitability						E	Improving
PPP % Avg RWA - Basel II					0.48%		
Net Income % Avg RWA - Basel II					-0.34%		
Factor: Liquidity						B	Neutral

(Mkt funds-Liquid Assets) % Total Assets		-4.43%					
Liquidity Management		x					
Factor: Capital Adequacy						**B+**	**Neutral**
Tier 1 ratio (%) - Basel II		9.60%					
Tangible Common Equity / RWA - Basel II	7.94%						
Factor: Efficiency						**E**	**Improving**
Cost/income ratio					87.79%		
Factor: Asset Quality						**D+**	**Neutral**
Problem Loans % Gross Loans				5.51%			
Problem Loans % (Equity + LLR)			24.92%				
Lowest Combined Score (15%)						**E**	
Economic Insolvency Override						**Neutral**	
Aggregate Score						**C-**	
Assigned BFSR						**C-**	

[1] - Where dashes are shown for a particular factor (or sub-factor), the score is based on non public information [2] - A blank score under Earnings diversification or Corporate Governance indicates the risk is neutral

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