

Presale:

BPCE SFH (Covered Bonds Series 1)

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Presale:

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Obligations de Financement de l'Habitat Series 1 (Up To €40 Billion Program)

This presale report is based on information as of April 26, 2011. 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.

Description of the notes	Prelim. amount (bil. €)	Prelim. credit rating*	Interest	Available credit support (%)	Legal final maturity
French legislation-enabled covered bonds "obligations de financement de l'habitat" series 1	TBD	AAA/Stable	Fixed annually	Dynamic (see "Asset coverage test")	2016†

*The rating on each class of securities is preliminary as of April 26, 2011, and subject to change at any time. An initial credit rating is expected to be assigned on the closing date subject to a satisfactory review of the transaction documents and legal opinion, and completion of a corporate overview. Standard & Poor's ratings address timely payment of interest and ultimate payment of principal on the legal final maturity date. †To be determined. TBD—To be determined.

Program Participants

Issuer	BPCE SFH, a French licensed Société de Financement de l'Habitat
Arranger	Natixis S.A.
Borrowers	Any Banque Populaire or Caisse d'Epargne or BPCE
Collateral providers	Any Banque Populaire or Caisse d'Epargne
Residential loan servicer	Each respective collateral provider
Collection loss reserve provider	Each respective collateral provider
Hedging counterparty	Any entity rated at least 'A+' or 'A' (with a 'A-1' short-term rating)
Issuer bank account provider	BPCE
Paying agent and calculation agent	BNP Paribas Securities Services
Specific controller	Cailliau Dedouit et Associés

Supporting Ratings

BPCE as issuer account bank and collection loss reserve provider	A+/Stable/A-1
Issuer hedging counterparty	Any entity rated at least 'A+' or 'A' (with a 'A-1' short-term rating)

Transaction Key Features

Program limit (bil. €)	40
Jurisdiction of the covered bonds	France and Germany
Issuer collateral	A credit facility between each borrower and the issuer; substitution assets (up to 15% of privileged liabilities)
Collateral security	Pool of residential real estate loans secured by a mortgage or guarantees

Standard & Poor's Five-Step Covered Bond Rating Process As Of Feb. 28, 2011

Step 1: Calculation and classification of the asset-liability mismatch	
Asset-liability mismatch	Low=0%
Step 2: Program categorization	
Category	1
Step 3: The maximum potential covered bond rating	
The maximum potential rating uplift (notches)	7

Standard & Poor's Five-Step Covered Bond Rating Process As Of Feb. 28, 2011 (cont.)

ICR (BPCE)	A+/Stable/A-1
Notches between ICR and maximum potential rating (notches)	4
Step 4: Cash flow and market value analysis	
Target credit enhancement (%)	22.36
Available credit enhancement (%)	233.64
Step 5: The covered bond rating	
Rating	AAA
Outlook	Stable

ICR—Issuer credit rating.

Key Features Of The Cover Pool As Of Feb. 28, 2011

Collateral description	100% residential mortgage loans
Country of origin	France
Current balance of the cover pool (bil. €)	5.00
Number of loans	89,791
Largest loan	979,938
Average loan	55,736
Geographic concentration	Paris region: 16.16%
Weighted-average seasoning (months)	49.0
Weighted-average LTV ratio (%)	69.9
Fixed interest rates/variable interest rates (%)	90.93/9.07
Repayment loans (%)	100
Product types	Owner-occupied (88.85%), second home (2.29%), buy-to-let (8.86%)
Loans in arrears	0

LTV—Loan-to-value.

Key Characteristics Of The Mortgage Covered Bond Program*

Weighted-average foreclosure frequency (%)	17.52
Weighted-average loss severity (%)	34.69
Weighted-average recovery period (years)	3
Asset-liability maturity mismatch (%)	0.00
Weighted-average maturity of assets (years)	13.5
Weighted-average maturity of liabilities (years)	TBD
Outstanding balance of cover pool assets (bil. €)	5.00
Outstanding balance of covered bonds (bil. €)	TBD
Available credit enhancement (%)	233.64
Target credit enhancement (%)	22.36

*For definitions, see "Appendix". TBD—To be determined.

Program Summary

Standard & Poor's Ratings Services has assigned its preliminary 'AAA' credit rating to the fixed-rate covered bonds series 1 ("obligations de financement de l'habitat"; OHs) to be issued under BPCE SFH's up to €40 billion covered bond program. The outlook is stable.

This program is the first newly established program under the new Sociétés de Financement de l'Habitat (SFH) legislation, resulting from the law dated Oct. 22, 2010 and its implementing decree on Feb. 23, 2011.

The new legislation intends to provide a legislative framework for French residential mortgage-backed structured covered bonds and is very similar to the existing "Société de Crédit Foncier" (SCF) framework. Under a SFH program, the issuer, a special-purpose entity licensed as a credit institution, will issue OHs which will constitute unsubordinated senior secured obligations and will rank *pari passu* among themselves. Under the SFH law, the OH holders will benefit from the privilege granted to these bonds over the SFH's eligible assets. If the issuer becomes insolvent, OHs and other privileged debts will pay in accordance with their payment schedule and will have priority over any of the SFH's other debts or non-privileged creditors in relation to the SFH's assets.

The SFH legal framework requires a minimum overcollateralization ratio of 102% on the adjusted cover pool balance and a minimum of 180 days of liquidity at all times. The framework also provides further liquidity by allowing, as a last-recourse funding option, the SFH to subscribe to its own privileged covered bonds—up to 10% of total privileged liabilities—provided that the SFH uses the OH as collateral with the central bank (Banque de France) or cancels them within eight days.

A specific controller—an independent third party not affiliated to the issuer's group appointed with the consent of the regulator—monitors the SFH's legal asset and liability requirements, similarly to a SCF framework.

We understand that this new program may replace both the GCE Covered Bonds and BP Covered Bonds programs as the preferred funding tool of the Groupe BPCE.

Under the program terms, BPCE SFH will issue OHs and use the proceeds to fund a credit facility to be made available to participating Banques Populaires and Caisses d'Epargne entities and to BPCE.

The advances will match the terms and conditions of the covered bonds to ensure full and timely payment under the covered bonds. If there is a group event of default, a pool of residential loans as well as cash standing on the collection loss reserve account will be transferred to the issuer in accordance with the Collateral Framework Agreement. The security over these assets is granted to the issuer under the special collateral regime of article L.211-38 and following of the French monetary and financial code, as is also the case in the BPCB and GCECB structured covered bonds programs.

Rationale

We have reviewed the asset and cash flow information provided as of Feb. 28, 2011 and have applied our five-step approach for rating covered bonds (see "Revised Methodology And Assumptions For Assessing Asset-Liability Mismatch Risk In Covered Bonds," published Dec. 16, 2009).

The asset-liability mismatch (ALMM) and the program characteristics of BPCE SFH's cover pool allow for a seven-notch elevation from the issuer credit rating (ICR) on BPCE (A+/Stable/A-1).

We have based our preliminary 'AAA' rating on BPCE SFH's covered bonds series 1 on our assessment of the target credit enhancement and the available credit enhancement. Our rating reflects our expectation of timely payment of interest and repayment of principal on the final maturity date.

Outlook

We have based our stable outlook on the fact that adverse movements in the ICR or the ALMM measure would not automatically result in a change to the covered bond rating. A two-notch downgrade of the ICR to 'A-' or a deterioration in the ALMM category to "High" would still mean that the issuer could maintain the 'AAA' preliminary rating, provided that the available credit enhancement is greater than the target credit enhancement.

Strengths, Concerns, And Mitigating Factors

Strengths

- As in other European covered bond market frameworks, the program structure provides recourse to residential real estate loans and additional collateral, which is higher than the debt outstanding under the program if the borrower defaults on certain financial obligations.
- In our view, the French SFH covered bond legislation provides a strong legal basis.
- The asset coverage test (ACT) aims to provide ongoing 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 underlying assets only comprise prime residential loans, in contrast to typical mortgage covered bonds in other jurisdictions, which tend to mix residential and commercial mortgage loans. The ACT does not value loans in arrears or defaults, which would be removed from the collateral portfolio, and Groupe BPCE entities—as long as they are solvent—have to add loans or substitution assets if required.
- The ACT includes a cap on the loan-to-indexed value calculation, which protects against declining house prices.
- In our opinion, all Groupe BPCE entities mutually support each other, which results in a common credit risk. Additionally, integrated IT platforms ensure consistent servicing processes within the group.

Concerns and mitigating factors

- No hedging will be in place at closing. However, if the rating on BPCE falls below 'A+' or 'A' (with a 'A-1' short-term rating), the issuer must use hedging within 30 business days, on predetermined terms at BPCE's cost.
- If the borrowers breach the ACT, they must provide additional collateral security by the next test date. If they are unable to do so—therefore breaching the ACT once more—the title of the collateral security assets would transfer to the issuer. However, we note that Groupe BPCE would still retain ownership of any assets since the last ACT date. Furthermore, residential loan or substitution asset collections could be commingled with the servicer's assets until borrowers under the residential loans or substitution assets redirect their payments away from Groupe BPCE entities. If we downgrade BPCE below 'BBB+' or 'BBB' (with a 'A-2' short-term rating), BPCE will contribute cash collateral to cover two and a half months' collections of residential loans and substitution assets.
- In addition to mortgages (representing 40.4% of the pool balance at closing), loans guaranteed by the internal guarantor, CEGC, secure most of the remaining underlying collateral (representing 49.6% of the pool balance at closing). If the guarantor does not perform its contractual obligations on an obligor's default, other creditors may register a judicial mortgage on the property before the servicer. We have stressed the loss severity on these loans accordingly and the ACT will ensure that any increase in guaranteed loans will result in higher levels of overcollateralization, consistent with a 'AAA' rating. In addition, the specific controller has performed an analysis of the internal guarantor and has concluded that this guarantee was complying with the five criteria laid out by the SFH framework.
- Since the issuer pays the covered bonds that mature earlier before those that mature later, there is some time subordination. We calculate overcollateralization levels to take this risk into account and to ensure timely

payment of all covered bonds.

Covered Bond Program Structure

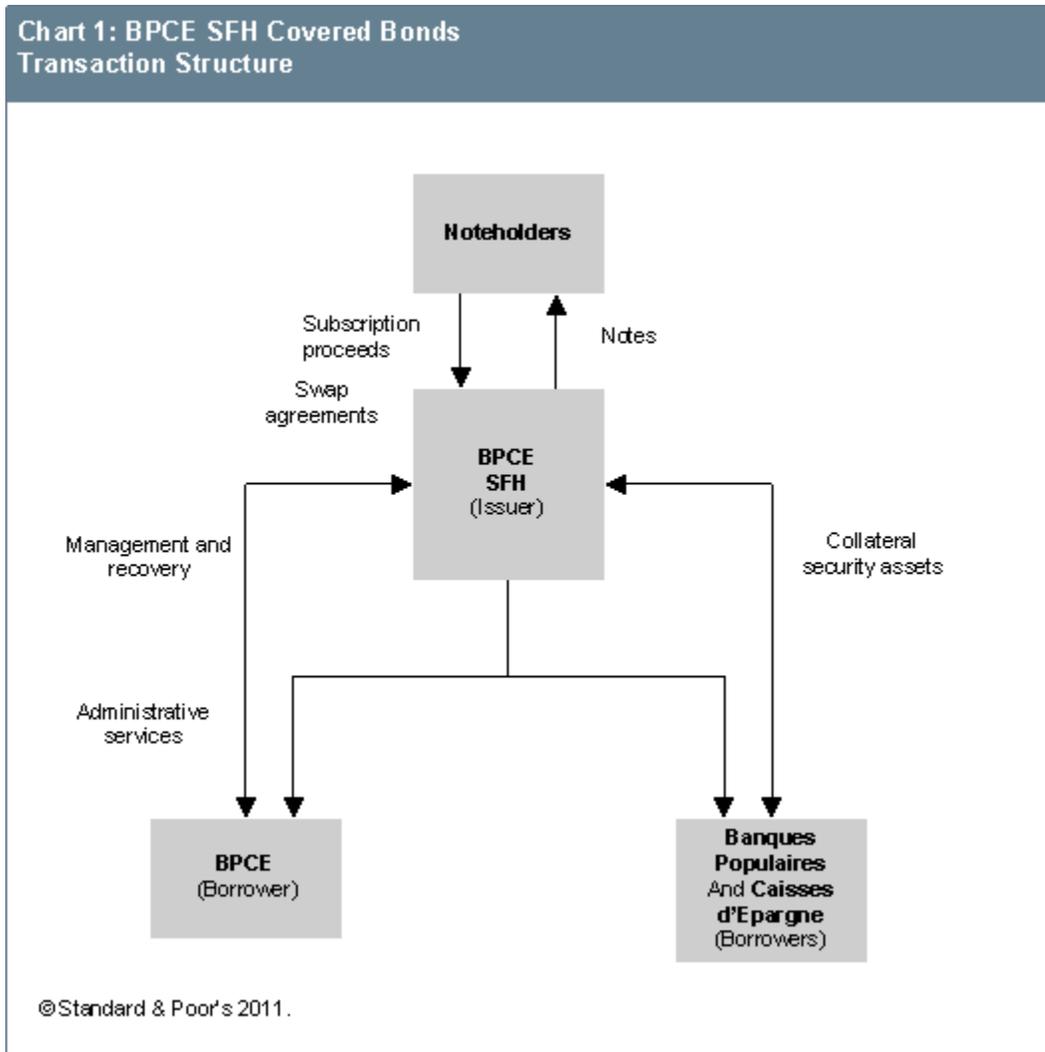
Under the program, BPCE SFH will make the issuance proceeds available to each borrower through secured loans ranking pari passu with each other.

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.

Therefore, provided the borrowers remain solvent, the assets remain with the borrowers and they will pay the interest and principal of the covered bonds. The borrowers also bear any interest rate or currency mismatch between the covered bonds and the collateral security.

If a borrower fails to pay under the credit facility, a group event of default occurs. The collateral security—the cover pool and cash from the collection loss reserve account—secure the borrowers' loans.



Events of default

When a group event of default occurs, BPCE SFH may:

- Cancel the credit facility;
- Declare that all or part of the borrower loans, together with accrued interest are due and payable immediately; and
- Enforce its rights under the collateral security.

A group event of default occurs if, among others:

- A borrower fails to pay any sum under the credit facility when due;
- A borrower fails to comply with any of its material obligations;
- A breach of the ACT or collection loss reserve funding requirement occurs;
- Any member of the Groupe BPCE becomes insolvent;
- BPCE fails to pay the collateral security fee to any borrower;
- BPCE fails to find an eligible hedging provider if there is a hedging trigger event; and

- BPCE fails to comply with the legal liquidity requirements.

There have been no issuer events of default to date and the covered bonds cannot be accelerated.

Structural Enhancements

Overcollateralization

By law, the SFH framework must maintain a nominal overcollateralization ratio of 102% on the adjusted cover pool balance at all times.

Cover pool assets

The selection of mortgage loans in the pool is according to the following contractual eligibility criteria:

- A mortgage or home loan guarantee must secure the loans;
- The underlying property must be residential and the borrower is an individual or a société patrimoniale or property company set up for fiscal purposes, the shareholders of which are individuals;
- All of the properties must be located in France;
- The loans must be denominated in euros;
- The loans must be fully disbursed;
- The LTV ratio must not be more than 100%, or the loan amount less than €1 million;
- The remaining term must be less than 30 years;
- Borrowers must have already made at least one installment;
- All borrowers must not be employees of the originator;
- All loans must be current;
- Borrowers must not be in default on any other loans granted by the originator; and
- Borrowers must not benefit from a contractual right of set-off.

Substitution assets

The issuer can invest available funds into substitution assets, the nature of which is determined by the SFH legal framework, in a maximum amount of 15% of the privileged liabilities.

Asset coverage test (ACT)

The calculation agent will carry out an ACT every month to ensure adequate overcollateralization is available to allow the repayment of the covered bonds in an 'AAA' stress scenario (for further information on the calculation of the ACT, see "Appendix"). The agent will regularly recalculate the asset percentage (contractually no more than 92.5%), ensuring that regardless of the portfolio's loan-to-value (LTV) ratio, overcollateralization is always at least 7.5% of the assets (i.e., 8.1% of the covered bonds).

The asset percentage not only reflects the loan portfolio's credit quality, but also depends on, among other things, the difference between the negative carry sized in the ACT and the one that we model. 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. We note that this margin could vary from time to time, and if we downgrade BPCE below 'A' with a 'A-1' short-term rating (otherwise 'A+'), BPCE will commit to pay the cost of entering into a swap where the counterparty would pay the latest communicated margin.

A breach of the ACT test will lead to a group event of default.

Collection loss reserve account

Payments on the mortgage loans will be made to the originator of the loans until the guarantor notifies the borrower that the loans will consist of part of the collateral security and will be transferred to the issuer. Therefore, all payments under the mortgage loans will commingle with the guarantor's account until the borrower once notified, changes its payment instructions to BPCE SFH.

To mitigate this commingling risk, a collection loss reserve account will credit BPCE's loss of a 'A' or 'A-1' rating, sized as two calendar months' worth of collections under the mortgage loans. This collection loss reserve account forms part of the collateral security enforceable upon a group event of default.

A breach of the collection loss reserve funding requirement will lead to a group event of default.

Liquidity test

By law, the SFH framework must maintain 180 days worth of liquidity at all times.

Failure to comply with the liquidity test will lead to a group event of default.

Self-retained covered bonds

The issuer can, as a last-recourse funding option, issue privileged liability for repo purposes, within a limit of 10% of the total volume of outstanding privileged liabilities. These self-retained covered bonds cannot be sold and must be cancelled if the issuer does not use them for these purposes within eight days.

Hedging Structure

The credit facility's terms match the payments due on the covered bonds. There is therefore no interest rate mismatch. If a borrower makes a payment in a currency different from the liability due on the covered bonds, the borrower enters into a hedge to cover the currency mismatch.

If a hedging rating trigger event occurs where the borrower's rating is below 'A-1', or a borrower event of default occurs—not due to a hedging rating trigger event—the issuer enters into three sets of hedges with what we consider to be an eligible counterparty under our criteria (rated 'A+', 'A', or 'A-1'):

- Issuer hedge on the covered bonds: Interest risk and currency risk;
- Issuer hedge on the collateral security: Interest risk and currency risk; and
- Borrower hedge: Hedge between the issuer and the borrower to transfer the effect of hedging to the borrower—who, at this point, still covers payment on the covered bonds through payment of the borrower's advances and has not transferred the collateral security (in case of a borrower event of default, the issuer does not enter into a borrowing hedge).

Therefore, as long as the issuer does not benefit from the title to the home loans, the bank retains any interest or currency risk linked to the mismatch between the collateral security and the covered bonds.

If there is a group event of default, the issuer will maintain its rights and obligations under the existing issuer hedging agreements and the borrower hedging agreement will be terminated immediately.

We have reviewed the program's hedging agreements to assess whether they reflect our counterparty criteria (see "Related Criteria And Research")

The Cover Pool At The Date Of The Program Report

Cover pool

BPCE originated the home mortgages securing the advances between BPCE SFH and the borrowers. We consider that the portfolio composition may change substantially both at and after the closing date—subject to the eligibility criteria—and we will analyze the portfolio at closing and at every quarter thereafter.

The provisional portfolio that we analyzed as of Feb. 28, 2011, had the characteristics shown in the "Key Features Of The Cover Pool As Of Feb. 28, 2011" table at the start of this report.

Analysis of French guarantees

In France, a guarantee ("caution") secures about 50% of existing loans and about two-thirds of newly originated loans, as opposed to standard mortgage loans. The use of these guarantees has become increasingly popular, partly because it saves the cost of registering a mortgage.

The guarantors extending these guarantees are specialized financial institutions. The main guarantors are Crédit Logement (owned by several large French banks), CEGC (ex- SACCEF, part of the Groupe BPCE), Cautionnement Mutuel de l'Habitat (Crédit Mutuel Group), Sociétés de Cautions Mutuelles Immobilières (Groupe BPCE), CASDEN (Groupe BPCE), and Caisses d'Assurance Mutuelle du Crédit Agricole (Crédit Agricole Group).

In this program, a guarantee secures almost 60% of the pool (see "Appendix" for breakdown by category).

If the guarantor transfers the loan receivables to the issuer, the guarantee would also be transferred.

In our analysis, we focused on the servicer's ability to recover from a defaulting borrower if the guarantor did not perform its obligations. In this case, since the borrower did not take a contractual mortgage when the servicer originated the loans, the servicer would have to try to take a judicial mortgage when the borrower defaults. He would then be exposed to the risk of failing to take a mortgage, which would reduce the recovery prospects. To build an assumption about the loss severity incurred by these guaranteed loans in the 'AAA' scenario, we applied a stress to the loss severity assumed for loans secured by a first-ranking mortgage.

In our loss severity stress, we distinguished between independent rated guarantors and guarantors linked to the borrower's group, whereby we applied a lower penalty to independent rated guarantors because we gave credit to the guarantee itself.

In addition, the specific controller has performed an analysis of the internal guarantor and has concluded that this guarantee was complying with the five criteria laid out by the SFH framework.

Credit Analysis

When assigning our rating to the covered bonds, the transaction must be strong enough to withstand 'AAA' credit losses in the cover pool. Also, the cash flows from the assets must be sufficient to meet the debt service requirements on the liabilities so that timely interest and full principal are repaid on the scheduled maturity of the covered bonds. We analyze the collateral quality to determine the expected loss in a stressed situation. Cash flow shortfalls in the collateral would mainly result from asset quality problems, i.e., credit losses on the respective mortgage loans that would reduce the amounts available to service the secured debt. Overcollateralization is the typical form of credit

enhancement for covered bonds to address potential risks, including credit risk.

The credit analysis of the residential mortgage loans involves assessing the individual credit quality of the cover pool by estimating the credit risk associated with each mortgage loan. We then calculate the aggregated risk to assess the overall credit quality of the cover pool. We quantify the credit risk associated with each mortgage loan in the pool by estimating each loan's probability of default leading to a portfolio-wide weighted-average foreclosure frequency (WAFF) and its corresponding weighted-average loss severity (WALS), which we expect to be realized if foreclosure occurs. The potential loss associated with a loan can be calculated by multiplying the foreclosure frequency with the loss severity. To quantify the potential losses associated with the entire cover pool, each mortgage loan's foreclosure frequency and loss severity is weighted by its percentage of the total cover pool. The probability of default (WAFF) and the stressed expected recovery (the inverse of the WALS), are inputs into the cash flow model to determine the required level of overcollateralization commensurate with a preliminary 'AAA' rating.

For French residential mortgage loans we determine the WAFF on the debt-to-income ratio of the underlying borrowers whereas we derive the WALS from the LTV ratio and the expected market value decline of the property.

According to our analysis, the current 'AAA' target credit enhancement to cover the asset default risk is 12.16%.

Cash Flow Analysis

We evaluate a pool of covered bonds on a cash flow basis to determine whether, under conditions of severe economic stress, the cash flow generated by the assets would be sufficient to meet the debt service payments due on the liabilities in a timely manner. The aim of the cash flow analysis is to assess the pools for:

- Credit risk as described above;
- Market risk in the form of interest rate and currency risk;
- Asset-liability mismatch as a result of cash flow mismatches between assets and liabilities in terms of maturity (ALMM), and market value risk in case the program has to liquidate, i.e., sell the assets;
- Prepayment risks and servicing costs; and
- An appropriate stress-testing of these risks.

In our 'AAA' scenario, we assume the insolvency of the borrowers and look to the mortgage book to redeem existing covered bonds. We have based our cash flow analysis on the assumption of a static pool—i.e., no active pool management or new issues other than servicing the liabilities as they come due. This assumption stems in turn from our central rating assumption, where the issuer is insolvent and manages the pool until it has fully amortized.

The aim of our cash flow analysis is to stress the cover pool for credit risk, market risk in the form of interest and currency risk, and liquidity risk as a result of cash flow excesses or deficits. If there is an excess, we assume that the administrator of the cover pool is able to reinvest the proceeds in a conservative manner. However, if there is a liquidity deficit, we must conclude that the cover pool always has recourse to liquidity by selling the mortgage assets.

The cash flow analysis determines the target credit enhancement level commensurate with the program's maximum potential rating.

Table 1

Main Cash Flow Inputs	
Probability of default (WAFF) (%)	17.52
Recovery rate (%)	65.31
Time to recovery (months)	36
Prepayment assumptions	Low (0.5%) and high (24%)
Interest rates	Simulated interest rate curves between 0% and 12%
Servicing costs (%)	0.50
Spread shock (bps)	425
WAFF—Weighted-average foreclosure frequency.	

If a group event of default occurs, the cash flows generated by the repayment of the credit facility's advances will no longer ensure the timely repayment of the covered bonds. Therefore, we apply our five-step approach for rating covered bonds to analyze the cover pool's asset and cash flow risks (see "Revised Methodology And Assumptions For Assessing Asset-Liability Mismatch Risk In Covered Bonds," published Dec. 16, 2009).

Step 1: Calculation and classification of the asset-liability mismatch

To determine the maximum potential rating uplift for a covered bond program over the issuing bank's ICR, we first need to calculate the ALMM.

Here, we model a fixed-rate covered bond issuance with a hard-bullet maturity (terms are subject to change). An interest rate swap swaps the fixed notes at one-month euro interbank offered rate (EURIBOR) plus a margin to be determined at closing to match the cover pool's cash flows. We also use the WAFF and WALs assumptions from our credit analysis as well as a conditional prepayment rate (CPR) assumption of 5% to determine the maximum ALMM during the liabilities' life. Here, the considerable amount of overcollateralization leads to an ALMM percentage of zero.

Step 2: Program categorization

In this step we categorize programs based on their ability to obtain third-party liquidity or sell assets to fund any mismatch if the issuing bank fails.

According to step 2 of our 2009 ALMM criteria, we have classified BPCE SFH's covered bond program in category "1". The criteria consider both the range of funding options and the strength of funding sources. BPCE SFH can sell assets or borrow from the central bank or other banks. In particular, as per the SFH legal framework, BPCE has the option to issue and subscribe to its own privileged covered bonds (up to 10% of total privileged liabilities), provided that it uses these OH as collateral with the central bank (Banque de France) or cancels them within eight days.

Step 3: The maximum potential covered bond rating

We assess the maximum potential covered bond rating by combining the ALMM classification and the program categorization (see table 4 in our 2009 ALMM criteria). Combining the ALMM classification of "Low" and the program category of "1", the maximum uplift that we can assign to covered bonds issued under BPCE SFH's covered bond program is seven notches above the issuer's credit rating.

The ratings on BPCE SFH's covered bonds factor in the ICR on BPCE (A+/Stable/A-1), to which BPCE SFH is core. We use this issuer credit rating to uplift the ratings on covered bonds issued. The maximum achievable rating, however, is dependent on the program having sufficient collateral to address all risks, including our assessment of

the market value risk (see step 4).

Step 4: Cash flow and market value analysis

In step 4, we analyze the cash flows by taking into account credit risks, structural risks, and ALMMs. We model the market value risk (ALMM) by discounting the stressed cash flows of the cover pool assets with a modeled interest rate curve plus a "spread shock". We calculate the net present value of the projected cash flows of the assets using a discount rate, which we base on the pool-specific asset spreads over the relevant funding rates.

The current stressed target asset spread used for BPCE SFH's covered bond program based on the pool characteristics of French residential, mainly owner-occupied home loans is 425 basis points (bps).

Step 5: The covered bond program rating

In this last step, we assign the rating to the covered bonds by assessing whether the available credit enhancement is at least equal to the target credit enhancement that is commensurate with the target rating.

In order to calculate the target credit enhancement, we usually stress the cash flows for credit defaults and recoveries, trustee and servicer expenses, interest and currency exposures, and stressed refinancing spreads.

By applying these stresses to BPCE SFH's covered bonds, we are of the opinion that the target credit enhancement commensurate with the maximum achievable rating is 22.3%, which is less than the available credit enhancement of 233.64%. Hence, BPCE SFH's covered bonds have sufficient credit enhancement to reach the maximum achievable 'AAA' rating.

In addition, we have assigned a stable outlook to the preliminary rating of BPCE SFH's covered bond program and related series 1 which reflects the current amount of overcollateralization provided in the program, our view of the issuer's ability to manage its ALMM, and BPCE's stable outlook.

Scenario analysis

As part of a broad series of measures that we announced in 2008 to enhance our analytics and dissemination of information, we have committed to provide a "what-if" scenario analysis in rating reports to explain key rating assumptions and the potential effect of positive or negative events on the ratings (see "A Listing Of S&P's New Actions Aimed At Strengthening The Ratings Process," published Feb. 7, 2008). This scenario analysis incorporates the effect of house price decline analysis.

House price decline analysis

Various factors could cause downgrades on notes, such as increasing foreclosure rates in the securitized pools, house price declines, and changes in the pool composition. We have chosen to analyze the effect of house price declines by testing the sensitivity of the deal to two different levels of movements.

Declining house prices generally lead to increasing LTV ratios and more borrowers entering negative equity. This may increase the default probability of a securitized pool and its associated loss severity. Consequently, depending on its effect, declining house prices could be a contributing factor in the downgrade of rated notes.

In our analysis, assumptions for house price declines will affect the calculation of the WALs. We perform our analysis on a loan-by-loan basis. Hence, the effect of applying different levels of house price declines differs between transactions, given the different concentrations in LTV ratio bands. Note that even in these house price decline

scenarios, structural features in the covered bond structure might mitigate these declines as long as the bank/sponsor is not yet insolvent.

Further house price decline of 10%

At closing, we calculated the 'AAA' WAFF for the covered bonds to be 17.5% and the WALs at the 'AAA' level to be 34.7%. In the further house price decline stress scenario, in addition to the 'AAA' stress assumption, we applied a further 10% decrease in house prices. All else being equal, this would cause the WALs to increase to 49.4%. In this scenario, the current level of overcollateralization is enough to achieve the 'AAA' rating on the notes.

It should be noted that we based the analysis above on a simplified assumption, i.e., that the 10% house price decline materializes immediately on the day after closing. In reality, house price declines materialize over a period of time. Therefore, other factors, such as seasoning or scheduled repayments under the loans, could mitigate the effect of the house price decline.

Ongoing Surveillance

We will maintain surveillance on the program until the notes mature or are otherwise retired. To do this, we will analyze regular servicer reports detailing the performance of the underlying collateral, analyze pool cuts quarterly, and monitor the stress applied to the loss severity of guaranteed loans regularly. The calculation agent will recalculate the ACT asset percentage quarterly, and we will monitor supporting ratings, and make regular contact with the servicer to ensure that they sustain minimum servicing standards and communicate and assess any material changes in their operations.

Appendix

Calculation of the ACT

In our analysis, we consider if the overall ACT provides enough assets to repay the notes in a 'AAA' stress scenario. An 80% cut-off to the loan-to-indexed-value calculation in the ACT implies that we would only take the 80% LTV ratio portion of each loan into account for note issuance. If house prices decline, additional collateral under the security package would be required, since the ACT includes an indexed valuation.

On each calculation date, the calculation agent calculates the adjusted aggregate loan amount as $(A+SA+PI)-(HC+NC)$, 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) at the relevant calculation date, multiplied by the asset percentage. Any sum of financial losses incurred resulting from a material breach of the servicing procedures reduces these two options. The adjusted principal balance does not include arrears or defaulted loans;
- SA is equal to the aggregate value of the substitution assets;
- PI is equal to the aggregate value outstanding under all permitted investments;
- NC is the weighted-average maturity of all covered bonds outstanding (subject to a floor of one year), multiplied by the euro equivalent of the covered bonds' aggregate principal amount outstanding multiplied by 1%; and

- HC is equal to: (i) zero before 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 between two interest payment dates, plus two months preceding the relevant ACT date.

SA and PI include adjustments to cover credit risk. NC provides coverage against negative carry after a borrower event of default.

In addition to the ACT performed by the calculation agent, we run our WAFF and WALs models at least every three months to determine the asset percentage (subject to a maximum level of 92.5%), and to ensure that the ACT provides a sufficient level of overcollateralization to mitigate any deterioration of the portfolio's asset quality.

Cover pool characteristics

Chart 2

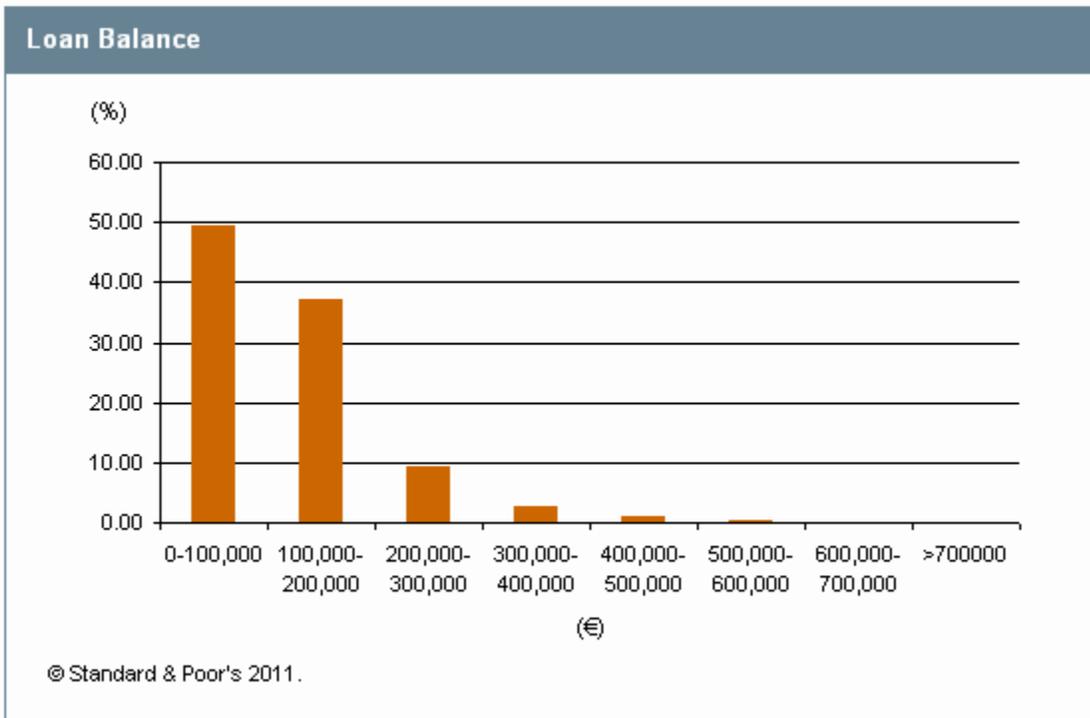


Chart 3

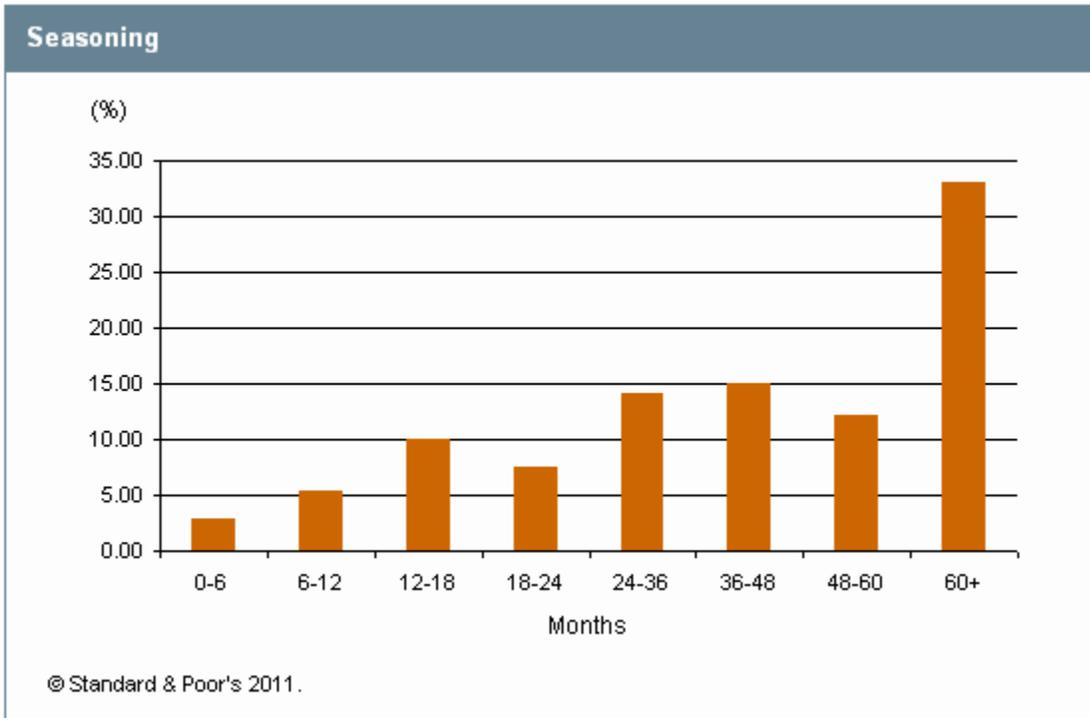


Chart 4

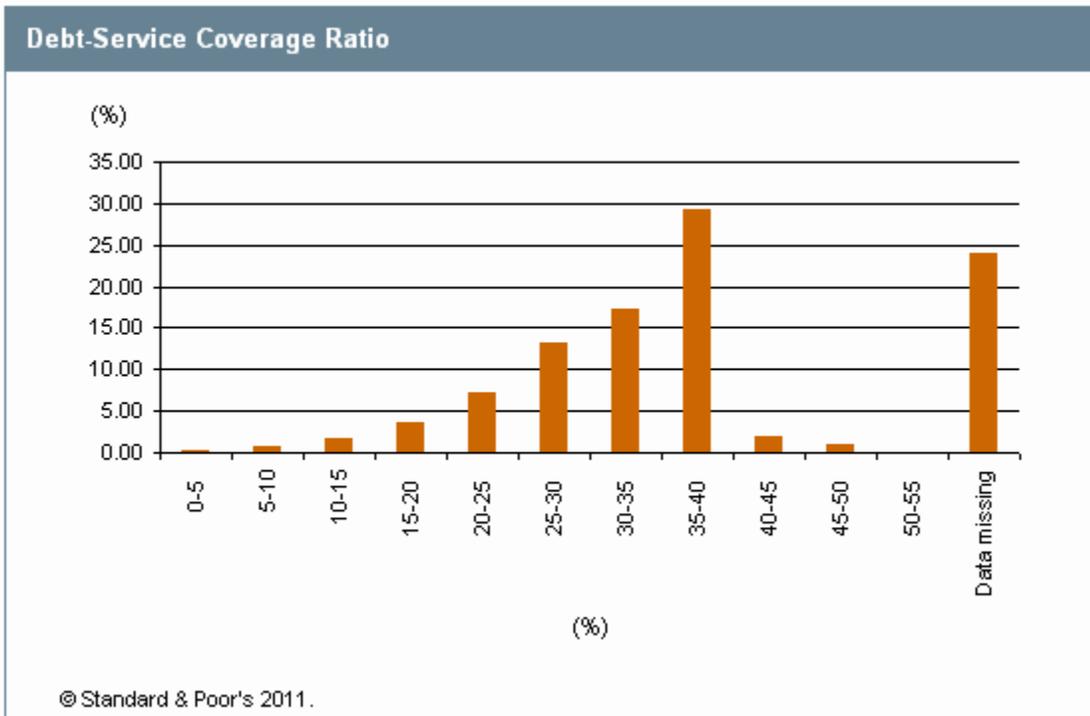


Chart 5

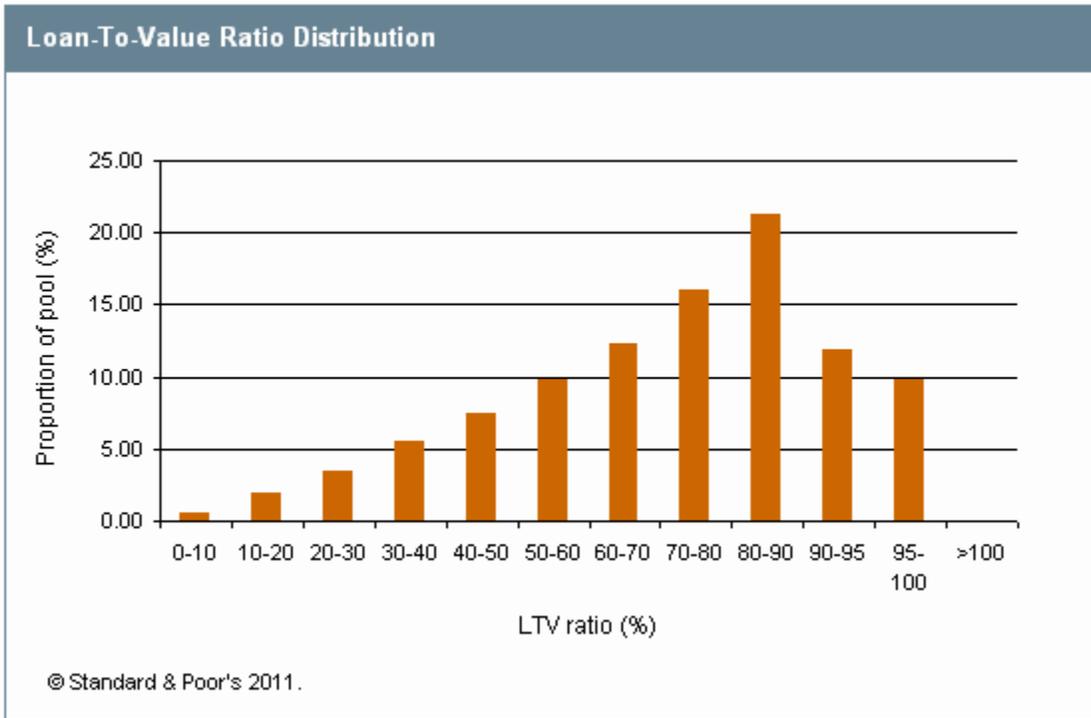


Chart 6

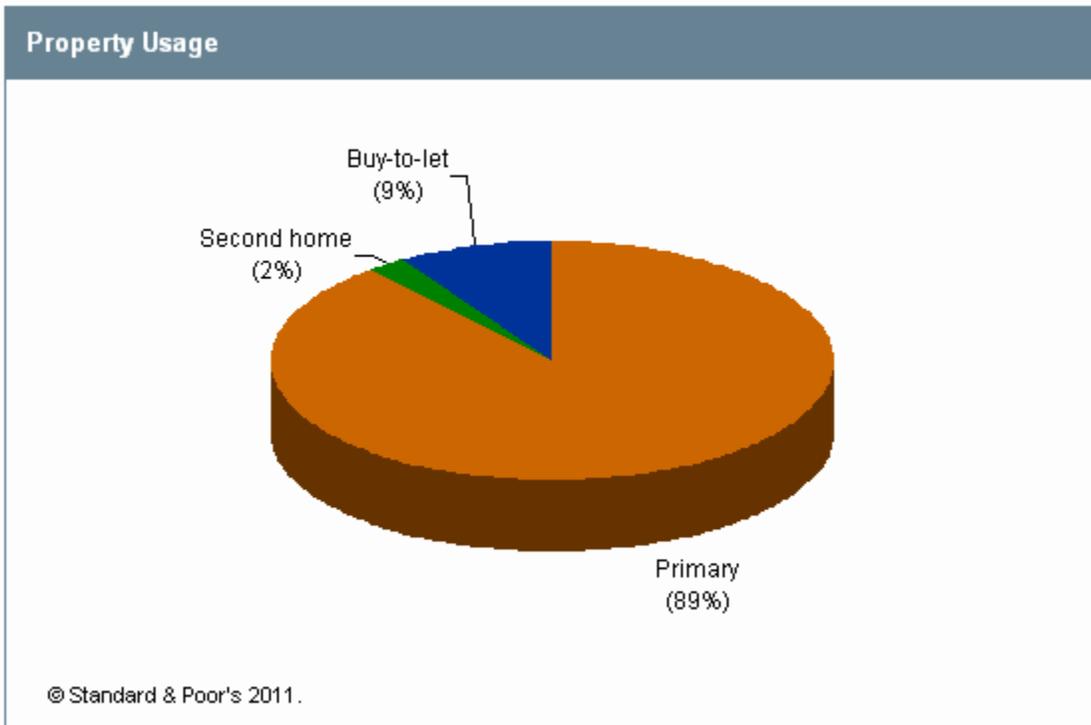


Chart 7

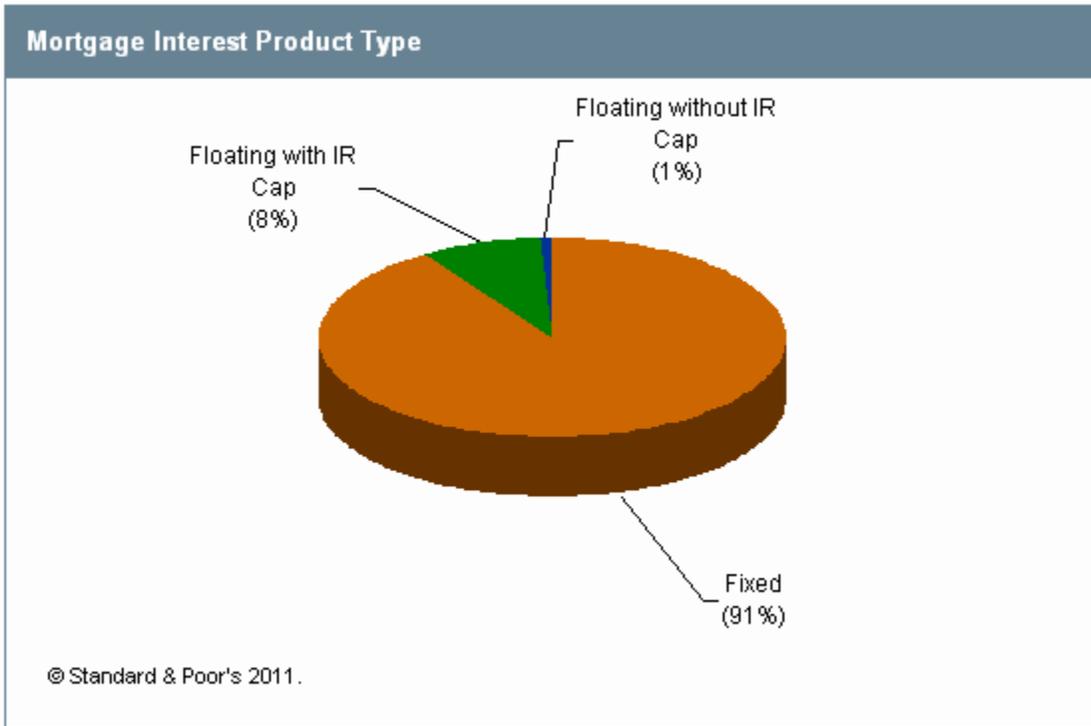


Chart 8

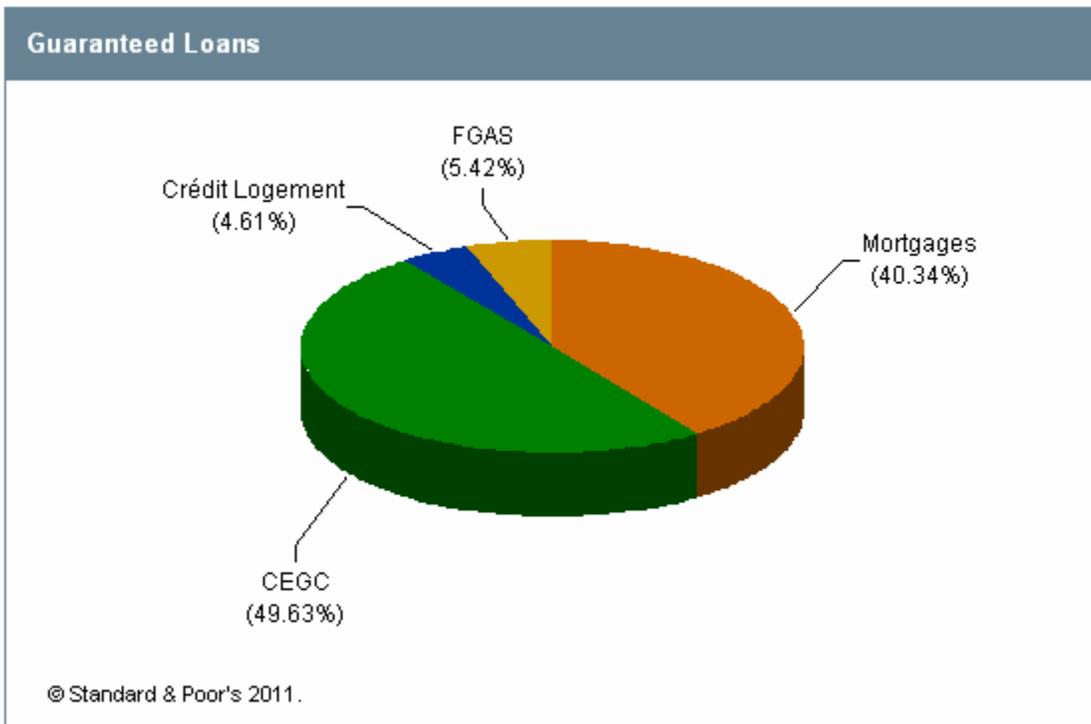
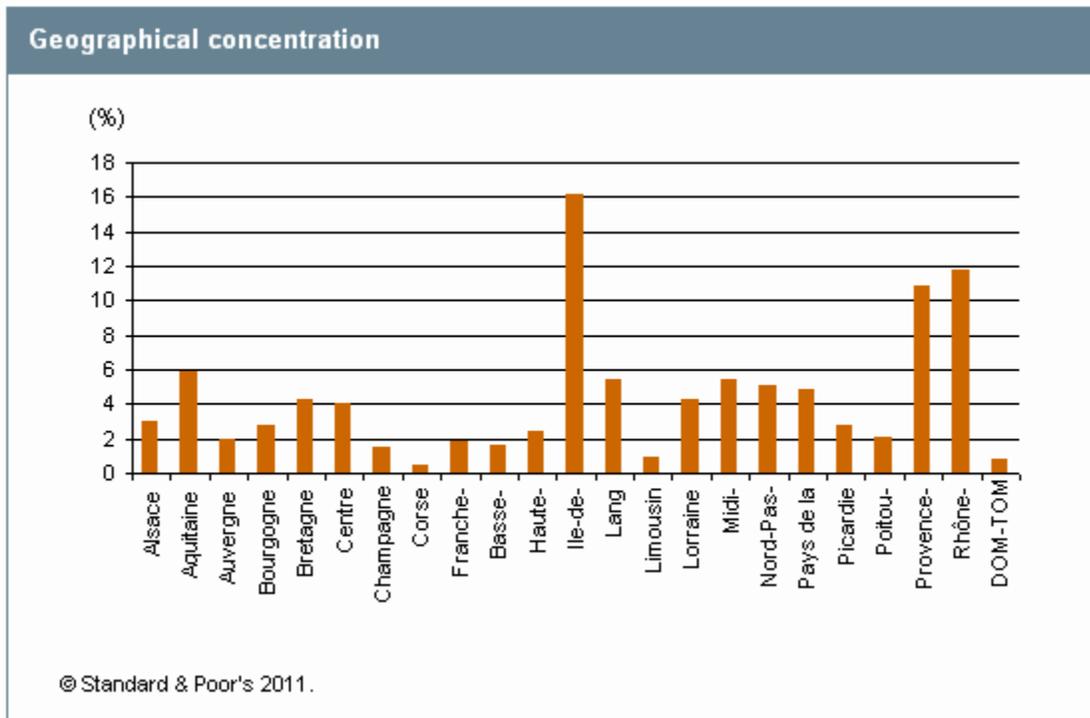


Chart 9



Definitions

Weighted-average foreclosure frequency (WAFF). The estimated percentage of assets in a pool that will go into default, under an economic scenario designed to test whether the cash flow that is expected to be generated by the pool, plus available credit enhancement, will be sufficient to repay all covered bonds rated at a given rating level.

Weighted-average loss severity (WALS). The average loss that is expected to be incurred in the event that any one asset in a cover pool goes into default, expressed as a percentage of the outstanding principal balance of the asset as of the date of the default. The expected loss is predicated on assumptions about the potential decline in the market value of collateral that may secure the asset, as well as the expenses incurred in foreclosing on and selling the property.

Weighted-average maturity. The weighted-average maturity of the assets/liabilities of legislation-enabled covered bonds takes into account all scheduled amortizations of the assets/liabilities.

Related Criteria And Research

- Request For Comment: Covered Bonds Counterparty And Supporting Methodology And Assumptions, March 23, 2011
- Global Covered Bond Characteristics And Rating Summary, March 23, 2011
- Covered Bonds—A Primer On The Top Five Global Jurisdictions, March 14, 2011
- Principles Of Credit Ratings, Feb. 16, 2011
- Advance Notice Of Proposed Criteria Change: Methodologies And Assumptions For Rating Certain Covered Bonds And CDOs, Aug. 5, 2010
- Revised Methodology And Assumptions For Assessing Asset-Liability Mismatch Risk In Covered Bonds, Dec. 16, 2010

2009

- Methodology And Assumptions: Applying The Derivative Counterparty Framework To Covered Bonds, Feb. 26, 2008
- A Listing Of S&P's New Actions Aimed At Strengthening The Ratings Process, Feb. 7, 2008
- All Covered Bonds Are Not Created Equal, Sept. 13, 2007

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