MOODY'S
INVESTORS SERVICE

Credit Opinion: BPCE

Global Credit Research - 06 Nov 2013

Paris, France

Ratings

Category	**Moody's Rating**
Outlook	Stable
Bank Deposits	A2/P-1
Bank Financial Strength	D
Baseline Credit Assessment	(ba2)
Adjusted Baseline Credit Assessment	(baa2)
Senior Unsecured -Fgn Curr	A2
Senior Unsecured -Dom Curr	A2
Subordinate	Baa3
Pref. Stock -Dom Curr	Ba2 (hyb)
Pref. Stock Non-cumulative	Ba2 (hyb)
Commercial Paper	P-1
Other Short Term -Dom Curr	(P)P-1
Natixis US Medium-Term Note Program LLC	
Outlook	Stable
Bkd Senior Unsecured	A2
Natixis Securities Americas LLC	
Outlook	Stable
Issuer Rating	A2
ST Issuer Rating	P-1
Natixis Loan Funding	
Outlook	Stable
Bkd Sr Unsec MTN -Dom Curr	(P)A2
Bkd Other Short Term -Dom Curr	(P)P-1

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Key Indicators

Groupe BPCE (Consolidated Financials)[1]

	[2]**6-13**	[2]**12-12**	[2]**12-11**	[2]**12-10**	[2]**12-09**	**Avg.**
Total Assets (EUR million)	**1,161,639.0**	**1,147,521.0**	**1,138,395.0**	**1,048,442.0**	**1,028,802.0**	[3]**3.1**
Total Assets (USD million)	**1,509,955.5**	**1,512,882.0**	**1,477,801.7**	**1,406,530.6**	**1,476,064.2**	[3]**0.6**
Tangible Common Equity (EUR million)	**45,346.4**	**43,541.8**	**39,283.0**	**37,395.4**	**29,362.0**	[3]**11.5**
Tangible Common Equity (USD million)	**58,943.5**	**57,405.1**	**50,995.0**	**50,167.6**	**42,126.9**	[3]**8.8**
Net Interest Margin (%)	**1.0**	**1.0**	**1.2**	**1.2**	**1.3**	[4]**1.2**
PPI / Average RWA (%)	**1.9**	**1.7**	**1.8**	**1.8**	**0.9**	[5]**1.6**
Net Income / Average RWA (%)	**1.0**	**0.8**	**0.8**	**1.1**	**0.0**	[5]**0.7**
(Market Funds - Liquid Assets) / Total Assets (%)	**9.9**	**12.0**	**13.6**	**9.4**	**11.4**	[4]**11.3**
Core Deposits / Average Gross Loans (%)	**81.0**	**76.5**	**72.6**	**74.7**	**71.9**	[4]**75.3**

Tier 1 Ratio (%)	**11.8**	**12.2**	**10.0**	**10.1**	**9.1**	[5]**10.6**
Tangible Common Equity / RWA (%)	**11.6**	**11.4**	**9.5**	**9.2**	**7.1**	[5]**9.8**
Cost / Income Ratio (%)	**68.8**	**70.6**	**68.1**	**67.6**	**82.1**	[4]**71.4**
Problem Loans / Gross Loans (%)	**3.9**	**3.9**	**3.6**	**3.7**	**3.7**	[4]**3.8**
Problem Loans / (Equity + Loan Loss Reserves) (%)	**33.8**	**34.3**	**35.0**	**32.6**	**33.4**	[4]**33.8**

Source: Moody's

[1] All figures and ratios are adjusted using Moody's standard adjustments [2] Basel II; IFRS [3] Compound Annual Growth Rate based on IFRS reporting periods [4] IFRS reporting periods have been used for average calculation [5] Basel II & IFRS reporting periods have been used for average calculation

Opinion

SUMMARY RATING RATIONALE

This credit opinion refers to BPCE (the central institution of Groupe BPCE) and its subsidiaries, known as groupe BPCE SA.

We rate BPCE's global local-currency (GLC) debt and deposit ratings A2/Prime-1. These ratings reflect our view of (1) the very high probability of cooperative support for BPCE from the strong solidarity mechanisms prevailing within Groupe BPCE's domestic retail networks leading to an adjusted baseline credit assessment (BCA) of baa2 i.e. three notches of cooperative support (BCA is positioned at ba2); (2) and a very high likelihood of systemic support given the group's sizeable domestic retail market share of approximately 21%, which result in a three-notch uplift. The combined cooperative and systemic support assumptions result in six notches of uplift in the debt and deposit ratings to A2 from BPCE's standalone BCA of ba2.

BPCE's adjusted BCA of baa2, which incorporates cooperative support from Groupe BPCE, reflects the group's strong domestic franchise, diversified range of activities and relatively stable flow of retail and commercial banking earnings. The rating also incorporates (1) the effect of the weakening macroeconomic outlook in France and the rest of Europe; (2) the group's vulnerable (albeit improving) liquidity profile; (3) modest profitability; (4) weak efficiency levels; and (5) the relatively high risk profile of some of its wholesale banking operations.

BPCE's standalone D bank financial strength rating (BFSR), equivalent to a ba2 BCA mainly reflects that, as the holding company for various subsidiaries of the group, it relies on earnings from tightly regulated financial institutions, which are in turn exposed to risks from a worsening operating environment in France and the rest of Europe. BPCE creditors' potential structural subordination is offset by BPCE's role as the group central institution, the existence of solidarity funds and cross-guarantees between BPCE and regional banks. The Banques Populaires (BP) and Caisses d'Epargne (CE) networks form the basis of the cooperative group and, in turn, own 100% of BPCE.

Rating Drivers

- Groupe BPCE has a strong franchise in France and an established name in selected activities internationally, providing a diversified earnings base

- Structurally weak, albeit improving, liquidity and funding positions constrain the bank's rating

- Groupe BPCE's risk positioning is modest because risk management and controls are still evolving, coupled with Natixis's relatively high, albeit decreasing, risk profile

- Difficult economic conditions have resulted in asset quality deterioration, particularly within Natixis, and weaker profitability

- The bank's capitalisation is adequate and on an improving trend

Rating Outlook

The outlook on BPCE's standalone credit assessment and long-term ratings is stable, as we believe that the stresses characterising the currently challenging operating environment are fully incorporated into the ratings.

What Could Change the Rating - Up

Upward pressure on the ratings could develop if the bank (1) attains higher profitability and efficiency levels; (2) improves its liquidity and funding profile by reducing its reliance on wholesale funding; and (3) improves asset quality despite the weakening operating environment.

What Could Change the Rating - Down

A downgrade of BPCE's debt and deposit ratings could be triggered by (1) a reduction of its BCA; (2) a weakening of the credit profile of the consolidated Groupe BPCE (providing support via the group internal solidarity mechanism); or (3) an adverse change in our assessment of the probability of cooperative and/or systemic support.

BPCE's ba2 BCA could be lowered if the current challenging operating environment resulted in further significant weakening of the bank's credit fundamentals, particularly its liquidity, profitability and capitalisation. In addition, a lowering of the BCA could be driven by (1) a deterioration of BPCE's risk profile,; (2) a negative development within Natixis, for example on its legacy portfolio; or (3) failure to improve synergies among the group entities.

DETAILED RATING CONSIDERATIONS

GROUPE BPCE HAS A STRONG FRANCHISE IN FRANCE AND AN ESTABLISHED NAME IN SELECTED ACTIVITIES INTERNATIONALLY, PROVIDING A DIVERSIFIED EARNINGS BASE

Groupe BPCE's franchise value is its core credit strength. The group operates in France mainly through two separate networks of regional banks (BP and CE) targeting different market segments, together holding approximately 21% deposit and loan market share. The group also comprises various subsidiaries including Natixis (A2 stable; D/ba2 stable), the well-established wholesale banking arm and Crédit Foncier de France (CFF, A2 deposit rating stable; E+/b1 stable), a specialised real-estate finance firm, mainly funded through covered bonds.

However, the group's earnings generation capacity has been challenged in the current operating environment as a result of weak economic prospects. We believe that the bank has the potential to partially offset some of these pressures by greater exploitation of cross-selling opportunities among the group subsidiaries.

We consider BPCE's earnings base to be relatively narrow, given that it mainly consolidates the activities of both Natixis and CFF, whose income streams are relatively volatile. In addition, we note that Natixis, and therefore its major shareholder BPCE, no longer benefit from 20% of the group's retail banking earnings, as a result of the recent buyback of the cooperative investment certificates by the regional banks that were held by Natixis. This strategy will further increase the degree of cyclicality of BPCE's earnings mix. However, we view the earnings base for the consolidated Groupe BPCE, which includes all retail and commercial operations, as well diversified.

STRUCTURALLY WEAK, ALBEIT IMPROVING, LIQUIDITY AND FUNDING POSITION

Similar to other large French banking groups, Groupe BPCE has a relatively high, albeit reducing, gross loan-to-deposit ratio of 126% at end-June 2013, down from 134% in 2012 and 143% in 2011. The group has also indicated that its loan-to-deposit ratio will benefit from the recent reform of the centralisation of regulated deposits in France, which is expected to provide an additional EUR10 billion of liquidity, which is currently held by a government agency. Given the a relatively high loan-to-deposit ratio the group remains reliant on the interbank and capital markets, and it is therefore vulnerable to market volatility. Groupe BPCE's vulnerable liquidity/funding represents its main credit rating constraint.

The group has reduced its overall funding requirements through deleveraging and transitioning some of its wholesale banking to a less capital-intensive business model. In addition, the group announced that 96% of its 2013 medium- to long-term debt issuance programme of EUR21 billion was completed at mid-July 2013, although we note that this was largely pre-financed in the previous year. The group took advantage of low credit spreads in recent months to issue new debt at an average rate of mid-swap +52 basis points, which is very low when compared with a spread of over 144 basis points in the same period a year earlier. Around 30% of new debt issuance was in secured form, through covered bonds, a much lower proportion compared with the previous year, further pointing to a marked improvement in wholesale market conditions. Despite this, we believe that the group's liquidity position is vulnerable relative to some of its peers, as a result of the group's relatively high level of short-term debt outstanding of EUR117 billion as at end-June 2013 (up from EUR103 billion a year earlier), which increases materially when including the portion of medium- to long-term debt maturing over the following 12 months. We understand that at end-June 2013, this amount was covered in full by the group's liquidity buffer of EUR160 billion (as of the same date), comprising 64% of assets eligible for central bank financing and the remaining 36% in cash and other deposits to central banks. This full coverage of short-term debt indicates an improvement in the group's short-term liquidity position, as this level of coverage was not achieved until mid-2012. We believe that this improvement is largely due to the group deleveraging efforts, resulting in lower funding requirements. However, we note that the quality of BPCE's liquidity buffer, as well as those of the other large French banks, should be considered in the context of the material portion of loans and retained securitisation eligible for discount at both the Banque de France and the ECB, which may not be liquidated in private markets. In our analysis, we differentiate between assets for which the central bank is likely to be the only source of liquidity in a stress scenario and assets (such as marketable securities) that can be liquidated in private markets, as well as being discounted at central bank. We consider the latter types of assets as preferable from a bank creditor's perspective. Please refer to our Credit Focus "BNP, SG, Crédit Agricole and BPCE: Funding and Liquidity Improving, But Still Below Peers" published on 21 May 2013, for further details.

RISK POSITIONING IS MODEST AS RISK MANAGEMENT AND CONTROLS ARE STILL EVOLVING AUGMENTED BY NATIXIS'S RELATIVELY HIGH, ALBEIT DECREASING, RISK PROFILE

Although gradually improving, BPCE's risk positioning is relatively modest and further challenged by the weakening operating environment. We recognise the actual progress made in defining the group's risk culture and practices since Groupe BPCE was set up in 2009; at the same time, we believe that the group's risk management is still evolving and that the implementation of a fully integrated group-wide risk management architecture will remain a key challenge for some time.

Natixis's legacy asset portfolio (currently in run-off) remains relatively high risk. The notional value of the portfolio reduced to EUR11.7 billion at end-June 2013, compared with EUR23.0 billion in 2011 and EUR40.6 billion in 2009 - excluding complex derivatives and fund-linked structured products - and its risk-weighted assets reduced to around EUR18 billion (under Basel III rules) at end-June 2013 and from around EUR30 billion at end-June 2009 (under Basel II rules). During H1 2013, this portfolio was reduced with no financial impact on Natixis and BPCE's (groupe BPCE SA) earnings, versus a pre-tax loss of EUR48 million in the same period a year earlier. In addition, Natixis's management announced that the disposal of this legacy portfolio would be completed by mid-2014, which we consider as a credit positive development because it reduces uncertainty in relation to future losses. However, the asset sale programme will continue to carry execution risk until completed and the potential of generating losses that could be material, particularly during times of market volatility.

DIFFICULT ECONOMIC CONDITIONS HAVE RESULTED IN ASSET QUALITY DETERIORATION, PARTICULARLY WITHIN NATIXIS, AND WEAKER PROFITABILITY

We believe that the overall group's asset quality profile remains robust, relative to its peers, reflecting the low-risk profile of its domestic retail banking activities. We also consider the group's loan book as well diversified by counterparty type due to the wide range of activities it undertakes.

At end-June 2013, the overall cost of risk for Group BPCE increased by 9 basis points to 36 basis points from a year earlier. However, we note that this masks material differences across the different loan portfolios. Whilst we believe that the cost of risk on the mortgage book remains very low, reflecting traditionally conservative lending practices at French banks, the asset quality within Natixis deteriorated at a rapid pace during 2012 reaching a peak of 56 basis points at end-2012, and remained at a relatively high level of 49 basis points at end-June 2013. This reflects tougher economic conditions and the higher risk of BPCE's wholesale lending activities, with large borrower concentration risk. We also believe that cost of risk will continue to increase in other portfolios, such as SME and unsecured retail exposures, because these are typically sensitive to protracted weak economic conditions (please note that asset quality metrics for specific portfolios are undisclosed). Finally, we note that BPCE's exposures are mainly concentrated in France, whose economic prospects are weak for the next several quarters, making BPCE's overall asset quality profile more correlated to this economy than some of its peers that benefit from a higher degree of geographical diversification.

BPCE's profitability has increased since the group was set up in 2009 but has remained weaker than many of its peers. Going forward, we expect the group's profitability to be less volatile than in the past but we expect it to remain under pressure due to weaker economic activity, translating into compressed revenues and deteriorating asset quality, which result in higher loan impairment charges.

We believe that BPCE's operational efficiency is improving, albeit gradually, as the group reaches a higher degree of integration, thereby creating synergies. However, the bank is still lagging behind peers as its reported cost-to-income ratio was relatively high at 69.5% in H1 2013, down from 70.1% in the same period in 2012. Pressure on profitability will remain since it is only partly offset by cost-savings initiatives, particularly on the IT side.

CAPITALISATION IS ADEQUATE AND ON AN IMPROVING TREND

We view Groupe BPCE's capitalisation as adequate to its own risk profile, with a core Tier 1 ratio of 10.4% and core Tier 1 capital of EUR40.8 billion at end-June 2013 (compared with 10.1% and EUR38.8 billion, respectively at end-June 2012). The group has indicated that this corresponds to an estimated pro-forma fully loaded Basel III Common Equity Tier 1 (CET1) ratio of 9.5%, which already includes the impact from the buy-back of cooperative investment certificates, announced on 17 February 2013. We note that in the calculation of disclosed CET1 ratio the deferred tax assets are not excluded in accordance with the full-fledged Basel III but rather deducted, as per the treatment to be applied during the transition period. Groupe BPCE anticipates to realize them during the transition period given its expected profits. The group has also disclosed a Basel III leverage ratio of above 3%, which is broadly in line with some of the group's domestic peers.

Under our central scenario, the group is able to absorb further losses stemming from Natixis's loan portfolio and legacy assets.

BPCE's Tier 1 ratio was 11.8% in 2012, up from 9.6% in 2011 (the H1 2013 figure is undisclosed). We consider that BPCE's capitalisation is adequate and commensurate with the risks supported by BPCE as the group's central institution. We note that the group's overall risk profile is being reduced, and we expect this trend to continue as a result of deleveraging.

NOTE ON DATA

Unless noted otherwise, data in this report is sourced from company reports and our Banking Financial Metrics. All figures are based on our own chart of account, and are adjusted for analytical purposes. Please refer to the documents entitled "Moody's Approach to Global Standard Adjustments in the Analysis of the Financial Statements of Banks, Securities Firms and Finance Companies" and "Frequently Asked Questions: Moody's Approach to Global Standard Adjustments in the Analysis of the Financial Statements of Banks, Securities Firms and Finance Companies", both published on 19 July 2012.

Global Local Currency Deposit Rating (Joint Default Analysis)

We assign GLC deposit ratings of A2/Prime-1 to BPCE. In accordance with our joint default analysis methodology, the long-term rating includes three notches of co-operative support, reflecting our view of the very strong group solidarity mechanism (resulting in an adjusted BCA of baa2 from the BCA of ba2) and three notches of uplift for systemic support. Given Groupe BPCE's position as the second-largest retail and commercial bank in France (source: BPCE), we continue to assess the probability of systemic support for the group, if needed, as very high.

Notching Considerations

The ratings of BPCE's dated subordinated obligations are notched down from the adjusted BCA and no longer benefit from systemic support. The ratings for the bank's hybrid obligations are notched off the adjusted BCA of baa2.

ABOUT MOODY'S BANK RATINGS

Bank Financial Strength Rating

Moody's Bank Financial Strength Ratings (BFSRs) represent Moody's opinion of a bank's intrinsic safety and soundness and, as such, exclude certain external credit risks and credit support elements that are addressed by Moody's Bank Deposit Ratings. BFSRs do not take into account the probability that the bank will receive such external support, nor do they address risks arising from sovereign actions that may interfere with a bank's ability to honor its domestic or foreign currency obligations. Factors considered in the assignment of BFSRs include bank-specific elements such as financial fundamentals, franchise value, and business and asset diversification. Although BFSRs exclude the external factors specified above, they do take into account other risk factors in the bank's operating environment, including the strength and prospective performance of the economy, as well as the structure and relative fragility of the financial system, and the quality of banking regulation and supervision.

Global Local Currency Deposit Rating

A deposit rating, as an opinion of relative credit risk, incorporates the BFSR as well as Moody's opinion of any external support. Specifically, Moody's Bank Deposit Ratings are opinions of a bank's ability to repay punctually its deposit obligations. As such, they are intended to incorporate those aspects of credit risk relevant to the prospective payment performance of rated banks with respect to deposit obligations, which includes: intrinsic financial strength, sovereign transfer risk (in the case of foreign currency deposit ratings), and both implicit and explicit external support elements. Moody's Bank Deposit Ratings do not take into account the benefit of deposit insurance schemes which make payments to depositors, but they do recognize the potential support from schemes that may provide assistance to banks directly.

According to Moody's joint default analysis (JDA) methodology, the global local currency deposit rating of a bank is determined by the incorporation of external elements of support into the bank's Baseline Credit Assessment. In calculating the Global Local Currency Deposit rating for a bank, the JDA methodology also factors in the rating of the support provider, in the form of the local currency deposit ceiling for a country, Moody's assessment of the probability of systemic support for the bank in the event of a stress situation and the degree of dependence between the issuer rating and the Local Currency Deposit Ceiling.

National Scale Rating

National scale ratings are intended primarily for use by domestic investors and are not comparable to Moody's globally applicable ratings; rather they address relative credit risk within a given country. A Aaa rating on Moody's National Scale indicates an issuer or issue with the strongest creditworthiness and the lowest likelihood of credit loss relative to other domestic issuers. National Scale Ratings, therefore, rank domestic issuers relative to each other and not relative to absolute default risks. National ratings isolate systemic risks; they do not address loss expectation associated with systemic events that could affect all issuers, even those that receive the highest ratings on the National Scale.

Foreign Currency Deposit Rating

Moody's ratings on foreign currency bank obligations derive from the bank's local currency rating for the same class of obligation. The implementation of JDA for banks can lead to high local currency ratings for certain banks, which could also produce high foreign currency ratings. Nevertheless, it should be noted that foreign currency deposit ratings are in all cases constrained by the country ceiling for foreign currency bank deposits. This may result in the assignment of a different, and typically lower, rating for the foreign currency deposits relative to the bank's rating for local currency obligations.

Foreign Currency Debt Rating

Foreign currency debt ratings are derived from the bank's local currency debt rating. In a similar way to foreign currency deposit ratings, foreign currency debt ratings may also be constrained by the country ceiling for foreign currency bonds and notes; however, in some cases the ratings on foreign currency debt obligations may be allowed to pierce the foreign currency ceiling. A particular mix of rating factors are taken into consideration in order to assess whether a foreign currency bond rating pierces the country ceiling. They include the issuer's global local currency rating, the foreign currency government bond rating, the country ceiling for bonds and the debt's eligibility to pierce that ceiling.

About Moody's Bank Financial Strength Scorecard

Moody's bank financial strength model (see scorecard below) is a strategic input in the assessment of the financial strength of a bank, used as a key tool by Moody's analysts to ensure consistency of approach across banks and regions. The model output and the individual scores are discussed in rating committees and may be adjusted up or down to reflect conditions specific to each rated entity.

Herewith we provide Groupe BPCE scorecard, in consideration of BPCE's linkages within the group.

Rating Factors

Groupe BPCE

Rating Factors [1]	**A**	**B**	**C**	**D**	**E**	**Total Score**	**Trend**
Qualitative Factors (50%)						**C**	
Factor: Franchise Value						**C**	**Neutral**

Market share and sustainability			**x**				
Geographical diversification			**x**				
Earnings stability			**x**				
Earnings Diversification [2]							
Factor: Risk Positioning						**D**	**Weakening**
Corporate Governance [2]							
- Ownership and Organizational Complexity							
- Key Man Risk	--	--	--	--	--		
- Insider and Related-Party Risks							
Controls and Risk Management			**x**				
- Risk Management			x				
- Controls			x				
Financial Reporting Transparency		**x**					
- Global Comparability	x						
- Frequency and Timeliness		x					
- Quality of Financial Information			x				
Credit Risk Concentration	--	--	--	--	--		
- Borrower Concentration	--	--	--	--	--		
- Industry Concentration	--	--	--	--	--		
Liquidity Management					**x**		
Market Risk Appetite			**x**				
Factor: Operating Environment						**B-**	**Weakening**
Economic Stability			**x**				
Integrity and Corruption		**x**					
Legal System		**x**					
Financial Factors (50%)						**D+**	
Factor: Profitability						**D+**	**Neutral**
PPI % Average RWA (Basel II)			1.78%				
Net Income % Average RWA (Basel II)				0.86%			
Factor: Liquidity						**E+**	**Improving**
(Market Funds - Liquid Assets) % Total Assets				11.66%			
Liquidity Management					x		
Factor: Capital Adequacy						**A**	**Neutral**
Tier 1 Ratio (%) (Basel II)	10.76%						
Tangible Common Equity % RWA (Basel II)	10.04%						
Factor: Efficiency						**D**	**Weakening**
Cost / Income Ratio				68.74%			
Factor: Asset Quality						**D+**	**Weakening**
Problem Loans % Gross Loans			3.74%				
Problem Loans % (Equity + LLR)				33.96%			
Lowest Combined Financial Factor Score (15%)						**E+**	
Economic Insolvency Override						**Neutral**	
Aggregate BFSR Score						**C-**	
Aggregate BCA Score						**baa1/baa2**	
Assigned BFSR						**C-**	
Assigned BCA						**baa2**	

[1] - Where dashes are shown for a particular factor (or sub-factor), the score is based on non-public information.
[2] - A blank score under Earnings Diversification or Corporate Governance indicates the risk is neutral.