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BPCE

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Related Criteria

BPCE

SACP	a

Anchor	bbb+	
Business Position	Strong	+1
Capital and Earnings	Strong	+1
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+/Negative/A-1

Resolution Counterparty Rating
AA-/--/A-1+

Major Rating Factors

Strengths:	Weaknesses:
• Second-largest retail bank in France, with a stable franchise in core businesses. • Focused and well-executed strategy oriented toward areas of expertise. • Solid capital metrics supported by benefits of the cooperative status.	• Muted earnings prospects in 2020 as a result of the COVID-19 pandemic. • Dampening effect of structurally low interest rates on retail revenue. • Comparatively unfavorable group efficiency metrics.

Outlook: Negative

The negative outlook reflects that we could lower our ratings on French bank BPCE due to rising economic and industry risks in the country's banking market amid the 2020 recession.

Downside scenario

We could downgrade BPCE in the next 12-24 months if the COVID-19 pandemic causes heightened operating risks that in turn lead us to revise downward our assessment of the French banking system. We could also downgrade BPCE if we thought its profitability prospects might remain subdued compared with domestic and international peers. This could stem from difficulties in improving its efficiency in line with its plans or in managing the most vulnerable part of its loan book, notably large corporate exposures at Natixis and exposure to small and midsize enterprises (SMEs) at the regional banks. We could also lower the ratings if BPCE deviates from its financial policy of preserving strong capital and building buffers of additional loss-absorbing capacity (ALAC) in line with our expectations. If we revise downward our group stand-alone credit profile (SACP) on BPCE, we would downgrade the bank's subordinated instruments, including the senior nonpreferred notes.

Upside scenario

We would revise the outlook to stable once the COVID-19 pandemic recedes and the prospects of economic recovery in France appears more likely as 2021 approaches. An outlook revision would also depend on our assessment of BPCE's capitalization remaining favorable compared with its risks, and the bank continuing to contain risk appetite and managing pockets of inefficiencies.

Rationale

Our 'a' SACP on BPCE ranks among the highest we have assigned to large European banking groups. It reflects our view of the bank's prominent franchise in French retail banking, coherent strategy, moderate risk appetite, and conservative financial policy. Adding to the diversification of the group's business profile are its recognized positions in corporate and investment banking (CIB) and asset gathering. BPCE relies on a large and sticky deposit base but also on confidence-sensitive market sources to fund its two largest wholesale-funded subsidiaries, Natixis and Credit Foncier de France (CFF). We note that BPCE is one of the 30 global systemically important banks.

Following the COVID-19 pandemic, French and European authorities have delivered unprecedented responses to support their economies, corporates, and population. However, although we expect banks in France to remain largely resilient in the face of this short-term cyclical shock, we expect the health crisis to have a meaningful effect, notably on their asset quality and profitability. The near-term risks that we see for BPCE, as well as for European peers, relate to the negative aftereffects of the COVID-19 pandemic. The group SACP is under increasing pressure. The weaker operating environment, prolonged low interest rates, and intense competition also exacerbate the pre-existing challenges to efficiency improvement and cost saving. However, BPCE entered the COVID-19 pandemic in a strong position. In recent years, the bank has bolstered its prominent and stable franchise in retail banking in France and reinforced its balance sheet and capital position. That said, we foresee that BPCE's net income may drop substantially in 2020 and then progressively recover. In that year, we expect revenue to decline at a higher pace than costs, leading to a cost-to-income ratio of up to 75%. Losses will also crystallize from some pockets of risks. Although BPCE's large book of domestic housing loans should continue to perform relatively well, the group is also exposed to corporate operating sectors hit by the pandemic, such as oil and gas and leveraged finance, as well as France-based SMEs.

We expect BPCE to maintain its strong capitalization. Low dividends and regular sales of cooperative shares support this assessment. Under our central scenario, BPCE's senior preferred bondholders should continue to benefit from the group's regular issuance of senior nonpreferred notes. This enables us to grant one notch of ALAC support in the long-term rating on BPCE.

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

We use our Banking Industry Country Risk Assessment methodology to determine a bank's anchor, the starting point in assigning an issuer credit rating. France is in group 3, along with peers including the U.S., the U.K., Australia, the Netherlands, and Denmark. Our 'bbb+' anchor for a bank operating in France is based on economic and industry risk scores of '3', on a scale of '1' to '10' ('1' being the lowest risk). BPCE's weighted economic risk score rounds to '3', indicating that the bulk of its assets are in its domestic market.

Since April 23, 2020, we see negative trends on both our economic risk and our industry risk scores. Indeed, we see increased risks to French banks' credit profiles resulting from the economic and financial-markets implications of the COVID-19 pandemic.

We expect the pandemic to cause a severe recession in France and most European countries in 2020, even though the economy appears to be recovering as lockdowns are easing. We anticipate a recovery in 2021, but not one that will immediately and entirely offset damage to the economy, household wealth, and various corporate sectors. We also note that this crisis comes at a time when the French banking sector was already suffering profitability pressures from low interest rates and heavy cost bases. For France, we are now envisaging a 9.5% GDP contraction in 2020, before an about 6.8% rebound in 2021. We see unemployment rising to almost 10%. Wide-ranging fiscal and related monetary measures have supported the banking system in the crisis. However, the policy responses taken in France may be less than totally successful in avoiding permanent economic damage later, in particular if the economic recovery is delayed. In addition, a significant component of the fiscal support package entails increasing indebtedness--for the sovereign and many businesses--which may result in higher vulnerabilities. We project French banks' credit losses on domestic operations will reach 50 bps in 2020 and 2021, more than twice last year's level.

Regarding industry risk, cost efficiency is a weakness for French banks compared with their European peers, notably due to a still-dense branch network, the dominance of cooperative banking groups--which have fewer incentives to maximize profits than listed ones--and very low margins on some products, such as housing loans.

An increasing gap on cost-to-income ratios and profitability versus some other European peers could indicate a weaker operating environment for French banks. At a time when low interest rates are constraining prospective revenue, this could result from banks failing to implement their efficiency efforts in domestic retail activities, failing to rationalize branches, and failure to achieve more cross-selling via digital forms.

Finally, the universal banking model of most French banks implies some reliance on wholesale markets, exposing the banking sector to market shocks. Increasing funding costs would exacerbate profitability challenges. The system's relatively large reliance on wholesale funding is partly attributable to households' propensity to save in nonbank saving products and regulated savings.

Table 1

BPCE Key Figures

	--Year-ended Dec. 31--				
(Mil. €)	**2019**	**2018**	**2017**	**2016**	**2015**
Adjusted assets	1,142,346.0	1,089,089.0	1,086,059.0	1,066,613.0	1,017,312.0
Customer loans (gross)	699,501.0	663,380.0	629,870.0	603,126.0	579,103.0
Adjusted common equity	62,264.9	58,241.5	55,359.0	50,453.0	52,337.4
Operating revenues	24,571.0	24,255.0	24,018.0	23,697.0	24,128.0
Noninterest expenses	17,582.0	17,687.0	17,099.0	16,673.0	16,248.0
Core earnings	3,747.3	3,737.0	3,710.2	3,663.4	3,643.0

Business position: Prominent position in a competitive home market with intensifying profitability challenges

BPCE's business profile boasts a leading and longstanding position in domestic retail banking, where it ranks No. 2. Adding to its set-up are recognized franchises in CIB and asset gathering, both hosted at Natixis. BPCE's business model results in stable and predictable earning generation, demonstrated by low volatility in revenue over the past decade. However, efficiency remains below peer average. The group's universal banking model enables it to offer a diversified product range to a large customer base. However, we consider its geographic breadth to be more limited than some European peers', such as Crédit Mutuel, Crédit Agricole, Nordea Bank Abp, and ING Groep N.V. BPCE is the result of the merger in 2009 of the Banque Populaire and Caisse d'Epargne groups, one of the oldest banks in France.

BPCE's management runs a coherent and focused strategy, which it has historically executed in a consistent manner. In recent years, the group has been aiming to expand profitably, reinforce its balance sheet, simplify its structure, and sell nonstrategic businesses. Under its strategic plan, TEC2020, BPCE continues to expand in all core businesses and develop synergies, while preserving a moderate risk appetite and strong capital. In the coming years, we expect to see:

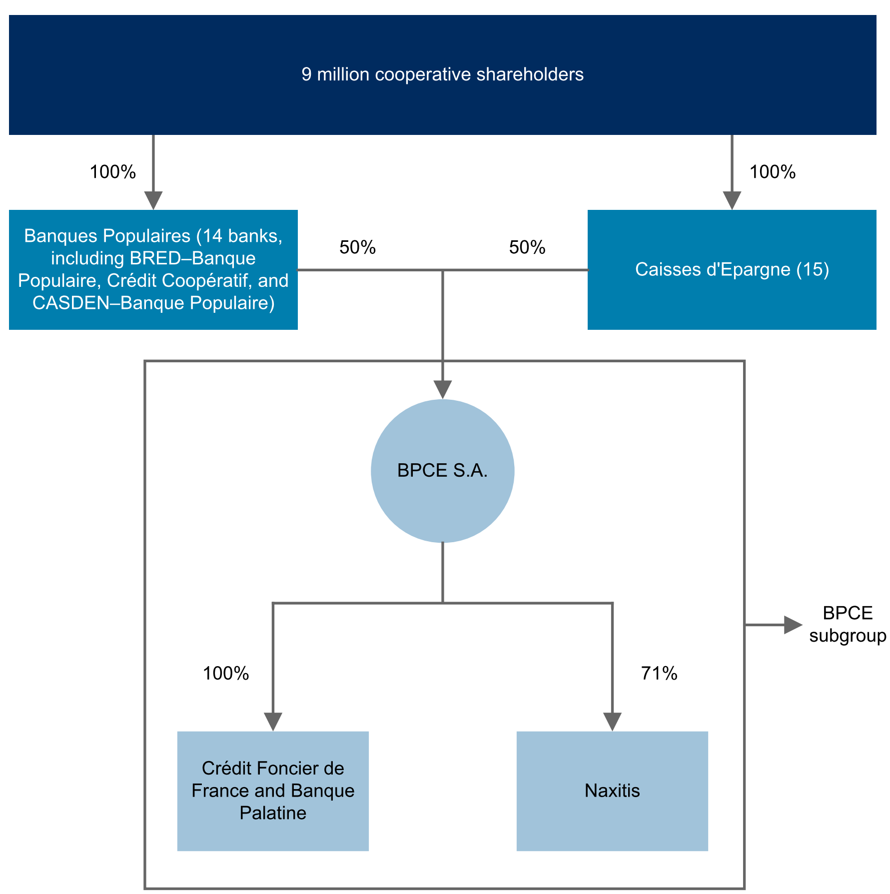
- A strategy favoring organic development;
- Retail and customer-related wholesale banking remaining the cornerstone of the group's business model;
- BPCE enhancing its position in bancassurance and digital;
- International development being selective and targeted;
- An increasing focus on sustainability and adaptation to the transition to a greener economy;
- A lower focus on return on equity from various stakeholders than is the case for listed peers; and
- Reinforced adaptation efforts and initiatives to tackle costs as the low interest-rate environment in Europe and low margins on housing loans in France continue to exert pressure on operating returns.

BPCE has demonstrated its ability to seize opportunities to dispose of noncore assets but also to expand depending on where it sees growth opportunities. For example, the group recently divested a 29.5% stake in French credit insurer Coface as well as its residual interests in Africa, through the planned sale of its Tunisian subsidiary. In 2019, it also acquired a majority stake in Oney Bank, a small French consumer finance specialist.

Retail banking and insurance in France traditionally account for more than two thirds of BPCE's revenue. The bank's share of domestic credits and deposits is sticky, standing at 21% and 22%, respectively. BPCE has strong social roots, with 15 million active customers. It operates through a dense network comprising more than 7,400 branches and increasingly through digital channels. Banque Populaire and Caisse d'Epargne are the group's two main brands: the former largely serves local entrepreneurs and SMEs, while the latter mainly caters for individuals. BPCE directs its specialized financial services and insurance activities toward its retail clients. It is gradually consolidating its position in bancassurance, relying on both Natixis Assurances and its renewed partnership with CNP Assurances. There have been transformation costs at CFF, BPCE's specialized mortgage lender, which has been underperforming for a while. This has partly offset BPCE's efforts to improve efficiency in 2019, due to restructuring costs, but these should pay off over time. In 2019, BPCE completed its plan to integrate CFF's employees into the enlarged group. CFF is now focusing on managing its loan portfolio through runoff.

Groupe BPCE Organization Structure

As of end-December 2019



CIB and asset and wealth management typically each generate about 15% of the group's revenue and are housed at majority-owned subsidiary Natixis. Both segments offer BPCE an international presence. We consider Natixis to be a second-tier wholesale banking player that has successfully refocused on selected areas of expertise. The bank benefits from a longstanding and solid domestic franchise in lending to midsize and large corporations, as well as in structured and commodity financing. Its strategy is typified by a sector-based approach, an efficient originate-to-distribute model, and noticeable forays into sustainable finance. Natixis counts among the top 20 largest asset managers globally. It runs a network of about 25 affiliates, which ranges from the management of life insurance assets to more entrepreneurial boutiques, both in Europe and in the U.S. This models allows for multiple and diversified investment strategies. We view London-based H20 as an example of an affiliate that serves institutional customers with higher risk appetite. Its riskier investment choices have opened the door to reputation risks in the past two years. We think growth in asset-gathering activities, notably through bolt-on external acquisitions, is one of the mainstays of the group's strategy. In 2019, together with La Banque Postale Asset Management, Natixis announced that it will set up a joint venture to form a leading European player. Natixis' performance is naturally more sensitive to market fluctuations and swings in cost of credit risk than BPCE's regional banks.

BPCE has a typical structure for a cooperative group, being fully owned by 29 regional banks. In turn, 9 million member-customers hold the cooperative shares issued by these regional entities and elect their boards of directors. BPCE is not directly involved in managing these local banks, but it does help to define the group's strategy. It also closely monitors the group's risk exposures, provides most of its medium- and long-term wholesale funding, coordinates commercial policies, and holds BPCE's major subsidiaries. BPCE applies article L511-31 of the French Monetary Code, according to which it is the central body responsible for taking steps to guarantee the solvency and liquidity of the group and its member banks.

Table 2

BPCE Business Position					
	--Year-ended Dec. 31--				
(%)	**2019**	**2018**	**2017**	**2016**	**2015**
Total revenues from business line (currency in millions)	24,572.0	24,300.0	24,180.0	24,773.0	24,329.0
Commercial banking/total revenues from business line	18.1	19.4	20.5	18.9	12.6
Retail banking/total revenues from business line	61.9	63.1	63.2	60.4	63.2
Commercial & retail banking/total revenues from business line	80.0	82.4	83.8	79.2	75.7
Asset management/total revenues from business line	15.3	14.1	12.9	13.6	14.4
Other revenues/total revenues from business line	4.7	3.5	3.4	7.2	4.4
Return on average common equity	4.4	4.6	4.8	6.7	5.8

Capital and earnings: Solid capitalization, with regular sales of cooperative shares

BPCE's capital position has been regularly strengthening over the past five years. Our strong assessment of its capitalization reflects the group's conservative financial policy, comfortable earnings retention capacity (balancing satisfactory profits together with low dividends), and regular sale of cooperative shares to its member customers. We think this flexibility is a positive and distinctive feature compared with listed peers. Quality of capital is also a supportive factor. BPCE's total adjusted capital (TAC) includes hardly any contribution from hybrid capital instruments, and deferred tax assets accounted for less than 4% of its total as of year-end 2019.

At end-2019, we estimated the group's RAC ratio at 10.3%, a limited improvement from 10.2% at end-2018 due to dynamic business growth. On March 31, 2020, BPCE had a common equity tier 1 (CET 1) ratio of 15.5% and a total capital ratio of 18.5%, higher than for domestic and international listed peers.

We expect our risk-adjusted capital (RAC) ratio will stabilize in the next 24 months. Our forecast RAC reflects the following assumptions:

- BPCE continuing to follow its conservative financial policy.
- Net income reaching a low point in 2020 as a result of the COVID-19 pandemic, and then increasing in 2021 and 2022.
- Low dividend payout, in line with the group's cooperative status.
- Ongoing issuance of cooperative shares to remain dynamic, worth €1.3 billion annually.
- Annual S&P Global Ratings risk-weighted asset (RWA) growth of about 3% over the projection horizon.
- No issuance of Additional Tier 1 (AT1) instruments, since the group's strategy is to uphold its regulatory common equity ratio through retained earnings.
- No major negative exceptional events.

In 2019, the group achieved €3.7 billion in net profit, €0.4 billion of which comprised exceptional transformation and reorganization costs. Consolidated revenue increased by 1.3% compared with a similar period in 2018, notably fueled by strong business momentum in retail banking. By our measure, cost to income reached a plateau, at 72%, higher than that of domestic and European peers. In the years to come, the group should reap the benefits of more limited transformation costs, as well as of cost synergies estimated at €1 billion. In 2020, BPCE's net income will be hurt by the COVID-19 pandemic. It is expected to reach an historical low. Group first quarter results stood at a mere €264 million (excluding the negative impact of the sale of its 29.5% stake in Coface). As a result of depressed economic and financial market conditions, revenues declined at a higher pace than costs, notably in investment banking, which was hit by a €130 million mark-down in equity derivatives business. Cost to income should exceed 75% in 2020 and compare unfavorably to other domestic cooperative groups. In our view, BPCE's cost of credit risk should at least double in 2020 to more than 45 bps from 20 bps in 2019. With the recovery in the domestic economy, new loan loss provisions should progressively decline from 2021 in our base-case scenario. Natixis is expected to breakeven in 2020.

Table 3

BPCE Capital And Earnings

	--Year-ended Dec. 31--				
(%)	**2019**	**2018**	**2017**	**2016**	**2015**
Tier 1 capital ratio	15.7	15.9	15.4	14.5	13.3
S&P Global Ratings' RAC ratio before diversification	10.3	10.2	10.1	9.3	8.4
S&P Global Ratings' RAC ratio after diversification	11.4	11.2	11.1	10.2	10.4
Adjusted common equity/total adjusted capital	99.9	99.9	99.9	99.3	99.2
Net interest income/operating revenues	35.2	35.6	42.6	46.0	45.8
Fee income/operating revenues	39.0	39.4	39.3	37.1	38.0
Market-sensitive income/operating revenues	9.2	9.2	15.6	12.0	12.0

Table 3

BPCE Capital And Earnings (cont.)

	--Year-ended Dec. 31--				
(%)	**2019**	**2018**	**2017**	**2016**	**2015**
Noninterest expenses/operating revenues	71.6	72.9	71.2	70.4	67.3
Preprovision operating income/average assets	0.5	0.5	0.6	0.6	0.7
Core earnings/average managed assets	0.3	0.3	0.3	0.3	0.3

Table 4

BPCE--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 & central banks	292,045.0	23,145.0	7.9	9,976.6	3.4
Of which regional governments and local authorities	58,590.2	12,006.0	20.5	2,721.2	4.6
Institutions and CCPs	56,986.0	6,868.1	12.1	11,737.3	20.6
Corporate	281,643.5	177,908.2	63.2	239,396.9	85.0
Retail	440,136.8	86,128.4	19.6	167,148.8	38.0
Of which mortgage	348,370.7	53,576.1	15.4	99,196.2	28.5
Securitization§	13,735.0	3,406.0	24.8	4,113.7	30.0
Other assets†	22,946.6	20,406.4	88.9	48,169.0	209.9
Total credit risk	1,107,493.0	317,862.0	28.7	480,542.2	43.4
Credit valuation adjustment					
Total credit valuation adjustment	--	1,650.0	--	4,798.8	--
Market Risk					
Equity in the banking book	7,660.0	48,515.0	633.4	54,138.3	706.8
Trading book market risk	--	12,777.8	--	18,844.1	--
Total market risk	--	61,292.8	--	72,982.5	--
Operational risk					
Total operational risk	--	39,298.0	--	47,734.7	--
	Exposure	**Basel III RWA**	**Average Basel II RW (%)**	**S&P Global Ratings RWA**	**% of S&P Global Ratings RWA**
Diversification adjustments					
RWA before diversification	--	420,102.9	--	606,058.2	100.0
Total Diversification/ Concentration Adjustments	--	--	--	(58,847.0)	(9.7)
RWA after diversification	--	420,102.9	--	547,211.2	90.3
		Tier 1 capital	**Tier 1 ratio (%)**	**Total adjusted capital**	**S&P Global Ratings RAC ratio (%)**
Capital ratio					
Capital ratio before adjustments		66,015.0	15.7	62,311.0	10.3
Capital ratio after adjustments‡		66,015.0	15.7	62,311.0	11.4

Table 4

BPCE--Risk-Adjusted Capital Framework Data (cont.)

*Exposure at default. §Securitization Exposure includes the securitization tranches deducted from capital in the regulatory framework. †Exposure and S&P Global Ratings' risk-weighted assets for equity in the banking book include minority equity holdings in financial institutions. ‡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 2019', S&P Global Ratings.

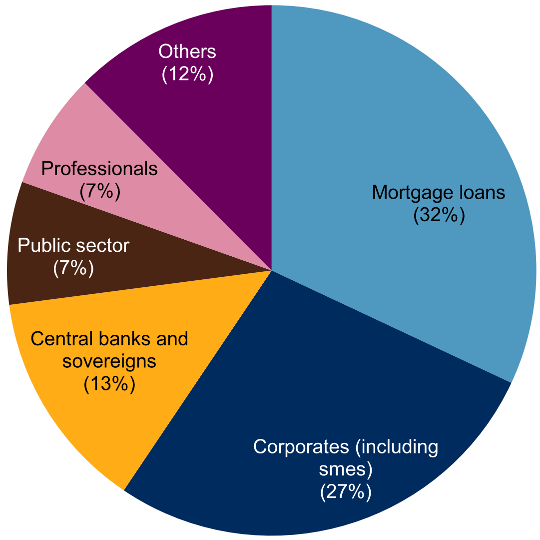
Risk position: Adequate risk profile, with some pockets of risk in light of the pandemic

BPCE's targeted growth strategy around selected areas of expertise, our view of its low-to-moderate risk appetite, and adequate risk management capabilities all underpin our assessment of the bank's risk position as adequate. The group faces areas of risk that differ widely in nature. However, we view BPCE's balance sheet as less complex than larger international peers'. We think BPCE has a good track record in credit risk management in its core lending business. However, in 2020 and 2021, and as for peers, its asset quality metrics are expected to deteriorate as a result of the COVID-19 pandemic.

BPCE's exposures are mostly concentrated in France and its loan book is of underlying good quality. Mortgage loans made up about 30% of its total at end-December 2019 (see chart 2). This fixed-rate portfolio is characterized by minimal cost of risk throughout the credit cycle. However, we continue to monitor the trend of dynamic growth in mortgage lending, along with the loosening of some underwriting criteria in France. We think concentrations by sector or name exist, notably at Natixis, but it remains contained at the enlarged group level. In the first three months of 2020, BPCE's consolidated cost of risk stood at 29 bps, but 123 bps in CIB. We estimate that BPCE's cost of credit risk will stand at above 45 bps in 2020, with exposures to large corporates leading to possible quarterly swings. In our view, particular pain points will include BPCE's exposure to SMEs operating in sectors severely hurt by the crisis--for example tourism, restaurants, and cafés--as well as Natixis' exposure to oil and gas, commercial real-estate, and leveraged finance, including its riskiest portion made of leveraged buyouts.

Chart 2

Breakdown Of Credit Risk Exposures As Of End March 2020



Source: BPCE

Our measure of the group's gross nonperforming loans (NPLs) has steadily decreased over the past five years, but we believe this has come to an end. As a result of the sanitary crisis, metrics for 2020 should deteriorate from those we observed in 2019. At end-2019, NPLs accounted for a moderate 3.1% of total customer loans, following a steady decrease from 4.0% on Dec. 31, 2015. The coverage rate by reserves was a satisfactory 60%, reflecting the group's aggregate risk profile and the collateralized nature of most of its loans. We consider that BPCE has successfully reduced its risk profile in recent years. It wound down its legacy asset portfolios inherited from Natixis and the financial crisis, and the residual international securitization exposures at BPCE arising from CFF are now limited. We also consider that the group has correctly identified and collectively reserved for the most-at-risk structured loans granted to local authorities by both the CE network and CFF.

Most of BPCE's market and operational risks lie with Natixis and BRED Banque Populaire (BRED), for which we expect BPCE to continue implementing enhanced risk management practices. In late 2018, Natixis reported a €259 million loss from its Asian equity derivatives trading desk. We understand that this happened after the bank struggled to hedge a fast-growing book, which entailed specific features, and that this incident was confined to a specific client-driven activity. In asset management, we think Natixis will find it challenging to disseminate its best governance and risk standards within its numerous affiliates. Its multi-boutique model, albeit agile and diversified, is more scattered and independent than peers. In our view, H20 embarked in the past few years in questionable investment choices, alternately typified by an undiversified base of illiquid assets or strategies that proved too risky under adverse market conditions. These resulted in losses that its clients bore in 2019 and early 2020. At the enlarged group level, the reputational damage has been so far minimal. We will however continue to monitor news flow related to H20.

Table 5

BPCE Risk Position

	--Year-ended Dec. 31--				
(%)	**2019**	**2018**	**2017**	**2016**	**2015**
Growth in customer loans	5.4	5.3	4.4	4.1	2.3
Total diversification adjustment/S&P Global Ratings' RWA before diversification	(9.7)	(9.2)	(8.9)	(8.8)	(19.4)
Total managed assets/adjusted common equity (x)	21.5	21.9	22.8	24.5	22.3
New loan loss provisions/average customer loans	0.2	0.2	0.2	0.2	0.3
Net charge-offs/average customer loans	0.0	0.0	0.0	0.0	0.0
Gross nonperforming assets/customer loans + other real estate owned	3.1	3.2	3.7	3.9	4.0
Loan loss reserves/gross nonperforming assets	59.2	58.9	51.2	52.2	53.1

Funding and liquidity: Average and adequate, but still weaker than large peers'

The group relies on a large and stable deposit base and on confidence-sensitive wholesale sources to fund its sizable balance sheet. In previous years, BPCE has rebalanced its funding profile toward longer-term liabilities and on-balance-sheet savings, while reinforcing its liquidity management under stress-test scenarios. The group's current funding and liquidity positions are somewhat below most peers'. We expect BPCE to slightly consolidate these positions, supported by its 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 141% as of end-2019, almost unchanged since 2015, after a material improvement from 175% at end-2010. BPCE's loan-to-deposit ratio still compares unfavorably with large domestic peers'. Its major funding imbalances arise from its largest and wholesale-funded subsidiaries, Natixis and CFF. However, we think the group's ability to repackage mortgage loans into covered bonds and to raise funds throughout its large retail banking networks, along with its loyal deposit base, are strong qualitative mitigating factors. France's domestic investor base is quite large, and BPCE is increasing diversification beyond its home market, particularly in the U.S. and Asia.

We estimated our stable funding ratio at 93% and our broad liquid assets to short-term wholesale funding ratio at 0.92x as of Dec. 31, 2019, in line with the previous year. We think these ratios will not change much in 2020. We consider that the comparatively large amount of retail deposits that BPCE collects in the form of regulated savings (mostly Livret A)--partially centralized at French parastate institution Caisse des Dépôts et Consignations--contributes to its funding and liquidity indicators being weaker than peers'. We adjust BPCE's metrics for this factor because we do not see these deposits as being available for asset refinancing.

The group organizes its medium- and long-term funding around: BPCE, BPCE SFH, and Compagnie de Financement Foncier (the group's covered bond issuers). BPCE is conservatively managing the amount of its encumbered assets. In the past, it has also limited its recourse to covered bonds, despite investor appetite. We estimate that assets pledged as collateral for covered bonds traditionally stand at less than 10% of the group's total asset base, providing the bank with some flexibility to use more of this competitive funding source. In 2020, BPCE's medium- and long-term funding will stand at about €20 billion (excluding ABS). On April 30, 2020, BPCE had completed half of its program. Recourse to targeted longer-term refinancing operations will remain opportunistic.

Table 6

BPCE Funding And Liquidity

	--Year-ended Dec. 31--				
(%)	2019	2018	2017	2016	2015
Core deposits/funding base	49.6	49.0	48.2	46.7	47.9
Customer loans (net)/customer deposits	141.2	142.4	139.2	142.3	140.3
Long-term funding ratio	72.7	73.6	72.9	72.3	74.3
Stable funding ratio	92.9	94.2	91.9	91.1	93.0
Short-term wholesale funding/funding base	29.3	28.3	29.0	29.6	27.4
Broad liquid assets/short-term wholesale funding (x)	0.9	1.0	0.9	0.9	1.0
Net broad liquid assets/short-term customer deposits	(5.8)	(2.0)	(4.6)	(5.7)	(1.0)
Short-term wholesale funding/total wholesale funding	58.2	55.5	56.0	55.4	52.6
Narrow liquid assets/3-month wholesale funding (x)	2.0	2.0	1.9	1.8	1.9

Environmental, Social, And Governance

We see environmental, social, and governance (ESG) credit factors for BPCE as broadly in line with its industry and country peers. Typical of a cooperative group, BPCE's decision-making process and management oversight is decentralized. Best governance practices and values are expected to be aligned at all layers of the organization, including at Natixis. BPCE has a prudent risk culture. The group prioritizes the stability of earnings and sustainability higher than absolute returns.

Social considerations are important in strategic settings. For example, during the COVID-19 pandemic, BPCE has been reinforcing its remote communication with individual customers. Like peers, it has also supported corporates through loans guaranteed by the French State as well as an automatic six-month deferment of loan repayments for professionals and small companies. BPCE also has a significant presence in the housing market, which is partially skewed toward social financing. The bank was a precursor in issuing social/health care bonds in 2017. Significant misselling issues with the retail clientele have not surfaced so far in France, but it is a risk that banks are increasingly vigilant against.

Although we view BPCE's exposures as less important than at the larger corporate and investment houses, Natixis runs banking activities that entail lending to or investing in carbon-intensive sectors. Environmental risks and transition to a greener economy are key challenges for Natixis, but also for BPCE in the housing space. The group has, however, been improving its framework to better capture environmental risks. For example, Natixis recently implemented a green weighting factor that favors funding transactions with a positive effect on climate. It also announced its withdrawal from shale oil and gas and an accelerated timeline to exit the coal industry. In our view, BPCE has comprehensive policies to restrict, and in some cases, ban, lending to industries with high greenhouse gas emissions. Risks related to climate change are well embedded in the bank's strategy, even if their quantification remains at an early stage.

Support: One notch of support for a strengthened ALAC buffer

We view BPCE as having high systemic importance in France but we assess the French government's tendency to support the banking system as uncertain. As a result, we do not include any uplift in the long-term rating for possible extraordinary government support. That said, we consider the French resolution regime as effective under our ALAC criteria, in part because it contains a well-defined bail-in process under which authorities can permit nonviable systemically important banks to continue critical functions as going concerns following a bail-in of eligible liabilities.

We apply the standard 5% threshold for the one notch of ALAC uplift incorporated into the issuer credit rating on BPCE S.A. In 2019, the group's significant issuance of bail-in-able debt (worth €5.5 billion) had taken its ALAC ratio to 5.8% compared with 5% at end-2018. We forecast that our ALAC ratio will remain above 5% in the coming 18-24 months, above our threshold but lower than we had expected due to higher recent growth in business volumes and upcoming amortization of Tier 2 notes.

Our projected ALAC ratio takes into consideration the following assumptions:

- BPCE's financial plan to further increase its bail-in-able buffer, chiefly in the form of new senior nonpreferred notes;
- A strong capital position going forward, as described above; and
- ALAC-eligible notes maturing within 12-24 months that we estimate in excess of 0.5% of S&P Global Ratings RWA.

Subsidiaries

Our ratings on Natixis S.A. and BRED are aligned with our 'A+' ALAC-supported group credit profile on BPCE, reflecting our assessment of their core position within the banking group. This is based on their close integration and alignment with group strategy, among other factors.

We also apply ALAC uplift to the ratings on core entities Compagnie Européenne de Garanties et Cautions and Parnasse Garanties. These are captive-like insurance companies providing financial guarantees on housing loans granted by BPCE's retail banks. We use the supported group credit profile as a reference point to rate them because the insurance schemes they provide are beneficial to BPCE's banks that originate the loans. Consequently, we factor in that if BPCE were to stop supporting these in-house guarantors, the group's operations would have to bear the losses anyway.

We also apply ALAC uplift to the ratings on CFF, since we view this subsidiary as being highly strategic to BPCE. Although increasingly integrated, CFF's performance continues to stand below other group members'.

Additional rating factors: None

There are no additional rating factors.

Resolution counterparty ratings (RCRs)

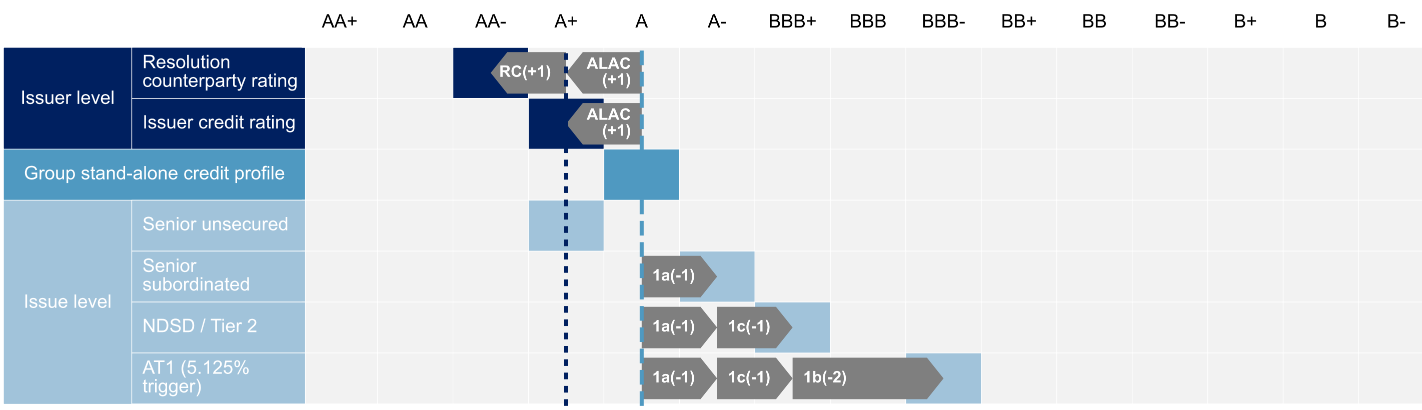
We assign RCRs to BPCE; Natixis S.A. and its New York branch, CFF; and BRED. The long- and short-term RCRs are 'AA-/A-1+' on all the entities except CFF, for which the RCRs are 'A+/A-1'.

An RCR is a forward-looking opinion of the relative default risk of certain senior liabilities that may be protected from default through an effective bail-in resolution process for the issuing financial institutions. RCRs apply to issuers in jurisdictions where we assess the resolution regime to be effective and we consider the issuer likely to be subject to a resolution that entails a bail-in if it reaches nonviability.

Rating approach for hybrid capital instruments and senior subordinated debt

We rate hybrid debt instruments according to their respective features and by notching them down from our assessment of BPCE's group SACP.

BPCE: Notching of Hybrids



Key to notching

- - - Group stand-alone credit profile
- - - - Issuer credit rating

RC	Resolution counterpartyliabilities (senior secured debt)
ALAC	Additional loss-absorbing capacity buffer
1a	Contractual subordination
1b	Discretionary or mandatory nonpayment clause and whether the regulator classifies it as regulatory capital
1c	Mandatory contingent capital clause or equivalent

Note: The number-letter labels in the table above are in reference to the notching steps we apply to hybrid capital instruments, as detailed in table 3 of our "Hybrid Capital: Methodology And Assumptions" criteria, published on July 1, 2019.
AT1--Additional Tier 1. NDSD--Non-deferrable subordinated debt. NVCC--nonviability contingent capital.

Our 'A-' issue rating on the bank's senior subordinated or senior nonpreferred notes reflects our view that they are subordinated (although not labeled as such) to more senior obligations. We also think these notes would be subject to a possible conversion or write-down only in resolution, and, in particular, would be excluded from any burden-sharing under state-aid rules.

Because of its strong core capital, comprising retained earnings and cooperative shares, AT1 issuances are rare at BPCE. At the time of writing, BPCE had no AT1 issues, while Natixis reported one AT1 issue.

Related Criteria

- General Criteria: Hybrid Capital: Methodology And Assumptions, July 1, 2019
- General Criteria: Group Rating Methodology, July 1, 2019
- General Criteria: Methodology For National And Regional Scale Credit Ratings, June 25, 2018

- Criteria | Financial Institutions | General: Methodology For Assigning Financial Institution Resolution Counterparty Ratings, April 19, 2018
- 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
- General Criteria: Principles For Rating Debt Issues Based On Imputed Promises, Dec. 19, 2014
- 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

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 July 7, 2020)*

BPCE	
Issuer Credit Rating	A+/Negative/A-1
Resolution Counterparty Rating	AA-/--/A-1+
Commercial Paper	A-1
Senior Subordinated	A-
Senior Unsecured	A+

Ratings Detail (As Of July 7, 2020)*(cont.)	
Short-Term Debt	A-1
Subordinated	BBB+
Issuer Credit Ratings History	
23-Apr-2020	A+/Negative/A-1
19-Oct-2018	A+/Stable/A-1
20-Oct-2017	A/Positive/A-1
02-Dec-2015	A/Stable/A-1
Sovereign Rating	
France	AA/Stable/A-1+
Related Entities	
Banque Tuniso-Koweitienne	
Issuer Credit Rating	CCC+/Watch Dev/--
Subordinated	CCC-/Watch Dev
BPCE SFH	
Senior Secured	AAA/Stable
BRED - Banque Populaire	
Issuer Credit Rating	A+/Negative/A-1
Resolution Counterparty Rating	AA-/--/A-1+
Commercial Paper	
Local Currency	A-1
Senior Unsecured	A+
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+/Negative/--
Issuer Credit Rating	
Local Currency	A+/Negative/--
Credit Foncier de France	
Issuer Credit Rating	A/Negative/A-1
Resolution Counterparty Rating	A+/--/A-1
Senior Unsecured	A
Short-Term Debt	A-1
Natixis Australia Pty Ltd.	
Issuer Credit Rating	A+/Negative/A-1
Natixis Financial Products LLC	
Issuer Credit Rating	A+/Negative/A-1
Natixis (New York Branch)	
Issuer Credit Rating	A+/Negative/A-1
Resolution Counterparty Rating	AA-/--/A-1+

Ratings Detail (As Of July 7, 2020)*(cont.)	
Commercial Paper	
Local Currency	A-1
Natixis S.A.	
Issuer Credit Rating	A+/Negative/A-1
Resolution Counterparty Rating	AA-/--/A-1+
Commercial Paper	
Local Currency	A-1
Junior Subordinated	BBB-
Senior Unsecured	A+
Subordinated	BBB+
Parnasse Garanties	
Issuer Credit Rating	A+/Negative/--
Socram Banque	
Issuer Credit Rating	BBB/Negative/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.