MOODY'S
INVESTORS SERVICE

Rating Action: Moody's downgrades BPCE's long-term ratings to A2 from Aa3; outlook stable

Global Credit Research - 15 Jun 2012

Actions conclude the review announced on 15 February 2012

London, 15 June 2012 -- Moody's Investors Service has today downgraded the standalone bank financial strength rating (BFSR) of BPCE, the central institution and main issuing entity of Groupe BPCE (unrated), to D (mapping to a standalone credit assessment of ba2) from C-/baa2. Concurrently, this prompted the downgrade of BPCE's long-term debt and deposit ratings by two notches to A2 from Aa3. The long-term ratings now incorporate three notches of cooperative support (previously one notch), resulting in an adjusted standalone credit assessment of baa2 and a further three notches of systemic support (previously four notches), in line with Moody's systemic support assumptions incorporated into the ratings of other large, systemically important French banking groups.

In addition, Moody's has downgraded by either one or two notches to A2 the long-term debt and deposit ratings of four of BPCE's subsidiaries: Natixis, Crédit Foncier de France (CFF), Banque Palatine (BP) and Locindus. The standalone BFSRs of these entities were also lowered by either one or two notches, except that of Locindus, which remains on review due to bank-specific reasons.

This press release concludes the reviews of the French banking groups placed on review for downgrade on 15 February 2012, with the exception of BNP Paribas, Credit Agricole, Societe Generale and their subsidiaries, which will be concluded together with the reviews for other global firms with large capital markets operations.

Please click this http://www.moodys.com/viewresearchdoc.aspx?docid=PBC_143134 for the List of Affected Credit Ratings. This list is an integral part of this press release and identifies each affected issuer. For additional information on bank ratings, please refer to the webpage containing Moody's related announcements: http://www.moodys.com/bankratings2012.

The outlooks on all long-term debt ratings and the BFSR are stable, with the exception of CFF which has a negative outlook on the BFSR. The Prime-1 short-term ratings of BPCE and all of its subsidiaries were unaffected by today's rating action. Dated subordinated debt securities were downgraded following the removal of systemic support from such debt. Furthermore, Moody's has downgraded or confirmed the ratings of a number of hybrid debt instruments issued by these entities.

Moody's says that the drivers behind BPCE's weakening credit profile are:

(i) BPCE and the entire Groupe BPCE are structurally reliant on wholesale funding, particularly short-term funding sources, which Moody's considers as a key credit weakness because of the increased risk of possible disruptions amidst the adverse and uncertain current environment;

(ii) Reduced economic activity and higher funding costs are exerting downward pressure on BPCE's pre-provision income; and,

(iii) BPCE and the rest of the group are mainly exposed to the French economy. Moody's expects that weakening economic conditions in France could impact the group's overall asset quality, particularly in relation to its SME exposures.

These considerations resulted in a lowering of BPCE's standalone credit strength by three notches to ba2, which is partly compensated by three notches of cooperative support, reflecting the strength of Groupe BPCE as a whole. A further three-notch rating uplift from Moody's assumption of very high systemic support (if needed), results in long-term ratings of A2.

Today's rating actions conclude the review of these institutions' BFSRs (except that of Locindus which remains under review for downgrade), and their long-term debt and deposit ratings initiated on 15 February 2012 (see "Moody's reviews Ratings for European Banks" - http://www.moodys.com/research/Moodys-Reviews-Ratings-for-

European-Banks--PR_237914?WT.mc_id=BankRatings2012) and the review of subordinated debt ratings initiated on 29 November 2011 (see Moody's reviews European banks' subordinated, junior and Tier 3 debt for downgrade - http://www.moodys.com/research/Moodys-reviews-European-banks-subordinated-junior-and-Tier-3-debt--PR_231957).

RATINGS RATIONALE -- STANDALONE CREDIT ASSESSMENTS

Today's rating actions reflect Moody's view that BPCE and the entire group face considerable challenges in weakening operating and funding environments. As a result, BPCE's standalone BFSR was downgraded to D from C- and its adjusted standalone credit assessment -- which includes cooperative support and thus the overall strength of Groupe BPCE -- was lowered to baa2 from baa1. This reflects a combination of adverse factors that are likely to impact the group's performance going forward.

FIRST DRIVER -- RELIANCE ON WHOLESALE FUNDING

Based on audited 2011 financials, Groupe BPCE had a loan-to-deposit ratio of 143%, reflecting its high reliance on wholesale funding. The group has a significant amount of short- and long-term debt outstanding, with high maturity concentrations over the next 18 months. In addition, the liquidity buffer does not fully cover the short-term borrowings, including these maturities falling due. In case of market disruption, the group would have to adjust its loan production, which could be detrimental to its franchise. Despite this, Moody's notes that Groupe BPCE has maintained access to capital markets in recent quarters, characterised by restricted conditions, and that it has made progress towards refinancing its long-term debt due to mature this year. The rating agency considers that the high reliance on confidence sensitive wholesale funding is a key credit weakness, because this funding source is susceptible to investors' confidence that can change unexpectedly. For these reasons, Moody's believes that the group remains vulnerable to liquidity and refinancing risk in the current challenging market conditions, due to its funding structure and comparatively weak liquidity position.

SECOND DRIVER -- NEGATIVE PRESSURE ON PRE-PROVISION INCOME

Similar to other European banks, Groupe BPCE is experiencing downwards pressures on pre-provision income, because of reduced economic activity and higher funding costs. However, Moody's notes that the group's core activities, comprising commercial banking and insurance, have continued to deliver steady results and that the negative pressure on profits is partly off-set by post-merger efficiencies, supplemented by further cost-saving initiatives underway. However, results are still weak compared with those of its French peers. Lower earnings reduce the group's capital generation capacity, making it more challenging for the group to absorb unforeseen losses without potentially eroding capital.

THIRD DRIVER -- DETERIORATING ASSET QUALITY

The group is mainly exposed to the French economy, with some degree of diversification to the rest of Europe and beyond. Although France remains one of the stronger economies in the euro area, Moody's expects that weakening economic conditions will lead to mounting negative pressures on the group's overall asset quality. This, in turn, would reduce the overall capital generation capacity through higher provisioning costs. Moody's notes that the group is relatively exposed to the SME sector, which it believes is sensitive to the current weakening economic conditions, relative to other market segments. For this reason, Moody's expects that asset-quality deterioration will emerge in the coming quarters.

Groupe BPCE has experienced some asset-quality issues in recent quarters, due to the sizeable Greek bond holdings primarily held within its subsidiary CFF. However, according to the firm's audited accounts for 2011 and quarterly result for Q1 2012, these exposures have been written down to around 22% of their nominal value. Moody's says that the residual exposures to weak European countries such as Italy remain material, but manageable overall, totalling EUR3.9 billion and corresponding to around 9% of the group's Tier 1 capital.

MITIGATING FACTORS

Moody's notes that several mitigating factors have limited the magnitude of today's downgrades. Firstly, Groupe BPCE is reducing its wholesale funding requirements through deleveraging actions and it has maintained access to capital markets, albeit at higher prices than in the past. Secondly, the group has a strong franchise in France that continues to prove resilient, thereby providing a certain degree of earnings stability. Lastly, the group has continued to generate earnings in recent quarters, albeit lower than in the previous year, allowing the group to strengthen its capital position, improving its ability to absorb unexpected losses.

BPCE

As the central institution and main issuing entity of the group, BPCE mainly consolidates Natixis, CFF, Banque Palatine and Locindus and it does not fully benefit from the creditworthiness of the broader Groupe BPCE. The standalone credit assessment only captures a small portion of the credit strength of the large retail banking business through Natixis's 20% participation in the two networks of regional banks (Banques Populaires and Caisses d'Epargne). These networks, which form the basis of the cooperative group, in turn own 100% of BPCE. For this reason, BPCE is primarily wholesale-funded, making it very vulnerable to fluctuations in market sentiment. Moody's says that the downgrade of BPCE's standalone credit assessment reflects this factor, but also captures the broader weakening operating environment in France and other European countries in which BPCE operates through its subsidiaries, as well as the relatively high risk profile of some of its investment banking operations (booked within Natixis).

NATIXIS

Natixis's standalone credit assessment was lowered to D/ba2 from D+/baa3 to reflect the bank's vulnerability to the weakening operating environment. Moody's expects Natixis's asset-quality profile to deteriorate in the next few quarters, as it is exposed to some cyclical sectors, such as commercial real estate and energy, which are vulnerable to the current difficult operating environment, leading to higher provisioning charges. In addition, lower economic activity in the regions in which Natixis operates will exert additional downwards pressure on its earnings.

Moody's notes that Natixis's business mix covers a wide range of activities, some of which generate steady income streams; as such, its earnings are less volatile than more traditional corporate and investment banks. However, the bank faces challenges in relation to the transition to an 'originate-to-distribute' business model, with a greater focus on existing clients of Groupe BPCE and in relation to the implementation of the deleveraging plan, which carries execution risk.

CREDIT FONCIER DE FRANCE

The downgrade of CFF's BFSR to D-/ba3 from D/ba2 is due to pressure on the asset side, primarily reflecting Moody's assessment of increasing risk of rating migration in its RMBS portfolio -- totalling around EUR12 billion, or 8% of its total assets according to audited FYE 2011 financials -- which could affect the bank's modest capitalisation. CFF is a specialised real-estate lender that is almost entirely wholesale funded. However, it endeavours to match its funding with its asset profile and therefore loan origination volumes depend on the bank's ability to access the capital markets.

Moody's says that the outlook on the BFSR is negative to reflect the potential for erosion in CFF's franchise, reduced profitability and execution risk resulting from the implementation of its deleveraging plan. This could result in losses on the assets sold at a time when asset prices are depressed.

BANQUE PALATINE

The downgrade of Banque Palatine's BFSR to D+/baa3 with stable outlook from C-/baa2 reflects the bank's vulnerability to the weak operating environment, due to its focus on large SMEs and high single-borrower concentrations.

RATINGS RATIONALE -- DEBT & DEPOSIT RATINGS

The downgrade of BPCE and the aforementioned subsidiaries' long-term debt and deposit ratings reflects (i) the lowering of the banks' standalone credit assessments; (ii) the assessment of a weakening credit profile of Groupe BPCE, providing cooperative support if required, which results in an adjusted standalone credit assessment of baa2 (baa1 previously); and (iii) Moody's view that assumptions for potential systemic support should be brought into line with other large, systemically important French banks, at three notches of uplift, instead of the previous four notches.

RATIONALE FOR STABLE OUTLOOK

The stable outlooks on the long-term ratings express Moody's view that currently foreseen risks to creditors are now reflected in these ratings. Nevertheless, negative rating momentum could develop if conditions deteriorate beyond current expectations. Specifically, Moody's has factored into the ratings an increased risk of an exit of Greece from the euro area, but this is currently not Moody's central scenario. If a Greek exit became Moody's central scenario, further rating actions on European banks could well be needed.

RATINGS RATIONALE -- SUBORDINATED DEBT AND HYBRIDS RATINGS

The downgrades of BPCE's subordinated Medium-Term Note Program's rating to (P)Baa3 from (P)A1 and its junior subordinated rating to (P)Ba1 from (P)Baa2 reflect the removal of systemic support from these instruments. In Moody's view, systemic support in many European countries, including France, is no longer sufficiently predictable and reliable going forward to warrant incorporating systemic-support driven uplift into these debt ratings. For the same reason, Natixis's subordinated debt was downgraded to Baa3 from A1.

The ratings on BPCE's cumulative and non-cumulative preference stocks were downgraded to Ba2 (hyb) from Baa3 (hyb), corresponding to three notches below the adjusted standalone credit assessment of baa2, from two previously. In addition, the ratings on non-cumulative preference stocks issued by Natixis and its other specialised issuing vehicles was confirmed at Ba2 (hyb), three notches below Natixis's adjusted standalone credit assessment of baa2, from four notches previously. Moody's considers that the current rating differentials better reflect the risk carried by these securities, further to the full repayment of government financial support in 2011.

WHAT COULD CHANGE RATINGS UP/DOWN

Upgrades of the banks' ratings are unlikely in the near term, given the negative factors characterising the operating environment in which these entities operate. A limited amount of upwards rating pressure could develop if Groupe BPCE as a whole improves its credit profile and resilience to the prevailing operating conditions.

Higher standalone credit assessments might be achievable if BPCE and its subsidiaries demonstrate a significant improvement in their credit-rating drivers, particularly liquidity, asset quality, profitability and capital.

The long-term ratings of BPCE and its subsidiaries carry stable outlooks. However, ratings may decline further if (i) economic conditions were to worsen beyond current expectations, for example in France, leading to materially weaker asset-quality profiles, impaired profitability and weaker capitalisation levels; or (ii) restricted funding access were to prevent the group from refinancing its operations.

The methodologies used in these ratings were Bank Financial Strength Ratings: Global Methodology, published in February 2007, and Incorporation of Joint-Default Analysis into Moody's Bank Ratings: Global Methodology, published in March 2012. Please see the Credit Policy page on www.moodys.com for a copy of these methodologies.

REGULATORY DISCLOSURES

Please click on this link http://www.moodys.com/viewresearchdoc.aspx?docid=PBC_143134 for the List of Affected Credit Ratings. This list is an integral part of this Press Release and provides, for each of the credit ratings covered, Moody's disclosures on the following items:

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Please see ratings tab on the issuer/entity page on www.moodys.com for the last rating action and the rating history.

The date on which some ratings were first released goes back to a time before Moody's ratings were fully digitized and accurate data may not be available. Consequently, Moody's provides a date that it believes is the most reliable and accurate based on the information that is available to it. Please see the ratings disclosure page on our website www.moodys.com for further information.

Please see www.moodys.com for any updates on changes to the lead rating analyst and to the Moody's legal entity that has issued the rating.

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