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## Research Update:

# Ratings On France-Based BPCE Affirmed At 'A/A-1' Following Government Support Review; Outlook Remains Negative

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## Research Update:

# Ratings On France-Based BPCE Affirmed At 'A/A-1' Following Government Support Review; Outlook Remains Negative

## Overview

- We consider that potential extraordinary government support for European banks will likely decrease as resolution frameworks are put into place.
- We are affirming our 'A/A-1' counterparty credit ratings on BPCE, the main funding bank and the central institution of the French cooperative banking entity Groupe BPCE.
- The negative outlook reflects the possible removal of government support by year-end 2015, and the possibility that we could lower the ratings if Groupe BPCE does not make the progress we expect in reshaping its balance sheet to strengthen its capital and funding and liquidity positions.

## Rating Action

As previously announced on April 29, 2014, Standard & Poor's Ratings Services has affirmed its 'A/A-1' counterparty credit ratings on France-based BPCE. The outlook is negative.

In addition, we affirmed all ratings on BPCE's "core" and "highly strategic" subsidiaries (see Ratings List below).

## Rationale

The affirmation follows the completion of our review of potential extraordinary government support for European banks (see "Standard & Poor's To Review Government Support In European Bank Ratings," published on March 4, 2014, on RatingsDirect). We observe that European authorities are taking steps to increase the resolvability of banks and require creditors rather than taxpayers to bear the burden of the costs of failure (see "Standard & Poor's Takes Various Rating Actions On European Banks Following Government Support Review," published on April 29, 2014). In the near term, we expect that governments will remain supportive of systemically important banks' senior unsecured creditors while resolution frameworks take shape. From January 2016, however, the EU Bank Recovery and Resolution Directive (BRRD) is set to introduce the mandatory bail-in of a minimum amount of eligible liabilities, potentially including certain senior unsecured obligations, before governments could provide solvency support. Accordingly, we believe that the potential extraordinary government support available to BPCE's senior unsecured bondholders will likely diminish within our two-year rating horizon.

Currently, we consider that BPCE has "high" systemic importance to France, which we view as "supportive" of private-sector commercial banks. As a result, and in line with our criteria, the 'A' long-term counterparty credit rating on BPCE stands one notch above the 'a-' stand-alone credit profile (SACP). We could remove this notch shortly before the January 2016 introduction of the BRRD's bail-in powers for senior unsecured liabilities. These rules would indicate to us that EU governments would be much less able to support senior unsecured bank creditors, even though it may take several more years to eliminate concerns about financial stability and the resolvability of systemically important banks.

Specifically, if we perceive that support for senior unsecured creditors is less predictable under the new legislative framework, we would likely remove the notch of government support from our rating on BPCE. This would most likely arise from a reclassification of France's support for private-sector commercial banks to "uncertain" under our criteria. Any decision to reclassify governments would be subject to our review of the final resolution legislation and technical standards, and other relevant information.

If, on the other hand, our view was that extraordinary government support may still be forthcoming to BPCE's senior unsecured creditors, we could retain the notch of support in the ratings. This would be the case if authorities publicly confirmed their supportive stance toward senior unsecured creditors, or if we believed that precautionary capital injections would still be likely under the new legislation to minimize the wider economic impact of the resolution of a systemically important bank. In this case, we may consider that France remained "supportive" and that BPCE had "high" systemic importance. We could revise our view of BPCE systemic importance to "moderate" from "high" if we considered that its resolution under the new framework would have a material, but manageable, adverse impact on the country's financial system and economy.

BPCE's SACP is supported by our view of its prominent and leading franchise in retail banking in France and adequate financial profile. The SACP also factors our expectation that the bank will continue to strengthen its capital and funding and liquidity ratios in 2014. A better financial profile is one of the bank's strategic objectives, and it has shown regular progress in the past quarters. We view BPCE's risk management capabilities as adequate compared to peers. We expect loan loss provisions to continue to be below the average levels of its peers in 2014.

In addition to our view of the SACP and potential extraordinary government support, future rating actions on BPCE may also result from other relevant factors. These may include measures to mitigate bail-in risks to senior unsecured creditors, such as building a large buffer of subordinated instruments (see "Credit FAQ: The Rating Impact Of Resolution Regimes For European Banks," published on April 29, 2014).

The potential reduction of extraordinary government support in the

counterparty credit and senior unsecured issue ratings on BPCE has no impact on the subordinated issue ratings. We have long believed that subordinated creditors would not receive extraordinary government support in a stress scenario, and for that reason we already notch these instruments down from BPCE's SACP.

## **Outlook**

The negative outlook indicates that we may lower the ratings on BPCE by year-end 2015 if we believe there is a greater likelihood that senior unsecured liabilities may incur losses if the bank fails. Specifically, we may lower the long-term counterparty credit rating by one notch if we consider that extraordinary government support is less predictable under the new EU legislative framework.

The negative outlook reflects the possibility that we could lower the ratings if low economic growth in France hinders Groupe BPCE's progress in reshaping its balance sheet to strengthen its capital and funding and liquidity positions.

Specifically, we could lower the ratings if we no longer forecast that our risk-adjusted capital (RAC) ratio for BPCE will stay sustainably above 7% over the next few years. We currently project BPCE's RAC ratio to continue to increase in our base-case scenario. We anticipate that Groupe BPCE will build capital through resilient profits and new sales of cooperative shares, while maintaining a relatively low dividend payout ratio compared with peers.

In addition to potential changes in the SACP and government support, we will review other relevant rating factors when taking any rating action. These might include any steps BPCE might take to mitigate bail-in risks to senior unsecured creditors, such as building a large buffer of subordinated instruments.

We could revise the outlook on BPCE to stable if we believe that the group is succeeding in strengthening its balance sheet and financial position. In addition, we would need to consider that potential extraordinary government support for BPCE's senior unsecured creditors is unchanged in practice, despite the introduction of bail-in powers and international efforts to increase banks' resolvability; or that other rating factors, such as a large buffer of subordinated instruments, fully offset increased bail-in risks.

The negative outlooks on BPCE's "core" and "highly strategic" subsidiaries mirror that on the parent.

## **Ratings Score Snapshot**

Issuer Credit Rating	A/Negative/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
GRE Support	0
Group Support	0
Sovereign Support	+1
Additional Factors	0

## Related Criteria And Research

### Related Criteria

- Group Rating Methodology, Nov. 19, 2013
- Banks: Rating Methodology And Assumptions, Nov. 9, 2011
- Use Of CreditWatch And Outlooks, Sept. 14, 2009

### Related Research

- 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
- Standard & Poor's To Review Government Support In European Bank Ratings, March 4, 2014

## Ratings List

### Ratings Affirmed

BPCE	
Natixis S.A.	
Natixis Financial Products LLC	
Natixis Australia Pty Ltd.	
Natixis (New York Branch)	
BRED - Banque Populaire	
Counterparty Credit Rating	A/Negative/A-1
BPCE	
Senior Unsecured	A
Senior Unsecured	Ap
Certificate Of Deposit	A-1
Commercial Paper	A-1

BRED - Banque Populaire	
Certificate Of Deposit	A/A-1
Senior Unsecured	A
Compagnie Europeenne de Garanties et Cautions	
Counterparty Credit Rating	A/Negative/--
Financial Strength Rating	A/Negative/--
Credit Foncier de France	
Locindus S.A.	
Counterparty Credit Rating	A-/Developing/A-2
Certificate Of Deposit	A-/A-2
Senior Unsecured	A-
Natixis S.A.	
Senior Unsecured	Ap
Senior Unsecured	A
Certificate Of Deposit	A/A-1
Commercial Paper	A-1
Natixis Structured Products Ltd.	
Senior Unsecured (1)	A
Natixis U.S. Finance Co. LLC	
Commercial Paper (1)	A-1
Natixis US Medium-Term Note Program LLC	
Senior Unsecured (2)	A
Senior Unsecured (2)	Ap

(1) Guaranteed by Natixis S.A. (2) Guaranteed by Natixis (New York Branch).  
p--Principal-only.

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