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BPCE

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BPCE

SACP	a-
Anchor	bbb+	
Business Position	Strong	+1
Capital and Earnings	Adequate	0
Risk Position	Adequate	0
Funding	Average	0
Liquidity	Adequate	

\+

Support	+1
ALAC Support	+1
GRE Support	0
Group Support	0
Sovereign Support	0

\+

Additional Factors	0

Issuer Credit Rating
A/Positive/A-1

Major Rating Factors

Strengths:

- Second-largest retail bank in France, with stable franchise in core businesses.
- Focused strategy oriented toward areas of expertise, and leveraging on the bank-insurance model.
- Improving capital metrics on sound earnings retention and benefits from cooperative status.

Weaknesses:

- Moderate growth potential in the French domestic banking market.
- Dampening effect of low interest environment on retail revenues and overall efficiency.

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Outlook: Positive

S&P Global Ratings' positive outlook on France-based BPCE and all its core and highly strategic subsidiaries reflects the possibility that we might raise the ratings within the next 18-24 months. This could occur if the group continues to adhere to a conservative financial policy, notably by strengthening its balance sheet and building larger than domestic peers' layers of loss absorbing capital. For an upgrade, our assessment of BPCE's unsupported group credit profile (UGCP) and our final issuer credit rating on the group would also need to be consistent with the 'A+' level of other rated European peers', in our view.

We could raise the ratings either because capital strengthens to a point where we would consider the group's capital position as strong, while additional issuance of loss-absorbing instruments continues supporting one notch of additional loss-absorbing capacity (ALAC) uplift, based on our projected metrics of risk-adjusted capital (RAC) and ALAC. Alternatively, and although a longer-term scenario, we could raise the ratings if the ALAC buffer achieved by BPCE was sufficient for two notches of uplift.

We could revise the outlook to stable if the group's RAC ratio and ALAC buffer appeared set to fall materially short of the levels that would lead to a higher rating. This could be the case, for instance, on the back of a strong increase in new business volumes, which would inflate S&P Global Ratings' risk-weighted assets (RWA), or if BPCE did not issue sufficient ALAC-eligible debt in the coming years. A negative rating action could also come from subdued or weaker-than-similarly-rated peers' retained earnings prospects.

Our positive outlook on Credit Foncier de France (CFF), the group's specialized mortgage lender, mirrors that on BPCE, as we expect CFF to remain a highly strategic subsidiary of BPCE.

Rationale

At the current level, our ratings on BPCE are supported by the group's prominent and longstanding franchise in domestic retail banking, conservative management, and its strategy of strengthening its balance-sheet well above regulatory requirements. We expect this trend to be supported by the group's stable earnings, its low pay-out ratio along with its cooperative structure, recurring sales of cooperative shares, and by low-single-digit annual growth in S&P Global Ratings' RWA. We view BPCE's risk management capabilities as adequate compared with peers' and the group's risk policy as conservative. We believe that BPCE successfully completed most of its transition toward a reduced risk profile, and winding-down of its legacy assets. We balance this with our view of the group's moderate growth potential in the mature French domestic banking market, the dampening effect of low interest rates on its revenues in domestic retail, and our view of its comparatively unfavorable funding and liquidity position. Our long-term rating on BPCE incorporates one notch of ALAC uplift.

Anchor: 'bbb+' for banks operating predominantly in France

We use our Banking Industry Country Risk Assessment methodology and our economic risk and industry risk scores to determine a bank's anchor, the starting point in assigning an issuer credit rating. Our 'bbb+' anchor for a commercial bank operating predominantly in France is based on an economic risk score of '3' and an industry risk score of '3', on a scale of 1-10. BPCE's weighted economic risk score stands at around '3', reflecting the dominant share of assets in its domestic market. Consequently, the anchor for BPCE is 'bbb+', which is where we begin to assess its stand-alone credit profile (SACP).

Our '3' economic risk score for France reflects our view that its economy is stable and wealthy, with low private-sector credit risk and benefits from a growing population. In our view, the economy's resilience to adverse external developments has been reduced by a relatively high public debt burden, elevated unemployment projected to decline only slowly, and decreased external competitiveness of the corporate sector. Low interest rates, domestic demand, and the growth momentum in the eurozone have more recently supported an economic catch-up phase after several years of stagnation in France (forecast for France +1.8% in 2017 and 2018, but still below average GDP growth for the eurozone) and net government debt expected to stabilize at about 91% of GDP as of year-end 2017. Residential property prices have been increasing again in 2017, a trend that may be sustained by low interest rates in 2018 before slowing. We anticipate that French banks' will post credit losses on domestic operations at historical lows for 2017, before a slightly increasing level in 2018 due to provisioning on loans to small and midsize firms and, to a lesser extent, consumer loans, as well as slightly higher provisions on corporate loans. We believe, however, that the banking sector will maintain sound domestic asset quality. We project stable economic risk.

Our '3' industry risk score reflects our view that financial institutions are operating in a less favorable environment, with low interest rates compounded by a wave of residential loan interest rate renegotiations and regulated-rate savings constraining prospective revenues. As for many neighboring peers, the capacity to control operating costs, notably in the retail businesses, will be key in the next two years as investments in technology remain important. French banks have generally made progress in improving their funding and liquidity metrics over the past five years, even though the large ones remain dependent on short-term wholesale funding to fund large securities portfolio, and we expect this will continue. We project stable industry risk.

Table 1

BPCE Group Key Figures

		--Year-ended Dec. 31--			
(Mil. €)	**2017***	**2016**	**2015**	**2014**	**2013**
Adjusted assets	1,064,509	1,066,613	1,017,312	1,078,267	988,877
Customer loans (gross)	615,318	603,126	579,103	565,898	549,043
Adjusted common equity	52,150.5	50,453.0	52,337.4	48,299.0	44,074.0
Operating revenues	12,308	23,697	24,128	23,635	23,304
Noninterest expenses	8,700	16,673	16,248	16,330	16,135
Core earnings	1,828.6	3,663.4	3,643.0	3,317.8	2,937.4

*Data as of June 30.

Business position: Prominent and stable position in retail banking in France

BPCE's business position is strong, in our opinion. It is a universal banking group with a dominant focus on retail banking in France, where it ranks No. 2. The group's prominent, longstanding, and stable domestic retail franchise is the primary driver of our assessment of its business position. BPCE's universal banking model enables it to strengthen its relationship with customers, in our view. Nevertheless, we consider the group's business diversification to be average, and, by geography, limited in comparison with large European peers, such as Société Génerale, Credit Agricole, or Nordea. We view BPCE as a second-tier player in corporate and investment banking (CIB), while specialized financial services and investment solutions, in particular asset management, offer a nice complement to the business position. Continued growth in insurance activities is a key component to the group's strategy. We consider

BPCE's business and franchise stability to be strong and its earnings generation to be solid and predictable. As it is the case at peers, BPCE's revenues are constrained by the low-interest-rate environment, especially as more than one-half of its revenues come from the French retail segment of business. This is mitigated, though, by dynamic growth in loans and deposits volumes in French retail, and by the sizable and recurring contribution to net profit generated by other businesses, notably CIB and asset management, which are incorporated under Natixis.

In our view, BPCE's management team has a cohesive strategy that is built around its core franchises, grouped under three business lines: retail banking (including all specialized financial services), investment solutions (asset management, insurance activities, and private banking), and CIB (see "BPCE's Business Lines" below). In November 2017, BPCE unveiled its medium-term strategic plan called "TEC2020," which is oriented toward digital transformation and strengthening customers' experience. Under this plan, BPCE aims to achieve growth in all business segments while further developing synergies of revenues and costs. We believe that the group has significant potential for growth through further leveraging its large customer base in France and intensifying cross-selling. We expect retail banking and customer-related wholesale banking to remain the cornerstone of the group's business position, BPCE to consolidate its bank-insurance position along with strong development of its insurance activities, and international development to be selective and targeted. We also expect cost management to continue, particularly in light of the dampening effect of low interest rates on revenues.

Table 2

BPCE Group Business Position

		--Year-ended Dec. 31--			
(%)	**2017***	**2016**	**2015**	**2014**	**2013**
Total revenues from business line (mil. €)	12,338.0	24,773.0	24,329.0	23,884.0	23,082.0
Commercial banking/total revenues from business line	16.3	18.9	18.0	16.9	13.5
Retail banking/total revenues from business line	66.4	60.4	63.2	63.0	64.7
Asset management/total revenues from business line	14.7	13.6	14.4	11.8	10.6
Other revenues/total revenues from business line	2.6	7.2	4.4	8.3	11.2
Return on equity	5.1	6.7	5.8	5.5	5.3

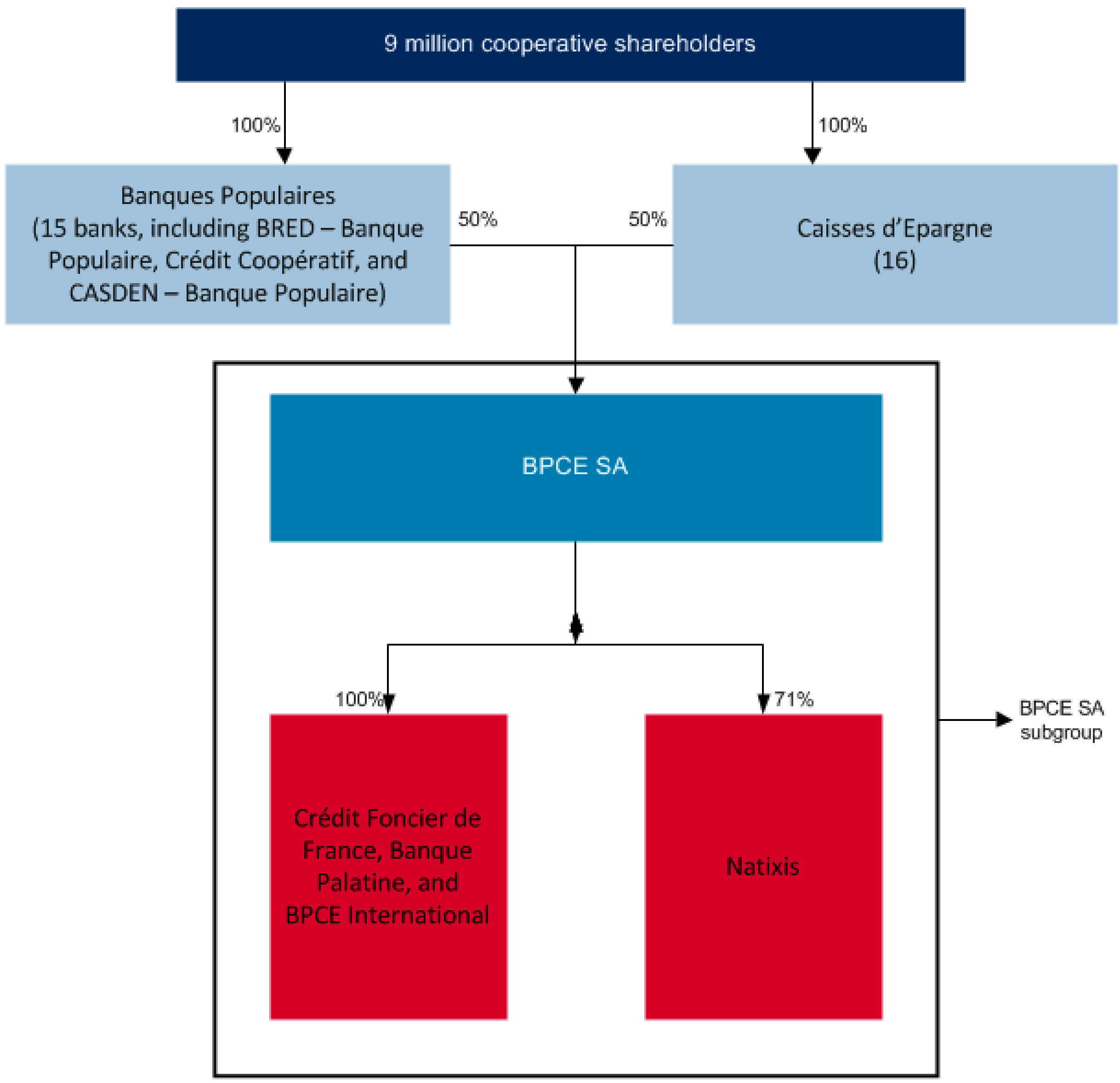
*Data as of June 30. N/A--Not applicable.

Groupe Banque Populaire (GBP) and Groupe Caisse d'Epargne (GCE) merged in summer 2009 to form the BPCE group (see chart 1). Since then, the business scope of its wholesale bank, at Natixis, was consequently tightened, while CFF is still in the process of finalizing its rightsizing and striving to tackle its limited profitability. BPCE gradually simplified its complex structure, inherited from the merger, and identified subsidiaries that do not entirely fit into its business lines. Over the past few years, the group has demonstrated its ability to:

- Seize opportunities to dispose of noncore assets, as exemplified since 2014 by disposal of Nexity, the 58.7% partial IPO of credit insurer Coface, and the sale of real-estate manager Foncia; and
- Wind-down Natixis' workout portfolio and most of CFF's nonstrategic assets.

Chart 1

Group BPCE -- Oganization Chart (As Of End-September 2017)



BPCE's Business Lines

As a typical structure for a cooperative group, BPCE is fully owned by 31 regional banks as at end-September 2017 (15 Banques Populaires--including Bred, CASDEN, and Crédit Coopératif--and 16 Caisses d'Epargne), which in turn are owned by 9 million member-customers (who hold the cooperative shares issued by the regional entities and elect their board of directors). Although BPCE does not have a specific role in managing local banks, it closely monitors the group's risk exposures, provides most of its funding, and coordinates commercial and marketing policies. As per article

L512-107-6 of Law no. 2009-715, BPCE is to apply article L511-31 of the French Monetary Code, according to which it is the central body responsible for taking any step to guarantee the solvency and liquidity of the group and its member banks. Notably, as part of this role, BPCE manages the Banque Populaire Network Fund and the Caisse d'Epargne Network Fund, which totaled €450 million each at mid-2017, and has put in place a Mutual Guarantee Fund of €362 million. As for all French cooperative banking groups, we consider the solidarity mechanism binding the central body to its member banks to be strong and reliable. Natixis, which is affiliated with BPCE and covered by the group's financial solidarity mechanism, embodies the wholesale banking, investment solutions, and specialized finance business lines. The group's stake in Natixis was 71% as at Sept. 30, 2017, with the remaining shares listed on the Paris Stock Exchange (see chart 1). CFF, too, is affiliated with the BPCE cooperative group.

Retail banking.

(68% of revenues, excluding corporate center, in the first nine months of 2017). With operations through about 8,000 branches, BPCE is the No. 2 domestic banking network in France and is well-scattered throughout the country. Its market share in credits and deposits stood at around 21% and 22%, respectively, at mid-2017. As a cooperative group, BPCE's retail banking in France is carried out by regional banks. Banques Populaires and Caisses d'Epargne et de Prévoyance are the group's two main brands. The Caisses d'Epargne et de Prévoyance's roots lie in serving individuals, while the Banques Populaires serve more significantly local entrepreneurs and small and midsize enterprises. While other networks, such as Banque Palatine and Crédit Foncier de France, enhance the group's domestic footprint, we believe that BPCE's international retail presence is limited (BPCE International primarily operates in French territories overseas and Africa). Retail banking also encompasses Natixis' specialized financial services, which include factoring, lease financing, consumer credit, sureties and guarantees, employee benefits planning, payments and securities services. The specialized financial services segment is primarily directed toward serving BPCE's retail banking activities, and we believe that Natixis will continue to reinforce its role in supporting the franchise of the group's retail banks.

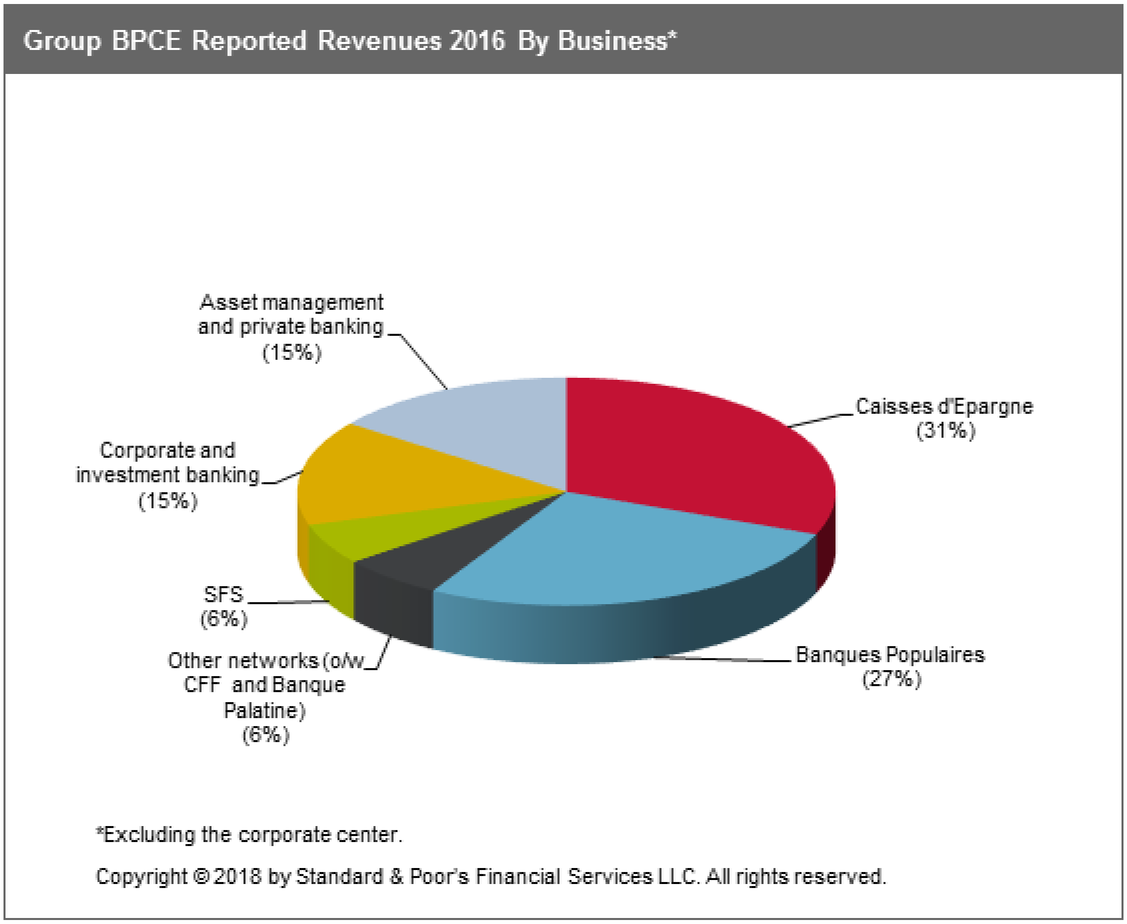
Investment solutions.

(16% of revenues, excluding corporate center, in the first nine months of 2017). Asset management accounts for the bulk of investment solutions, which is expanding internationally, in particular in the U.S, and enjoys high assets under management (€813 billion at end-September 2017). Since 2014, BPCE's group insurance companies are grouped around Natixis, for the largest part under Natixis Assurances. Also, BPCE owns a 16.1% stake in CNP Assurances, with which it had traditionally been entertaining distribution relationships in life insurance. This minority interest is consolidated under the equity method, and it has been transferred under the corporate center in 2017. Following the expiry of the distribution agreement on Dec. 31, 2015, BPCE and CNP Assurances have signed a new partnership for a term of seven years, which calls on Natixis Assurances to design and manage all savings and pension funds to be newly distributed by the Caisse d'Epargne network starting Jan. 1, 2016, and which will enable BPCE to gradually consolidate its position in bancassurance.

Corporate and investment banking.

(16% of revenues, excluding corporate center, in the first nine months of 2017). We consider Natixis as a second-tier wholesale banking player (made up of financing and capital market activities, which contributed to roughly 7% and 9% of BPCE's revenues in the first nine months of 2017, respectively). Natixis benefits from a longstanding and solid domestic franchise in lending to midsize and large corporations, and structured and commodity financing.

Chart 2



Capital and earnings: Strengthening through earnings retention and sale of cooperative shares

Our assessment of BPCE's capital and earnings as adequate reflects the strengthening in the bank's capital position over the past four years, and our expectation that our projected RAC ratio will be about 10% by end-2019. Quality of capital is also a supportive factor, with hybrids and deferred tax assets--which we view as a lower quality element within our measure of total adjusted capital (TAC)--accounting for about 7% of its total at end-2016, and likely unchanged at end-2017.

At end-2016, we estimated the group's RAC ratio at 9.3%, pro forma our revised methodology (see "Risk-Adjusted Capital Framework Methodology," published July 20, 2017). We note that the impact from the revision of our methodology on BPCE's RAC ratio was marginal. The ratio at end-2016 was well above the 8.4% achieved at end-2015, with the improvement stemming mostly from strong retained earnings of above €3 billion, the generation of €1.3 billion of capital through the sale of cooperative shares in 2016, and from the absence of growth in risk exposures as measured under S&P Global Ratings' RWA.

Our RAC projection of about 10% for 2018 and 2019 reflects our view that BPCE will continue to improve its capital ratios on the back of stable profitability. We expect issuance of cooperative shares to remain dynamic over 2017-2018 (following €8.2 billion in new cooperative shares issued to member-customers over 2012-2016), still modest dividend payout (reflecting its cooperative status), and moderate growth in S&P Global rating's RWA. Our projections do not include any issuance of Additional Tier 1 (AT1) instruments as we believe that the group's strategy is to strengthen its common equity ratio through retained earnings, and to replace legacy Tier 1 instruments by senior non-preferred debt, or by dated subordinated debt (Tier 2), although to a lesser extent. At Sept. 30, 2017, BPCE had a total capital ratio of 19.0%, and a common equity Tier 1 ratio of 15.0% (fully loaded), which compared to 12.9% at-end 2015.

Under our base-case scenario, the group's consolidated profits in 2017 and 2018 will remain close to the sound levels of core earnings that BPCE achieved in 2016 and 2015, which we assessed to exceed €3.5 billion (that is including minority interests). This is a solid level, in our view, and equally important we view the group's earnings as extremely predictable due to its low-risk business model. We expect that the low interest rate environment and renegotiation of mortgage loans in France will continue to pressure the net interest margin, albeit largely offset by increase in lending volumes, while the strategic focus on cross-selling, and on the insurance and savings businesses should gradually benefit other operations. We expect BPCE to post cost of risk at still low level for 2017 and 2018, likely below or close to 25 bps.

Over the first nine months of 2017, the group achieved about €3.1 billion in net profit (including minority interests), excluding a €0.1 billion charge for non-economic and non-recurring items. For the record, this was a similar performance as that achieved in the same period of 2016, which we estimated close to €3.0 billion, excluding notably a significant €0.8 billion gain on Visa Europe disposal.

Table 3

BPCE Group Capital And Earnings

		--Year-ended Dec. 31--			
(%)	**2017***	**2016**	**2015**	**2014**	**2013**
Criteria reflected in RAC ratios	N/A	2017 RAC Criteria	2010 RAC Criteria	2010 RAC Criteria	2010 RAC Criteria
Tier 1 capital ratio	14.8	14.5	13.3	12.7	12.8
S&P RAC ratio before diversification	N/A	9.3	8.4	7.9	6.9
S&P RAC ratio after diversification	N/A	10.2	10.4	9.7	8.7
Adjusted common equity/total adjusted capital	99.9	99.3	99.2	97.0	96.0
Net interest income/operating revenues	41.9	46.0	45.8	48.8	49.5
Fee income/operating revenues	38.5	37.1	38.0	34.4	33.1
Market-sensitive income/operating revenues	20.5	12.0	12.0	9.9	10.7
Noninterest expenses/operating revenues	70.7	70.4	67.3	69.1	69.2
Preprovision operating income/average assets	0.6	0.6	0.7	0.6	0.6
Core earnings/average managed assets	0.3	0.3	0.3	0.3	0.3

*Data as of June 30. RAC--Risk-adjusted capital. N/A--Not applicable.

Table 4

BPCE Group Risk-Adjusted Capital Framework Data

(Mil. €)	Exposure*	Basel III RWA	Average Basel III RW (%)	S&P Global Ratings' RWA	Average S&P Global Ratings' RW (%)
Credit risk					
Government and central banks	299,029	19,044	6	11,883	4
Institutions and CCPs	55,377	9,791	18	11,285	20
Corporate	244,743	143,976	59	196,441	80
Retail	370,400	81,198	22	139,505	38
Of which mortgage	295,832	54,468	18	84,218	28
Securitization§	17,549	9,320	53	10,049	57
Other assets†	23,421	27,823	119	42,981	184
Total credit risk	1,010,520	291,152	29	412,145	41
Credit valuation adjustment					
Total credit valuation adjustment	--	4,950	--	10,425	--
Market risk					
Equity in the banking book	7,783	44,974	578	59,320	762
Trading book market risk	--	12,200	--	18,501	--
Total market risk	--	57,173	--	77,821	--
Operational risk					
Total operational risk	--	37,675	--	44,619	--
(Mil. €)		**Basel III RWA**		**S&P Global Ratings' RWA**	**% of S&P Global Ratings' RWA**
Diversification adjustments					
RWA before diversification	--	390,975	--	545,010	100
Total Diversification/Concentration Adjustments	--	--	--	(47,695)	(9)
RWA after diversification	--	390,975	--	497,315	91
(Mil. €)		**Tier 1 capital**	**Tier 1 ratio (%)**	**Total adjusted capital**	**S&P Global Ratings' RAC ratio (%)**
Capital ratio					
Capital ratio before adjustments	--	56,607	14.5	50,806	9.3
Capital ratio after adjustments‡	--	56,607	14.5	50,806	10.2

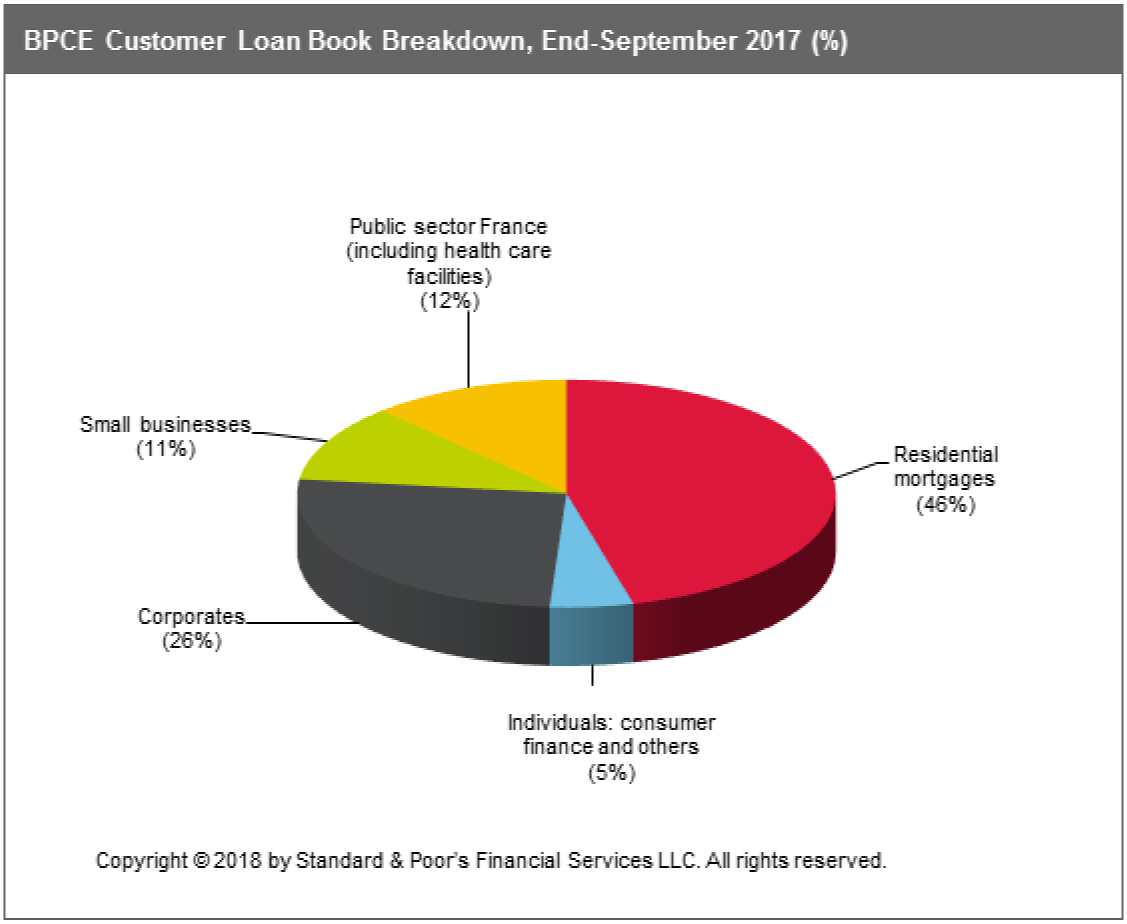
*Exposure at default. §Securitization exposure includes the securitization tranches deducted from capital in the regulatory framework. †Other assets includes Deferred Tax Assets (DTAs) not deducted from ACE. ‡Adjustments to Tier 1 ratio are additional regulatory requirements (e.g. transitional floor or Pillar 2 add-ons). RWA--Risk-weighted assets. RW--Risk weight. RAC--Risk-adjusted capital. Sources: Company data as of Dec. 31, 2016, S&P Global.

Risk position: Primarily domestically driven, with a low cost of risk

Our assessment of BPCE's risk position as adequate is underpinned by the bank's targeted growth strategy, around a few selected areas of expertise, and our view of its adequate risk management capabilities. BPCE faces areas of risk that differ widely in nature, ranging from its simple businesses to more sophisticated market and credit activities. However, we view the balance sheet as being less complex than that of larger international peers.

BPCE's domestic loan book is of good quality. We estimate that lower-risk mortgage loans made up about 46% of total loans at end Sept.2017 (see chart 3).

Chart 3



The group is primarily targeting expansion in its traditional areas of expertise, including insurance and asset management--the latter by nature entails limited credit risk. We think that BPCE has a good track record in credit risk management in its core lending business.

BPCE's exposures are mostly concentrated in France. In the first half of 2017, our measure of the group's new loan loss provisions to average gross customer loans stood at 23 basis points (bps), below the 32 bps level achieved in 2014 and 2015. We estimate that the group will sustain a low level, and report below 25 bps for the full year 2017 and 2018, although exposure to large corporates could, by nature, lead to some volatility in CFF's and Natixis' cost of credit risk. Our measure of the group's gross nonperforming loans slightly decreased at mid-2017, at a moderate 3.75% of total customer loans, following a steady decrease from 4.3% on Dec. 31, 2013. Their coverage rate by reserves stood at 53%, and very stable over the past five years, a level that we see as satisfactory, reflecting the group's aggregate risk position and the collateralized nature of the majority of it.

We believe that the group has successfully completed most of its transition toward a reduced risk profile. As planned, the winding-down of its legacy assets portfolios was completed by mid-2014, with the transfers to Natixis' CIB of the exposures that remained in the former GAPC portfolio, and to BPCE of more than 90% of CFF's securitization exposures. These exposures are managed in run-off mode. The residual exposures in international securitization in the CFF's legacy portfolio, also managed in run-off mode, amounted a limited €53.5 million at end-2016. We believe that, although disparate in nature, underlying credit risks embedded in this portfolio are well provisioned. We also consider that the group has correctly identified and collectively reserved for the most-at-risk structured loans granted to local authorities by CFF and the Caisses d'Epargne network.

Most of BPCE's market and operational risks lie with Natixis and the group's largest regional bank BRED - Banque Populaire. The consistency of their measurement has improved across the group. BPCE's average value-at-risk (VAR; 99%, one-day) stood at €7.9 million in 2016. Global stress testing complements the group's VAR. Structural exposure to interest rates lies primarily in BPCE's large retail banking books. The group's risk appetite is moderate and its monitoring tools are adequate, in our view.

Table 5

BPCE Group Risk Position

		--Year-ended Dec. 31--			
(%)	**2017***	**2016**	**2015**	**2014**	**2013**
Growth in customer loans	4.0	4.1	2.3	3.1	4.1
Total diversification adjustment / S&P RWA before diversification	N/A	(8.8)	(19.4)	(18.5)	(20.6)
Total managed assets/adjusted common equity (x)	23.7	24.5	22.3	25.3	25.5
New loan loss provisions/average customer loans	0.2	0.2	0.3	0.3	0.4
Gross nonperforming assets/customer loans + other real estate owned	3.8	3.9	4.0	4.1	4.3
Loan loss reserves/gross nonperforming assets	52.6	52.2	53.1	53.3	52.0

*Data as of June 30. RWA--Risk-weighted assets. N/A--Not applicable.

Funding and liquidity: Average and adequate, but still below that of large peers

We consider BPCE's funding as average and its liquidity as adequate. The group relies on a large and stable deposit base and on confidence-sensitive wholesale funding to support its sizable balance sheet. We view the group's liquidity management as adequate. We believe that in the past years, BPCE rebalanced its funding profile toward longer-term liabilities and on-balance-sheet savings, while reinforcing its liquidity management under stress test scenarios. We expect further improvements, although not transforming, in our funding and liquidity metrics on BPCE in coming years, supported by the group's focus on Natixis' originate-to-distribute model and on the diversification of its funding tools.

BPCE is the second-largest deposit taker in France. We calculate that its loan-to-deposit ratio was 143% as at mid-2017, down from 175% at end-2010. Despite the material improvement, it still compares unfavorably with large domestic peers. BPCE's major funding imbalances arise from wholesale-funded subsidiaries Natixis and CFF, and from the centralization of a large part of its regulated savings plan deposits (including Livret A) at the Caisse Des Dépôts et Consignations, which makes these centralized deposits unavailable for funding the group's assets. We believe that the group's ability to repackage mortgage loans into covered bonds, raise funds throughout its large retail banking networks, and its loyal deposit base are strong qualitative mitigating factors, though. We note that France's domestic investor base is quite large, and is complemented by BPCE's increasing diversification beyond its home market, particularly in the U.S. and Asia.

The group's medium- and long-term funding is organized around two funding pools: BPCE and CFF. The latter funds itself autonomously through Europe's largest private covered bond issuer, Compagnie de Financement Foncier (CFiF). Thanks to CFiF and BPCE SFH--the group's second-largest covered bonds issuer--the bank secures the financing of its longer-term assets in a competitive way, which is positive for the consolidated creditworthiness, in our view. The group pays attention to the amount of its encumbered assets, and in spite of investor appetite, has limited its recourse to covered bonds since 2012. We understand that assets pledged by the group as collateral for funding in the form of covered bonds amounted to about 9% of its total asset base at year-end 2016, and we do not expect any major deviation in 2017 and 2018.

The group has steadily reduced its annual funding needs since 2011, and its 2017 medium- and long-term funding plan stood at €20 billion. On Sept. 30, 2017, BPCE had completed 107% of this annual plan.

Our central scenario factors in that the group will slightly consolidate its funding and liquidity position, from the current level that we see as somewhat below domestic peers'. At mid-2017, we estimated our stable funding ratio at 92.2% and our broad liquid assets to short-term wholesale funding ratio at 0.94x, broadly in line with the levels achieved in 2015 and 2016. We believe that the comparatively large amount of retail deposits BPCE collects from regulated saving plans (mostly Livret A), and centralizes at the Caisse des Dépôts et Consignations, contributed to our funding and liquidity indicators being weaker than peers' (we adjust our metrics because we do not see these centralized amounts as available for refinancing of the group's assets). Still, we do not see BPCE's funding and liquidity as distinctive factors and consider them as neutral for the rating.

We consider all refinancing by the European Central Bank (ECB) to be short term, regardless of actual maturity, except for the second series of Targeted Longer-Term Refinancing Operations (TLTRO II), which was introduced in March 2016. We see BPCE's access to ECB funding as opportunistic.

Table 6

BPCE Group Funding And Liquidity

		--Year-ended Dec. 31--			
(%)	**2017***	**2016**	**2015**	**2014**	**2013**
Core deposits/funding base	47.1	46.7	47.9	41.9	44.2
Customer loans (net)/customer deposits	142.5	142.3	140.3	148.8	148.3
Long term funding ratio	72.8	72.3	74.3	67.1	70.9
Stable funding ratio	92.2	91.1	93.0	87.6	88.3
Short-term wholesale funding/funding base	29.1	29.6	27.4	34.9	30.8
Broad liquid assets/short-term wholesale funding (x)	0.9	0.9	1.0	0.9	0.9
Short-term wholesale funding/total wholesale funding	55.0	55.4	52.6	59.9	55.0
Narrow liquid assets/3-month wholesale funding (x)	1.8	1.8	1.9	1.7	1.6

*Data as of June 30.

External support: One notch of support and strengthening ALAC buffer

Our long-term rating on BPCE is one notch higher than the UGCP, since we incorporate one notch of ALAC uplift. We calculated that our ALAC ratio on BPCE was 5.69% of S&P Global Ratings' RWA at year-end 2016. This calculation included an impact of +0.33 percentage points from the revision of our RAC framework methodology, mostly due to the change in our approach to insurance risks, while the rest of the difference with the 4.19% ratio that we calculated at end-2015 reflected essentially the increase in the group's total adjusted capital, which was through retained earnings and issuance of cooperative shares.

Consequent to the revision of our methodology, the insurance operations, which we expect would lie outside the scope of required bail-in capitalization, do not contribute significantly to the S&P Global Ratings' RWA used in our ALAC calculation. For this reason, we have removed the qualitative adjustment we previously applied to our usual 5.00% threshold (see "French Bank BPCE Outlook Revised To Positive On The Balance Sheet's Strengthening Trend; 'A/A-1' Ratings Affirmed," on Oct. 20, 2017). For BPCE to benefit a second notch of ALAC support, the group would need to achieve an ALAC ratio of 8.00%.

We believe that BPCE plans to raise its bail-in-able buffer well above regulatory requirements. We expect this trend to be also supported by the group's stable earnings, its low pay-out ratio along with its cooperative structure, recurring sales of cooperative shares, and by low-single-digit annual growth in S&P Global Ratings' RWA.

As a result of its periodic review, the Financial Stability Board (FSB) announced in November 2017 the removal of BPCE from the list of 30 global systemically important banks, also called G-SIBs (see "French Bank BPCE's Removal From G-SIB List Has No Effect On Ratings And Outlook," published Nov. 22, 2017). Only G-SIBs must comply with total loss-absorbing capacity (TLAC) standards, while the minimum requirement for own funds and eligible liabilities (MREL) applies to non-G-SIB banks, like BPCE.

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 believe that the prospect of extraordinary government support for the French banking sector is uncertain as a result of the 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, but we believe the French government's ability and willingness to provide support is lower and less predictable under the enhanced resolution framework. Therefore, we consider that France's tendency to support private sector commercial banks is uncertain under our criteria, and we do not include uplift for government support in the long-term counterparty credit rating on BPCE.

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. We also included in our measure of ALAC the bank's "senior non-preferred" debt instruments (a category of debt established by the Sapin II law enacted on Dec. 9, 2016), considering that these debt instruments will be eligible for inclusion in MREL. In line with our methodology, instruments with a residual maturity of less than one year are not included.

We consider that the ALAC uplift can be transferred to all core members of the group--including Compagnies

Européenne de Garanties et Cautions and Parnasse Garanties--that are largely captive-like companies providing financial guarantees on housing loans granted by the group retail network. Despite the fact that these subsidiaries operate insurance activities, we use the supported group credit profile as notching reference considering that the benefit of these insurances is not to the end-customers, but to the client-banks which originated the loans and carry them in their books, and considering that, if these guarantors were not supported, losses would have to be borne by the banking operations anyway, even if not formally speaking as part, and under the form, of a bail-in scheme. We also consider that the ALAC uplift can be transferred to CFF, which factors in our view of its highly strategic status to BPCE and the fact that CFF is affiliated to the cooperative group.

Additional rating factors: None

There are no additional rating factors.

Rating approach to subordinated and senior-subordinated debts

We rate the bank's subordinated and senior-subordinated (that is senior non-preferred) notes by notching down from our assessment of its SACP, which is 'a-'.

Our 'BBB+' rating on the bank's senior non-preferred debt is one notch lower than its SACP, owing to our view that such notes are subordinated (although not labelled as so) to more senior obligations, and do not carry additional default risk relative to that represented by BPCE's SACP. Indeed, we believe that senior non-preferred notes would be subject to a possible conversion or write down only in resolution, and that, in particular, they would be excluded from any burden sharing under state-aid rules.

Our 'BB+' ratings on the bank's AT1 instruments are four notches below its SACP. This reflects the deduction of one notch for subordination, two notches to reflect the instruments' standard risk of coupon non-payment and considering their regulatory tiering, and one notch as we believe that they would absorb losses through principal in application of a mandatory contingent capital clause (be contractual or statutory). The 'BB+' rating level factors in our expectation that the group will maintain sufficient buffer against the trigger for potential regulatory restrictions on paying coupon on AT1 instruments (maximum distributable amount). If this was not the case, we could widen our notching.

Related Criteria

- General Criteria: S&P Global Ratings' National And Regional Scale Mapping Tables, Aug. 14, 2017
- Criteria - Financial Institutions - General: Risk-Adjusted Capital Framework Methodology, July 20, 2017
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- General Criteria: Guarantee Criteria, Oct. 21, 2016
- Criteria - Financial Institutions - Banks: Bank Rating Methodology And Assumptions: Additional Loss-Absorbing Capacity, April 27, 2015
- Criteria - Financial Institutions - Banks: Bank Hybrid Capital And Nondeferrable Subordinated Debt Methodology And Assumptions, Jan. 29, 2015
- General Criteria: Principles For Rating Debt Issues Based On Imputed Promises, Dec. 19, 2014
- General Criteria: National And Regional Scale Credit Ratings, Sept. 22, 2014
- General Criteria: Group Rating Methodology, Nov. 19, 2013
- Criteria - Financial Institutions - Banks: Assessing Bank Branch Creditworthiness, Oct. 14, 2013

- Criteria - Financial Institutions - Banks: Quantitative Metrics For Rating Banks Globally: Methodology And Assumptions, July 17, 2013
- Criteria - Financial Institutions - Banks: Banks: Rating Methodology And Assumptions, Nov. 9, 2011
- Criteria - Financial Institutions - Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9, 2011
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009
- Criteria - Financial Institutions - Banks: Commercial Paper I: Banks, March 23, 2004

Related Research

- Creditor Insurance Policies: The End Of Easy Money For French Bancassurers, Jan. 22, 2018
- Does French Banks' Capital Buildup Stop Here?, Jan. 18, 2018
- Risk-Adjusted Capital (RAC) Ratios For The Top 50 Western European Banks: December 2017, Dec. 14, 2017
- Bulletin: French Bank BPCE's Removal From G-SIB List Has No Effect On Ratings And Outlook, Nov. 2017, 22
- French Bank BPCE Outlook Revised To Positive On The Balance Sheet's Strengthening Trend; 'A/A-1' Ratings Affirmed, Oct. 20, 2017
- An Illustrative Rating Path For A Systemic Bank In A Bail-In Resolution, Oct. 4, 2017
- Ratings Component Scores For The Top 50 European Banks--September 2017, Sept. 28, 2017
- Banking Industry Country Risk Assessment: France, June 20, 2017

Anchor Matrix

Industry Risk	Economic Risk									
	1	2	**3**	4	5	6	7	8	9	10
1	a	a	a-	bbb+	bbb+	bbb	-	-	-	-
2	a	a-	a-	bbb+	bbb	bbb	bbb-	-	-	-
3	a-	a-	**bbb+**	bbb+	bbb	bbb-	bbb-	bb+	-	-
4	bbb+	bbb+	bbb+	bbb	bbb	bbb-	bb+	bb	bb	-
5	bbb+	bbb	bbb	bbb	bbb-	bbb-	bb+	bb	bb-	b+
6	bbb	bbb	bbb-	bbb-	bbb-	bb+	bb	bb	bb-	b+
7	-	bbb-	bbb-	bb+	bb+	bb	bb	bb-	b+	b+
8	-	-	bb+	bb	bb	bb	bb-	bb-	b+	b
9	-	-	-	bb	bb-	bb-	b+	b+	b+	b
10	-	-	-	-	b+	b+	b+	b	b	b-

Ratings Detail (As Of January 31, 2018)

BPCE	
Counterparty Credit Rating	A/Positive/A-1
Commercial Paper	A-1
Junior Subordinated	BB+
Senior Subordinated	BBB+
Senior Unsecured	A
Short-Term Debt	A-1
Subordinated	BBB

Ratings Detail (As Of January 31, 2018) (cont.)	
Counterparty Credit Ratings History	
20-Oct-2017	A/Positive/A-1
02-Dec-2015	A/Stable/A-1
25-Oct-2012	A/Negative/A-1
Sovereign Rating	
France	AA/Stable/A-1+
Related Entities	
Banques Populaires Covered Bonds	
Senior Secured	AAA/Stable
Banque Tuniso-Koweitienne	
Issuer Credit Rating	B/Negative/--
Senior Unsecured	B
Subordinated	CCC+
BPCE SFH	
Senior Secured	AAA/Stable
BRED - Banque Populaire	
Issuer Credit Rating	A/Positive/A-1
Certificate Of Deposit	
Local Currency	A-1
Senior Unsecured	A
Subordinated	BBB
Compagnie de Financement Foncier	
Commercial Paper	
Local Currency	A-1+
Senior Secured	AAA/Stable
Compagnie Europeenne de Garanties et Cautions	
Financial Strength Rating	
Local Currency	A/Positive/--
Issuer Credit Rating	
Local Currency	A/Positive/--
Credit Foncier de France	
Issuer Credit Rating	A-/Positive/A-2
Senior Unsecured	A-
Short-Term Debt	A-2
Natixis Australia Pty Ltd.	
Issuer Credit Rating	A/Positive/A-1
Natixis Financial Products LLC	
Issuer Credit Rating	A/Positive/A-1
Natixis (New York Branch)	
Issuer Credit Rating	A/Positive/A-1
Commercial Paper	
Local Currency	A-1

Ratings Detail (As Of January 31, 2018) (cont.)	
Natixis S.A.	
Issuer Credit Rating	A/Positive/A-1
Commercial Paper	
Local Currency	A-1
Junior Subordinated	BB+
Senior Unsecured	A
Subordinated	BBB
Parnasse Garanties	
Issuer Credit Rating	A/Positive/--
Socram Banque	
Issuer Credit Rating	BBB+/Stable/A-2
Certificate Of Deposit	
Local Currency	A-2
Senior Unsecured	BBB+

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.

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