MOODY'S INVESTORS SERVICE

Credit Opinion: BPCE

Global Credit Research - 16 Feb 2012

Paris, France

Ratings

Category	Moody's Rating
Outlook	Rating(s) Under Review
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
Pref. Stock -Dom Curr	*Baa3 (hyb)
Pref. Stock Non-cumulative	*Baa3 (hyb)
Commercial Paper	P-1
Other Short Term -Dom Curr	(P)P-1
Natixis US Medium-Term Note Program LLC	
Outlook	Rating(s) Under Review
Bkd Sr Unsec MTN	*(P)Aa3
Natixis	
Outlook	Rating(s) Under Review
Bank Deposits	*Aa3/P-1
Bank Financial Strength	*D+
Issuer Rating	*Aa3
Senior Unsecured	*Aa3
Subordinate	**A1
Pref. Stock Non-cumulative	*Ba2 (hyb)
Commercial Paper -Dom Curr	P-1
Other Short Term -Dom Curr	(P)P-1

* Placed under review for possible downgrade on February 15, 2012
** Placed under review for possible downgrade on November 29, 2011

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Key Indicators

Groupe BPCE (Consolidated Financials)[1]

	[2]**12-10**	[2]**12-09**	[2]**12-08**	**Avg.**
Total Assets (EUR million)	**1,048,442.0**	**1,028,802.0**	**1,143,679.0**	[3]**-4.3**
Total Assets (USD million)	**1,406,530.6**	**1,476,064.2**	**1,589,767.9**	[3]**-5.9**
Tangible Common Equity (EUR million)	**37,444.2**	**29,070.5**	**23,672.4**	[3]**25.8**
Tangible Common Equity (USD million)	**50,233.1**	**41,708.7**	**32,905.8**	[3]**23.6**
Net Interest Margin (%)	**1.2**	**1.3**	**0.8**	[4]**1.1**
PPI / Avg RWA (%)	**1.8**	**0.8**	**--**	[5]**1.3**
Net Income / Avg RWA (%)	**1.0**	**-0.3**	**--**	[5]**0.4**
(Market Funds - Liquid Assets) / Total Assets (%)	**9.5**	**11.4**	**11.9**	[4]**10.9**
Core Deposits / Average Gross Loans (%)	**74.7**	**71.9**	**72.9**	[4]**73.2**
Tier 1 Ratio (%)	**10.1**	**9.1**	**--**	[5]**9.6**
Tangible Common Equity / RWA (%)	**9.4**	**7.1**	**--**	[5]**8.2**
Cost / Income Ratio (%)	**68.1**	**83.2**	**98.4**	[4]**83.2**
Problem Loans / Gross Loans (%)	**3.7**	**3.7**	**2.4**	[4]**3.3**
Problem Loans / (Equity + Loan Loss Reserves) (%)	**32.6**	**33.6**	**30.0**	[4]**32.0**

Source: Moody's

[1] All ratios are adjusted using Moody's standard adjustments [2] Basel II; IFRS [3] Compound Annual Growth Rate based on IFRS reporting periods [4] IFRS reporting periods have been used for average calculation [5] Basel II & IFRS reporting periods have been used for average calculation

Opinion

RECENT CREDIT DEVELOPMENTS

On 15 February 2012, Moody's placed on review for downgrade BPCE's C- Financial Strength Rating (BFSR) and its Aa3 long-term rating. The Prime-1 short-term rating was affirmed. During the review, we will consider a potential downgrade to the long-term ratings of up to two notches, i.e. to A2.

On the same day, the BFSR and long-term ratings of BPCE's subsidiaries Natixis, Banque Palatine, Crédit Foncier de France and Loncindus were also placed under review. This follows Moody's announcement on the same day to place a number of European banks on review for downgrade, reflecting the multiple challenges we consider these banks face, notably (i) a weakening macroeconomic environment; (ii) costly and constrained market funding; and (iii) pressure on profits. These challenges may lead us to reduce our assessment of several important rating factors, notably economic stability, franchise value, risk positioning, liquidity, profitability and capital. Moreover, some governments are becoming more constrained in their ability to provide support for banks over the medium term. As a consequence, European banks face immediate pressures centered on their ability to retain the confidence of investors. For more details please see our press release "Moody's Reviews Ratings for European Banks" published on 15 February 2012 and the reports "Global Bank Ratings Likely To Decline In 2012", "Euro Area Debt Crisis Weakens Bank Credit Profiles" and "European Banks: How Moody's Approach Reflects Evolving Challenges", published on 19 January 2012.

Dated subordinated debt securities (rated A1) remain on review for downgrade pending our reassessment of systemic support for such debt, initiated on 29 November 2011. This rating action was part of a wider action on subordinated debt issued by a number of European financial institutions. This review will contemplate the potential complete removal of systemic support from our ratings on subordinated debt, where these ratings currently incorporate such support. This reflects Moody's belief that the probability of subordinated bank debt in Europe benefiting from systemic support will be lower than assumed in the past, further to possible legislative changes, including the European Commission's proposed framework on resolution regimes, which would allow the imposition of losses on subordinated debt holders outside a bankruptcy. In countries where this is already the case, such as the UK and Germany, our approach is to notch down subordinated debt securities from the institution's Adjusted Baseline Credit Assessment. For more details on the wider rating action, please refer to Moody's Press Release "Moody's Reviews Bank Hybrids, Subordinated Debt for Downgrade" published on 29 November 2011 and Special Comment "Reassessment of Government Support Assumptions in European Bank Subordinated Debt", dated 28 November 2011.

On 8 December 2011, the European Banking Authority (EBA) published the results of its assessment of the 65 largest European banks, including Groupe BPCE, to determine their recapitalization needs for those that failed to attain a 9% core Tier 1 ratio target by mid-2012, whilst maintaining a sovereign exposure buffer. This exercise, based on data as at end-September 2011, followed the stress testing exercise conducted earlier in the year, whose results were published on 15 July 2011. We note that the information disclosed by Groupe BPCE as part of the EBA exercise is in line with information available to us, and as such, the ratings for the group central institution and issuing vehicle BPCE (C- under review for downgrade / Aa3 under review for downgrade / P-1) were unaffected by the EBA test and related disclosures (please note that Groupe BPCE itself is not rated as it is not a legal entity). The group was required to increase its capital resources by EUR3.7 billion by June-2012, an increase of EUR0.3 billion from the preliminary estimate, due to changes in RWAs between June and September. As part of the stress test, Groupe BPCE also published detailed information on its exposures by country. The bank notably disclosed net direct exposures of EUR0.5 billion to Greece, EUR0.3 billion to Ireland, EUR0.3 billion to Portugal and EUR2.6 billion to Italy, at end-September 2011. These exposures are significant but manageable.

SUMMARY RATING RATIONALE

This credit opinion refers to BPCE (the central institution of Groupe BPCE) and its subsidiaries, known as "groupe BPCE SA".

Moody's assigns a BFSR of C- under review for downgrade to BPCE, which translates into a Baseline Credit Assessment (BCA) of Baa2 on the long-term scale, reflecting on one hand (i) the diverse spread of activities undertaken through its various subsidiaries including Natixis (D+ under review for downgrade / Aa3 under review for downgrade / P-1), Crédit Foncier de France (CFF, D under review for downgrade / Aa3 under review for downgrade / P-1), Banque Palatine (C- under review for downgrade / Aa3 under review for downgrade / P-1); and (ii) the retail-related earnings derived from its stakes (via Natixis) in the Banques Populaires (BP) and Caisses d'Epargne (CE) networks. On the other hand, BPCE's BFSR of C- under review for downgrade is constrained by (i) the challenges of improving the efficiency and risk-weighted profitability of its mature retail networks; (ii) delayed post-merger initiatives, especially the integration and rationalization of complex group functions such as risk management; and (iii) the relatively high risk profile of Natixis.

The BFSR of BPCE does not fully capture the creditworthiness of the broader group, particularly the two retail banking networks (BP and CE) and only partially incorporates the strength of BPCE's parents, the affiliated BP and CE regional banks, which form the roots of the mutualist group and that together hold 100% of BPCE. As such, BPCE's balance sheet only captures a portion of the retail banking networks, through Natixis' 20% stakes in the BP and CE networks. As a result of this, BPCE's BFSR of C- under review for downgrade does not fully benefit from the creditworthiness of the two networks of regional banks.

BPCE senior debt and deposit ratings are Aa3 under review for downgrade / P-1. The senior and deposit ratings receive a total five-notch-uplift from the Baa2 BCA, as a result of:

(i) The potential parental and cooperative support from its regional bank shareholders, underpinned by the French banking law and the solidarity mechanism within the group, which includes two separate solidarity funds, one for each of the two retail networks, as well as a separate central solidarity fund. We note that these three funds are at BPCE level and that the solidarity mechanism also includes cross guarantees between BPCE, and each BPs and CEs. This arrangement, which we see as very strong, leads us to attribute an one-notch uplift to the BCA, resulting in an Adjusted BCA of Baa1. The Adjusted BCA therefore reflects the greater creditworthiness of the group as a whole, due to its more stable revenues from the regional banks, which remain predominant in the group's business mix. However, we expect revenues to be subject to downward pressure in the current uncertain economic environment.

(ii) BPCE's rating incorporates a very high probability of systemic support from the government of France, if needed. As such, BPCE's senior debt rating of Aa3 under review for downgrade also receives a four-notch uplift from its Adjusted BCA, to reflect the potential systemic support. However, we note that BPCE currently benefits from a higher uplift than its French peers, which partly reflects the role that French authorities played in the establishment of Groupe BPCE in 2009.

Rating Drivers

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 other specialized financial services

- Diversified earnings and business mix, with a dominance of stable and predictable retail banking revenues

Weaknesses

- The current challenging market conditions reduce the group's ability to refinance its operations

- Little room to improve profitability and efficiency in the current deteriorating economic environment

- Natixis' risk profile is relatively high, albeit it is decreasing as the size of the legacy asset portfolio in run-off, is being reduced

- Risk management and controls require further improvement

- Expected deterioration in asset quality resulting from faltering economic conditions, particularly in high risk sectors such as commercial real estate

Rating Outlook

The BFSR and long-term ratings of BPCE are on review for downgrade. During the review we will consider the impact on BPCE's standalone creditworthiness of weakening fundamentals, notably economic stability, franchise value, risk positioning, liquidity, profitability and capital, in the context of the current environment.

What Could Change the Rating - Up

BPCE's BFSR and long-term ratings are on review for downgrade and as such, any increases in these ratings over the rating horizon is unlikely.

What Could Change the Rating - Down

The BFSR could be downgraded following our review during which we will re-assess the impact of the weakening macroeconomic environment, costly and constrained market funding and pressure on profits on the bank's financial fundamentals, notably economic stability, franchise value, risk positioning, liquidity, profitability and capital. In particular, the BFSR may be lowered if we consider that financing conditions are likely to remain hostile, a macroeconomic slowdown could materially impact the bank's profitability, the housing market were to deteriorate significantly, or the restructuring result in a weaker-than-expected franchise or capitalization levels.

A downgrade of BPCE's BFSR would also be driven by any of the following: (i) a deterioration of its risk profile, particularly as a result of a failure in risk management; (ii) a negative development within Natixis, for example on its legacy portfolio that may affect efficiency and profitability; or (iii) a failure to bring sufficient cohesion among the group entities.

The impact of a downgrade to BPCE's standalone BFSR on the senior unsecured ratings would depend on the strength of Groupe BPCE and may therefore be offset by greater cooperative support, resulting in an unchanged Adjusted BCA. The upward pressure on BPCE's Adjusted BCA could also mitigate a potential reduction in systemic support uplift.

Recent Results and Developments

In the first three quarters of 2011, Groupe BPCE reported net income (group share) of EUR2.2 billion, down 18.6% from the same period a year earlier. The group has continued to witness steady results from its core activities, commercial banking and insurance, which contributed to a net banking income of EUR17.2 billion, up 1.7% from the previous year. However, the 2011 YTD results were mainly impacted by EUR0.8 billion of provisioning charges on the Greek sovereign exposures, at a 60% impairment rate. The cost of risk, excluding the Greek-related provisions, was in line with the previous year at EUR1.2 billion. At end-September 2011, Groupe BPCE's core Tier 1 ratio was 8.6%, up from 8% as of 31 December 2010.

BPCE, the group's central institution, recorded a net income (group share) of EUR0.7 billion in the first half of 2011, down 16% from the same period in 2010. Total assets were EUR727 billion, down from EUR741 billion at the end of 2010 and EUR603 billion in 2009 and its Tier 1 ratio was 10% at end-December 2010 (the figures as at end-September 2011 for BPCE are not disclosed).

DETAILED RATING CONSIDERATIONS

Detailed considerations for BPCE's currently assigned ratings are as follows:

Bank Financial Strength Rating

BPCE's BFSR of C-, under review for downgrade, reflects the group's status as the second-largest banking group in France following the merger of the central institutions of two former cooperative groups, Groupe Banques Populaires (GBP) and Group Caisse d'Epargne (GCE). The group benefits from a well-established retail franchise and robust brand names in France, due to its affiliated regional banks, which are the sole shareholders of BPCE. We expects stronger synergies to be achieved between group entities, including Natixis, the corporate and investment banking arm, and BPCE Assurances, the insurance subsidiaries. The BFSR of C-, under review for downgrade, also reflects the sound liquidity and satisfactory capital base of both BPCE and the larger group. However, these are some of the factors that will be reassessed during the review, in light of higher refinancing costs, the implementation of the group deleveraging plan and the current deteriorating macroeconomic environment.

BPCE's BFSR of C- under review for downgrade incorporates (i) the diverse spread of activities through its various subsidiaries, (ii) the stable retail banking earnings derived from BPCE's stake (via Natixis) in the BP and CE networks; (iii) the challenges in relation to the integration and rationalization of complex group functions, such as risk management; and (iv) the relatively high risk profile of Natixis.

Franchise Value

Moody's currently considers BPCE's franchise value to be a credit strength. However, the review will consider whether it should be weaker, given the combination of tight refinancing conditions, the group deleveraging plan and the weakening macroeconomic environment.

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 a c20% domestic market share in retail deposits and mortgages. The BP and CE networks operate separately under their respective names but they have different market segment expertise: professionals and SMEs for BP and households for CE. The group also comprises CFF, a specialized real estate financing firm, funded by covered bond issuance.

Groupe BPCE has several international retail banking businesses, particularly in Northern and Sub-Saharan Africa, but the group exposure to emerging markets is far more limited than its French and European peers. Despite this, we believe that BPCE has achieved a good degree of geographical diversification over recent years, notably through Natixis, and mainly in the Western hemisphere. However, its strategic plan favours cross-selling of core activities among group subsidiaries and more generally, a refocus on serving existing customers of the group mainly in France.

Through its 72% stake in Natixis, the group is also well-positioned in corporate and investment banking both in France and the rest of Europe, with solid market positions in corporate lending and in several specific structured finance activities, such as commodities and aircraft finance. Natixis also benefits from leading market positions in other markets, including asset management, fund administration services, real-estate finance, electronic payments, private banking and credit insurance through Coface SA (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. At the same time, the plan to reduce Natixis funding requirements by EUR15-20 billion by the end of 2013, may impact on some of its activities and therefore negatively affect its franchise. More generally, BPCE's franchise value may be impacted by pressure on profitability and the effect of the current deteriorating macroeconomic environment.

Moody's considers BPCE's earnings base as relatively narrow, given that it mainly consolidates Natixis and CFF's activities, whose income streams are volatile, making in turn BPCE's earnings-mix cyclical.

BPCE achieves a score of C+ on franchise value, which is one of the factors that will be considered during our review, particularly the longer-term sustainability of the franchise and of core earnings stability. In light of the current market conditions, the scoring of C+ may overstate the overall franchise strength of BPCE.

Risk Positioning

BPCE's risk position is relatively modest and on a weakening trend. The review will consider the bank's risk position in light of the deteriorating macroeconomic outlook and constrained funding conditions.

Despite material improvement achieved since its establishment, we think that BPCE's risk management can be strengthened further. We believe that the development of an integrated group-wide risk management architecture will remain a key challenge for some time.

We expect stronger integration and supervision of the group 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; and, (iii) further oversight over Natixis from BPCE.

We highlight the following points on the sub-factors of the risk management element of our scorecard:

- The C score for "controls and risk management" takes into account a past trading incident and some weaknesses in the quality and frequency of data in relation to certain risk exposures, which were identified by the financial regulator in the past. The "risk-management" factor also incorporates shortfalls linked to IT constraints and our assessment of the risk Natixis' oversight. We understand that the risk management function has been adequately staffed and appears to be independent;

- The "financial reporting transparency" factor obtains a score of C as a result of the adequate frequency, timeliness and quality of published financial information. Whilst BPCE's standalone disclosure remains limited, financial disclosure at group level is adequate and has the same frequency (quarterly) of that 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. BPCE is exposed, via Natixis' legacy portfolio, to the US sub-prime mortgage-loan market and credit derivatives product companies (CDPCs). In August 2009, BPCE announced that it would guarantee in large part this portfolio in order to support Natixis standalone capital position. At end-September 2011, the legacy portfolio amounted to a notional of EUR26.4 billion (vs. EUR40.6 billion in Q4-2009), excluding US agencies, and a net book value of EUR22 billion (vs. EUR34.9 billion in year-end 2009). We acknowledge the substantial de-risking has been achieved by the group on this legacy portfolio, with RWAs reducing to EUR12.5 billion at end-September 2011 from approximately EUR30 billion at end-June 2009. Part of this reduction was attributable to the disposal of a portfolio of complex credit derivatives;

- Liquidity management, which is carried out at group level, is satisfactory. The group has implemented a new centralized ALM function responsible for managing the liquidity and funding risks centrally and setting common policies and procedures across the group. According to the French banking law, BPCE, as the group central institution, 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 of the group and the consolidation of wholesale-funded Natixis. The covered bond issuer CFF is also consolidated within BPCE. The group funding base is well-diversified, reflecting the deposit base of the retail network.

- Market risk, as expressed by VaR, is estimated to be relatively low compared to the group's core capital, although such measure do not always capture tail risk in trading activity, as evidenced by the size of the trading losses reported in 2008. Although we believe that Natixis has exited its riskiest positions, or placed them in a run-off mode, BPCE is still exposed to market volatility. Market risk stemming from the networks of regional banks is mainly interest-rate risk, which is managed centrally.

Regulatory Environment

Please refer to Moody's Banking System Outlook for France last published in December 2011 for more information on the French regulatory environment.

Operating Environment

This factor is common to all French banks - please refer to Moody's Banking System Outlook for France, published in December 2011, for a detailed discussion on the French operating environment. Moody's currently assigns a score of B+ for the overall operating environment. However, we consider that the operating environment has worsened for many European banks and during the review we will reassess the relevant implications for them. Please refer to report "Euro area debt crisis weakens bank credit profiles", published on 19 January 2012, for more details.

Financials used in our scorecard are those of groupe BPCE S.A., which consolidates BPCE (central institution) 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 FY2010 and 2009 financials only. All ratios are adjusted using Moody's standard adjustments.

Profitability & Efficiency

BPCE's profitability has strongly recovered since 2010, after two years of poor results, mainly impacted by the losses from Natixis' discontinued activities. That said, BPCE's pre-provision income as a percentage of average RWAs remained low at 1.2% in 2010, while net income as a percentage of average risk-weighted assets returned to positive territory at around 1%. Moody's expects profitability to weaken in coming quarters, because: (i) the cost synergies from the merger are likely to materialise later rather than sooner; (ii) Natixis' segregated portfolio may give rise to further potential impairments; (iii) increased funding costs as a result of the European sovereign debt crisis; and (iv) poor economic conditions will lead to lower revenues and increased impairment charges. During the review we will consider the impact of these factors.

Apart from Natixis, BPCE consolidates various other entities, which themselves contribute to group results. Through Natixis' Cooperative Investment Certificates (CICs), BPCE benefits from the 20% contribution of both the BP and CE regional networks. This 20% contribution is relatively stable, as it originates from the core activities of the group, encompassing the commercial banking and insurance businesses of the regional banks. The regional networks are therefore the main drivers of the group's profitability. However, we expect profitability to be under pressure in the current weak economic environment. In the first three quarters of 2011, the combined net banking income of the two networks was EUR9.8 billion, up 1.8% compared to the same period a year earlier.

As discussed above, the group profitability in Q3-2011 was negatively impacted by provisioning charges on the Greek sovereign exposures.

BPCE's efficiency is weak, with a cost-to-income ratio of 74% at year-end 2010, albeit improved from over 100% in 2008 and 2009. This poor historic performance reflected the revenue shortfalls recorded since 2008, especially the write-downs booked by Natixis. In response, the group has contained operating expenses by way of staff cuts and salary discipline. BPCE's efficiency strongly recovered in 2010, mainly as a result of improved profitability. During the review we will assess the impact on efficiency from the current weakening operating environment.

Liquidity

BPCE's liquidity position deteriorated in 2011 and is expected to continue to weaken given the challenging funding market conditions. Our review will consider the extent to which BPCE's liquidity and funding, which have also led to the announcement of a deleveraging plan, may be a credit weakness.

BPCE's funding originates largely from wholesale markets, reflecting its role as a funding vehicle for the group and the weight of Natixis in its accounting perimeter. BPCE does not have its own retail-deposit base and as such, it mainly depends on the interbank and capital markets for its funding.

Since July 2011 and in common with many other banking groups, BPCE has encountered materially more difficult refinancing conditions, due principally to investor concerns surrounding the European sovereign crisis and the impact on their appetite to invest in banking groups such as BPCE, given its direct and indirect exposure to distressed sovereigns and countries. This was particularly the case for US dollar funding, since money market funds significantly reduced their exposure to many European banking groups including BPCE. We believe that liquid assets only cover a portion of short-term wholesale borrowing, even net of interbank assets, and as such, BPCE is vulnerable to a continued lack of investor appetite for bank debt. Given the high and sustained disruption to funding markets, it is unlikely that term debt markets will return to any degree of normality in the near future.

That said, Groupe BPCE benefits from a large deposit base and particularly thanks to its historical market share in regulated saving accounts (the Livret A) via the CE network. Although the distribution of Livret A passbook accounts has been opened to all domestic banks since January 2009, we note that the client retention rate of the CE regional banks remain quite resilient. Natural outflows from the CE regional banks have been compensated by inflows in the BP network. As at end-June 2011, outstanding deposits under Livret A accounts increased to EUR81.6 billion, from EUR78.8 billion at year-end 2009.

In common with other large French banks, market funding remains a key component of the group liquidity needs to support its market activities and its loan book, which was 125% of its deposit base at end-June 2011, compared to 111% in 2008. The group 2011 long-term funding programme was of EUR30 billion and 105% of this was achieved at the end-October 2011, with an average maturity of 5.2 years. However, only 47% of the new funding raised was in unsecured form, due to worsening market conditions in the second half of the year. The remaining part was mainly done through covered bonds, which are issued through its specialized issuing vehicles, in particular BPCE SFH and CFF, which is one of the largest European issuers of covered bonds.

The group had EUR97 billion of central bank eligible assets at end-September 2011 and stated that an additional EUR19 billion of additional liquidity became available at the end of October, as a result of a securitization transaction. We view the size of the group liquidity pool as adequate.

Capital Adequacy

With a Tier 1 ratio of 10% at end-December 2010, we view BPCE's capitalization as adequate and commensurate with the risks supported by BPCE as the group central institution, which mainly consolidates Natixis and guarantees its legacy asset portfolio. BPCE fully reimbursed the state aid received (EUR7.1 billion via issuance of preference shares and deeply subordinated notes), with the last repayment having taken place in Q1-2011. The review will consider the impact of the deteriorating operating environment on the bank's capitalization.

We positively note the reduced overall risk profile of the group, particularly at Natixis level in recent years. Natixis operations, including its legacy portfolio, accounted for 28% of the group's RWAs at end-September 2011 (EUR113 billion excluding the impact of intra-group holdings of CICs in the retail networks), albeit some of the risks stemming from Natixis operations was transferred to the group.

We view Groupe BPCE's capitalization as satisfactory given the bank's risk profile, with a Tier 1 ratio of 10.2% and Tier 1 capital of EUR41.5 billion as of end-September 2011 (vs. 9.1% and EUR37.6 billion at year-end 2009). Under our stress-test scenario, the group is able to absorb further losses stemming from Natixis' loan portfolio and legacy assets. However, we expect further pressure on the group's profitability and ultimately on capital adequacy, given weak economic environment in Europe.

We believe that Groupe BPCE will be materially impacted by the changes in capital requirements announced by the Basel Committee (the so-called Basel 3 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, which would gradually be reduced over time. BPCE is therefore 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.

The Basel Committee on Banking Supervision has recently indicated that financial conglomerates would not be allowed to consolidate their insurance subsidiaries to increase their capital ratios. Although unclear at this stage, the adoption of such provision would result in greater challenges for groups with large insurance subsidiaries such as Groupe BPCE, to meet the Basel 3 capital requirements (Groupe BPCE's insurance operations are sizeable but smaller than some of its peers). On the other hand, we note that the group is currently using the standardized approach under Basel 2 in relation to some of its loan portfolio, which is more conservative than some of its peers. We understand that BPCE has recently obtained regulatory approval to use the internal rating methodology on some of these asset portfolios, which will ultimately improve its regulatory capital ratios. During Q1-2011, BPCE announced the disposal of its majority stakes in Foncia (98%) and Eurosic (52%), two French residential property managers. These actions had a positive impact of 30 basis points on Groupe BPCE's core Tier 1 in 2011.

Groupe BPCE is one of the four large French banking groups required to meet an increased minimum common equity Tier 1 capital ratio of 9% by mid-2012, as part of the action plan to reduce contagion risk stemming from Greece announced by the European authorities on 27 October 2011. On 8 December 2011, the EBA published the results of a further stress test, which also took into account the bank's sovereign exposures at the end of September 2011 and announced that BPCE was required to increase its capital resources by EUR3.7 billion by June-2012, up EUR0.3 billion from the initial estimate. We note that this difference, which is due to changes in RWAs between September and June (on which the initial estimate was based), has already been compensated by a gain of EUR0.3 billion on a super subordinated debt buy-back transaction completed on 28 October 2011.

Asset Quality

Asset quality recovered significantly in 2010. As of year-end 2010, NPLs as a percentage of gross loans decreased to 3.4% from 5.5% a year earlier. For the overall group, asset quality remains good compared to peers, as illustrated by Groupe BPCE's annualized cost of risk of 23bps at Q3-2011, which reflects the low risk profile of its domestic retail activities. We expect asset quality to deteriorate in the quarters to come due to the uncertain economic conditions in the regions where BPCE operates and this will be considered during our review.

Global Local Currency Deposit Rating (Joint Default Analysis)

Moody's assigns GLC deposit ratings of Aa3 under review for downgrade / P-1 to BPCE. The long-term rating benefits from a five-notch uplift from BPCE's BCA of Baa2.

Co-operative support accounts for one notch of this uplift, reflecting our view of the very strong group solidarity mechanism and resulting in an Adjusted BCA of Baa1.

In addition, given Groupe BPCE's position as the second largest retail and commercial bank in France, Moody's continues to assess the probability of systemic support for the group, if needed, as very high. Currently, systemic support accounts for a further four-notch uplift, leading to the Aa3 long-term deposit and debt ratings under review for downgrade. Although we view France as a high-support country, we note that BPCE benefits from a higher uplift than its French peers. This partly reflects the role that French authorities played in the establishment of Groupe BPCE in 2009.

Notching Considerations

The ratings on the dated subordinated obligations of BPCE are currently positioned one notch below the senior unsecured ratings. However, they are currently under review for downgrade as they are included in our review of subordinated debt of European banks announced on 29 November 2011. This may lead us to withdraw entirely the systemic support from these securities and notch them from the bank's BCA, currently Baa1. For more details, please see our note "Moody's reviews European banks' subordinated, junior and Tier 3 debt for Downgrade", dated 29 November 2011.

The ratings for the Bank's hybrid obligations are notched off the adjusted BCA of Baa1. Junior subordinated obligations currently rated at one notch below the Adjusted BCA remain on review for downgrade in conjunction with the above review.

Foreign Currency Deposit Rating

BPCE's Aa3 on review for downgrade / P-1 foreign-currency deposit ratings 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 under review for downgrade / P-1 foreign-currency debt ratings 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.

Moody's uses the Baseline Credit Assessment (BCA) to map BFSRs onto the 21-point Aaa-C rating scale and like the BFSR, it reflects a bank stand- alone default risk. Each point on the Aaa-C scale represents a specific probability of default and therefore allows Moody's to use the BCA as an input to Moody's Joint Default Analysis (JDA), described below. The baseline credit assessment reflects what the local currency deposit rating of the bank with the given BFSR would be without any assumed external support from a government or third party

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 any external elements of support into the bank's Baseline Credit Assessment. In assigning the local currency deposit rating to a bank, the JDA methodology also factors in the rating of the various potential support providers (parent company, cooperative group, regional or national governments), as well as the degree of dependence that may exist between each one of them and the bank. Moody's assessment of the probability of systemic support (by a national government) is derived from the analysis of the capacity of a government and its central bank to provide support on a system-wide basis. The systemic support indicator is determined for a particular country and serves as an input for all bank ratings in that country. The support indicator can be set at, above or, in rare cases, below the government's local currency bond rating for that country.

National Scale Rating

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. A 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 high local currency ratings for certain banks, which could also produce high foreign currency ratings. Nevertheless, it should be noted 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 ratings 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.

About Moody's bank financial strength scorecard

Moody's bank financial strength model (see scorecard below) is a strategic input in the assessment of the financial strength of a bank, used as a key tool by Moody's analysts to ensure consistency of approach across banks and regions. The model output and the individual scores are discussed in rating committees and may be adjusted up or down to reflect conditions specific to each rated entity.

Rating Factors

BPCE

Rating Factors [1]	**A**	**B**	**C**	**D**	**E**	**Total Score**	**Trend**
Qualitative Factors (50%)						**C+**	
Factor: Franchise Value						**C+**	**Weakening**
Market Share and Sustainability			**x**				
Geographical Diversification		**x**					
Earnings Stability			**x**				
Earnings Diversification [2]							
Factor: Risk Positioning						**D+**	**Weakening**
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					**x**		
- Borrower Concentration					x		
- Industry Concentration					x		
Liquidity Management		**x**					
Market Risk Appetite				**x**			
Factor: Operating Environment						**B+**	**Weakening**
Economic Stability	**x**						
Integrity and Corruption		**x**					
Legal System		**x**					
Financial Factors (50%)						**D**	
Factor: Profitability						**E**	**Weakening**
PPI / Average RWA - Basel II					0.38%		
Net Income / Average RWA - Basel II					0.04%		
Factor: Liquidity						**C+**	**Weakening**
(Mkt funds-Liquid Assets) / Total Assets				11.36%			
Liquidity Management		x					
Factor: Capital Adequacy						**B**	**Weakening**
Tier 1 Ratio - Basel II		9.80%					
Tangible Common Equity / RWA - Basel II		6.56%					
Factor: Efficiency						**E**	**Weakening**
Cost / Income Ratio					109.57%		
Factor: Asset Quality						**C**	**Weakening**
Problem Loans / Gross Loans			4.15%				
Problem Loans / (Equity + LLR)			23.51%				
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