

Publication Date: Nov. 13, 2007

## Covered Bond Presale Report

### Banques Populaires Covered Bonds Up To €2.5 Billion Fixed-Rate Covered Bonds Series 1 (Up To €25 Billion Program)

Analysts: Matthieu Dillard, Paris (33) 1-44-20-7340, matthieu\_dillard@standardandpoors.com and Florent Stiel, Paris (33) 1-44-20-6690, florent\_stiel@standardandpoors.com  
Surveillance analyst: Sean Hannigan, London (44) 20-7176-3783, sean\_hannigan@standardandpoors.com  
Group e-mail address: StructuredFinanceEurope@standardandpoors.com

This presale report is based on information as of Nov. 13, 2007. The credit rating shown is preliminary. This report does not constitute a recommendation to buy, hold, or sell securities. Subsequent information may result in the assignment of an initial credit rating that differs from the preliminary credit rating.

Series	Prelim. rating*	Prelim. amount (Bil. €)	Interest	Available credit support	Legal final maturity
1	AAA	Up to 2.5	Fixed (annually)	Dynamic (see "Maintenance of the portfolio")	TBD

*\*The rating is preliminary as of Nov. 13, 2007 and is subject to change at any time. An initial credit rating is subject to a satisfactory review of the transaction documents, structure and legal opinion. Standard & Poor's ratings address timely interest and principal. TBD—To be determined.*

Transaction Participants	
Issuer	Banques Populaires Covered Bonds
Administrator of the issuer	Banque Fédérale des Banques Populaires
Issuer calculation agent	Banque Fédérale des Banques Populaires
Borrowers	Each participating Banque Populaire, including Banque Fédérale des Banques Populaires
Collateral providers	Each borrower: Banque Fédérale des Banques Populaires for the substitution assets only
Residential loans servicers	Each borrower
Arranger	Natixis S.A.
Cash collateral provider	Banque Fédérale des Banques Populaires
Noteholders representative	Natixis S.A.
Paying agent	Fortis Banque Luxembourg S.A.
Issuer security agent	Natixis S.A.
Issuer account bank and cash manager	Natixis S.A.
Asset monitor	Deloitte et Associés

Transaction Key Features	
Expected closing date	November 2007
Program limit (Bil. €)	25
Currencies of covered bonds	Euros, U.S. dollars, Japanese yen, Swiss francs, and any other currency, subject to Standard & Poor's confirmation
Issuer collateral	A credit facility between each Banque Populaire (as borrower) and the issuer
Collateral security	A pool of prime residential real estate loans secured by first-ranking mortgages (second-ranking only if the first-ranking mortgage loans are already selected in the collateral portfolio) or guarantees provided by credit institutions or insurance companies; and substitution assets (maximum 20% of the outstanding asset amount)

Supporting Ratings	
Institution/role	Ratings
Natixis as the issuer account bank	AA/Stable/A-1+
Issuer hedging counterparty	An entity rated at least 'A-1'

## Transaction Summary

Standard & Poor's Ratings Services has assigned a preliminary 'AAA' credit rating to the first issuance under the Banques Populaires group's up to €25 billion covered bond program to be issued by Banques Populaires Covered Bonds. The proposed size of the first issuance is up to €2.5 billion, but this may change at closing.

Under the program terms, Banques Populaires Covered Bonds will issue the covered bonds and use the proceeds to fund a credit facility to be made available to each Banque Populaire, including Banque Fédérale des Banques Populaires (BFBP). The advances will match the terms and conditions of the covered bonds to ensure full and timely payment under the covered bonds. If any of the Banques Populaires, acting as borrower, defaults, the pools of residential loans pledged by all the borrowers that meet the eligibility criteria (see "*Collateral Description*") along with the substitution assets will be transferred to the issuer. These assets will secure the financial obligations of each borrower and allow Standard & Poor's to delink the rating on the program from that on BFBP.

This will be the first issuance under the €25 billion global covered bond program set up by the Banques Populaires group. It will be backed by a French portfolio owned by the Banques Populaires group of first-lien mortgages (second-lien only if the first-lien mortgage is already included), or residential loans guaranteed by Sociétés de Cautions Mutuelles Immobilières (SOCAMI), CASDEN, or Crédit Logement.

The Banques Populaires group comprises:

- BFBP;
- Regional Banques Populaires entities;
- CASDEN Banque Populaire;
- Crédit Coopératif Banques Populaires;
- Crédit Maritime Mutuel; and
- SOCAMI. There is one SOCAMI for each Banque Populaire.

## Notable Features

This transaction will be largely identical to BNP Paribas' and CM-CIC's recent covered bond programs, and will rely on the use of the new collateral provisions of the French monetary and financial code (Articles L 431-7-3) published on July 27, 2005, which implement the European financial collateral directive.

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

This €25 billion covered bond program is a complementary funding technique to the more traditional existing unsecured note issuance.

Covered bonds are viewed by financial institutions as a way of diversifying the investor base while promoting a rating-delinked issuance source, including longer-term financing.

The French market already benefits from a dedicated covered bond regime known as the "*obligations foncières*" framework. However, this is the third structured covered bonds program to be set up, the choice being mainly driven by the ability to avoid at closing 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 will provide these assets as collateral to secure (for the issuer's benefit) their obligation and the other borrowers' obligations to the issuer.

As in previous programs, Standard & Poor's has focused on ensuring that the French courts would recognize a valid security interest in the residential loans or substitution assets that remain on the borrowers' balance sheet, and that if any borrower defaults on certain financial obligations, this security would be enforceable against the Banques Populaires group, or third parties, notwithstanding the borrower's insolvency.

## Strengths, Concerns, And Mitigating Factors

### Strengths

- As in other covered bond transactions across Europe, the structure provides recourse to residential real estate loans and additional collateral in an amount higher than the debt outstanding under the program if the borrower defaults on certain financial obligations.
- The asset-coverage test (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.
- The assets forming the collateral pool are all prime residential loans, in contrast to typical mortgage covered bonds in other jurisdictions, which tend to mix residential and commercial mortgage loans. The ACT gives no value to the loans in arrears or defaults, which would be removed from the collateral portfolio, and Banques Populaires group entities will have to add loans or substitution assets if required.
- The ACT includes a cap on the loan-to-indexed value calculation, which will protect against a downward spiral in house prices.
- Third-party asset monitors are contracted to check the calculations performed by BFBP as calculation agent regarding the ACT.
- The Banques Populaires group is organized around a principle of solidarity between all members of the group, which results in a common credit risk. Integrated IT platforms finally contribute to ensure consistent servicing processes and servicing within the group.

### Concerns

- There is no required minimum portion of first-lien mortgage loans. The loans can benefit from a guarantee from Credit Logement, and also from SOCAMI or CASDEN, which are entities within the Banques Populaires group.
- BFBP 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 (i.e., one share that can veto all others at a shareholders' meeting), the issuer is a "*société anonyme*" (S.A.), which is 99.99% owned by BFBP, with no independent shareholder having a blocking minority of shares.
- If any of the borrowers 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, BFBP and the other borrowers will have until the next test date to provide additional collateral security. If they are unable to 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 Banques Populaires group entities. Furthermore, collections under the residential loans or the substitution assets could be commingled with the servicer assets until borrowers under the residential loans or substitution assets have redirected their payments away from Banques Populaires group entities.
- Since the covered bonds that mature earlier are paid before those maturing later, there is some time subordination.
- No hedging will be in place at closing.
- Loans guaranteed by the internal guarantors CASDEN or SOCAMI do not benefit from a mortgage, but only, in some cases, from a promise of the obligor to grant a mortgage. In the provisional portfolio, this promise is in place for CASDEN and all the SOCAMIs except one.

### Mitigating factors

- The ACT will ensure that any increase in guaranteed loans will result in higher levels of overcollateralization consistent with a 'AAA' rating.
- If the ratings on BFBP fall below certain levels, they will be replaced by suitably rated entities. Program documents will strictly govern the parties' functions or capacity to act.
- The issuer is incorporated as a *société anonyme* and licensed as a financial institution with limited and exclusive purpose by the French regulator "*Comité des établissements de crédit et des entreprises d'investissement*" (CECEI). In addition, BFBP has undertaken not to take any steps leading to the voluntary winding-up or dissolution of the issuer, or to change the bankruptcy-remoteness covenants and undertakings. This will mitigate the absence of an independent shareholder with a blocking minority of shares.
- If BFBP is downgraded below 'A-1', it will have 30 calendar days to contribute cash collateral in an amount that covers the following nine months at any time of any principal payment due under the covered bonds, as well as the issuer's senior expenses. Regarding the ability to monetize the portfolio, Standard & Poor's has assessed the depth and spread stability of the whole-loan trading market and the French RMBS market. Both are far less developed than in any other European jurisdiction, but Standard & Poor's considers the securitization market to be a resilient potential exit strategy.
- If BFBP is downgraded below 'A-1', a cash collateral contribution from BFBP will cover in advance two-and-a-half months of residential loans and substitution assets collections.
- If BFBP is downgraded below 'BBB', the Banques Populaires group entities must be replaced in their servicing capacity.
- Failure to meet the amortization test will trigger an acceleration of all series of covered bonds in the program. The level of overcollateralization in the program will render an acceleration of the covered bonds ratings-remote.
- If the rating on BFBP falls below 'A-1', hedging at the issuer level must be put in place within 30 business days, on predetermined terms at BFBP's cost.
- If BFBP is downgraded below 'A-', it will have to pay and maintain the registration costs of the mortgages or similar legal privileges (*hypothèque* or *privilege de prêteur de deniers*) securing the repayment of any home loans granted as collateral security and secured by guarantees granted by CASDEN or a SOCAMI. The issuer will estimate this amount subject to Standard & Poor's confirmation. If BFBP is downgraded below 'BBB', it will have to ensure that the commitment of CASDEN or the relevant SOCAMI is fully guaranteed or insured by a guarantor rated at least 'A-', or register mortgages or similar legal privileges (*hypothèque* or *privilege de prêteur de deniers*) for loans granted as collateral security and secured by guarantees granted by CASDEN or a SOCAMI.

### Structural Overview

One structural difference with the CM-CIC recent covered bond program is that each local entity is a borrower. Each entity provides residential loans as collateral (under the article 431-7 of the French financial and monetary code) to secure its own obligation to repay the advance made to it by the issuer. However, since the collateral provided by a given entity also secures other entities' obligations to repay their advances, this structure required the analysis of possible corporate benefit issues. The risks are mitigated by the following elements:

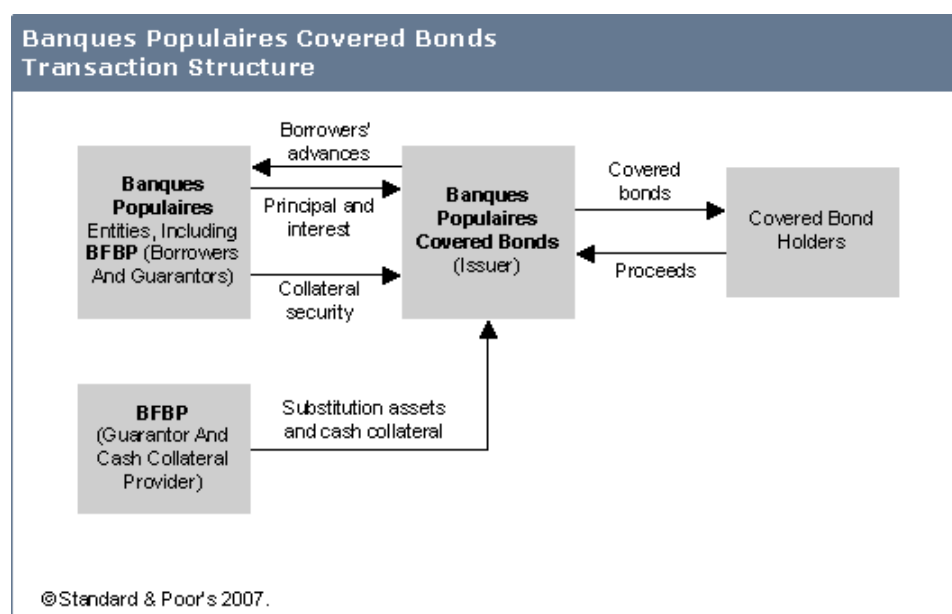
- The principle of solidarity between entities within the Banques Populaires group;
- A collateral fee will be paid to each collateral provider for the collateral it brings in excess of the advance it gets from the issuer; and
- Each entity's board will approve the transaction and the relevant entity's participation.

Under the program, the issuer will make available the issuance proceeds to each borrower 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 BFBP and the Banques Populaires entities remain solvent, the interest and principal of the covered bonds will be paid indirectly by the borrowers, 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 the borrowers (see chart).



The program also allows the debt to be secured by substitution assets in the form of highly rated securities.

In addition, the issuer will benefit from cash collateral to be made available to the issuer by BFBP, if certain events occur (see "*Pre-maturity test*").

Following a group event of default, the loans made to the borrowers will be accelerated.

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

### Issuer Event Of Default

An issuer event of default will occur for a series of covered bonds if:

- The issuer fails to satisfy the amortization test;
- The hedging is not concluded in case the rating on BFBP is lowered 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 noteholders' interests;
- Proceedings are initiated against the issuer under any applicable liquidation, winding-up, or other similar legal insolvency; or
- The issuer defaults on another of its obligations including another series of covered bond.

## Group Event Of Default

A group event of default will occur if, among others:

- Any borrower fails to pay any sums due under the loan between this borrower and the issuer, subject to a three-day cure period;
- The hedging is not concluded if the rating on BFBP is lowered 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;
- The obligation to fund a reserve for mortgage registration costs is breached;
- There is any failure by any borrower to comply with any of its obligations under the loan facility and collateral security, provided this default is prejudicial to the interests of the noteholders;
- Proceedings are initiated against any member of the Banques Populaires group under any applicable liquidation, winding-up, or other similar legal insolvency; or
- Collateral providers' fees remain unpaid for more than 60 days.

## Legal Aspects Of The Structure

The transaction's legal structure, in particular regarding the availability of the residential loan collateral in an insolvency of the Banques Populaires group, is based on recent changes to the French monetary and financial code. These changes aim to protect the validity and enforceability of financial collateral arrangements from the adverse effects of insolvency.

Standard & Poor's has received adequate legal comfort regarding the application of the new provisions to this transaction and the residential loans. Standard & Poor's understands that the transaction will be eligible under the new collateral provisions and that, notwithstanding insolvency proceedings against the Banques Populaires group, immediate enforcement of the collateral will be effective following a default, without any formality or consent.

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

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

## Transaction Participants

### *BFBP (borrower, issuer calculation agent, and administrator)*

The ratings on BFBP reflect its core position in the Banques Populaires cooperative banking group.

As for all French mutual banking groups, Standard & Poor's considers the solidarity binding the Banques Populaires to their central body to be strong and reliable. As such, BFBP's creditworthiness reflects that of the consolidated group.

The Banques Populaires group is the sixth-largest banking group in France by total assets. Since the mid-1990s, the group has significantly increased its domestic market position and business diversification with a dynamic commercial policy and several opportunistic and well-managed external moves.

Standard & Poor's has conducted a review of the Banque Populaire group's origination, underwriting, and collection and default management procedures for residential loans. The lending operation is consistent with criteria used by other large retail banks in France.

All residential loans in the collateral pool must meet eligibility criteria regarding approved product types, loan amount, and final maturity, among other things.

BFBP (as the issuer administrator) will handle all the day-to-day management of the issuer. This includes the servicing of the covered bonds and the debt between the banks and the issuer, and the performance of the obligations and the issuer's regulatory duties.

On enforcement of the borrower collateral security, the administrator will take ownership of the residential loans and substitution assets on the issuer's behalf. It will notify the debtors to pay the issuer amounts due under the residential loans.

To meet the payments under the covered bonds, the administrator will sell the relevant residential loans or substitution assets, or arrange its monetization through securitization.

BFBP will also calculate the ACT and the amortization test. If the rating on BFBP is lowered below 'BBB', a substitute entity will perform these tasks and act as servicer.

#### *Banques Populaires Covered Bonds (the issuer)*

The issuer is a limited company incorporated in France and licensed by the banking authorities. It was established solely for this program.

BFBP has undertaken to preserve the limited-purpose nature of the issuer to benefit the covered bondholders, and to maintain covenants that will be provided at closing to ensure the issuer's bankruptcy-remoteness.

#### *Crédit Logement*

Crédit Logement is a financial institution that provides guarantees for banks' residential property loans granted to individuals. This guarantee is offered as an alternative to the traditional mortgage product secured on a property. Crédit Logement is jointly owned by a group that includes several large French banks.

For further information on Crédit Logement please see the latest full analysis report on Crédit Logement.

In exchange for an indemnity that covers unpaid installments, outstanding principal, and exceptional expenses, the borrower pays a financial contribution that covers the remuneration of Crédit Logement and a contribution to a mutual guarantee fund.

In addition to the costs and flexibility that the guarantee offers, the attractiveness of the guarantee over the mortgage results also from a partial retrocession of the mutual guarantee fund contribution to the borrower if the underlying loan is fully repaid once the overall performance of Crédit Logement's total portfolio is taken into account.

#### *Asset monitor*

Deloitte et Associés will audit yearly the tests performed by BFBP for the ACT and the amortization test, on the calculation date immediately preceding each anniversary of the program launch date.

## Hedging

In the absence of enforcement of collateral security (i.e., as long as the issuer does not benefit from title to the home loans), each borrower will retain 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 will fluctuate in accordance with the interest rates applicable to the residential loans.

Interest to the covered bondholders will vary in accordance with the final terms of the series of those covered bonds.

If the short-term rating on BFBP falls below 'A-1', the issuer will have 30 days to enter, at BFBP's cost, into:

- Issuer hedging agreements concluded by the issuer with a counterparty rated at least 'A-1'; and
- Back-to-back swap agreements concluded with BFBP (the "BFBP hedging agreements").

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

### *Issuer hedging*

The issuer will enter into a basis swap with a counterparty that carries the required minimum rating. The basis swap will hedge a notional amount of the residential loans in the collateral security pool against one-month EURIBOR, plus a margin 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 an 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 of the Banques Populaires group, the issuer will not be exposed to any hedging risks. It will enter into equal and opposite swap agreements with BFBP 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.

## Note Terms And Conditions

The terms and conditions of each covered bond tranche will be stipulated in the respective pricing supplement.

The maturities of the covered bonds issued may be either "hard" or "soft" (extendable) bullet maturities. The hard-bullet covered bonds are tested nine months before the final maturity date in the pre-maturity test.

The soft-bullet covered bonds carry an extension risk, as their final maturity date could be extended by another 12 months if the funds are insufficient to repay the series of soft-bullet covered bonds on the expected maturity date.

If an extended final maturity applies to a series of covered bonds and the issuer has failed to pay the final redemption amount at the final maturity date (and the administrator determines that the issuer has insufficient funds available to pay guaranteed amounts), the payment of that unpaid amount will be deferred until the extended maturity date. Standard & Poor's ratings address full repayment of the soft-bullet covered bonds by their extended maturity date.

## Credit And Liquidity Support

### *Collateral description*

The residential loans acting as security under the advance loans between the covered bond issuer and each borrower will be originated by Banques Populaires group entities. The portfolio composition may have changed significantly at closing. Adequate protection against credit risk will be provided through the dynamic ACT (see "*Maintenance of the portfolio*"). The residential loans in the 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%, or the loan amount higher than €1 million;
- The loans must be denominated in euros;
- The remaining term must be less than 30 years;
- All the borrowers must be individuals who are not employees of the originator;
- All loans must be current, and must not be defaulted or in default;
- All loans must amortize monthly, quarterly, or semiannually;
- 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 in the loan agreement; and
- Loans allowing further advances to be made after origination will be subject to Standard & Poor's confirmation.

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, is viewed as remote in Standard & Poor's legal analysis.

## Credit And Cash Flow Analysis

The issuer's available cash before the enforcement of the collateral security will include payment proceeds under the credit facility and any cash from permitted investments.

Once an enforcement notice is served, it will include:

- 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 pre-enforcement priority of payments will be:

- 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 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 will become due and payable, and the priority of payments will be:

- 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 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).

### *Maintenance of the portfolio*

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, being 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 amount of covered bonds).

It should be noted that 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, which may be lower.

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. The current assumption, provided by the arranger, is 110 bps. BFBP is committed, in case it is downgraded below 'A-1', to pay the cost of entering into a swap, where the counterparty would pay this 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 value 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 asset amount will be equal or superior to the principal amount outstanding of the covered bonds.

On each calculation date, the adjusted aggregate asset amount is calculated as  $(A+B+C+D)-(NC+HC)$ , 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. Delinquent 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 over 20% of the outstanding asset amount will account for zero;
- D is the adjusted aggregate value of permitted investments;
- HC is equal to (i) zero before any issuer hedging agreement is entered into by the issuer and (ii) otherwise, to the payments due under the issuer hedging agreements (plus interest thereon) within the period of  $\alpha$  plus two months preceding the relevant ACT date, where  $\alpha$  means the period between two interest payment dates under the relevant issuer hedging agreements; and
- NC is the weighted-average maturity of all covered bonds outstanding (subject to a one-year floor), multiplied by the euro equivalent of the aggregate principal amount outstanding of the covered bonds, multiplied by 1%.

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

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

The purpose of NC is to provide sufficient coverage against negative carry after a group event of default.

On each calculation date, the calculation agent will perform the ACT. In addition, Standard & Poor's will run a WAFF/WALS model and a cash flow model every three months to determine the asset percentage (subject to a maximum of 92.5%) and to check that the ACT provides sufficient 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 the Banques Populaires group.

After a Banques Populaires group event of default, the issuer must ensure that on each calculation date, the issuer's assets on a risk-adjusted basis will 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 will constitute an event of default for the issuer, and the covered bonds will 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 acting as collateral security being commingled with those of an insolvent financial institution, following the downgrade of BFBP below 'A-1', the bank must create for the issuer's benefit a cash collateral reserve account sufficient to cover two-and-a-half months of residential loans and substitution assets collections. Also, if BFBP is downgraded below 'BBB', a substitute servicer will be appointed.

#### *Pre-maturity test*

The purpose of the pre-maturity test is to ensure 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 BFBP is 'A-1' or lower, BFBP must create a cash collateral reserve covering any principal due under the covered bonds outstanding within the following nine months, as well as issuer senior expenses.

## Stress Test And Payment Of Maturing Bullets

In its 'AAA' scenario, Standard & Poor's has assumed the insolvency of the Banques Populaires group and analyzed how the collateral held by the issuer could redeem the existing covered bonds.

In its rating analysis, Standard & Poor's 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 the Banques Populaires group insolvency. In this respect, the analysis is identical to that which Standard & Poor's 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 its review of the market, Standard & Poor's has 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.

According to Banque de France, the size of the French residential market was €134 billion in 2005 (in terms of new production). The volume of securitized residential assets reached an issuance volume of approximately €4 billion in 2005, illustrating that the volume of securitization is clearly not in line with that of the assets that could be securitized. However, this lower volume is not due to any constraints in the market, but rather because the benefit of securitization to French banks has been less important because they have other sources of liquidity and funding.

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.

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.

## Standard & Poor's Surveillance

Continual surveillance will be 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 will be analyzed, pool cuts will be required quarterly, the ACT asset percentage will be recalculated quarterly, supporting ratings will be monitored, and regular contact will be 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 Structure Finance Transactions*" (published on March 23, 2005).
- "*Revised Framework For Applying Counterparty And Supporting Party Criteria*" (published on May 8, 2007).

All criteria are available on RatingsDirect, the real-time Web-based source for Standard & Poor's credit ratings, research, and risk analysis, at [www.ratingsdirect.com](http://www.ratingsdirect.com). They can also be found on Standard & Poor's Web site at [www.standardandpoors.com](http://www.standardandpoors.com).

Key Contacts	
SF Investor Hotline	(44) 20-7176-3223
Client Support Europe	(44) 20-7176-7176
Press Office Hotline	(44) 20-7176-3605 or media_europe@standardandpoors.com
<i>Local media contact numbers</i>	
Paris	(33) 1-4420-6657
Frankfurt	(49) 69-33-999-225
Stockholm	(46) 8-440-5914
Moscow	(7) 495-783-4017

Published by Standard & Poor's, a Division of The McGraw-Hill Companies, Inc. Executive offices: 1221 Avenue of the Americas, New York, NY 10020. Editorial offices: 55 Water Street, New York, NY 10041. Subscriber services: (1) 212-438-7280. Copyright 2007 by The McGraw-Hill Companies, Inc. Reproduction in whole or in part prohibited except by permission. All rights reserved. Information has been obtained by Standard & Poor's from sources believed to be reliable. However, because of the possibility of human or mechanical error by our sources, Standard & Poor's or others, Standard & Poor's does not guarantee the accuracy, adequacy, or completeness of any information and is not responsible for any errors or omissions or the result obtained from the use of such information. Ratings are statements of opinion, not statements of fact or recommendations to buy, hold, or sell any securities.

Standard & Poor's uses billing and contact data collected from subscribers for billing and order fulfillment purposes, and occasionally to inform subscribers about products or services from Standard & Poor's, our parent, The McGraw-Hill Companies, and reputable third parties that may be of interest to them. All subscriber billing and contact data collected is stored in a secure database in the U.S. and access is limited to authorized persons. If you would prefer not to have your information used as outlined in this notice, if you wish to review your information for accuracy, or for more information on our privacy practices, please call us at (1) 212-438-7280 or write us at: [privacy@standardandpoors.com](mailto:privacy@standardandpoors.com). For more information about The McGraw-Hill Companies Privacy Policy please visit [www.mcgraw-hill.com/privacy.html](http://www.mcgraw-hill.com/privacy.html).

Analytic services provided by Standard & Poor's Ratings Services ("Ratings Services") are the result of separate activities designed to preserve the independence and objectivity of ratings opinions. Ratings are statements of opinion, not statements of fact or recommendations to buy, hold, or sell any securities. Ratings are based on information received by Ratings Services. Other divisions of Standard & Poor's may have information that is not available to Ratings Services. Standard & Poor's has established policies and procedures to maintain the confidentiality of non-public information received during the ratings process.

Ratings Services receives compensation for its ratings. Such compensation is normally paid either by the issuers of such securities or third parties participating in marketing the securities. While Standard & Poor's reserves the right to disseminate the rating, it receives no payment for doing so, except for subscriptions to its publications. Additional information about our ratings fees is available at [www.standardandpoors.com/usratingsfees](http://www.standardandpoors.com/usratingsfees).

Permissions: To reprint, translate, or quote Standard & Poor's publications, contact: Client Services, 55 Water Street, New York, NY 10041; (1) 212-438-9823; or by e-mail to: [research\\_request@standardandpoors.com](mailto:research_request@standardandpoors.com).

**The McGraw-Hill Companies**