



Moody's Investors Service

Rating Action: **Moody's affirms BPCE and Natixis at Aa3 with stable outlooks**

Global Credit Research - 25 Feb 2010

Natixis's BFSR upgraded to D+; outlooks on BPCE and Natixis's BFSRs changed to stable from negative

Paris, February 25, 2010 -- Moody's Investors Service today upgraded the bank financial strength rating (BFSR) of Natixis to D+ (stable outlook) from D (negative outlook) and changed the outlook on the C- BFSR of BPCE SA (BPCE), the central body of Groupe BPCE, to stable from negative. At the same time, Moody's affirmed the senior debt ratings of BPCE and Natixis at Aa3 with a stable outlook. The short-term ratings were affirmed at Prime-1.

These rating actions follow the conclusion of BPCE's strategic review -- as a result of which, inter alia, the group's diversified franchise will be preserved and retail activities will continue to dominate its business mix -- and also take into account Natixis's restored profitability prospects. They also incorporate the results of Moody's stress-test scenario analysis factoring in the guarantee that BPCE is providing on Natixis's highest-risk assets following an agreement signed in November 2009.

Simultaneously, Moody's took the following rating actions on the group's subordinated and hybrid instruments, thus concluding the review for possible downgrade on BPCE's instruments initiated on 18 November 2009, in line with Moody's revised Guidelines for Rating Bank Hybrids and Subordinated Debt published in November 2009:

- the subordinated debt ratings of BPCE and Natixis were affirmed at A1 with a stable outlook;
- the ratings of BPCE's junior subordinated debt instruments were downgraded to Baa2 (positive outlook) from A1 (on review for possible downgrade);
- the ratings of BPCE's undated deeply subordinated notes (qualifying as Tier 1 capital) were downgraded to Baa3 (stable outlook) from A2 (on review for possible downgrade);
- the ratings of all of Natixis's hybrid instruments were upgraded to Ba2 (stable outlook) from B2 (stable outlook).

BFSR ACTIONS REFLECT CONCLUSION OF STRATEGIC REVIEW, RESTORED PROFITABILITY

The change in outlook to stable from negative on BPCE's C- BFSR, which maps to a Baa2 Baseline Credit Assessment (BCA), reflects Moody's view that the conclusions of the strategic review imply no significant weakening of the group's diversified franchise and should lead to a further streamlining of its organisational structure, enabling Natixis and Credit Foncier to fully benefit from the strength of the Banque Populaire (BP) and Caisse d'Epargne (CE) networks as product and service providers.

BPCE's "Adjusted BCA" -- which incorporates not only the Baa2 BCA of BPCE (i.e. the group's central body) but also the potential parental and cooperative support from its savings and regional bank shareholders, though excluding any systemic support expectations -- is Baa1, i.e. one notch higher than BPCE's BCA.

This one-notch uplift for the Adjusted BCA reflects the stable revenues from the savings and regional banks' activities, which should remain predominant in the business mix going forward while contributing significantly to the group's funding and capital generation capacity. In this respect, Moody's expects that the underlying profitability of both the BP and CE networks will enhance the group's ability to repay the state aid it has received while maintaining adequate capital buffers in a changing regulatory environment.

Less positively, BPCE's Baa1 Adjusted BCA also takes into account the potential adverse effects to the group's capital buffers from the segregated assets of Natixis and from the enlarged group's loan portfolios, according to Moody's stress-test scenario analysis.

However, Moody's believes this Adjusted BCA currently enjoys some upward pressure for two key reasons. Firstly, Moody's expects the group's efficiency and performance metrics, which are currently weaker than those of peers, to improve going forward. Secondly, despite some challenges notably from the merger, Moody's believes there is scope for enhancing comprehensive and group-wide risk management capabilities. One particularly positive development in this direction is BPCE's creation of a unified risk management department, led by the former credit risk officer of the Banque Populaire Group, who reports directly to the chairman of BPCE's management board.

The upgrade of Natixis's BFSR to D+ (mapping to a Baa3 BCA) from D (mapping to a Ba2 BCA) reflects Moody's belief that these levels adequately represent Natixis's standalone creditworthiness given the bank's restored profitability prospects thanks notably to the guarantee provided by BPCE on Natixis's highest-risk assets. The strategic decision to maintain its diversified revenue sources and to focus on less capital-intensive and mostly client-driven activities could also lead to more stable earnings going forward. Moody's notes that many of Natixis's investment banking competitors have similarly increased their focus on more liquid, client-driven business and the rating agency will closely monitor the effectiveness of the new strategy. Moody's cautions that, as this competition exerts pressure on margins, Natixis and its peers will be challenged to resist the pressure to increase their exposures to more capital-intensive, illiquid businesses.

SENIOR DEBT RATINGS AFFIRMED WITH A STABLE OUTLOOK

BPCE and Natixis's long-term debt and deposit ratings have been affirmed at Aa3 with a stable outlook, reflecting the full support that Moody's expects from the solidarity mechanisms and cross-guarantees prevailing within the mutualist group along with Moody's assessment of a high probability of systemic support for the enlarged Groupe BPCE. The continued importance of Groupe BPCE to the domestic retail market results in a four-notch uplift for the debt and deposit ratings from BPCE and Natixis's Adjusted BCAs of Baa1.

The stable outlook on the Aa3 long-term debt and deposit ratings of BPCE and Natixis reflects, inter alia, the stability of expected supports mentioned above.

RATING ACTIONS ON HYBRID INSTRUMENTS

The starting point in Moody's revised approach to rating hybrid securities is the Adjusted BCA. The Adjusted BCA is Baa1 for BPCE and Natixis, one notch and two notches above their respective BCAs.

The rating of the junior subordinated debt instruments (TSDI) of BPCE was downgraded to Baa2 (positive outlook), which is one notch below the Adjusted BCA due to their cumulative deferral features. The positive outlook on this rating reflects the upward pressure on the Adjusted BCA (see above under "BFSR Actions").

The non-cumulative preferred securities (TSS and trust-issued preferred securities) of BPCE (including those formerly issued by Caisse Nationale des Caisses d'Epargne) were downgraded to Baa3 (stable outlook), which is two notches below the Adjusted BCA. This level incorporates the non-cumulative features of these securities. It also incorporates the additional protection linked to a dividend pusher with a twelve-month look-forward period along with Moody's assessment of a very high likelihood of payment of dividend by BPCE on the EUR3 billion preference shares due to the French state given some specific features attached to these preference shares.

The non-cumulative preferred securities (TSS and trust-issued preferred securities) issued by Natixis, NBP Capital Trust I and NBP Capital Trust III were upgraded from B2 to Ba2 (stable outlook) i.e. four notches below the Baa1 Adjusted BCA of Natixis. This rating action is supported by the restored profitability prospects for Natixis and by the clearance by the European Commission of State Aid received at BPCE level. In Moody's opinion, although the weak solvency triggers attached to these instruments are unlikely to be breached in the medium term, the risk of coupon deferral has not fully disappeared given that Moody's does not expect dividends on common shares to be paid for the year 2009, and therefore the dividend pusher does not provide any protection for the hybrid holders.

The list of the above-mentioned affected securities can be accessed through this link:

http://v3.moodys.com/page/viewresearchdoc.aspx?docid=PBS_SF195852

OPERATING SUBSIDIARIES

Natixis Bank (ZAO) - Russia

In connection with the rating action on its parent company Natixis, the outlook on the Ba2 long-term local and foreign currency deposit ratings of Natixis Bank (ZAO) was changed to stable from negative. The bank's E+ BFSR (stable outlook) and Not Prime short-term local and foreign currency ratings remain unchanged.

LAST RATING ACTIONS AND MOODY'S METHODOLOGIES

The last rating action on BPCE's BFSR was on 31 July 2009 when Moody's assigned first-time Aa3 (stable outlook)/Prime-1 senior debt and bank deposit ratings to the newly created BPCE. Simultaneously, Moody's affirmed BPCE's C- (negative outlook) BFSR after having assigned a provisional BFSR of C- with a negative outlook on 6 July 2009.

The last rating action on Natixis's BFSR was on 6 July 2009 when Moody's downgraded Natixis's BFSR to D

(negative outlook and mapping to a Ba2 BCA) from D+ (negative outlook and mapping to a Ba1 BCA). Moody's also affirmed the bank's Aa3 long-term deposit and senior unsecured debt ratings and short-term Prime-1 deposit rating.

The last rating action on Natixis Bank (ZAO) was on 7 April 2009 when the rating agency assigned Ba2 long-term and Not Prime short-term local and foreign currency ratings, a Aa2 ru long-term national scale rating and an E+ BFSR to Natixis Bank (ZAO). The outlook on the long-term deposit ratings of Ba2 was negative, while the BFSR carried a stable outlook.

The last rating action on BPCE's hybrids and subordinated debt instruments was on 18 November 2009 when Moody's placed under review for possible downgrade the non-cumulative preferred securities and the junior subordinated debt instruments of BPCE. The last rating action on Natixis's hybrid instruments was on 6 July 2009 when the rating agency downgraded to B2 from A3 the non-cumulative Tier I instruments issued by Natixis and its vehicles, thus concluding the review for possible downgrade that was initiated on 6 March 2009.

The principal methodologies used in rating the issuers affected by this press release are "Bank Financial Strength Ratings: Global Methodology" and "Incorporation of Joint-Default Analysis into Moody's Bank Ratings: A Refined Methodology" published in February 2007 and "Moody's Guidelines for Rating Bank Hybrid Securities and Subordinated Debt" published in November 2009, which can be found at www.moody.com in the Rating Methodologies sub-directory under the Research & Ratings tab. Other methodologies and factors that may have been considered in the process of rating these issuers can also be found in the Rating Methodologies sub-directory on Moody's website.

Based in Paris, Groupe BPCE posted consolidated assets of EUR1,029 billion and a Tier 1 capital ratio of 9.1% (Basel II) at the end of 2009 and a net profit, group share, of EUR537 million for the full year 2009 (versus pro-forma consolidated assets of EUR1,143 billion at year-end 2008 and a pro-forma Tier 1 capital ratio of 8.7% at the end of June 2009).

Based in Paris, Natixis reported consolidated assets of EUR 450 billion, and a Tier 1 ratio of 9.1% (pro forma for the reimbursement of the €500 million balance of the shareholder advance still not repaid) at the end of 2009 and net losses, group share, of EUR1.7 billion for the full year 2009 (versus audited, consolidated assets of EUR556 billion and a Tier 1 ratio of 8.2% at the end of 2008 and net losses, group share, of EUR2.8 billion for the full year 2008).

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