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Research Update:

French Bank BPCE 'A+/A-1' Ratings Affirmed; SACP Raised By One Notch To 'a+'; Outlook Stable

Primary Credit Analyst:

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

Secondary Contact:

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

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Overview

- We are affirming our 'A+/A-1' ratings on BPCE, the main funding bank and central body of French cooperative banking group Groupe BPCE, which has a core position in the group according to our criteria.
- We are raising the stand-alone credit profile (SACP) on BPCE to 'a+' from 'a'.
- We are removing one notch of uplift to the long-term rating on BPCE for state support from France.
- We are also subsequently upgrading BPCE's junior subordinated debt and preferred stock to 'BBB+' from 'BBB-'.
- In a related rating action, we are raising the rating to 'BBB' from 'BB+' on the preferred stock issued by Natixis, also a core subsidiary of Group BPCE.
- The stable outlook reflects our expectations that BPCE's core earnings in 2011 could be close to 2010 levels.

Rating Action

On April 5, 2011, Standard & Poor's Ratings Services affirmed its 'A+' long-term and 'A-1' short-term counterparty credit ratings on BPCE. The outlook is stable. We raised the bank's stand-alone credit profile (SACP) to 'a+', eliminating one notch of uplift that we had previously factored into the long-term rating to reflect our view of explicit government support.

Rationale

We base our view about BPCE on a consolidated analysis of Groupe BPCE because of the bank's core status within the group, according to our criteria. To reflect normalization of the group's earnings metrics and risk profile, underpinned by its full reimbursement of state aid, we have aligned the SACP with the long-term counterparty credit rating on BPCE.

Our assessment of the group's financial profile is becoming more commensurate with banks we rate 'A+'. We continue to view the banking group's prominent and well-anchored position in retail banking in France as its major rating strength.

We believe that the combination of Groupe Banque Populaire (GBP) and Groupe Caisse d'Epargne (GCE) in summer 2009, which became Groupe BPCE, laid the

groundwork for an improvement in creditworthiness. In our opinion, the combined cooperative groups, with BPCE as their main funding bank and central body, are benefiting from tangible economies of scale, a more streamlined organization, simpler corporate governance, and better diversification. The combination is on track, supported by the strong commitment of BPCE's management team and the rollout of a reasonable and coherent strategy.

We are of the view that Groupe BPCE's risk-adjusted profitability is adequate. The group's profitability rebounded in 2010. Groupe BPCE posted €3.7 billion in core earnings on Dec. 30, 2010, on the back of improving efficiency and a 60% reduction in loan loss provisions. Operating performance was overall good and costs were under strong control, reaping the first benefits of synergies arising from the GBP and GCE alliance. We are of the opinion that Groupe BPCE's overall core profitability in 2011 will not stray far from 2010's. Profitability could therefore remain below the group's underlying earnings capabilities in the coming quarters, in a scenario of moderate economic growth and low interest rates.

We believe that Groupe BPCE's risk profile and appetite have been declining. Its overall risk profile is moderate when compared with peers'. Groupe BPCE's most sensitive exposures are, in our opinion, well covered. We expect that Natixis' legacy assets will not significantly weigh on the group's earnings in the coming quarters. Exposure of the group to Europe's most troubled economies stands below that of large and complex universal banking peers and is manageable in light of its normalized earnings base.

The group's capital adequacy has been steadily improving since its creation. We consider Groupe BPCE's capital level and quality as moderate when compared with international peers'. We estimate a risk-adjusted capital ratio for the group of 8% after and 6.5% before adjustments for concentration and diversification on June 30, 2010. We understand the group will continue to manage its balance sheet tightly as it prepares for the new regulatory regime. Structurally improving from their 2009 lows, core earnings are enhancing the bank's ability to generate capital internally.

Outlook

The stable outlook reflects our expectations that Groupe BPCE's core earnings in 2011 could be close to 2010 levels. In the coming quarters, we also expect the banking group to pursue a tightened business scope for Natixis and a strategic repositioning closer to Groupe BPCE's regional networks. We also expect Groupe BPCE to contain its risk profile in other business lines. Finally, we do not rule out continued divestments of noncore assets to free up capital in the coming quarters, such as regional retail bank Société Marseillaise de Crédit and the most complex compartment of Natixis' legacy credit derivative exposures.

We would consider a negative rating action if economic conditions worsen, leading to an unexpected rise in loan losses, or if the legacy assets of

Natixis S.A. (A+/Stable/A-1) significantly impair the enlarged group's profitability, weakening its turnaround. Still, we continue to expect government support to be forthcoming in case of need, according to our classification of Groupe BPCE as a bank of high systemic importance. We consider that this support would act to limit or completely offset potential damage to BPCE's creditworthiness.

A sustainable recovery in the group's profitability that would result in stronger capital would be positive for BPCE's stand-alone creditworthiness, but we consider this as a remote scenario.

Related Criteria And Research

All articles listed below are available on RatingsDirect on the Global Credit Portal.

- Group Methodology, April 22, 2009
- How Systemic Importance Plays A Significant Role In Bank Ratings, July 3, 2007
- Stand-Alone Credit Profiles: One Component Of A Rating, Oct. 1, 2010

Ratings List

New Rating/Ratings Affirmed/Upgraded

	To	From
BPCE		
Natixis S.A.		
Counterparty Credit Rating	A+/Stable/A-1	
Commercial Paper	A-1	
Subordinated	A	
Senior Unsecured	A+	
BPCE		
Junior Subordinated	BBB+	BBB-
Natixis S.A.		
Junior Subordinated	BBB	BB+

NB: This list does not include all ratings affected.

Additional Contact:

Financial Institutions Ratings Europe;FIG_Europe@standardandpoors.com

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