MOODY'S
INVESTORS SERVICE

Credit Opinion: BPCE

Global Credit Research - 23 Nov 2012

Paris, France

Ratings

Category	Moody's Rating
Outlook	Stable
Bank Deposits	A2/P-1
Bank Financial Strength	D
Baseline Credit Assessment	(ba2)
Adjusted Baseline Credit Assessment	(baa2)
Senior Unsecured -Fgn Curr	(P)A2
Senior Unsecured -Dom Curr	A2
Pref. Stock -Dom Curr	Ba2 (hyb)
Pref. Stock Non-cumulative	Ba2 (hyb)
Commercial Paper	P-1
Other Short Term -Dom Curr	(P)P-1
Natixis US Medium-Term Note Program LLC	
Outlook	Stable
Bkd Sr Unsec MTN	(P)A2

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Key Indicators

Groupe BPCE (Consolidated Financials)[1]

	[2]**6-12**	[2]**12-11**	[2]**12-10**	[2]**12-09**	[2]**12-08**	**Avg.**
Total Assets (EUR million)	**1,174,927.0**	**1,138,395.0**	**1,048,442.0**	**1,028,802.0**	**1,143,679.0**	[3]**0.7**
Total Assets (USD million)	**1,491,043.0**	**1,477,801.7**	**1,406,530.6**	**1,476,064.2**	**1,589,767.9**	[3]**-1.6**
Tangible Common Equity (EUR million)	**42,887.5**	**39,840.5**	**37,755.1**	**29,718.1**	**23,813.2**	[3]**15.8**
Tangible Common Equity (USD million)	**54,426.4**	**51,718.8**	**50,650.1**	**42,637.7**	**33,101.4**	[3]**13.2**
Net Interest Margin (%)	**1.1**	**1.2**	**1.2**	**1.3**	**0.8**	[4]**1.1**
PPI / Avg RWA (%)	**1.7**	**1.9**	**1.8**	**0.8**	**--**	[5]**1.6**
Net Income / Avg RWA (%)	**0.8**	**0.8**	**1.1**	**-0.3**	**--**	[5]**0.6**
(Market Funds - Liquid Assets) / Total Assets (%)	**13.9**	**13.5**	**9.4**	**11.4**	**11.8**	[4]**12.0**
Core Deposits / Average Gross Loans (%)	**72.7**	**72.6**	**74.7**	**71.9**	**72.9**	[4]**73.0**
Tier 1 Ratio (%)	**11.5**	**10.0**	**10.1**	**9.1**	**--**	[5]**10.2**
Tangible Common Equity / RWA (%)	**11.1**	**9.6**	**9.3**	**7.2**	**--**	[5]**9.3**
Cost / Income Ratio (%)	**70.0**	**67.2**	**67.6**	**83.2**	**98.5**	[4]**77.3**
Problem Loans / Gross Loans (%)	**3.8**	**3.6**	**3.7**	**3.7**	**2.4**	[4]**3.5**
Problem Loans / (Equity + Loan Loss Reserves) (%)	**34.6**	**34.7**	**32.4**	**33.2**	**29.9**	[4]**32.9**

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 June 2012, we downgraded BPCE's standalone bank financial strength rating (BFSR) to D from C- and lowered the corresponding standalone credit assessment to ba2 from baa2. In addition, we downgraded the bank's long-term ratings to A2 from Aa3.

This concluded our review announced on 15 February 2012 on a large number of European banks, reflecting the challenges that we consider these institutions face, notably (i) a weakening economic environment; (ii) restricted access and costly market funding; and, (iii) pressure on earnings.

The outlook on both the BFSR and the long-term rating is stable. The bank's short-term rating of P-1 was unaffected by this rating action.

For more information on the rationale for the 15 June rating actions on BPCE and the other entities of the group, please see our press release "Moody's downgrades BPCE's long-term ratings to A2 from Aa3; outlook stable".

SUMMARY RATING RATIONALE

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

We assign to BPCE a standalone credit assessment of D/ba2 with stable outlook and an adjusted BCA of baa2 (incorporating cooperative support from Groupe BPCE). The adjusted BCA reflects the group's strong domestic franchise, its diversified range of activities and relatively stable flow of retail banking earnings. The rating also incorporates the impact from the weakening macroeconomic outlook in France and the rest of Europe, the group's vulnerable liquidity position, modest profitability, weak efficiency levels and the relatively high risk profile of some of its investment banking operations.

BPCE's standalone credit assessment of D/ba2 does not fully benefit from the creditworthiness of the broader Groupe BPCE, because BPCE's balance sheet only captures 20% of its regional banks' networks (Banques Populaires `BP' and Caisses d'Epargne `CE'). These networks form the basis of the cooperative group and, in turn, own 100% of BPCE. The standalone credit assessment of BPCE mainly reflects that, as the holding company for various subsidiaries of the group, it relies on earnings from tightly regulated financial institutions, which are in turn exposed to risk from a worsening operating environment in France and the rest of Europe. The creditor's potential structural subordination is offset by BPCE's role as the group's central institution, the existence of solidarity funds and cross guarantees between BPCE and the regional banks.

BPCE's global local-currency (GLC) debt and deposit ratings are A2/Prime-1 and incorporate (i) the probability of full support from the strong solidarity mechanisms prevailing within the Groupe BPCE domestic retail networks, leading to an adjusted BCA of baa2; and, (ii) a very high probability of systemic support due to BPCE's sizeable domestic retail market share of approximately 20%. The combined cooperative and systemic support result in six notches of uplift in the debt and deposit ratings to A2 from BPCE's ba2 standalone credit assessment.

Rating Drivers

- Groupe BPCE's leading domestic retail banking franchise and established domestic position in corporate, investment banking, asset management and other selected activities

- The bank's diversified earnings and business mix

- Structurally weak liquidity and funding position and diminished capacity to refinance in the current challenging market conditions

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

- Risk management and controls still undergoing improvement

- Deteriorating asset quality and profitability, due to faltering economic conditions

Rating Outlook

The outlook on the BFSR and long-term ratings of BPCE is stable, as we believe that the stresses characterising the current difficult business environment have been fully incorporated into the ratings.

What Could Change the Rating - Up

Upwards pressure on the BFSR could develop if the bank (i) attains higher profitability and efficiency levels; (ii) improves its liquidity and funding profile by reducing its reliance on wholesale funding; and, (iii) improves its asset quality despite the weakening operating environment. An upgrade on the BFSR could also lead to an upgrade of BPCE's debt and deposit ratings.

What Could Change the Rating - Down

The BFSR of BPCE could be downgraded if the difficult operating environment were to significantly weaken the bank's credit fundamentals further, particularly its liquidity, profitability and capitalisation. In addition, a downgrade of the standalone credit assessment could be driven by (i) a deterioration of BPCE's risk profile, for example due to a risk-management failure; (ii) a negative development within Natixis, for example on its legacy portfolio; or, (iii) failure to improve synergies among the group entities. A downgrade of BPCE's debt and deposit ratings could be triggered by a downgrade of its BFSR, a weakening of the credit profile of the consolidated Groupe BPCE, or a change in our assessment of the probability of cooperative and/or systemic support.

Recent Results

Unless noted otherwise, data in this report is sourced from company reports and Moody's Banking Financial Metrics.

In the first nine months of 2012, Groupe BPCE reported a pre-tax profit of EUR3.3 billion, down 12% compared with the same period in 2011. This was driven by a 4.6% decrease in net banking income to EUR16.4 billion (including the negative effect of revaluation of own debt), a 2.1% increase in operating expenses to EUR11.8 billion (including a charge related to the newly introduced fiscal measures in France, whose amount was not disclosed) and a 26% increase in impairment charges to EUR1.6 billion (excluding the effect of Greek-related charges accounted for in the same period a year earlier). The group's core Tier 1 capital ratio increased to 10.5% at end-September 2012, up 40bps from the previous quarter, as a result of lower risk-weighted assets and retained profits.

DETAILED RATING CONSIDERATIONS

Franchise value

We consider that BPCE's franchise value is its core credit strength. The group operates in France mainly through two separate networks of regional banks (BP and CE) targeting different market segments, together holding an approximate 20% market share. The group also comprises various subsidiaries including Natixis, the well-established wholesale banking arm and Crédit Foncier de France (CFF, A2 deposit rating, stable; D-/ba3, negative), a specialised real-estate finance firm, mainly funded through covered bonds.

However, the group's franchise is on a negative trend in the current difficult operating environment as a result of weak economic prospects and challenging market funding conditions, leading to reduced earnings generation capacity. In addition, the deleveraging plan announced in late 2011 - aimed at reducing the group debt by EUR25-35 billion by the end of 2013 - will result in downsizing and/or disposing of certain international activities. This will exacerbate the negative pressures on the group's franchise. However, some of these pressures are mitigated by the bank's greater exploitation of cross-selling opportunities among the group subsidiaries and the strategic refocus on the group's existing customers.

We consider BPCE's earnings base as relatively narrow, given that it mainly consolidates the activities of both Natixis and CFF, whose income streams are relatively volatile. This, in turn, introduces an element of cyclicality into BPCE's earnings mix.

Risk Positioning

BPCE's risk positioning is relatively modest and on a weakening trend due to the current difficult operating environment. Despite the material improvements achieved since Groupe BPCE was set up in 2009, we believe that the group's risk management is still being strengthened and that the development of a fully integrated group-wide risk management architecture will remain a key challenge for some time.

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's exposures. In addition, Natixis's legacy asset portfolio (currently in run-off) remains relatively high risk. The notional value of the portfolio reduced to EUR18.4 billion at end-Q3 2012 compared with EUR40.6 billion at end-Q4 2009 - excluding complex derivatives and fund-linked structured products - and its risk weighted assets reduced by EUR1 billion to around EUR14.3 billion in Q3 2012, compared to the previous quarter and from around EUR30 billion at end-June 2009. During the first nine months of 2012, this portfolio was reduced by EUR2.6 billion, with limited negative financial impact.

Operating environment

BPCE's main market is France. Similarly to other European countries, France is experiencing weakening economic conditions. This translates into a very challenging operating environment for BPCE and the other French banks, when combined with restricted and more expensive wholesale funding.

Profitability

BPCE's profitability has increased since the group was set up in 2009. However, it remains weaker than its peers and continues to be affected by losses on its legacy asset portfolios in run-off. In the current difficult business environment, profitability will remain under pressure as a result of weaker economic activity and deteriorating asset quality.

We believe that BPCE's efficiency is improving gradually, as the group reaches a higher degree of integration, thereby creating synergies. However, the bank's reported cost-to-income ratio was relatively high at 73.9% in Q3 2012, up from 66.3% in the H1 2012. Pressure on profitability is partly off-set by cost-savings initiatives, particularly on the IT side.

Liquidity

Similar to other large French banking groups, Groupe BPCE has a relatively high, albeit reducing, loan-to-deposit ratio, which we estimate to be 139% at end-September 2012, down from 141% at the end of the previous quarter. This renders it reliant on the interbank and capital markets and it is therefore vulnerable to market volatility.

Despite restricted wholesale funding markets since mid-2011, the group has been able to refinance its operations, reduce its overall funding requirements and extend to 6.8 years the average maturity of its long-term funding issued in just over ten months this year. We expect further improvements in this area in the quarters to come, as the deleveraging plan is implemented. Despite this, we believe that the group's liquidity position is vulnerable relative to some of its peers, due to the bank's relatively high short-term debt outstanding of EUR117 billion, as at end-September 2012, which increases materially when including the substantial portion of medium-to-long-term debt maturing over the following 12 months. We understand that at end-September 2012 this amount was covered in full by the group's liquidity buffer of EUR150 billion (as of the same date), comprising assets eligible for central bank financing, cash and other deposits to central banks. This indicates an improvement in the group's short-term liquidity position, as this was not the case in previous quarters. We believe that this is largely due to the group deleveraging efforts, resulting in lower funding requirements, but also to the relaxation of the eligibility criteria from the French central bank, since the beginning of this year, resulting in a higher liquidity buffer.

Capitalisation

Groupe BPCE's capitalisation is satisfactory given its own risk profile, with a core Tier 1 ratio of 10.5% and core Tier 1 capital of EUR40.1 billion at end-September 2012 (compared with 10% and EUR38.8 billion, respectively, at end-June 2012). The group thus exceeds the EBA's minimum core Tier 1 ratio by around 125bps. Under our central scenario, the group is able to absorb further losses stemming from Natixis's loan portfolio and legacy assets.

BPCE's Tier 1 ratio was 9.6% at the end of 2011, down from 10% at year-end 2010 (quarterly figures were not disclosed for this entity). We consider that BPCE's capitalisation is adequate and commensurate with the risks supported by BPCE as the group central institution. We note that the group's overall risk profile is reducing and we expect this trend to continue as a result of the deleveraging efforts.

Asset quality

BPCE's asset quality deteriorated materially in 2011, mainly due to its Greek exposures. Groupe BPCE's exposures to Greece, Ireland, Italy, Portugal and Spain totalled EUR4.4 billion at end-September 2012, which were primarily in its banking book, and reduced by 25% since the beginning of 2011. To date, the Greek sovereign exposures have been written down by around 78% of their nominal value.

We believe that the overall group's asset quality remains robust, relative to its peers, reflecting the low-risk profile of its domestic retail banking activities. The cost of risk reduced to 30bps at the end of September 2012 from 45bps in the previous quarter, primarily as a result of higher provisioning taken in previous quarters. However, we note that cost of risk within Natixis increased to 49bps at the end of Q3 2012 compared to 26bps at the end of 2011. We do not believe that the quarterly reduction in the group provisions is indicative of an improved asset quality profile, which we expect to weaken in line with economic conditions but we consider it as a relatively low level. The group's loan book is well diversified by counterparty type due to the wide range of activities it undertakes; however, counterparty exposures are concentrated in France.

Global Local Currency Deposit Rating (Joint Default Analysis)

We assign GLC deposit ratings of A2/Prime-1 to BPCE. The long-term rating includes three notches of co-operative support, reflecting our view of the very strong group solidarity mechanism (resulting in an adjusted standalone credit assessment of baa2 from the standalone credit assessment of ba2) and three notches of uplift for systemic support. Given Groupe BPCE's position as the second largest retail and commercial bank in France, we continue to assess the probability of systemic support for the group, if needed, as very high.

Notching Considerations

The ratings of BPCE's dated subordinated obligations are notched down from the adjusted standalone credit assessment and no longer benefit from systemic support. The ratings for the bank's hybrid obligations are notched off the adjusted standalone credit assessment of baa2.

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. BFSRs 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 BFSRs include bank-specific elements such as financial fundamentals, franchise value, and business and asset diversification. Although BFSRs exclude the external factors specified above, they do take into account other risk factors in the bank's operating environment, including the strength and prospective performance of the economy, as well as the structure and relative fragility of the financial system, and the quality of banking regulation and supervision.

Global Local Currency Deposit Rating

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

According to Moody's joint default analysis (JDA) methodology, the global local currency deposit rating of a bank is determined by the incorporation of external elements of support into the bank's Baseline Credit Assessment. In calculating the Global Local Currency Deposit rating for a bank, the JDA methodology also factors in the rating of the support provider, in the form of the local currency deposit ceiling for a country, Moody's assessment of the probability of systemic support for the bank in the event of a stress situation and the degree of dependence between the issuer rating and the Local Currency Deposit Ceiling.

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						**D+**	**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				0.63%			
Net Income / Average RWA - Basel II					0.25%		
Factor: Liquidity						**E+**	**Weakening**
(Mkt funds-Liquid Assets) / Total Assets				17.03%			
Liquidity Management					x		
Factor: Capital Adequacy						**B**	**Weakening**
Tier 1 Ratio - Basel II		9.73%					
Tangible Common Equity / RWA - Basel II		6.15%					
Factor: Efficiency						**E**	**Weakening**
Cost / Income Ratio					87.09%		
Factor: Asset Quality						**C**	**Weakening**
Problem Loans / Gross Loans			4.69%				
Problem Loans / (Equity + LLR)			28.51%				
Lowest Combined Score (15%)						**E+**	
Economic Insolvency Override						**Neutral**	
Aggregate Score						**D+**	
Assigned BFSR						**D**	

[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