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## BPCE

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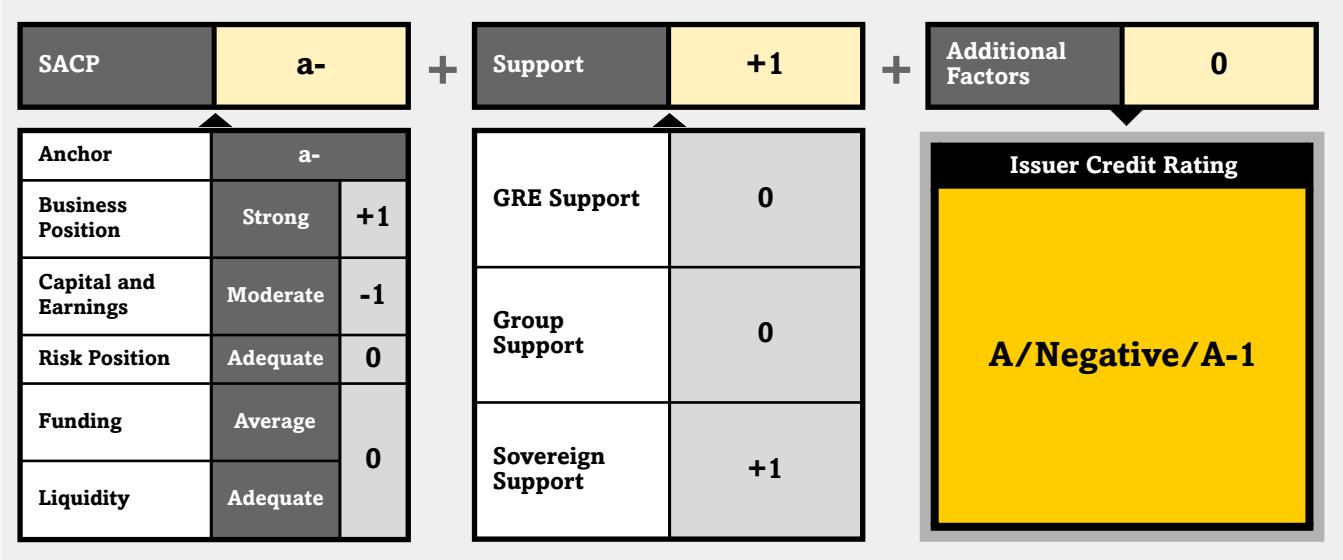
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# BPCE



## Major Rating Factors

<b>Strengths:</b>	<b>Weaknesses:</b>
<ul style="list-style-type: none"> <li>Second-largest retail bank in France.</li> <li>Well-anchored and solid franchise in retail banking, its main business.</li> <li>Focused strategy oriented toward areas of expertise.</li> </ul>	<ul style="list-style-type: none"> <li>Near-term earnings prospects below underlying capabilities.</li> <li>Only moderate capitalization compared with peers'.</li> <li>Large legacy portfolio.</li> </ul>

## Outlook: Negative

Standard & Poor's outlook on France-based BPCE is negative. It factors in the possibility that the intensification of the difficulties in the operating environment for French banks, and any potential lowering of the sovereign ratings by one notch could occur before the bank has delivered a sufficient and sustainable increase in its capital position or improved its risk position to cushion any negative impact on its creditworthiness. If they materialized, these concerns would lead to a downgrade of BPCE's long-term and short-term ratings by one notch.

We note that, under our criteria, if all other factors remained the same, we would not automatically downgrade BPCE if we were to lower the ratings on France. We would, however, reassess our opinion of the French banking system to include the underlying reasons for the downgrade and their potential impact on the bank's stand-alone credit profile (SACP).

We might revise the outlook on BPCE's long-term rating to stable if, all other factors being equal, we believed that the group's transition toward a reduction in risks and increasing capitalization could counterbalance negative pressures on the bank's issuer credit rating. This positive trend could potentially counterbalance concerns over France's banking sector industry risks, and the potential lowering of the ratings on France. This could happen if we believed there would be no serious deterioration in the French and eurozone economic and operating environments in the foreseeable future.

## 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. We base our 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, which we assess as "supportive" toward its banking system. We assess Groupe BPCE's SACP at 'a-'.

### Anchor: 'a-' for banks operating only in France

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. Our 'a-' anchor for a commercial bank operating only in France (AA+/Negative/A-1+) is based on an economic risk score of '3' 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 '3', reflecting Groupe BPCE's dominant share of assets in its domestic market. Trends in domestic banking industry risks are negative in our view, as detailed in "Various Rating Actions Taken On French Banks Due To Rising Economic Risks," published Oct. 25, 2012. A revision of France's industry risk score to '3' from '2' would push BPCE's anchor down to 'bbb+' from 'a-'.

Our '3' economic risk score for France reflects our view that its economy is stable and wealthy, balancing low private-sector credit risk but facing feeble growth prospects. We see some increased risk to "economic imbalances," a subfactor of France's BICRA, owing to the moderate correction in housing prices. We expect this correction to have limited impact on banks and on the economy. Our '2' industry risk score reflects our view of France's strong regulatory framework, and the healthy competition between large players with generally restrained risk appetites. Stable domestic

customer deposits stemming from the high French household savings rate and deep domestic capital markets underpin systemwide funding. At the same time, most French banks rely on wholesale markets to fund their relatively large balance sheets. We would revise our view of industry risk if competitive dynamics deteriorate or we consider that weakening market conditions are jeopardizing French banks' access to wholesale funding resources.

**Table 1**

BPCE Key Figures					
-- Year ended Dec. 31 --					
(Mil. €)	2012*	2011	2010	2009	2008
Adjusted assets	1,169,011	1,132,505	1,041,348	1,021,165	1,134,244
Customer loans (gross)	523,738	516,658	494,568	469,978	459,471
Adjusted common equity	39,640	36,745	33,352	26,564	26,922
Operating revenues	11,370	23,267	23,619	19,989	15,435
Noninterest expenses	7,852	15,881	16,057	16,207	16,091
Core earnings	1,390	2,732	3,747	54	(2,689)

\*As of June 30. Source: Standard & Poor's.

### **Business position: Prominent position in retail banking in France**

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. 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 Groupe BPCE's diversification by business as average and by geography as limited. We view the group's earnings as quite predictable.

We consider Groupe BPCE's management team to be prudent and risk-averse. It implements the group's cohesive strategy that is built around its core franchises. Under our base-case scenario, we anticipate that BPCE's strategic direction will focus on organic growth in the coming quarters. We expect retail banking to remain the cornerstone of Groupe BPCE's business position. Groupe Banque Populaire and Groupe Caisse d'Epargne officially merged on July 31, 2009, to create Groupe BPCE. This laid the groundwork for cost and revenue synergies, which are well on track in our view.

BPCE's management has refocused some of its subsidiaries in business areas where they are well-anchored. It has also identified subsidiaries that do not entirely fit in its two main business lines (like Coface and Nexity, managed by the group as equity interests). The group has already demonstrated its ability to seize opportunities to dispose of noncore assets and parts of Natixis' workout portfolio. In our view, this lends some credibility to the group's announcement that it foresees more asset disposals.

**Retail Banking and Insurance.** Groupe BPCE enjoys well-anchored positions and a prominent franchise in domestic retail banking. It ranks among the top two banks in the individual, small and midsize enterprise (SME), self-employed, and local authority markets. Groupe BPCE is also the second-largest life bancassuranceur in France. Its market share in credits and deposits stood at about 21% and 22%, respectively, as of June 30, 2012. As a cooperative group, BPCE's retail banking in France is carried out by regional banks. 19 are known as Banques Populaires (or BP), and 17 are known as the Caisses d'Epargne et de Prévoyance (Caisses d'Epargne or CE). CE's historical roots lie in serving individuals, while for BP it is local entrepreneurs and SMEs. Although looking for synergies, each network will preserve

distinct strategies and marketing approaches. Other networks (including Cr dit Foncier de France and Banque Palatine) also enhance the group's domestic footprint. BPCE plans to maintain its multibranding strategy. We are of the view that BPCE international retail presence is limited. Outside France, BPCE primarily operates in the French overseas territories and North Africa. The group exited from most Central and Eastern European countries in 2011. Groupe BPCE's business position is characterized by a predominance of domestic retail banking activities.

**Wholesale banking, Specialized Financial Services, and Investment Solutions.** Natixis represents this business line. We consider Natixis as a second-tier wholesale banking (WB) player but it contributes to the diversification of Groupe BPCE's business position. Natixis benefits from a solid domestic franchise in lending to midsize and large corporations, structured and commodity financing, payment and transfer services, and employee benefits. Its Specialized Financing Services sub-business line is primarily directed toward serving BPCE's retail banking activities. BPCE owned 72.4% of Natixis on Dec. 31, 2011, with the remaining shares listed on the Paris Stock Exchange. We believe that Natixis should not deviate from its refocused business position, while reinforcing its role in supporting the franchise of the group's retail banks. Its revenues are also to be more reliant on client activities.

**Table 2**

BPCE Business Position					
	--Year ended Dec. 31--				
(%)	2012*	2011	2010	2009	2008
Loan market share in country of domicile	21.0	20.0	20.0	20.0	N.A.
Deposit market share in country of domicile	22.0	22.0	22.0	22.0	N.A.
Total revenues from business line (currency in millions)	11,379	23,473	23,619	22,095	16,663
Commercial banking/total revenues from business line	6.4	6.8	7.6	7.4	N.A.
Retail banking/total revenues from business line	70.5	69.3	68.0	67.4	N.A.
Trading and sales income/total revenues from business line	7.0	5.1	5.9	8.2	N.A.
Asset management/total revenues from business line	8.8	8.0	7.6	7.1	N.A.
Other revenues/total revenues from business line	7.3	10.7	10.9	10.0	N.A.
Investment banking/total revenues from business line	7.0	5.1	5.9	8.2	N.A.
Return on equity	5.4	6.0	8.9	0.9	N.A.

\*As of June 30. Source: Standard & Poor's. N.A.--Not available.

### Capital and earnings: Capital policy calls for a further increase in capitalization

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 in a range of 6% to 6.5% in the next 18 to 24 months, from a pro forma 5.3% as of Dec. 31, 2011 (pro forma for our revision of France's economic risk score on Oct. 25, 2012). These projections do not take into account potential sales of noncore assets, which could translate into new sources of capital. The adverse effects of weaker economic growth in France have been taken into account in our base-case scenario.

In line with industry trends, the group's capital policy calls for further increasing of its capital ratios and we believe, under our base-case scenario, that the group is on track to achieve its target during the Basel III transition period. The group targets a common equity tier 1 ratio of above 9% in 2013 (fully loaded, except for deferred tax assets). We understand that Groupe BPCE will continue to manage its balance sheet tightly as it prepares for Basel III. We also see limited dividend payout ratios, 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 retained earnings in 2012 and 2013 will stand below its underlying capabilities. We forecast moderate downward pressure on the group's net operating income after loan loss provisions in 2012. We base our opinion on the challenging funding landscape, difficult capital market conditions, and weakening economic growth prospects the group faces. These have been leading to higher funding costs, lower business volumes and new loan loss provisions trending upward. Based on our calculation, the group's three-year average earnings buffer stood at a moderate 0.5% of risk-weighted assets before diversification as of year-end 2011.

Retail banking accounts for Groupe BPCE's lion share of net income. We take the view that 2012 and 2013 will be challenging years for retail banking in France and for BPCE. We expect operating profits in other businesses to hold up quite well. Under our base case, we anticipate that retail banking revenues will moderately decline in 2012 compared with 2011. To mitigate these pressures, the group has prioritized increasing the number of products sold to customers, particularly in the CE networks, and delivering on post-merger synergies. We do not rule out that additional cost control measures could be implemented by the group to continue to improve its domestic networks' operating efficiency. These networks' cost of credit risk should remain below domestic peers'.

**Table 3****BPCE Changes In Reported And Pro Forma Risk-Adjusted Capital Ratio**

(Mil. €)	Pro forma as of Dec. 31, 2011¶	Reported Dec. 31, 2011	Pro forma as of Dec. 31, 2010*	Reported Dec. 31, 2010‡	Reported Dec. 31, 2009
RAC ratio before diversification (%)	5.3	5.7	5.5	6.5	6.0
Adjusted common equity	36,745	36,745	33,352	33,352	26,564
Admissible hybrids	2,146	2,146	4,325	8,368	8,766
Total adjusted capital	38,891	38,891	37,677	41,720	35,330
Standard & Poor's total RWA before diversification	730,370	681,415	683,439	644,496	593,005

\*Pro forma, with criteria and parameters, such as BICRA Economic risk scores, in force as of Feb. 17, 2012. Hybrids with step-up excluded from TAC. ‡With criteria and parameters, such as BICRA Economic risk scores in force at the reporting date. ¶With BICRA parameters as of Oct. 26, 2012. RAC--Risk-adjusted capital. RWA--Risk-weighted assets. Sources: Standard & Poor's.

**Table 4****BPCE Risk-Adjusted Capital Framework Data**

(Mil. €)	Exposure*	Basel II RWA	Average Basel II RW (%)	Standard & Poor's RWA	Average Standard & Poor's RW (%)
<b>Credit risk</b>					
Government and central banks	163,280	1,265	0.8	7,261	4.4
Institutions	149,807	31,189	20.8	30,179	20.1
Corporate	250,226	166,008	66.3	198,682	79.4
Retail	315,052	104,464	33.2	177,574	56.4
Of which mortgage	77,791	23,482	30.2	18,706	24.0
Securitization §	38,561	14,050	36.4	58,095	150.7
Other assets	0	13,600	0.0	0	0.0
Total credit risk	916,926	330,576	36.1	471,792	51.5
<b>Market risk</b>					
Equity in the banking book†	13,599	27,606	229.1	83,765	635.0

Table 4

BPCE Risk-Adjusted Capital Framework Data (cont.)					
Trading book market risk	--	16,888	--	29,750	--
Total market risk	--	44,494	--	113,515	--
<b>Insurance risk</b>					
Total insurance risk	--	--	--	51,888	--
<b>Operational risk</b>					
Total operational risk	--	36,525	--	44,221	--
<b>(Mil. €)</b>	<b>Basel II RWA</b>		<b>Standard &amp; Poor's RWA</b>		<b>Average Standard &amp; Poor's RW (%)</b>
<b>Diversification adjustments</b>					
RWA before diversification	--	411,582	--	681,415	100.0
Total adjustments to RWA	--	--	--	(135,950)	(19.5)
RWA after diversification	--	411,582	--	545,465	80.5
<b>(Mil. €)</b>	<b>Tier 1 capital</b>	<b>Tier 1 ratio (%)</b>	<b>Total adjusted capital</b>	<b>Standard &amp; Poor's RAC ratio (%)</b>	
<b>Capital ratio</b>					
Capital ratio before adjustments		41,329	10.0	38,891	5.7
Capital ratio after adjustments†		41,329	10.0	38,891	7.1

\*Exposure at default. §Securitisation Exposure includes the securitisation tranches deducted from capital in the regulatory framework. †Exposure and Standard & Poor's risk-weighted assets for equity in the banking book include minority equity holdings in financial institutions. ‡Adjustments to Tier 1 ratio are additional regulatory requirements (e.g. transitional floor or Pillar 2 add-ons). RWA--Risk-weighted assets. RW--Risk weight. RAC--Risk-adjusted capital. Sources: Company data as of Dec. 31, 2011, Standard & Poor's.

Table 5

BPCE's And Domestic Peers' Performance By Divisions	BPCE			BNP Paribas			Crédit Agricole*			Societe Generale		
	2012**	2011	2010	2012**	2011	2010	2012**	2011	2010	2012**	2011	2010
<b>(%)</b>												
<b>Growth in revenues</b>												
Total revenues§	(2.8)	(6.4)	8.3	(4.0)	(0.5)	8.3	(2.9)	(5.9)	7.9	(8.8)	0.5	6.4
Total recurring revenues	(2.8)	(6.4)	7.9	(4.0)	1.0	(0.7)	(2.9)	(5.9)	6.5	(8.3)	(0.6)	3.3
French retail banking	(0.3)	4.8	4.4	(2.6)	1.0	8.1	(0.4)	1.8	5.7	0.5	0.6	5.9
Specialized financing	0.0	(2.7)	9.3	2.8	19.9	14.1	(35.3)	2.7	17.1	(11.6)	(0.5)	7.2
Retail banking abroad	1.0	1.8	3.8	9.4	0.5	(2.0)	24.8	0.3	15.0	(7.1)	(6.8)	1.6
Corporate & investment banking	(5.7)	(16.9)	(21.2)	(1.2)	(8.8)	18.2	(4.6)	(19.8)	(12.7)	(19.0)	82.5	(56.7)
Asset gathering, insurance and securities services	(3.9)	(4.4)	(10.2)	8.7	4.7	16.9	(3.7)	2.8	12.2	(3.5)	5.3	23.3
Others	N.M.	N.M.	N.M.	N.M.	2.9	(38.9)	N.M.	(30.7)	103.9	N.M.	(33.8)	89.8
<b>Cost-to-income ratio</b>												
Total§	66.2	69.8	63.5	70.7	68.4	68.9	63.7	63.4	60.6	64.0	62.8	60.8

Table 5

BPCE's And Domestic Peers' Performance By Divisions (cont.)												
Total recurring	66.2	69.8	63.5	70.7	68.4	69.9	63.7	63.4	60.6	64.8	62.8	60.1
French retail banking	63.7	64.3	64.9	67.7	64.6	64.7	63.8	66.4	66.8	57.0	59.5	56.6
Specialized financing	52.3	53.6	52.0	65.6	69.3	73.5	49.0	48.8	47.7	45.3	44.4	44
Retail banking abroad	60.5	59.6	56.2	64.6	65.6	72.5	62.7	65.7	65.2	70.1	68.6	65.8
Corporate & investment banking	62.7	72.6	59.7	58.3	60.7	54.7	61.5	63.0	53.6	66.6	72.4	60.6
Asset gathering, insurance and securities services	88.3	90.7	88.2	75.0	72.1	71.6	69.2	72.7	70.5	46.3	47.8	50
Others	N.M.	N.M.	N.M.	N.M.	89.8	N.M.	N.M.	62.9	69.4	N.M.	N.M.	N.M.
<b>NOI after cost of risk/revenues ratio</b>												
Total§	19.7	12.4	20.5	20.0	19.6	24.0	27.5	20.1	28.5	15.9	17.8	24.1
Total recurring	19.7	16.1	20.5	19.9	22.2	24.2	27.5	28.5	28.5	12.9	25.0	26.2
French retail banking	25.9	26.6	24.0	22.9	27.7	27.8	31.6	28.9	26.0	35.9	32.0	33.6
Specialized financing	28.0	22.3	14.8	28.3	25.4	21.0	22.3	24.7	18.9	-2.1	14.7	23.1
Retail banking abroad	12.2	14.8	16.7	24.2	24.6	14.4	25.0	19.8	16.8	(35.7)	(28.7)	(10.6)
Corporate & investment banking	30.7	25.2	39.4	33.3	35.5	38.6	34.8	36.3	43.6	25.8	21.1	36.3
Asset gathering, insurance and securities services	11.1	8.7	11.5	24.8	27.1	27.0	30.6	26.3	29.9	52.4	31.7	49.5
Others	N.M.	N.M.	N.M.	(24.0)	(17.1)	(2.2)	N.M.	60.7	31.8	N.M.	N.M.	N.M.

\*Data for Crédit Agricole are those of the Crédit Agricole group, with Standard & Poor's estimates by business line, based on data reported by Crédit Agricole S.A., the central body of the Crédit Agricole group. \*\*Date for the first nine months of 2012. §Excluding changes in fair value in own debt and changes in the credit derivative portfolio that we consider as non-economic items excluded from our core earnings definition. NOI--Net operating income. N.M.--Not meaningful. Source: Standard & Poor's.

Table 6

BPCE Capital And Earnings	--Year ended Dec. 31--				
	2012*	2011	2010	2009	2008
(%)					
Tier 1 capital ratio	11.5	10.6	9.7	9.1	N.A.
Standard & Poor's RAC ratio before diversification	N.A.	5.7	6.5	6.0	N.A.
Standard & Poor's RAC ratio after diversification	N.A.	7.1	8.1	7.3	N.A.
Adjusted common equity/total adjusted capital	94.9	94.5	79.9	75.2	77.9
Net interest income/operating revenues	54.0	53.8	51.6	63.8	58.2
Fee income/operating revenues	31.3	32.0	31.4	34.9	49.7
Market-sensitive income/operating revenues	4.8	3.8	8.2	0.2	(23.5)
Noninterest expenses/operating revenues	69.1	68.3	68.0	81.1	104.3
Provision operating income/average assets	0.6	0.7	0.7	0.4	N.A.
Core earnings/average managed assets	0.2	0.3	0.4	0.0	N.A.

\*As of June 30. Source: Standard & Poor's. N.A.--Not available. N.M.--Not meaningful. RAC--Risk adjusted capital.



### Risk position: Reasonable appetite for growth increasingly focused on areas of expertise

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. Positive trends are noticeable: 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. We expect prospective total cost of credit risk to trend below domestic peers. In our opinion, the risks related to core subsidiary Natixis S.A.'s legacy asset portfolio have declined, although its size, combined with that of highly strategic subsidiary Crédit Foncier de France's (CFF) portfolio of structured assets, remains material, leaving Groupe BPCE exposed to unforeseen event risk.

Groupe BPCE's assets are primarily exposed to the French economy, which is deteriorating. We consequently take the view that the group's loan loss provisions should moderately increase in the coming quarters. Groupe BPCE's exposure to Europe's most troubled economies is lower than that of large and complex universal banking peers. Its sovereign exposure to South European countries remains manageable in our view in light of its earnings capacity (see table 8). Overall, the group's gross nonperforming loans stood at a stable 4.1% of customer loans on June 30, 2012. Their coverage rate by specific reserves stood at 54% on the same date, which we view as satisfactory given the group's aggregate risk position.

Most of Groupe BPCE's market and operational risks lie with Natixis and the group's largest regional bank, BRED - Banque Populaire. The consistency of their measurement has improved across the group. Group BPCE's value-at-risk (VAR; 99%, one-day) is complemented by global stress testing. Structural exposure to interest rates primarily lies in BPCE's large retail banking books. Risk appetite is moderate and monitoring tools are adequate in our view.

**Table 7**

<b>BPCE Net Direct Sovereign Exposure*</b>				
<b>(Mil. €)</b>	<b>June 30, 2012</b>	<b>Dec. 31, 2011</b>	<b>Dec. 31, 2010</b>	<b>% change 2012-2010</b>
Exposure to domestic sovereign (France)	32,286	28,884	41,973	(23.1)
Exposure to GIIPS countries	4,266	4,370	5,770	(26.1)
Portugal	9	82	319	(97.2)
Ireland	172	157	312	(44.9)
Italy	3,865	3,533	3,497	10.5
Greece	5	631	1,262	(99.6)
Spain	215	(33)	380	(43.4)
Total EEA 30 sovereign exposure	42,585	33,555	51,369	(17.1)

\*Exposure in banking and trading book, net of potential impairment, and excluding derivatives and CDS exposures. EEA 30--European Economic Area 30 countries. GIIPS--Greece, Ireland, Italy, Portugal, and Spain. Source: Standard & Poor's; European Banking Authority (EBA) 2010 EU-wide stress test and 2011 EU Capital Exercise.

**Table 8**

<b>BPCE Cost Of Risk By Core Business Line</b>			
<b>(bps)</b>	<b>Commercial Banking and Insurance</b>	<b>WB, Investment Solutions, and SFS</b>	<b>Core business lines</b>
First-quarter 2010	32	52	35

**Table 8**

<b>BPCE Cost Of Risk By Core Business Line (cont.)</b>				
Second-quarter 2010	31		39	32
Third-quarter 2010	25		26	25
Fourth-quarter 2010	28		23	27
First-quarter 2011	23		10	21
Second-quarter 2011	27		22	26
Third-quarter 2011	27		33	28
Fourth-quarter 2011	25		27	25
First-quarter 2012	21		26	22
Second-quarter 2012	32		44	34
Third-quarter 2012	25		49	28

Cost of risk excluding Greek government bonds impairment and non recurring impairment in 3Q 2011. bps--Basis points. Source: BPCE.

**Table 9**

<b>BPCE Risk Position</b>					
	<b>--Year ended Dec. 31--</b>				
<b>(%)</b>	<b>2012*</b>	<b>2011</b>	<b>2010</b>	<b>2009</b>	<b>2008</b>
Growth in customer loans	2.7	4.5	5.2	2.3	N.A.
Total diversification adjustment/Standard & Poor's RWA before diversification	N.A.	(19.9)	(20.1)	(18.5)	N.A.
Total managed assets/adjusted common equity (x)	29.6	31.0	31.4	38.7	42.5
New loan loss provisions/average customer loans	0.4	0.6	0.3	0.9	N.A.
Net charge-offs/average customer loans	N.M.	N.M.	N.M.	N.M.	N.M.
Gross nonperforming assets/customer loans + other real estate owned	4.1	3.9	4.0	4.0	2.7
Loan loss reserves/gross nonperforming assets	53.9	55.2	56.2	57.6	72.9

\*As of June 30. Source: Standard & Poor's.N.A.--Not available. N.M.--Not meaningful. RWA--Risk weighted assets.

### **Funding and liquidity:Active borrower in the wholesale market to fund balance-sheet imbalances**

Groupe BPCE's funding is "average" and its liquidity position "adequate," in our opinion. The group relies on confidence-sensitive wholesale funding. It is therefore sensitive to a prolonged disruption in the funding markets. Groupe BPCE's 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 approximately 70% of its Livret A and other regulated savings plan deposits at French state institution, Caisse des Depots et Consignations (AA+/Negative/A-1+), making these centralized deposits unavailable for funding.

We believe the group's ability to repackage mortgage loans into covered bonds, raise funds throughout its large retail banking networks, and its loyal deposit base, should mitigate these vulnerabilities. The group also recently revised down its liquidity and funding needs. On Nov. 9, 2012, Groupe BPCE had fully completed its medium- and long-term funding plan with average maturity increasing to almost seven years. It had also started prefunding its needs for 2013. The rebalancing of the funding model toward long-term liabilities is currently underway. It might be impeded by general investor concerns over the eurozone and the proposal from the European Commission to make senior unsecured bonds available for bail-in in 2018. In our view, the Livret A reform adds pressure on BPCE to reach this objective, but at this stage we consider it to be manageable. Groupe BPCE's access to European Central Bank funding

facilities remains opportunistic, in our view. Liquidity reserves were strengthened in the past quarters, accounting for 128% of short-term wholesale funding needs on Sept. 30, 2012, according to the bank's own estimates.

**Table 10**

<b>BPCE Funding And Liquidity</b>					
	<b>--Year ended Dec. 31--</b>				
<b>(%)</b>	<b>2012*</b>	<b>2011</b>	<b>2010</b>	<b>2009</b>	<b>2008</b>
Core deposits/funding base	38.1	36.9	34.6	33.1	34.2
Customer loans (net)/customer deposits	170.7	176.4	179.8	184.9	170.8
Long-term funding ratio	63.6	67.2	62.9	60.1	57.0
Broad liquid assets/short-term wholesale funding (x)	N.A.	0.8	0.8	0.6	N.A.
Net broad liquid assets/short-term customer deposits	N.A.	(27.4)	(35.4)	(72.1)	N.A.
Narrow liquid assets/3-month wholesale funding (x)	N.A.	1.0	1.0	1.0	N.A.
Net short-term interbank funding/total wholesale funding	N.A.	7.7	3.5	10.0	N.A.
Short-term wholesale funding/total wholesale funding	N.A.	37.7	43.9	46.4	N.A.

\*As of June 30. Source: Standard & Poor's.N.A.--Not available. N.M.--Not meaningful.

### **External support:"High" systemic importance and "supportive" government**

Our long-term rating on Groupe BPCE is one notch higher than the SACP, reflecting its "high" systemic importance in France and our assessment of the French government as "supportive" of its banking system.

### **Additional rating factors:None**

There are no additional rating factors.

## **Related Criteria And Research**

- BPCE Outlook Revised To Negative On France's Rising Economic Risks; 'A/A-1' Ratings Affirmed, Oct. 26, 2012
- French Bank BPCE And Core Subsidiaries Lowered To 'A' After Sovereign Downgrade; Outlook Stable, Jan. 23, 2012
- 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
- Bank Capital Methodology And Assumptions, Dec. 6, 2010

Anchor Matrix										
Industry Risk	Economic Risk									
	1	2	3	4	5	6	7	8	9	10
1	a	a	a-	bbb+	bbb+	bbb	-	-	-	-
2	a	a-	a-	bbb+	bbb	bbb	bbb-	-	-	-
3	a-	a-	bbb+	bbb+	bbb	bbb-	bbb-	bb+	-	-
4	bbb+	bbb+	bbb+	bbb	bbb	bbb-	bb+	bb	bb	-
5	bbb+	bbb	bbb	bbb	bbb-	bbb-	bb+	bb	bb-	b+
6	bbb	bbb	bbb-	bbb-	bbb-	bb+	bb	bb	bb-	b+
7	-	bbb-	bbb-	bb+	bb+	bb	bb	bb-	b+	b+
8	-	-	bb+	bb	bb	bb	bb-	bb-	b+	b
9	-	-	-	bb	bb-	bb-	b+	b+	b+	b
10	-	-	-	-	b+	b+	b+	b	b	b-

### Ratings Detail (As Of November 19, 2012)

#### BPCE

Counterparty Credit Rating	A/Negative/A-1
Junior Subordinated	BBB-
Senior Unsecured	A
Subordinated	BBB+

#### Counterparty Credit Ratings History

25-Oct-2012	A/Negative/A-1
23-Jan-2012	A/Stable/A-1
07-Dec-2011	A+/Watch Neg/A-1
31-Jul-2009	A+/Stable/A-1

#### Sovereign Rating

France (Republic of) (Unsolicited Ratings)	AA+/Negative/A-1+
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#### Related Entities

##### Banque Tuniso-Koweitienne

Issuer Credit Rating	BB/Stable/--
Certificate Of Deposit	BB
Senior Unsecured	BB

##### BPCE SFH

Senior Secured	AAA/Stable
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##### BRED - Banque Populaire

Issuer Credit Rating	A/Negative/A-1
Certificate Of Deposit	A/A-1
Senior Unsecured	A
Subordinated	BBB+

##### Compagnie de Financement Foncier

Certificate Of Deposit	
Local Currency	A-1+

**Ratings Detail (As Of November 19, 2012) (cont.)**

Senior Secured	AAA
Senior Secured	AAA/Stable
Short-Term Secured Debt	A-1+
<b>Compagnie Europeenne de Garanties et Cautions</b>	
Financial Strength Rating	
<i>Local Currency</i>	A/Negative/--
Issuer Credit Rating	
<i>Local Currency</i>	A/Negative/--
<b>Credit Foncier de France</b>	
Issuer Credit Rating	A-/Stable/A-2
Certificate Of Deposit	A-/A-2
Senior Unsecured	A-
Short-Term Debt	A-2
<b>Locindus S.A.</b>	
Issuer Credit Rating	A-/Stable/A-2
Certificate Of Deposit	A-/A-2
Senior Unsecured	A-
<b>Natexis Banques Populaires Capital Trust III</b>	
Preferred Stock	BBB
<b>Natixis Australia Pty Ltd.</b>	
Issuer Credit Rating	A/Negative/A-1
<b>Natixis Financial Products LLC</b>	
Issuer Credit Rating	A/Negative/A-1
<b>Natixis New York Branch</b>	
Senior Unsecured	A
<b>Natixis S.A.</b>	
Issuer Credit Rating	A/Negative/A-1
Commercial Paper	A-1
Junior Subordinated	BBB-
Senior Unsecured	A
Short-Term Debt	A-1
Subordinated	BBB+
<b>Socram Banque</b>	
Issuer Credit Rating	A-/Negative/A-2
Certificate Of Deposit	A-/A-2
Senior Unsecured	A-

\*Unless otherwise noted, all ratings in this report are global scale ratings. Standard & Poor's credit ratings on the global scale are comparable across countries. Standard & Poor's credit ratings on a national scale are relative to obligors or obligations within that specific country.

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