

Research Update:

French Bank BPCE And Most Core Subsidiaries 'A+/A-1' Ratings Affirmed On Bank Criteria Change; Outlook Stable

Primary Credit Analyst:

Sylvie Dalmaz, Paris (33) 1-4420-6682; sylvie_dalmaz@standardandpoors.com

Secondary Contact:

Francois Moneger, Paris (33) 1-4420-6688; francois_moneger@standardandpoors.com

Table Of Contents

Overview

Rating Action

Rationale

Outlook

Ratings Score Snapshot

Related Criteria And Research

Ratings List

Research Update:

French Bank BPCE And Most Core Subsidiaries 'A+/A-1' Ratings Affirmed On Bank Criteria Change; Outlook Stable

Overview

- Following a review under Standard & Poor's revised bank criteria (published Nov. 9, 2011), we have affirmed our 'A+/A-1' long- and short-term ratings on BPCE and most of its core subsidiaries.
- The ratings on BPCE's perpetual subordinated debt were lowered to 'BBB-' from 'BBB', and the rating on its dated subordinated debt was lowered to 'BBB+' from 'A'.
- Other rating actions on debt issues and subsidiaries are listed below.
- Our ratings on BPCE are based on its core membership in Groupe BPCE. The anchor for BPCE is 'a-'. We view Groupe BPCE as having a strong business position, moderate capital and earnings, adequate risk position, average funding, and adequate liquidity, as our criteria define these terms. The long-term rating on Groupe BPCE benefits from two notches of uplift for potential extraordinary government support in a crisis.
- The stable outlook on Groupe BPCE reflects our expectation that it will maintain a strong business position and progressively improve its capital ratios.

Rating Action

As previously announced on Nov. 29, 2011, Standard & Poor's Ratings Services affirmed its 'A+/A-1' long-term and short-term counterparty credit ratings on French bank BPCE and its core subsidiaries, Natixis S.A. and BRED-Banque Populaire. Standard & Poor's also affirmed its 'A+' long-term counterparty credit rating on core subsidiary Compagnie Europeenne de Garanties et Cautions. The outlooks on the long-term ratings are stable.

We also lowered the issue ratings on BPCE's deeply subordinated debt ("Titres Super Subordonnés") to 'BBB-' from 'BBB', and on its dated subordinated debt to 'BBB+' from 'A'. The 'BBB' issue rating on the hybrid capital instrument issued by Natexis Banques Populaires Capital Trust III was affirmed.

We have affirmed the 'A/A-1' long- and short-term counterparty credit ratings and revised the status of BPCE subsidiary Crédit Foncier de France (CFF) to "highly strategic" from "strategically important" under our criteria.

Rationale

BPCE is the main funding bank and the central institution of the French cooperative banking group, Groupe BPCE. The ratings on BPCE reflect its core membership in Groupe BPCE. Standard & Poor's bases its ratings on BPCE on Groupe BPCE's "strong" business position, "moderate" capital and earnings, "adequate" risk position, "average" funding, and "adequate" liquidity, as our criteria define these terms. The ratings also reflect our view of Groupe BPCE's "high" systemic importance in France's banking system.

We assess Groupe BPCE's stand-alone credit profile (SACP) at 'a-'.

Our bank criteria use our Banking Industry Country Risk Assessment (BICRA) methodology and our economic risk and industry risk scores to determine a bank's anchor, the starting point in assigning an issuer credit rating. The BICRA for France is group '2', according to our criteria. Our 'a-' anchor for a commercial bank operating only in France is based on an economic risk score of '2' and an industry risk score of '2', on a scale of 1-10 ('1' is the lowest risk and '10' is the highest).

BPCE's weighted economic risk score stands at around '2', reflecting Groupe BPCE's dominant share of assets in its domestic market. With regard to economic risk, we consider that France has very strong economic stability, low economic imbalances, and low private-sector credit risk. With regard to industry risk, the French banking industry has a strong regulatory framework, and healthy competition between large players with generally restrained risk appetites, in our opinion. Stable domestic customer deposits stemming from the high French household savings rate underpin systemwide funding. At the same time, most French banks rely on wholesale markets to fund their large balance sheets.

Groupe BPCE's business position is "strong," in our opinion. It is a universal banking group with a strong focus on retail banking in France, where it ranks second, for instance, in terms of number of branches. Its prominent, longstanding, and stable domestic retail franchise contributes to our "strong" assessment of the group's business position. We view the group as a smaller player in corporate and investment banking and specialized financial services. We consider the Groupe BPCE's diversification by business as average and by geography as limited. In our opinion, a prudent management team implements Groupe BPCE's cohesive strategy built around its core franchises. We view the group's earnings as quite predictable.

Our "moderate" assessment of Groupe BPCE's capital and earnings is based on our projected risk-adjusted capital (RAC) ratio before diversification for the group increasing to around 6.5% in the next 18 to 24 months. In line with industry trends, the group's capital policy calls for further increasing of its capital ratios. Groupe BPCE has said it targets a core tier 1 ratio of above 9% in 2013 under the new Basel III framework. We understand that the group will continue to manage its balance sheet tightly as it prepares for

Basel III. We also see new sales of cooperative shares, as well as divestments from noncore assets, as potential additional sources of capital for the group.

We take the view that, while adequate, Groupe BPCE's core earnings in 2011 and 2012 will stand below its underlying capabilities. We base our opinion on the more challenging funding landscape, adverse capital market conditions, and weakening economic growth prospects the group faces. Based on our calculation, the three-year average earnings buffer should stand at an estimated 0.55% of risk-weighted assets before diversification as of year-end 2011. This estimate takes into account 60% of impairment on Groupe BPCE's exposure to Greece.

Our assessment of Groupe BPCE's risk position as "adequate" factors in a reasonable appetite for growth, oriented toward selected areas of expertise, and what we view as the group's adequate risk management capabilities. Groupe BPCE faces areas of risks that differ widely in nature, ranging from its simple businesses to more sophisticated credit and market activities. In our opinion, the group's risk appetite has declined over the past few years. It has successfully implemented derisking measures and repositioned itself around a tightened business scope. We consider that Groupe BPCE has a good track record in credit risk management in its core lending business of retail banking. The group's domestic loan book is of good quality, in our opinion, and compares favorably with that of domestic peers. In our opinion, the risks related to Natixis' legacy asset portfolio have declined, although its size, together with that of CFF's portfolio of structured assets, remains material, leaving Groupe BPCE exposed to unforeseen event risk.

Groupe BPCE's funding is "average" and its liquidity position "adequate," in our opinion. Its loan-to-deposit ratio compares unfavorably with those of peers. Its major funding imbalances arise from wholesale-funded subsidiaries Natixis and CFF, and from the centralization of its regulated Livret A savings plan deposits at French state institution, Caisse des Dépôts et Consignations (AAA/Stable/A-1+), making these deposits unavailable for funding. However, we believe the group's loyal retail deposit base, its ability to repackage mortgage loans into covered bonds, and raise funds throughout its large retail banking networks should mitigate the imbalances. At the time of writing, the group had completed its 2011 medium- and long-term funding program, revising down its needs for 2012. In the past few months, it also strengthened the buffer of assets eligible as collateral for refinancing, if needed, at the European Central Bank.

Groupe BPCE's long-term rating is two notches higher than the SACP, reflecting its "high" systemic importance in France and our assessment of the French government (Republic of France; unsolicited AAA/Stable/A-1+) as "supportive" of its banking system.

The 'BBB-' rating on BPCE's perpetual subordinated debt issues is three notches below the SACP, in accordance with our hybrid capital criteria for instruments containing non-viability contingency clauses leading to principal write-downs. The 'BBB+' rating on the dated subordinated issues is one notch below the SACP, in accordance with our criteria for nondeferrable capital

instruments in jurisdictions, such as France, where we consider that the government is unlikely to support the payment of nondeferrable subordinated debt, even though it may support senior debt.

Outlook

The stable outlook on Groupe BPCE reflects our expectation that it will maintain a "strong" business position and cope with the increasingly tough operating conditions it faces. While we believe the group's core earnings in 2011 and 2012 will fall short of its underlying earnings potential, they should remain adequate and enable a gradual improvement in its capital ratios. In the coming quarters, we also anticipate that Groupe BPCE will pursue tighter management of its balance sheet and contain its risk position.

A prolonged disruption of capital markets that would reduce banks' access to euro-denominated resources would weigh on our assessment of Groupe BPCE's funding and liquidity position and could prompt a downgrade. We would also consider a negative rating action if economic conditions worsen, resulting in significantly adverse changes in credit quality or asset valuations that would lead us to revise down our assessment of Groupe BPCE's risk position. We note that under our criteria, were we to revise the ratings on the Republic of France, this could potentially result in a change to the ratings on BPCE.

A sustainable recovery in Groupe BPCE's profitability that would result in markedly stronger capital would, in our opinion, be positive for its SACP. However, we consider this to be a remote scenario at this stage given the increasingly challenging operating environment. To factor in such a positive development, we would first revise the SACP to 'a' from 'a-', which would not translate into an upgrade of BPCE under our criteria.

Ratings Score Snapshot

| | |
|-----------------------|--------------------------|
| Issuer Credit Rating | A+ |
| SACP | a- |
| Anchor | a- |
| Business Position | Strong (+1) |
| Capital and Earnings | Moderate (-1) |
| Risk Position | Adequate (0) |
| Funding and Liquidity | Average and adequate (0) |
| Support | 2 |
| GRE Support | 0 |
| Group Support | 0 |
| Sovereign Support | 2 |
| Additional Factors | 0 |

Related Criteria And Research

- Banks: Rating Methodology And Assumptions, Nov. 9, 2011
- Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9, 2011
- Group Rating Methodology And Assumptions, Nov. 9, 2011
- Bank Hybrid Capital Methodology And Assumptions, Nov. 1, 2011

Ratings List

Ratings Affirmed

BPCE

Natixis S.A.

Natixis Financial Products LLC

Natixis Australia Pty Ltd.

BRED-Banque Populaire

Counterparty Credit Rating A+/Stable/A-1

Compagnie Europeenne de Garanties et Cautions

Counterparty Credit Rating A+/Stable/--

Credit Foncier de France

Locindus S.A.

Counterparty Credit Rating A/Stable/A-1

BPCE

Senior Unsecured (47 issues) A+

Certificate Of Deposit (1 issue) A-1

Commercial Paper (2 issues) A-1

BRED-Banque Populaire

Certificate Of Deposit (1 issue) A-1

Credit Foncier de France

Senior Unsecured (4 issues) A

Certificate Of Deposit (1 issue) A-1

Locindus S.A.

Senior Unsecured (2 issues) A

Certificate Of Deposit (1 issue) A-1

Natexis Banques Populaires Capital Trust III

Preferred Stock (1 issue) BBB

Natixis Funding S.A.

Certificate Of Deposit (1 issue) A-1

Natixis S.A.

*Research Update: French Bank BPCE And Most Core Subsidiaries 'A+/A-1' Ratings Affirmed On Bank Criteria
Change; Outlook Stable*

| | |
|----------------------------------|-----|
| Senior Unsecured (33 issues) | A+ |
| Certificate Of Deposit (1 issue) | A-1 |
| Commercial Paper (1 issue) | A-1 |

| | |
|------------------------------|-----|
| Natixis U.S. Finance Co. LLC | |
| Commercial Paper (1 issue) | A-1 |

Downgraded

| | To | From |
|----------------------------------|------|------|
| BPCE | | |
| Subordinated (4 issues) | BBB+ | A |
| Junior Subordinated* (13 issues) | BBB- | BBB |
| *Deeply Subordinated Debt | | |

| | | |
|---------------------------------|------|-----|
| Natixis S.A. | | |
| Subordinated (14 issues) | BBB+ | A |
| Junior Subordinated* (4 issues) | BBB- | BBB |
| *Deeply Subordinated Debt | | |

NB. This list does not include all ratings affected.

Additional Contact:

Financial Institutions Ratings Europe; FIG_Europe@standardandpoors.com

Complete ratings information is available to subscribers of RatingsDirect on the Global Credit Portal at www.globalcreditportal.com. All ratings affected by this rating action can be found on Standard & Poor's public Web site at www.standardandpoors.com. Use the Ratings search box located in the left column. Alternatively, call one of the following Standard & Poor's numbers: Client Support Europe (44) 20-7176-7176; London Press Office (44) 20-7176-3605; Paris (33) 1-4420-6708; Frankfurt (49) 69-33-999-225; Stockholm (46) 8-440-5914; or Moscow 7 (495) 783-4009.

Copyright © 2011 by Standard & Poors Financial Services LLC (S&P), a subsidiary of The McGraw-Hill Companies, Inc. All rights reserved.

No content (including ratings, credit-related analyses and data, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of S&P. The Content shall not be used for any unlawful or unauthorized purposes. S&P, its affiliates, and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions, regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact or recommendations to purchase, hold, or sell any securities or to make any investment decisions. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P's opinions and analyses do not address the suitability of any security. S&P does not act as a fiduciary or an investment advisor. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain credit-related analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, www.standardandpoors.com (free of charge), and www.ratingsdirect.com and www.globalcreditportal.com (subscription), and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at www.standardandpoors.com/usratingsfees.