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**Research Update:**

**France's BPCE Assigned 'A+/A-1'  
Ratings; Outlook Stable; BFBP,  
CNCE Ratings Affirmed And Most  
Withdrawn**

**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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## Research Update:

# France's BPCE Assigned 'A+/A-1' Ratings; Outlook Stable; BFBP, CNCE Ratings Affirmed And Most Withdrawn

## Overview

- French cooperative banking groups Groupe Caisse d'Epargne and Groupe Banque Populaire combined to form Groupe BPCE.
- We assigned 'A+/A-1' ratings to BPCE, the new central body of Groupe BPCE.
- The stable outlook reflects our anticipation of forthcoming government support, given Groupe BPCE's high systemic importance, despite our expectation for losses in 2009-2010.

## Rating Action

On July 31, 2009, Standard & Poor's Ratings Services assigned its 'A+' long-term and 'A-1' short-term counterparty credit ratings on France-based BPCE, the new central body around which Groupe Caisse d'Epargne (GCE) and Groupe Banque Populaire (GBP) combined to form Groupe BPCE. The outlook is stable. BPCE will become fully operational on Monday, Aug. 3, 2009, after GBP and GCE's extraordinary general meetings today ratified the creation of the new bank.

In related rating actions, we affirmed then withdrew the 'A+' long-term and 'A-1' short-term counterparty credit ratings on Banque Fédérale des Banques Populaires (BFBP), the former central body of GBP. BFBP has transferred all debt that we rate to BPCE as of today.

We also affirmed the 'A+' long-term and 'A-1' short-term counterparty credit ratings on Caisse Nationale des Caisses d'Epargne et de Prévoyance (CNCE)--renamed Caisses d'Epargne Participations--the former central body of GCE, reflecting its core position within Groupe BPCE. Finally, we withdrew the long-term counterparty rating on CNCE. Although CNCE also transferred to BPCE most of its debt that we rate, some notes were not transferable and are therefore still housed at Caisses d'Epargne Participations (euro commercial paper governed by English law as well as U.S. commercial paper and extendible notes governed by the law of the State of New-York).

## Rationale

BPCE is the central bank and central body of cooperative banking group Groupe BPCE. The ratings on BPCE reflect its core membership in Groupe BPCE, which results from the alliance between GBP and GCE.

Standard & Poor's views Groupe BPCE as enjoying high systemic importance in France, particularly since the GCE-GBP alliance gave birth to France's No. 2 retail banking group. We give the ratings on BPCE one notch of uplift for

State support from France, which we classify as a supportive country under our methodology. According to our estimates, the combined group's Tier 1 ratio stands at about a pro forma 9%, taking into account the first-quarter loss of €1.8 billion for investment banking subsidiary Natixis S.A. Because we view it as having high systemic importance, we anticipate strong French government support for Groupe BPCE. This should help offset the weak performances that we expect for the group in 2009-2010. This is illustrated by Natixis' first-quarter loss.

Over the past few months, the French government has been involved in the GBP-GCE alliance. The groups have already benefited from the State's systemwide support plan. In addition, the State has been continuing to support the combined GBP-GCE group with Tier 1 qualifying capital instruments. It injected €5 billion in BPCE in deeply subordinated debt and preferred shares convertible into ordinary shares--through the exercise of warrants issued simultaneously with the preferred shares--potentially resulting in up to a 20% government stake in the central body of the new combined group in case of conversion. A former government official, formally appointed as chief executive of both CNCE and BFBP, is keeping this position within BPCE.

Sizable impairments on its large and illiquid credit investment portfolio fuelled Natixis' loss in the first quarter and we consider it possible that Natixis could register further sizable losses related to these exposures, notably amid negative economic prospects. We view Groupe BPCE as enjoying a strong franchise and sound underwriting skills in its core business of retail banking in France. However, we expect that retail banking earnings will likely be moderate compared to Natixis' potential risks. Therefore, we are of the opinion that Groupe BPCE's earnings generation capacity will likely be negatively affected in the coming quarters, leaving it less armed to withstand the crisis.

## Outlook

The stable outlook reflects our anticipation of forthcoming government support, given our view of Groupe BPCE's high systemic importance, which would help offset the negative ratings impact of substantial losses. We assume in our central scenario that the group will post losses in 2009 and 2010. In the coming quarters, we also expect the enlarged banking group to pursue the transformation of Natixis and related crisis adaptation measures, while containing its risk profile in other business lines. Finally, we do not rule out that Groupe BPCE could divest noncore assets to free up capital.

However, we might consider a negative rating action if the unfavorable financial and economic conditions significantly reduce the group's profitability, without being offset by government support or measures aimed at ensuring that the combined group maintains a conservative level of capitalization.

Although a remote scenario in the short term, a recovery in Natixis' performance, combined with resilience in retail banking, would likely be positive for ratings. We do consider that, on the basis of current information, the alliance between GCE and GBP could have benefits for the ratings in the medium term. But they are more than counterbalanced by our

expectations in the short term regarding the combined group's negative earnings prospects and the execution risks related to the merger.

## Ratings List

### Ratings assigned

BPCE A+/Stable/A-1

### Ratings affirmed and withdrawn

	To	From
Banque Fédérale des Banques Populaires	NR	A+/Stable/A-1

Caisse Nationale des Caisses d'Epargne et de Prévoyance

NR A+/Stable

### Short-term ratings affirmed

Caisses d'Epargne Participations A-1

(formerly Caisse Nationale des Caisses d'Epargne et de Prévoyance)

NB: This list does not include all ratings affected.

### Additional Contact:

Financial Institutions Ratings Europe;FIG\_Europe@standardandpoors.com

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