

BPCE

Primary Credit Analyst:

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

Secondary Credit Analyst:

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

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Major Rating Factors

Strengths:

- High systemic importance in France, which we classify as a supportive country under our methodology.
- Second-largest retail banking franchise in France.
- Overall moderate risk profile.

Counterparty Credit Rating

A+/Stable/A-1

Weaknesses:

- Difficulties in reducing Natixis' large and risky legacy portfolio.
- Near-term earnings prospects below underlying capabilities, albeit recovering.
- Execution risk in completing the merger between Groupe Banque Populaire and Groupe Caisse d'Epargne in a tough operating environment.

Rationale

BPCE is the main funding bank and the central body of the French cooperative banking group Groupe BPCE. The ratings on BPCE reflect its core membership in Groupe BPCE, which resulted from the alliance in summer 2009 between Groupe Banque Populaire (GBP) and Groupe Caisse d'Epargne (GCE). In our opinion, Groupe BPCE has high systemic importance in France, particularly because it is the No. 2 retail banking group following the GCE-GBP alliance. We give the long-term rating on BPCE a one-notch uplift from its standalone credit profile for state support from France, which we classify as a supportive country under our methodology.

Weighing on the standalone ratings on BPCE are, in our view, the difficulties it faces in reducing the large and risky legacy portfolio of its core subsidiary Natixis S.A. (A+/Stable/A-1), as well as its need to consistently rebuild earnings more commensurate with the ratings. Although we see some execution risk in completing the merger between GBP and GCE, we believe this will be mitigated by the strong commitment of BPCE's new management team and its reasonable strategy.

In our view, the group's fundamental strength lies in its prominent and stable franchise in domestic retail banking. Groupe BPCE has a profitability target of a 12% return on equity (ROE) by year-end 2013 in its core business lines. We consider this a relatively ambitious target that would be difficult to achieve under unfavorable economic and market conditions.

We believe Groupe BPCE's near-term profitability prospects are below its underlying capabilities. Although we think that the group's profits are likely to recover in 2010, as highlighted by net income in excess of €1 billion as of March 31, 2010, we expect that its core earnings will remain under pressure over the coming quarters. We believe that specific loan-loss provisions should not stray far throughout 2010 from their 2009 highs, while we think that corporate and investment banking revenues could decline. On a more positive note, we expect that gross operating income posted by regional banks should prove to be resilient, owing to favorable trends in new volumes and declining refinancing costs. We expect that Natixis' legacy assets will weigh less on the group's earnings than in the past. Groupe BPCE's earnings were significantly weakened by outsized impairments posted by Natixis on its large

and illiquid legacy assets in 2008-2009. When excluding noncash and exceptional one-off items, we estimate that Groupe BPCE's core earnings stood at a mere €312 million as of year-end 2009.

Groupe BPCE has sound underwriting skills in its core business of retail banking in France. We view this as a supportive rating factor. We believe BPCE's risk profile is overall moderate. In particular, the group aggregates lower to moderate-risk loans inherited from GCE and GBP's retail banks as well as Natixis' higher risk legacy portfolio and corporate loan books. The effects of the ongoing fragile operating environment have spread throughout Groupe BPCE's assets and weakened its credit metrics over the past quarters.

We view the group's funding structure as average. The group's major funding imbalances arise from wholesale-funded Natixis and Crédit Foncier de France. This is mitigated by the group's large and stable retail deposit base and capacity to repackage mortgage loans into covered bonds.

We consider Groupe BPCE's capital level and quality as only adequate. We estimate a risk-adjusted capital ratio for the group of 7% after adjustments for concentration and diversification as of year-end 2009. The group's capital policy tends toward conservatism, in our view, with a targeted core Tier 1 ratio above 8% by year-end 2013. The French government has been involved in the GBP-GCE alliance. In addition to its systemwide support plan, the state injected €3 billion into BPCE in the form of preferred shares, convertible into ordinary shares through warrants. BPCE intends to reimburse these preference shares over 2010-2013. In our view, the rating on BPCE is progressively less dependant on state support.

Outlook

The stable outlook reflects our expectations that BPCE's profitability will recover in 2010. In the coming quarters, we also expect the banking group to pursue a tightened business scope and a strategic repositioning of Natixis. We also expect Groupe BPCE to contain its risk profile in other business lines. Finally, we do not rule out that the group could divest noncore assets to free up capital, as recently exemplified by the announcements of the disposal of regional retail bank, Société Marseillaise de Crédit, and of the most complex compartment of Natixis' legacy credit derivative exposures.

We would consider a negative rating action if unfavorable economic and market conditions worsened and/or if Natixis' legacy assets significantly impair the enlarged group's profitability, delaying its turnaround, and if the French government did not step in to ensure a conservative level of capitalization.

A sustainable recovery in the group's profitability would be positive for BPCE's standalone creditworthiness. We are also of the view that the alliance between GCE and GBP and the rollout of the enlarged group's strategic plan could in the medium term benefit its standalone creditworthiness and make it more commensurate with the 'A+' rating.

Table 1

BPCE Risk-Adjusted Capital Data						
(Mil. €)	Exposure*	Basel II RWA	Average Basel II RW (%)	Standard & Poor's RWA	Average Standard & Poor's RW (%)	
Credit risk						
Government and central banks	142,249	341	0	5,272		4
Institutions	139,349	27,997	20	23,161		17
Corporate	233,883	171,287	73	188,516		81

Table 1

BPCE Risk-Adjusted Capital Data (cont.)					
Retail	278,608	94,654	34	130,757	47
Of which mortgage	127,078	40,846	32	23,883	19
Securitization	51,893	15,013	29	67,272	130
Other assets	19,055	19,055	100	28,878	152
Total credit risk	865,036	328,346	38	443,856	51
Market risk					
Equity in the banking book¶	13,548	28,288	236	111,830	825
Trading book market risk	--	23,927	--	44,216	--
Total market risk	--	52,215	--	156,047	--
Insurance risk					
Total insurance risk	--	--	--	42,903	--
Operational risk					
Total operational risk	--	30,549	--	38,138	--
(Mil. €)	Basel II RWA			Standard & Poor's RWA	% of Standard & Poor's RWA
Diversification adjustments					
RWA before diversification	411,110			680,943	100
Total adjustments to RWA	--			(128,877)	(19)
RWA after diversification	411,110			552,066	81
(Mil. €)	Tier 1 capital	Tier 1 ratio (%)		Total adjusted capital	Standard & Poor's RAC ratio (%)
Capital ratio					
Capital ratio before adjustments	37,574	9.1		38,718	5.7
Capital ratio after adjustments§	37,574	9.1		38,718	7.0

*Exposure at default. ¶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. 30, 2009, Standard & Poor's.

Table 2

BPCE Loan Portfolio		
	--Year-ended Dec. 31--	
(Mil. €)	2009	2008
Other loans	528,301.0	521,446.0
N/A--Not applicable.		

Table 3

BPCE Profitability Ratios		
	--Year-ended Dec. 31--	
(%)	2009	2008
Net interest income/average earning assets	1.5	N/A
Net interest income/revenues	63.8	58.2
Fee income/revenues	34.9	49.7

Table 3

BPCE Profitability Ratios (cont.)		
Market-sensitive income/revenues	0.2	(23.5)
Personnel expense/revenues	47.5	61.2
Noninterest expenses/revenues	81.1	104.2
New loan loss provisions/revenues	20.7	20.4
Net operating income before loan loss provisions/loan loss provisions	91.2	(20.8)
Net operating income after loan loss provisions/revenues	(1.8)	(24.6)
Pretax profit/revenues	(1.8)	(24.2)
Tax/pretax profit	79.6	27.9
Core earnings/revenues	1.6	(17.4)
Core earnings/average adjusted assets	0.0	N/A
Noninterest expenses/average adjusted assets	1.5	N/A
Core earnings/average adjusted common equity	1.1	(10.0)
Pretax profit/average common equity (%)	(1.2)	N/A

N/A--Not applicable. N.M.--Not meaningful.

Table 4

BPCE Capital Ratios		
	--Year-ended Dec. 31--	
(%)	2009	2008
Tier 1 capital ratio	9.1	N/A
Adjusted total equity/adjusted assets	3.0	2.6
Adjusted total equity/managed assets	3.0	2.6
Adjusted total equity plus loan loss reserves (specific)/customer loans (gross)	7.8	7.4
Common dividend payout ratio	0.0	0.0

N/A--Not applicable. N.M.--Not meaningful.

Table 5

BPCE Summary Balance Sheet		
	--Year-ended Dec. 31--	
(Mil. €)	2009	2008
Assets		
Cash and money market instruments	170,492.0	185,189.0
Securities	164,826.0	180,466.0
Trading securities (marked to market)	90,122.0	111,994.0
Nontrading securities	74,704.0	68,472.0
Customer loans (gross)	528,301.0	521,446.0
Loan loss reserves	10,861.0	9,083.0
Customer loans (net)	517,440.0	512,363.0
Earning assets	850,550.0	867,934.0
Equity interests/participations (nonfinancial)	787.0	625.0
Investments in unconsolidated subsidiaries (financial companies)	1,542.0	1,479.0
Intangibles (nonservicing)	7,637.0	9,435.0
Fixed assets	7,844.0	7,705.0

Table 5

BPCE Summary Balance Sheet (cont.)		
Derivatives credit amount	102,093.0	189,331.0
All other assets	56,141.0	57,086.0
Total assets	1,028,802.0	1,143,679.0
Intangibles (nonservicing)	7,637.0	9,435.0
Adjusted assets	1,021,165.0	1,134,244.0
Liabilities		
Total deposits	428,317.0	443,532.0
Noncore deposits	86,783.0	99,107.0
Core/customer deposits	341,534.0	344,425.0
Repurchase agreements	55,344.0	64,620.0
Other borrowings	220,069.0	223,179.0
Other other borrowings	204,410.0	207,834.0
Other liabilities	277,956.0	370,560.0
Total liabilities	981,686.0	1,101,891.0
Total equity	47,116.0	41,788.0
Limited life preferred and quasi equity	0.0	160.0
Minority interest-equity	2,721.0	3,698.0
Common shareholders' equity (reported)	33,038.0	30,463.0
Share capital and surplus	21,889.0	20,179.0
Revaluation reserve	(633.0)	(1,752.0)
Retained profits	537.0	(1,847.0)
Total liabilities and equity	1,028,802.0	1,143,679.0

N/A--Not applicable.

Table 6

(Mil. €)	--Year-ended Dec. 31--	
	2009	2008
Common shareholders' equity (reported)	33,038.0	30,463.0
Plus minority interest (equity)	2,721.0	3,698.0
Minus revaluation reserves	633.0	1,752.0
Minus nonservicing intangibles	(7,637.0)	(9,435.0)
Minus other adjustments	(356.0)	(444.0)
Adjusted common equity	29,111.0	26,922.0
Plus admissible preferred and hybrids	9,606.6	7,627.0
Minus equity in unconsolidated subsidiaries	(1,542.0)	(1,479.0)
Minus capital of insurance subsidiaries	(3,432.0)	(2,900.0)
Minus adjustment for securitized assets	(3,276.0)	(800.0)
Adjusted total equity	30,467.6	29,370.0

N/A--Not applicable.

Table 7

BPCE Profit And Loss		
	--Year-ended Dec. 31--	
(Mil. €)	2009	2008
Net interest income	12,752.0	8,984.0
Interest income	34,465.0	46,533.0
Interest expense	21,713.0	37,549.0
Operating noninterest income	7,237.1	6,451.4
Fees and commissions	6,977.0	7,667.0
Trading gains	342.0	(3,447.0)
Other market-sensitive income	(304.0)	(185.0)
Equity in earnings of unconsolidated subsidiaries	198.0	184.0
Other noninterest income	24.1	2,232.4
Operating revenues	19,989.1	15,435.4
Noninterest expenses	16,207.1	16,091.0
Personnel expenses	9,493.0	9,440.0
Other general and administrative expense	5,674.1	5,697.0
Net operating income before loss provisions	3,782.1	(655.6)
Credit loss provisions (net new)	4,145.0	3,146.0
Net operating income after loss provisions	(362.9)	(3,801.6)
Nonrecurring/special income	2,105.6	1,227.6
Nonrecurring/special expense	831.6	998.0
Impairment of intangibles	1,279.0	168.0
Pretax profit	(368.0)	(3,740.0)
Tax expense/credit	(293.0)	(1,044.0)
Net income (before minority interest)	(75.0)	(2,696.0)
Minority interest in consolidated subsidiaries	(612.0)	(849.0)
Net income before extraordinaries	537.0	(1,847.0)
Net income after extraordinaries	537.0	(1,847.0)

N/A--Not applicable.

Table 8

BPCE Core Earnings Reconciliation Table		
	--Year-ended Dec. 31--	
(Mil. €)	2009	2008
Net income (before minority interest)	(75.0)	(2,696.0)
Minus nonrecurring/special income	(2,105.6)	(1,227.6)
Plus nonrecurring/special expense	831.6	998.0
Plus or minus tax impact of adjustments	382.3	69.0
Plus amortization/impairment of goodwill/intangibles	1,279.0	168.0
Core earnings	312.4	(2,688.6)

N/A--Not applicable.

Ratings Detail (As Of July 26, 2010)*	
BPCE	
Counterparty Credit Rating	A+/Stable/A-1
Commercial Paper	
<i>Local Currency</i>	A-1
Junior Subordinated (13 Issues)	BBB-
Senior Unsecured (53 Issues)	A+
Short-Term Debt (1 Issue)	A-1
Subordinated (5 Issues)	A
Counterparty Credit Ratings History	
31-Jul-2009	A+/Stable/A-1
Sovereign Rating	
France (Republic of)	AAA/Stable/A-1+
Related Entities	
Banque Tuniso - Koweitienne	
Issuer Credit Rating	BB+/Stable/--
Certificate Of Deposit	BB+
Senior Unsecured (1 Issue)	BB+
BRED - Banque Populaire	
Issuer Credit Rating	A+/Stable/A-1
Certificate Of Deposit	A+/A-1
Subordinated (1 Issue)	A
Compagnie de Financement Foncier	
Certificate Of Deposit	
<i>Local Currency</i>	A-1+
Senior Secured (4 Issues)	AAA
Senior Secured (365 Issues)	AAA/Stable
Short-Term Secured Debt (1 Issue)	A-1+
Compagnie Europeenne de Garanties et Cautions	
Financial Strength Rating	
<i>Local Currency</i>	A+/Stable/--
Issuer Credit Rating	
<i>Local Currency</i>	A+/Stable/--
Credit Foncier de France	
Issuer Credit Rating	A/Stable/A-1
Certificate Of Deposit	A/A-1
Junior Subordinated (1 Issue)	BBB
Senior Unsecured (9 Issues)	A
Short-Term Debt (1 Issue)	A-1
Subordinated (1 Issue)	A-
Credit Foncier et Communal d'Alsace et de Lorraine-Banque	
Issuer Credit Rating	A/Stable/A-1
Certificate Of Deposit	
<i>Local Currency</i>	A-1

Ratings Detail (As Of July 26, 2010)* **(cont.)**

Senior Unsecured (1 Issue)	A
Credit Foncier et Communal d'Alsace et de Lorraine - Societe de Credit Foncier	
Senior Secured (1 Issue)	A+
Senior Secured (1 Issue)	A+/Stable
Locindus S.A.	
Issuer Credit Rating	A/Stable/A-1
Certificate Of Deposit	A/A-1
Senior Unsecured (4 Issues)	A
Natexis Banques Populaires Capital Trust III	
Preferred Stock (1 Issue)	BB+
Natixis Australia Pty Ltd.	
Issuer Credit Rating	A+/Stable/A-1
Natixis Financial Products Inc.	
Issuer Credit Rating	A+/Stable/A-1
Natixis S.A.	
Issuer Credit Rating	A+/Stable/A-1
Certificate Of Deposit	A+/A-1
Commercial Paper	A-1
Junior Subordinated (7 Issues)	BB+
Senior Unsecured (68 Issues)	A+
Short-Term Debt (4 Issues)	A-1
Subordinated (15 Issues)	A
Socram Banque	
Issuer Credit Rating	A-/Stable/A-2
Certificate Of Deposit	A-/A-2
Senior Unsecured (1 Issue)	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.

Additional Contact:

Financial Institutions Ratings Europe; FIG_Europe@standardandpoors.com

Additional Contact:

Financial Institutions Ratings Europe; FIG_Europe@standardandpoors.com

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