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Research Update:

France-Based BPCE Outlook Revised To Stable And 'A/A-1' Ratings Affirmed On Government Support And ALAC Review

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Overview

- We believe the prospect of extraordinary government support for French banks is now uncertain in view of the country's well-advanced and effective resolution regime.
- We are therefore removing the one notch of uplift for government support that we had previously incorporated in the long-term counterparty credit ratings on BPCE and its principal operating entities.
- However, we now include one notch in the long-term ratings because we consider that BPCE will build substantial additional loss-absorbing capacity (ALAC).
- We are affirming the long- and short-term counterparty credit ratings on BPCE and the other core operating entities of the group at 'A/A-1'.
- We are revising the outlook to stable from negative.
- The stable outlook reflects our expectation that the group will continue to gradually build its ALAC buffer in the coming two-to-three years and that we see relatively limited downside risk to its intrinsic creditworthiness.
- We are also affirming our 'A-/A-2' ratings on Crédit Foncier de France (CFF) on the basis of its ongoing "highly strategic" subsidiary status. We are revising the outlook on CFF and its core subsidiary Locindus to stable from developing. This reflects the stable outlook on BPCE and our view that we are unlikely to revise our assessment of these entities' strategic importance to BPCE in the coming 18-24 months.

Rating Action

As previously announced on Dec. 2, 2015, Standard & Poor's Ratings Services revised its outlook on France-based BPCE (BPCE) to stable from negative. At the same time, we affirmed the 'A/A-1' long- and short-term counterparty credit ratings. We also revised the outlook to stable from negative on BPCE's core entities and affirmed the 'A/A-1' ratings.

Please see the ratings list below for details of rating actions on BPCE's subsidiaries. The ratings on Tier 1 and Tier 2 capital instruments issued by BPCE and related entities are unaffected because they are notched down from the unchanged unsupported GCP.

We also revised the outlook on French specialized mortgage lender Crédit Foncier de France (CFF), and its core subsidiary Locindus S.A., to stable from

developing. We have affirmed the 'A-/A-2' long- and short-term counterparty credit ratings.

Rationale

We believe that the prospect of extraordinary government support for the French banking sector is now uncertain following the expected full implementation of the EU Bank Recovery and Resolution Directive, including bail-in powers, from Jan. 1, 2016. We do not completely exclude the possibility of such support and we consider that systemically important French institutions such as BPCE face several more years of structural and balance sheet reforms to address their "resolvability" (mitigating the systemic impact if they fail). Nevertheless, we believe the French government's ability and willingness to provide support is lower and less predictable under the enhanced resolution framework. We have therefore reclassified France's tendency to support private sector commercial banks as "uncertain" under our criteria, and removed the one notch that we previously included for government support in the long-term counterparty credit rating on BPCE.

The outlook revision to stable reflects that we have added one notch of uplift within BPCE's group credit profile (GCP) and so the long-term ratings on BPCE because we consider that BPCE is likely to increase and maintain additional loss-absorbing capacity (ALAC) above our 4.75% threshold. We view the French resolution regime as "effective" under our ALAC criteria because, among other factors, we believe it contains a well-defined bail-in process under which authorities would permit non-viable systemically important banks to continue critical functions as going concerns following a bail-in of eligible liabilities.

We include in our ALAC assessment almost all the existing capital instruments issued by BPCE and its banking subsidiaries because we believe they have capacity to absorb losses without triggering a default on senior obligations and they meet our other criteria for inclusion. On this basis, we estimate that ALAC was slightly above 3% of Standard & Poor's risk-weighted assets at mid-2015. By end-2017, we expect this ratio to exceed the 4.75% threshold for BPCE that we consider necessary for one notch of uplift. We expect that this ALAC ratio will grow further to above 5.0% by end-2018. Our projected increase largely reflects our anticipation of further sustained earnings retention, additional issuance of cooperative shares, and our assumption that future regulatory requirements would lead BPCE to modestly increase its existing buffer of subordinated instruments.

We use a 4.75% threshold for BPCE, as opposed to the usual 5.0%, because we qualitatively adjust for the portion of BPCE's insurance operations (about 10% of Standard & Poor's risk-weighted assets at end-2014) that we expect would be outside the scope of required bail-in capitalization.

Our assessment of the group's stand-alone creditworthiness reflects our view of its prominent and leading franchise in retail banking in France, as well as

its adequate financial profile. It also factors in the material strengthening in the bank's capital position over the past four years, and our expectation that the bank will continue to moderately improve its funding and liquidity ratios in the next two years. We view BPCE's risk management capabilities as adequate compared with peers'. The group's risk policy is conservative, in our view. We expect loan loss provisions to remain low in 2015 and 2016, supported by a moderate recovery in France, where the bulk of BPCE's exposure is concentrated. As a result of the above, we have maintained the GCP, which now includes ALAC support instead of government support, at 'a'.

We therefore affirmed the ratings on BPCE's "core" banking subsidiaries (see ratings list below).

The ratings on CFF are based on our opinion that it is a "highly strategic" subsidiary of BPCE, as defined by our criteria. In our opinion, BPCE is strongly committed to supporting CFF. We also see signs of greater integration and a strengthening role for CFF--including its subsidiary, Compagnie de Financement Foncier (CFiF)--within the BPCE group. Nevertheless, we expect CFF's profitability to remain less resilient and lower than that of the BPCE group. CFF has progressed in executing its risk reduction and deleveraging plan, but we continue to assess CFF's credit profile as riskier than BPCE's owing to its concentration on real estate, private corporates, and single name-concentration. In line with our group rating methodology for banks, our issuer credit rating on CFF stands one notch below our rating on BPCE.

We affirmed the issue credit ratings on the hybrid capital instruments issued by BPCE and its banking subsidiaries because we already assumed that they would not benefit from either extraordinary government or ALAC support.

Outlook

The stable outlook reflects our expectation that BPCE will continue to build its ALAC buffer to a level that will exceed 4.75% in the next two-to-three years. It also reflects our expectation that the bank will continue to demonstrate a sound capacity to generate internal capital through retained earnings, as well as good asset quality.

We could lower the ratings in the next 18 to 24 months if the build-up of its ALAC buffer appeared set to materially fall short of our expectations, for instance on the back of materially reduced retained earnings prospects or a material increase in risk exposures. We see relatively limited downside risk for BPCE's stand-alone credit profile (SACP) at this time, but an expected weakening in the maturity profile of BPCE's funding could weigh on the SACP. It could occur for instance if our stable funding metric appeared set to fail to increase to around 95% in the coming year or two.

A material strengthening in its capitalization, with our prospective risk-adjusted capital (RAC) ratio exceeding 10%, could exert upward pressure on the SACP. However, this would likely lead to a low projected ALAC

buffer--therefore leaving the issuer credit rating unchanged.

Our stable outlook on CFF and Locindus mirrors that on BPCE as we expect CFF to remain a "highly strategic" subsidiary of BPCE, and Locindus a core subsidiary of CFF.

Ratings Score Snapshot

Issuer Credit Rating	A/Stable/A-1
SACP	a-
Anchor	bbb+
Business Position	Strong (+1)
Capital and Earnings	Adequate (0)
Risk Position	Adequate (0)
Funding and Liquidity	Average and Adequate (0)
Support	(+1)
ALAC Support	(+1)
GRE Support	(0)
Group Support	(0)
Sovereign Support	(0)
Additional Factors	(0)

Related Criteria And Research

Related criteria

- Criteria | Financial Institutions | Banks: Rating Methodology And Assumptions - Nov. 9, 2011
- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions - Nov. 9, 2011
- Criteria | Financial Institutions | Banks: Bank Capital Methodology And Assumptions - Dec. 6, 2010
- Criteria | Financial Institutions | Banks: Quantitative Metrics For Rating Banks Globally: Methodology And Assumptions - Jul. 17, 2013
- Criteria | Financial Institutions | Commercial Paper I: Banks - Mar. 23, 2004
- Criteria | Financial Institutions | Methodology For Mapping Short- And Long-Term Issuer Credit Ratings For Banks - May 4, 2010
- Criteria | Financial Institutions | Banks: Bank Rating Methodology And Assumptions: Additional Loss-Absorbing Capacity, Apr.27, 2015
- Criteria | Financial Institutions | Banks: Bank Hybrid Capital And Nondeferrable Subordinated Debt Methodology And Assumptions - Jan. 29,

2015

- Criteria | Financial Institutions | Bank: Assessing Bank Branch Creditworthiness, Oct. 14, 2013
- Criteria | Financial Institutions | Banks: Revised Market Risk Charges For Banks In Our Risk-Adjusted Capital Framework, June 22, 2012
- General Criteria | Use Of CreditWatch And Outlooks – Sep. 14, 2009
- General Criteria | Group Rating Methodology – Nov. 19, 2013
- General Criteria | Ratings Above The Sovereign--Corporate And Government Ratings: Methodology And Assumptions, Nov. 19, 2013
- General Criteria | Criteria For Assigning 'CCC+', 'CCC', 'CCC-', 'CC' Ratings, Oct. 1, 2012
- General Criteria | S&P's National And Regional Scale Mapping Tables, Sep. 30, 2014
- General Criteria | National And Regional Scale Credit Ratings, Sep. 22, 2014
- General Criteria | Principles For Rating Debt Issues Based On Imputed Promises, Dec. 19, 2014
- General Criteria | Rating Government-Related Entities: Methodology And Assumptions, Mar. 25, 2015
- General Criteria | Use Of 'C' And 'D' Issue Credit Ratings For Hybrid Capital And Payment-In-Kind Instruments, Oct. 24, 2013

Related research

- Most European Bank Ratings Affirmed Following Government Support And ALAC Review, Dec. 2, 2015
- Credit FAQ: How Standard & Poor's Applied Its Government Support And ALAC Criteria To European Banks In December 2015, Dec. 2, 2015
- Standard & Poor's To Conclude Its Review Of Systemic Support For Remaining EU Banks By Early December 2015, Oct. 1, 2015
- Government And ALAC Support Ratings Uplift For Systemically Important European Banking Groups, Oct. 1, 2015
- How The Regulatory Reform Process Could Reshape Banks' Business Models And Affect Issuer Ratings, Aug. 18, 2014
- Standard & Poor's Takes Various Rating Actions On European Banks Following Government Support Review, April 29, 2014
- Credit FAQ: The Rating Impact Of Resolution Regimes For European Banks, April 29, 2014

Ratings List

Ratings Affirmed; CreditWatch/Outlook Action

	To	From
BPCE		
Natixis S.A.		
Natixis Financial Products LLC		
Natixis Australia Pty Ltd.		
Natixis (New York Branch)		
BRED - Banque Populaire		
Counterparty Credit Rating	A/Stable/A-1	A/Negative/A-1

Compagnie Europeenne de Garanties et Cautions		
Counterparty Credit Rating		
Local Currency	A/Stable/--	A/Negative/--
Financial Strength Rating		
Local Currency	A/Stable/--	A/Negative/--
Credit Foncier de France		
Locindus S.A.		
Counterparty Credit Rating	A-/Stable/A-2	A-/Developing/A-2
Parnasse Garanties		
Counterparty Credit Rating	A/Stable/--	A/Negative/--
Ratings Affirmed		
BPCE		
Senior Unsecured	A	
Senior Unsecured*	A	
Senior Unsecured	Ap	
Subordinated	BBB	
Subordinated	cnA+	
Junior Subordinated	BB+	
Certificate Of Deposit	A-1	
Commercial Paper	A-1	
BRED - Banque Populaire		
Subordinated	BBB	
Certificate Of Deposit	A-1	
Credit Foncier de France		
Senior Unsecured	A-	
Certificate Of Deposit	A-2	
Locindus S.A.		
Senior Unsecured	A-	
Certificate Of Deposit	A-2	
Natixis (New York Branch)		
Commercial Paper	A-1	
Natixis S.A.		
Senior Unsecured	A	
Senior Unsecured*	A	
Senior Unsecured	Ap	
Subordinated	BBB	
Junior Subordinated	BB+	
Certificate Of Deposit	A-1	
Commercial Paper	A-1	
Natixis Structured Products Ltd.		

Senior Unsecured** A

Natixis US Medium-Term Note Program LLC

Senior Unsecured* A

Senior Unsecured* Ap

*Guaranteed by Natixis (New York Branch).

**Guaranteed by Natixis S.A.

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