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## Research Update:

# French Bank BPCE 'A/A-1' Ratings Affirmed On Capital Strengthening; Outlook Remains Negative

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## Research Update:

# French Bank BPCE 'A/A-1' Ratings Affirmed On Capital Strengthening; Outlook Remains Negative

## Overview

- BPCE is improving its capitalization: In our view, the bank's projected risk-adjusted capital ratio is well entrenched above 7%.
- We are affirming our 'A/A-1' long- and short-term ratings on BPCE, the main funding bank and central institution of the French cooperative banking entity Groupe BPCE.
- The negative outlook reflects the possible removal of government support from our assessment of BPCE's creditworthiness 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 funding and liquidity position.

## Rating Action

On July 3, 2014, Standard & Poor's Ratings Services affirmed its 'A/A-1' long- and short-term counterparty credit ratings on France-based bank BPCE and related entities (see Ratings List below). The outlook is negative.

## Rationale

A better financial profile is one of Groupe BPCE's strategic objectives. The group has shown regular progress in the past few years, in particular on the capital front. As part of its 2014-2017 strategic plan, the group reaffirmed that its capital policy calls for a further increase in its regulatory capital ratios.

Our "adequate" assessment of Groupe BPCE's capital and earnings is based on our view that its projected risk-adjusted capital ratio before diversification (RAC ratio, which is the cornerstone of our capital and earnings criteria) will stay sustainably above 7% in the short to medium term. Groupe BPCE's RAC ratio stood at 6.9% on Dec. 31, 2013, which is in line with our expectations. We believe that the ratio has been continuing to improve since then to stand above 7% as of mid-year 2014. We see adequate risk-adjusted profits, limited dividends compared with peers, as well as new sales of cooperative shares as the major future sources of group capital formation.

Our assessment of the group's stand-alone credit profile (SACP) also factors in our expectation that the bank will continue to strengthen its funding and liquidity ratios in the years to come. We believe that, in the past two years, Groupe BPCE has been rebalancing its funding profile toward longer-term

liabilities and on-balance-sheet savings, while reinforcing its liquidity reserves. On Dec. 31, 2013, the group's stable funding ratio stood at 89%, while its ratio of broad liquid assets to short-term wholesale funding reached 97%.

BPCE's SACP is also supported by our view of Groupe BPCE's prominent and leading franchise in retail banking in France, where it ranks No. 2. We view the group's risk management capabilities as adequate compared with peers' and its risk policy as conservative. The group has been transitioning toward a reduced risk profile, while its appetite for growth appears reasonable and focused on its areas of expertise. We expect loan loss provisions to continue to trend below the average levels of its peers.

## Outlook

Reflecting our view that potential extraordinary government support for European banks will likely decrease as resolution frameworks are put into place, 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 also reflects the possibility that we could lower the ratings if we perceived any deviation from Groupe BPCE's continuing progress in reshaping its balance sheet to strengthen its funding and liquidity positions. We will, in particular, continue to monitor the bank's progress in improving its ratios of stable funding and broad liquid assets to short-term wholesale funding to levels in line with international peers'.

We could revise the outlook on BPCE to stable if we believed that the group was succeeding in strengthening its financial position on an ongoing basis. In addition, we would need to consider:

- That potential extraordinary government support for BPCE's senior unsecured creditors was unchanged in practice, despite the introduction of bail-in powers and international efforts to increase banks' resolvability; or
- That any steps BPCE might take to provide substantial additional flexibility to absorb losses while a going concern were sufficient to fully offset increased bail-in risks.

The negative outlooks on BPCE's "core" 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
- Revised Market Risk Charges For Banks In Our Risk-Adjusted Capital Framework, June 22, 2012
- Banks: Rating Methodology And Assumptions, Nov. 9, 2011
- Bank Capital Methodology And Assumptions, Dec. 6, 2010
- Use Of CreditWatch And Outlooks, Sept. 14, 2009

### Related Research

- Ratings On France-Based BPCE Affirmed At 'A/A-1' Following Government Support Review; Outlook Remains Negative, April 30, 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
- 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

Compagnie Europeenne de Garanties et Cautions

Counterparty Credit Rating

Local Currency

A/Negative/--

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Financial Strength Rating

Local Currency

A/Negative/--

N.B. This list does not include all ratings affected.

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Complete ratings information is available to subscribers of RatingsDirect at [www.globalcreditportal.com](http://www.globalcreditportal.com) and at [spcapitaliq.com](http://spcapitaliq.com). All ratings affected by this rating action can be found on Standard & Poor's public Web site at [www.standardandpoors.com](http://www.standardandpoors.com). Use the Ratings search box located in the left column. Alternatively, call one of the following Standard & Poor's numbers: Client Support Europe (44) 20-7176-7176; London Press Office (44) 20-7176-3605; Paris (33) 1-4420-6708; Frankfurt (49) 69-33-999-225; Stockholm (46) 8-440-5914; or Moscow 7 (495) 783-4009.

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