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New Issue: GCE Covered Bonds

Up To €25 Billion Covered Bonds Program

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Ratings Detail

Class	Credit rating*	Amount (Bil. €)	Available credit support (%)	Legal final maturity
Covered bonds program	AAA	Up to 25	Dynamic (see "Structural Enhancements")	TBD per series

*Standard & Poor's ratings address timely payment of interest and ultimate payment of principal on the legal final maturity date. TBD—To be determined.

Program Participants	
Issuer	GCE Covered Bonds, a French licensed credit institution with a share capital of €65 million
Arrangers	HSBC France, BNP Paribas S.A., and Natixis S.A.
Originators	Each Caisse d'Epargne et de Prévoyance (the Caisses), Caisse Nationale des Caisses d'Epargne et de Prévoyance (CNCE), and Crédit Foncier de France (CFF, together with the Caisses and CNCE, the GCE Group)
Servicers	Each Caisse and Crédit Foncier de France (CFF)
Borrower	Caisse Nationale des Caisses d'Epargne et de Prévoyance (CNCE)
Collateral providers	Each Caisse, Caisse Nationale des Caisses d'Epargne et de Prévoyance (CNCE), and Crédit Foncier de France (CFF)
Program administrator	Caisse Nationale des Caisses d'Epargne et de Prévoyance (CNCE)
Asset monitor	Pricewaterhousecoopers
Bank account provider	Caisse Nationale des Caisses d'Epargne et de Prévoyance (CNCE)
Issuer security agent	Natixis S.A.
Paying agent	Fortis Banque Luxembourg S.A.
Cash manager	Caisse Nationale des Caisses d'Epargne et de Prévoyance (CNCE)
Guarantors	SACCEF and Crédit Logement

Supporting Ratings	
Caisse Nationale des Caisses d'Epargne et de Prévoyance (CNCE) as bank account provider, cash collateral provider, servicer, and collection loss reserve provider	AA-/Stable/A-1+
Crédit Foncier de France (CFF) as servicer	AA-/Watch Neg/A-1+
Issuer hedging counterparty	Any entity rated at least 'A-1'
Crédit Logement as guarantor	AA/Stable/—

Key Features Of The Cover Pool As Of May 19, 2008	
Collateral description	Residential loans to individuals secured by mortgages or guarantees and substitution assets
Country of origin	France
Current balance of the cover pool (€)	8,750,980,414
Number of loans	159,698
Weighted-average LTV ratio (%)	69.86
Fixed interest rates/floating interest rates	83.81/16.19 (out of which 9.3% with a cap)
Guaranteed loans/mortgage loans (%)	71.9/28.1

Key Features Of The Cover Pool As Of May 19, 2008(cont.)

LTV—Loan-to-value.

Program Summary

Standard & Poor's Ratings Services has assigned a 'AAA' credit rating to the up to €25 billion covered bonds program issued by GCE Covered Bonds.

Under the program terms, GCE Covered Bonds issues the covered bonds, using the proceeds to fund a credit facility to be made available to Caisse Nationale des Caisses d'Épargne et de Prévoyance (CNCE). The advances will match the terms and conditions of the covered bonds to ensure full and timely payment under the covered bonds. If CNCE defaults, a pool of residential loans that meet the eligibility criteria (see "Collateral Description") along with the substitution assets will be transferred to the issuer. These assets will secure CNCE's financial obligations and allow us to de-link the rating on the program from that on CNCE.

This transaction is largely identical to existing French covered bond programs, and relies on the use of the collateral provisions of the French monetary and financial code (Articles L 431-7-3) published on July 27, 2005, which implements the European financial collateral directive.

The result is a structure where asset segregation (if the GCE Group becomes insolvent) is provided without having to transfer the assets off balance-sheet.

The French market already benefits from a dedicated covered bond regime known as the "obligations foncières" framework. However, this is the fourth structured covered bonds program to be setup, the choice being driven by the ability at closing to avoid the transfer of assets from the numerous entities of this mutual group into a "Société de Crédit Foncier." In the structure, residential-loan-originating entities provide these assets as collateral to secure (for the issuer's benefit) the debt between CNCE and the issuer. The choice to use this structure as opposed to the obligations foncières framework is also driven by the limit imposed by this framework on the guaranteed loans, which cannot exceed 35% of the assets brought as collateral to a "Société de Crédit Foncier."

As in previous programs, we analyzed whether the French courts would recognize a valid security interest in the residential loans or substitution assets that remain on the GCE Group's balance sheet, and that if CNCE defaults on certain financial obligations, this security would be enforceable against the GCE Group or third parties, despite CNCE's insolvency. We received sufficient legal comfort to conclude that the risk that this would not be the case is remote.

Strengths, Concerns, And Mitigating Factors

Strengths

- The assets forming the collateral pool are all prime residential loans. The asset-coverage test (ACT) gives no value to the loans in arrears or defaults and GCE Group entities will have to add loans or substitution assets if required, as long as CNCE is solvent.
- The group is geographically well diversified and the cover pool reflects this diversification.
- The GCE Group is organized around numerous Caisses; however, a principle of solidarity between all members results in a common credit risk. Consistent origination and servicing processes are in place within the GCE

Group.

- The ACT includes a cap of the loan-to-indexed value calculation, which protects against a downward movement in house prices.
- As in other covered bond transactions across Europe, the structure provides recourse to residential real estate loans and additional collateral worth more than the debt outstanding under the program if CNCE defaults on certain financial obligations.
- The ACT is designed to provide ongoing adequate protection against, among other things, the credit risk of the residential loans backing the program, their market-value risk in case they need to be liquidated, and the maturity mismatch that may exist between the residential loan pool and the covered bonds.
- A third-party asset monitor is contracted to check the calculations performed by CNCE as calculation agent for the ACT.
- The issuer is a credit institution licensed by the French regulator "Comité des établissements de crédit et des entreprises d'investissement" (CECEI). It could theoretically enter into repurchase facilities with the European Central Bank if the relevant agreements are agreed and put in place with the Banque de France.

Concerns

- The loans can benefit from a first-ranking mortgage, but also alternatively from a guarantee granted by Crédit Logement or SACCEF, a subsidiary of Natixis Garanties. When this is the case, no mortgage is taken to secure the loan. If the guarantor does not perform on an obligor's default, this leaves the servicer with a risk that other creditors will register a judicial mortgage on the property before the servicer.
- CNCE or group entities carry out several roles, which could cause potential conflicts of interest.
- Contrary to an entity incorporated as a "société par actions simplifiée" (SAS) where it is possible to give an independent shareholder a golden share (that is, one share that can veto all others at a shareholders' meeting), the issuer is a "société anonyme" (S.A.). This is 95% owned by CNCE and 5% owned by Crédit Foncier de France (CFF), with no independent shareholder having a blocking minority of shares.
- If CNCE defaults, the principal payments on the bonds issued in bullet form cannot be assured solely from cash flows arising on the residential loan pool, and could require a monetization of the pool through securitization or other means.
- If the ACT is breached, CNCE has until the next test date to provide additional collateral security. If CNCE cannot do so and the ACT is breached once again, the title of the collateral security assets will be transferred to the issuer. However, ownership of any collection under the residential loans or the substitution assets since the last date the ACT was satisfied will remain with GCE Group entities. Furthermore, collections under the residential loans or the substitution assets could be commingled with the servicer assets until borrowers have redirected their payments away from GCE Group entities.
- No hedging was in place at closing.

Mitigating factors

- We have not relied on the guarantee provided by SACCEF in its credit analysis because this guarantor is within the perimeter of the GCE Group. We have analyzed the risk of not having taken a mortgage at the origination of the loan and stressed the loss severity on these loans accordingly. The ACT ensures that any increase in guaranteed loans will result in higher levels of overcollateralization consistent with a 'AAA' rating.
- If the rating on CNCE falls below certain levels, it will be replaced as administrator, account bank, or issuer calculation agent by suitably rated entities. Program documents strictly govern the parties' functions or capacities to act.

- The issuer is incorporated as a société anonyme and licensed as a financial institution with limited and exclusive purpose by the CECEI. In addition, CNCE has undertaken not to take any steps leading to the voluntary winding-up or dissolution of the issuer, or change the bankruptcy-remoteness covenants and undertakings. This mitigates the absence of an independent shareholder with a blocking minority of shares.
- If CNCE is downgraded below 'A-1', it has 30 business days to contribute cash collateral to cover at any time during the following nine months any principal payment due under the covered bonds as well as the issuer's senior expenses. Regarding the ability to monetize the portfolio, we assessed the depth and spread stability of both the whole-loan sale market and the French residential mortgage-backed securities (RMBS) market. Both are far less developed than in other European jurisdictions, but we stressed the terms of the exit sale.
- If CNCE or CFF is downgraded below 'A-2', a cash collateral contribution from the relevant entity covers in advance three months of residential loans and substitution assets collections. If CNCE or CFF are downgraded below 'BBB', the GCE Group entities or CFF, respectively, must be replaced in their servicing capacity.
- If the rating on CNCE falls below 'A-1', hedging at the issuer level must be put in place within 30 calendar days, on predetermined terms at CNCE's cost.

Covered Bond Program Structure

As in other programs, the residential loans will be provided by the different local entities of the GCE Group as collateral (under the article 431–7 of the French Financial and Monetary code) to secure advances between CNCE and the issuer, and not to secure advances between CNCE and the GCE Group entities. This structure required the analysis of possible corporate benefit issues. The risks are mitigated by:

- The principle of solidarity that exists between entities within the GCE Group;
- The fact that every collateral provider will benefit indirectly from the positive effect of refinancing for CNCE that ensures all refinancing needs of the entities, as each entity will receive from CNCE advances under a bonus rate facility for an amount corresponding to its share in the total collateral provided; and
- Each entity's board approving the transaction and the relevant entity's participation.

Under the program, the issuer will make the issuance proceeds available to CNCE through secured loans ranking *pari passu* without priority among themselves.

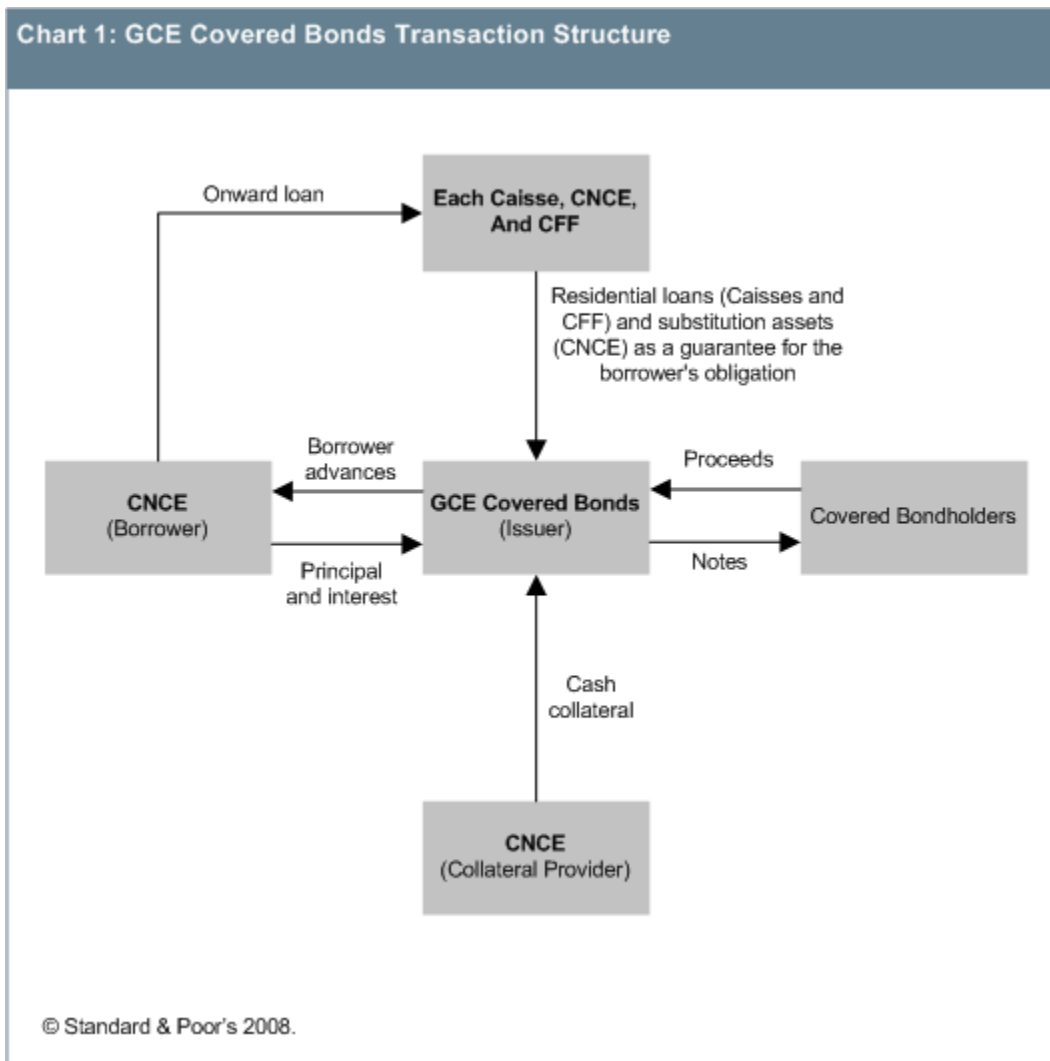
The date of each principal and interest payment due under the advances will match that of:

- The corresponding principal and interest payments under the relevant series of covered notes; and
- All the issuer's senior expenses.

Provided CNCE remains solvent, it will indirectly pay the covered bonds' interest and principal, since interest and principal will be fully matched (in amount and in terms of timing) with the payments to be made between the issuer and CNCE (see chart 1).

CNCE will onlend the proceeds from the advances to each of the GCE Group entities for an amount equal to the pro rata share of the collateral provided by the relevant entity applied to the amount of the global funding.

CNCE's payment obligations under the advances will be fully secured by a residential loan portfolio originated by local entities of the GCE Group, including CFF.



The program also allows the debt to be secured by substitution assets in the form of highly rated securities. In that case, we will decide, on a case-by-case basis, on an adequate haircut to maintain the rating on the covered bonds.

In addition, the issuer will benefit from cash collateral that CNCE will make available to the issuer if certain events occur (see "Pre-maturity test").

If a CNCE event of default occurs, the advances made to CNCE will be accelerated, the collateral security will be enforced, and the full title of the residential loans and substitution assets will be transferred to the issuer.

Borrower Event Of Default And Transfer Of Title

A borrower event of default occurs if:

- CNCE fails to pay any sums due under the loan between CNCE and the issuer, subject to a three-day cure period;
- The borrower fails to pay the cost of entering into the hedging agreements or the hedging is not put in place once the rating on CNCE falls below 'A-1';

- The pre-maturity test is breached;
- The ACT is breached;
- The obligation to fund a reserve for the loss of collections between the ACT test and the enforcement of the collateral security is breached;
- CNCE fails to comply with any of its obligations under the CNCE collateral security, provided that default is prejudicial to the interests of the noteholders; or
- Proceedings are initiated against CNCE under any applicable liquidation, winding-up, or other similar legal insolvency.

Following a borrower event of default, the security taken by the issuer on the collateral is enforced. The efficiency of this enforcement relies on provisions of the French monetary and financial code, which aim to protect the validity and enforceability of financial collateral arrangements from the adverse effects of insolvency.

We received adequate legal comfort regarding the application of these provisions to this transaction and the residential loans. We understand that the transaction is eligible under the new collateral provisions and that, notwithstanding insolvency proceedings against the GCE Group, immediate enforcement of the collateral is effective following a CNCE default, without any formality or consent.

The documentation provides that the issuer's administrator enforces the collateral security on the issuer's behalf in these circumstances.

The assets acting as security for the advances will be recorded in CNCE's IT system. Every month, CNCE will provide the security agent with a list of all loans and substitution assets that are currently part of the collateral pool.

Issuer Event Of Default

An issuer event of default occurs if:

- The issuer fails to satisfy the amortization test;
- The hedging is not put in place once the rating on CNCE falls below 'A-1';
- There are any defaults of five days or more in the repayment of any principal or interest due on the covered bonds;
- The issuer defaults on any material obligation, provided the default is prejudicial to the interests of the noteholders; or
- Proceedings are initiated against the issuer under any applicable liquidation, winding-up, or other similar legal insolvency.

ACT test

A dynamic ACT will be calculated to ensure adequate overcollateralization is available to allow the repayment of the covered bonds in a 'AAA' stress scenario. The asset percentage is dynamic (no more than 92.5%), ensuring that regardless of the portfolio LTV ratio, overcollateralization will always be at least 7.5% of the assets (i.e., 8.1% of the covered bonds).

The asset percentage not only reflects the credit quality of the loan portfolio, but also depends on, among other things, the difference between the negative carry sized in the ACT and the one modeled by Standard & Poor's. It also depends on the assumed margin of the swap under which the issuer would pay the interest received from the

loans and receive a floating rate plus this assumed margin. This margin could vary from time and is communicated by the calculation agent. If downgraded below 'A-1', CNCE is committed to pay the cost of entering into a swap where the counterparty would pay the latest margin.

What is important to Standard & Poor's is not the level of the asset percentage as such, but that the ACT, considered in totality, provides enough assets globally to repay the covered bonds according to a model incorporating 'AAA' stresses.

An 80% cut-off to the loan-to-indexed-value calculation in the ACT implies that only the 80% LTV ratio portion of each loan is taken into account for covered bond issuance. If the residential market is affected by house price decline, additional collateral under the security package will be required, since the use of an indexed valuation is included in the ACT.

As long as the covered bonds remain outstanding, the calculation agent must ensure that on each calculation date, the adjusted aggregate loan amount is equal to or more than the principal amount outstanding of the covered bonds to comply with the ACT.

On each calculation date, the adjusted aggregate loan amount is calculated as $(A+B+C+D)-(Y+Z)$, where:

- A is the lower of:(i) the adjusted outstanding principal balance of each loan in the collateral security portfolio (excluding ineligible loans), which is the lower of the actual outstanding principal balance on the relevant calculation date and 80% of the indexed valuation (LTV ratio cut-off); and (ii) the aggregate outstanding principal balance of the loans in the portfolio (excluding ineligible loans) as at the relevant calculation date multiplied by the asset percentage. These two options are reduced by any sum of financial losses incurred resulting from a material breach of the servicing procedures. Arrears or defaulted loans are not included in the adjusted principal balance;
- B is equal to the aggregate amount of cash in the cash collateral account;
- C is equal to the adjusted aggregate value outstanding under all substitution assets, provided that the outstanding value of a substitution asset in excess of 20% of the outstanding will account for zero;
- D is the adjusted aggregate value of permitted investments;
- Y is equal to (i) zero before any the issuer enters into any issuer hedging agreement and (ii) otherwise, an amount equal to the payments due under the issuer hedging agreements (plus interest) within the period of a plus two and half months preceding the relevant ACT date where a means the period between two interest payment dates under the relevant issuer hedging agreements; and
- Z is the weighted-average maturity of all covered bonds outstanding (subject to a floor) multiplied by the euro equivalent of the covered bonds' aggregate principal amount outstanding multiplied by 0.5%, or another percentage agreed by the security agent and the collateral providers and subject to rating confirmation.

C and D include adjustments to cover market risk if assets are liquidated before their maturity for payment under the covered bonds at the next interest payment date.

The purpose of Y is to reflect the effect of the issuer's payment to the counterparty due under the swap in return for the timely payment of the interest on the covered bonds. Therefore, for a certain period, the swap counterparty will pay the interest on the covered bonds, hence avoiding having to cover these due payments within the pre-maturity cash collateral amount to be provided by CNCE if it is downgraded below 'A-1'.

The purpose of Z is to provide coverage against negative carry after a CNCE event of default.

On each calculation date, the calculation agent will perform the ACT. In addition, we run our weighted-average foreclosure frequency (WAFF)/weighted-average loss severity (WALS) model every three months to determine the asset percentage (subject to a maximum of 92.5%) and to check that the ACT provides a sufficient level of overcollateralization to mitigate any deterioration in the portfolio's asset quality. The calculation will also reflect any spread movement in the RMBS market to account for the possible higher cost of a securitization exit strategy.

An uncured breach will constitute an event of default for CNCE.

After a CNCE event of default, the issuer must ensure that on each calculation date, the issuer's assets on a risk-adjusted basis do not fall below the outstanding amount of covered bonds in circulation plus an amount reflecting the potential negative carry risk, to ensure that the issuer's assets are sufficient to meet its obligations under the covered bonds and mitigate the degree of time subordination that exists for later-maturing covered bonds (amortization test). A breach of the amortization test constitutes an event of default for the issuer, and the covered bonds become immediately due and repayable. This event should be 'AAA' remote, as the ACT is designed to ensure that there is always enough overcollateralization available.

Cash flow segregation

To mitigate the risk of the asset cash flows being lost between the last date when the ACT test was satisfied and the date on which the security is enforced, CNCE and CFF must create for the issuer's benefit a cash collateral reserve account sufficient to cover three months of residential loans and substitution assets collections.

Also, the servicer is replaced if it is downgraded below 'BBB'.

Pre-maturity test

The pre-maturity test ensures that, before the assets are monetized, there is sufficient liquidity available to redeem each series of hard bullet-covered bonds on the relevant final maturity date. If the short-term rating on CNCE is 'A-1' or lower, CNCE must create a cash collateral reserve covering any principal due under the outstanding covered bonds within the following nine months, as well as issuer senior expenses.

Priority of payments

The issuer's available cash before the enforcement of the collateral security includes payment proceeds under the credit facility and any cash from permitted investments. Once an enforcement notice is served, it includes:

- All interest and principal collections from residential loans and substitution assets;
- Proceeds from any sale or refinancing of home loans and substitution assets;
- Proceeds from enforcement of the home loan security;
- Cash from permitted investments; and
- Cash in the cash collateral accounts.

The priority of payments before an issuer event of default is:

- Senior fees and tax costs;
- Swap costs (other than swap termination costs) then due and payable;
- Interest amounts due and then payable under the relevant series of covered bonds;
- Principal amounts due and then payable under the series of covered bonds;

- Swap termination costs if the counterparty is the defaulting or affected party, and other costs of the issuer (other than senior administrative and tax costs), if there are no remaining covered bonds outstanding; and
- Enforcement proceeds surplus, if there are no remaining covered bonds outstanding.

Following an issuer event of default, all covered bonds become due and payable, and the priority of payments is:

- Senior fees and tax costs;
- Swap costs (other than swap termination costs) then due and payable (pro rata, pari passu, and in full);
- Interest amounts due and then payable under all the covered bonds (pro rata, pari passu, and in full);
- Principal amounts due and then payable under all the covered bonds (pro rata, pari passu, and in full);
- Swap termination costs if the counterparty is the defaulting or affected party, and other costs of the issuer (other than senior administrative and tax costs) if there are no remaining covered bonds outstanding (pro rata, pari passu, and in full); and
- Subordinated debt payments (pro rata, pari passu, and in full).

Market Risk

In our 'AAA' scenario, we assumed CNCE's insolvency and analyzed how the collateral held by the issuer could redeem the existing covered bonds.

In our rating analysis, we relied on the ability to monetize the portfolio if the issuer failed to redeem covered bonds on their due date.

The credit and cash flow analysis included a conservative assessment of the portfolio's credit, market, and interest rate risk. Credit risk may arise if nonperforming loans cease to be replaced after CNCE's insolvency. In this respect, the analysis is identical to that which we would perform on an RMBS transaction.

Market risk is linked to the potential requirement to monetize the portfolio to meet a bullet-maturity profile. Based on our review of the market, we assumed in its modeling that the loans could be sold through securitization within nine months and with a spread widening of 50 bps taken over an estimated spread prevailing at the time of the default.

Other monetization routes are available, even though the securitization exit has been the key modeling assumption.

Even though legislation of the obligations foncières currently includes a 35% limit on the eligibility of guaranteed loans, the ability to sell prime residential assets directly into Société de Crédit Foncier that issues obligations foncières should also not be omitted as a source of potential liquidity.

Additionally, the issuer, as a licensed credit institution, has the theoretical possibility to enter in repurchase agreements with the European Central Bank if the relevant agreements are put in place and approved by the Banque de France.

Some negative carry risk arises because cash proceeds from the sale of residential loan portfolios may have to be reinvested at a stressed spread until they are used to repay maturing covered bonds.

Hedging Structure

In the absence of enforcement of collateral security (i.e., as long as the issuer does not benefit from title to the home loans), CNCE retains any interest or currency risk linked to the mismatch between the collateral security and the covered bonds. If the title to the residential loans (and any substitution assets) is transferred to the issuer following enforcement of the collateral security, the issuer must have appropriate swaps to hedge the currency and interest rate risks arising from the residential loans, since the interest collections from the residential loans fluctuate in accordance with the interest rates applicable to the residential loans. Interest to the covered bondholders varies in accordance with the final terms of the series of those covered bonds.

If the short-term rating on CNCE falls below 'A-1', the issuer has 30 calendar days to enter—at CNCE's cost—into:

- Issuer hedging agreements concluded by the issuer with a counterparty rated at least 'A-1' and complying with Standard & Poor's counterparty criteria ; and
- Back-to-back swap agreements concluded with CNCE (the "CNCE hedging agreements").

The purpose of these CNCE hedging agreements is to transfer to CNCE the benefit of the issuer hedging agreements. When the title to the residential loans is transferred in favor of the issuer following an enforcement of the CNCE collateral security, the issuer must continue the issuer hedging agreements and immediately terminate the CNCE hedging agreements.

Issuer hedging

The issuer will enter into an interest rate swap with a counterparty that carries the required minimum rating. This swap will hedge a notional amount of the residential loans in the collateral security pool against one-month EURIBOR, plus a margin, determined from time to time, over the residential loans portfolio.

To hedge its potential interest rate and currency exposure for each series of non-euro-denominated covered bonds, or where another interest rate base other than one-month EURIBOR is used, the issuer will enter into several currency and interest rate swaps.

Backing swaps

Before a default by CNCE, the issuer will not be exposed to any hedging risks. It will enter into equal and opposite swap agreements with CNCE as a backing swap provider. Each backing swap will terminate if the collateral security is enforced.

In all cases, termination costs payable by the issuer under any swaps will be subordinated in the priority of payments until all the covered bonds are fully repaid, if the counterparty is the defaulting or affected party.

Cover Pool At Program Set-Up Date

The residential loans that act as security under the advance loans between the covered bond issuer and CNCE will be originated by GCE Group, including CFF.'. Adequate protection against credit risk will be provided through the dynamic ACT (see "ACT test").

The residential loans in the provisional collateral pool were selected according to eligibility criteria, including:

- All of the properties must be located in France;
- Each loan must be made according to customary lending procedures;
- The LTV ratio must not be more than 100% and the loan amount lower than €1 million;
- The loans must be euro-denominated;
- The remaining term must be less than 30 years;
- None of the borrowers can be employees of the originator;
- All loans must be current, and not be defaulted;
- All loans must amortize monthly or quarterly;
- Residential loans must be secured by a first-ranking standard security over residential property (second-ranking if the first-ranking mortgage is already selected in the collateral pool, i.e., no second-lien) or a guarantee;
- There must be no contractual set-off clauses within the loan agreement; and
- Loans that allow further advances to be made after origination are subject to Standard & Poor's confirmation.

Our legal analysis views as remote the risk that a set-off based on interrelated debts ("dettes connexes") will be exercised by an obligor between his obligation to repay his loan and his right to recover his deposit.

The provisional portfolio we analyzed as of May 19, 2008, had the characteristics shown in table 1, chart 2, and chart 3.

Table 1

Provisional Portfolio	
Total principal balance (€)	8,750,980,414
Total number of loans	159,698
Largest loan (€)	953,026
Average loan (€)	54,797
Weighted-average LTV ratio (%)	69.86
Weighted-average debt-to-income ratio	32.10
Weighted-average seasoning (months)	37.86
Proportion of fixed-rate loans (%)	83.8
Proportion of owner-occupied loans (%)	94.2
Percentage of loans with guarantee provided by SACCEF	69.6
Percentage of loans with guarantee provided by Crédit Logement	2.3

Chart 2

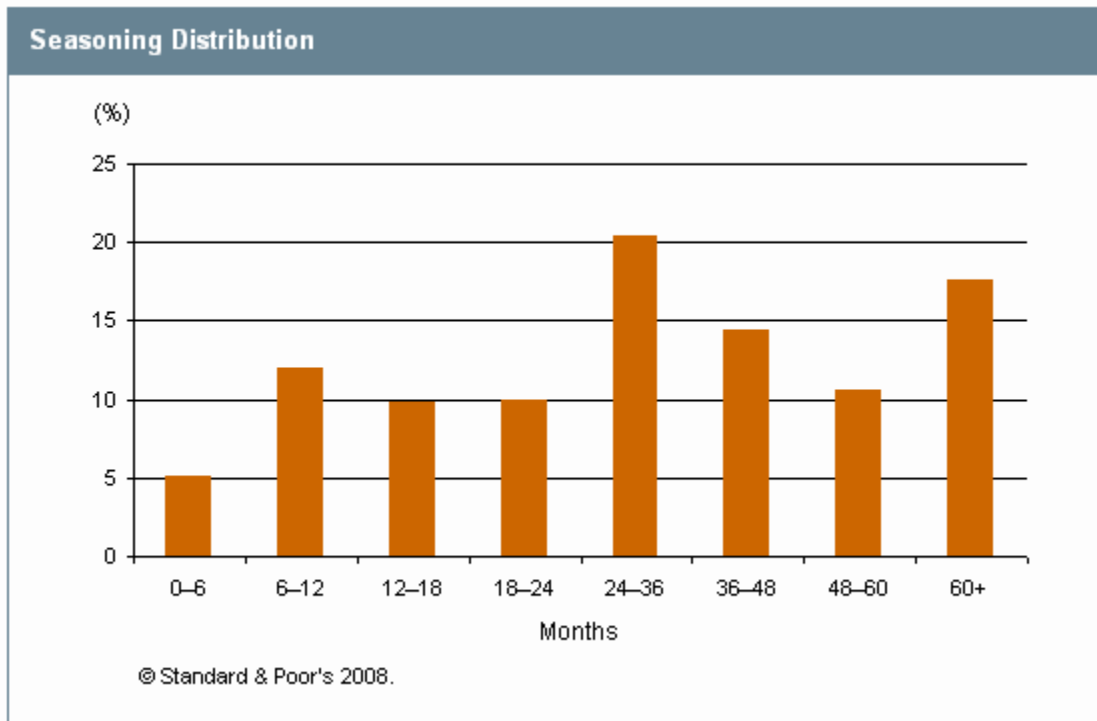
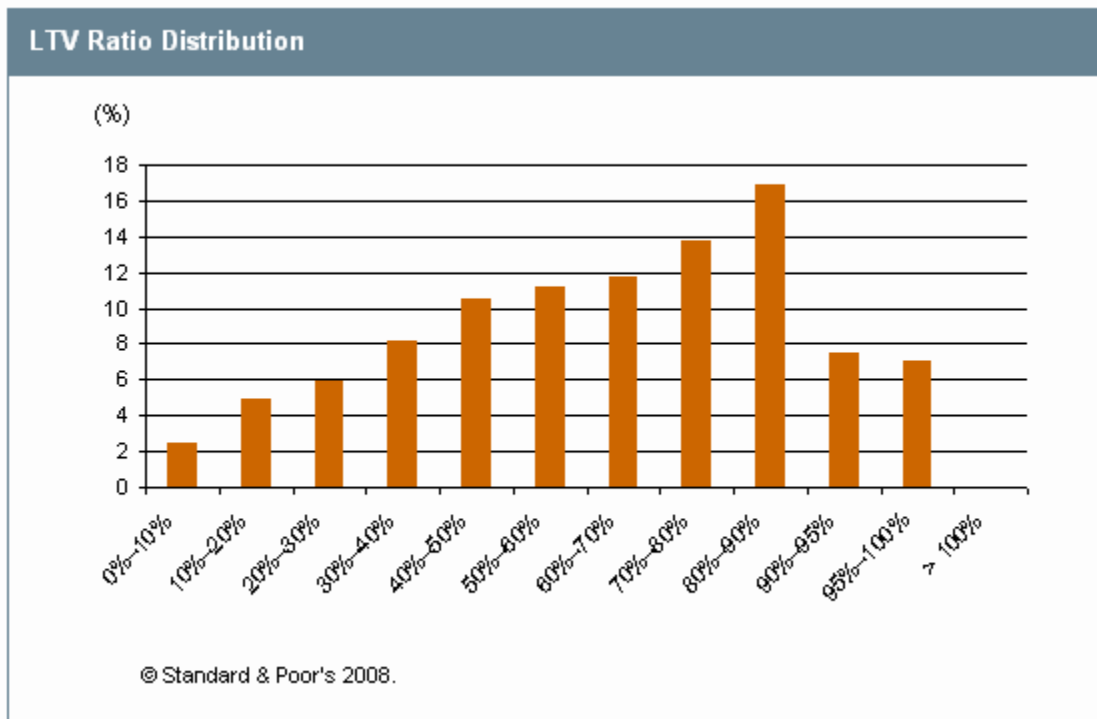


Chart 3



Credit Analysis

WAFF and WALs

Our credit analysis comprises:

- The sizing of the WAFF, which is essentially based on the debt-to-income ratio of the underlying borrowers; and
- The determination of the WALs, which is derived from the LTV ratio and the expected market value decline of the property.

The product of the WAFF and WALs is the potential net loss on the portfolio. The closing WAFF and WALs results are shown in table 2.

Table 2

Closing WAFF And WALs Results	
	(%)
WAFF	15.25
WALS	35.70

Analysis of French guarantees

In France, around 50% of the loans are secured by a guarantee (French "caution") as opposed to a mortgage taken on the property. The use of these guarantees has been increasingly popular, partly because it saves the cost of a mortgage registration.

The guarantors extending these guarantees are specialized financial institutions. The main guarantors are Crédit Logement (owned by several large French banks), SACCEF (owned by Natixis Garanties), Cautionnement Mutuel de l'Habitat (Crédit Mutuel group), Sociétés de Cautions Mutuelles Immobilières (Banques Populaires group), CASDEN (Banques Populaires group), and Caisses d'Assurance Mutuelle du Crédit Agricole (Crédit Agricole group).

In this program, around 70% of the loans are secured by a guarantee granted by SACCEF in the provisional cover pool.

According to this guarantee, the guarantor is committed to indemnify the lender up to the unpaid installments and the loan outstanding balance if the borrower defaults on his loan, which is generally declared after four unpaid installments. The guarantor is then subrogated in the lender's rights against the defaulting borrower and assumes the recovery process.

If the loan receivables are transferred to the issuer, the benefit of this guarantee would be transferred as well, as an accessory to the receivable. However, we did not rely on SACCEF's ability to indemnify the issuer or the buyer of the loans, because this would introduce a link to SACCEF's rating.

This is why the analysis focused on the ability of the servicer of these loans to recover from a defaulting borrower if SACCEF does not perform. In that case, since no contractual mortgage was taken at loan origination, the servicer will have to try to take a judicial mortgage on the borrower's default. He is then exposed to the risk of failing to do so, which would reduce his recovery. To build an assumption about the loss severity incurred by these guaranteed loans in a 'AAA' scenario, we applied a stress to the loss severity assumed for loans secured by a first-ranking

mortgage.

Cash Flow Analysis

The cash flows analysis aims to determine that, under Standard & Poor's stress scenarios, the cash flows generated by the assets that the bank has to maintain as collateral, according to the ACT test, will be sufficient to repay the covered bonds (see table 3).

For the purpose of the cash flow analysis applied to this transaction, we assume that CNCE could default at any time, and that following this default, the issuer would immediately sell the assets. One main goal of the analysis is to assess the amount of cash that the issuer would be able to get from this sale. This depends primarily on the WAFF, the WALs, the margin paid by the swap attached to the assets, and the refinancing rate of these assets. We assume this amount will then be placed in an account until the maturity of the covered bonds. The structure will be exposed to some negative carry over that period, because the issuer will receive less on that cash than it owes on the swap attached to the covered bonds.

Table 3

Cash Flow Analysis As Of May 14, 2008	
Asset assumptions	
WAFF (%)	15.25
WALS (%)	35.70
Asset swap margin (bps)	Determined from time to time by the calculation agent
Refinancing rate (bps)	80
Negative carry assumptions	
Rate received on the cash	EURIBOR minus 50 bps
Covered bond swap margin (bps)	Determined from time to time by the calculation agent

Participants

With €585 billion in total assets at June 30, 2007, the GCE Group is the fourth-largest banking group in France.

The ratings on CNCE reflect the creditworthiness of the GCE Group, including its strong retail franchise, low risk profile, and solid capitalization, along with moderate operating efficiency. We rate CNCE based on an analysis of the consolidated group, including GCE's stake in Natixis.

The ratings on the leading French specialized mortgage lender CFF reflect membership in the GCE Group through CNCE. Also factored into the ratings are CFF's valuable franchise, satisfactory financial profile, including a moderate risk profile, and satisfactory profitability and capitalization. Offsetting factors are CFF's reliance on a nearly monoline business, with underlying vulnerability to property market cycles, only adequate margins due to the highly competitive nature of the French mortgage market, and the relative vulnerability of the franchise to the current interest rate environment.

Ongoing Surveillance

Continual surveillance is maintained on the program until the notes mature or are otherwise retired. To do this, regular servicer reports detailing the performance of the underlying collateral are analyzed, pool cuts are required quarterly, the stress applied to the loss severity of guaranteed loans are monitored regularly, the ACT asset percentage is recalculated quarterly, supporting ratings are monitored, and regular contact is made with the servicer to ensure that minimum servicing standards are being sustained and that any material changes in the servicer's operations are communicated and assessed.

Criteria Referenced

- "Cash Flow Criteria for European RMBS Transactions" (published on Nov. 20, 2003).
- "Criteria for Rating French Residential Mortgage-Backed Securities" (published on July 16, 2003).
- "European Legal Criteria for Structured Finance Transactions" (published on March 23, 2005).
- "Methodology & Assumptions: Applying The Derivative Counterparty Framework To Covered Bonds" (published on Feb. 26, 2008).

Related Articles

- "European Covered Bond Outlook 2008—Increased Transparency Still The Goal" (published on March 6, 2008).
- "Transition Study: European Structured Finance Ratings Stable In 2007, But Pockets Of Weakness Emerged" (published on Jan. 25, 2008).
- "European Structured Finance Performance Outlook 2008—Economic Weakening And Credit Squeeze Could Hurt Asset Performance" (published on Jan. 25, 2008).
- "All Covered Bonds Are Not Created Equal" (published on Sept. 13, 2007).
- "The Fundamentals Of Structured Finance Ratings" (published on Aug. 23, 2007).
- "Structured Finance Glossary Of Securitization Terms 2007" (published on June 11, 2007).
- "Expanding European Covered Bond Universe Puts Spotlight on Key Analytics" (published on July 16, 2004).
- "Summary: Caisse Nationale des Caisses d'Epargne et de Prevoyance" (published on Jan. 16, 2008).
- "Summary: Crédit Foncier de France" (published on Nov. 16, 2007).

All criteria and related articles are available on RatingsDirect, the real-time Web-based source for Standard & Poor's credit ratings, research, and risk analysis, at www.ratingsdirect.com. The criteria can also be found on Standard & Poor's Web site at www.standardandpoors.com.

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