S&P Global Ratings

RatingsDirect®

BPCE

Primary Credit Analyst:
Francois Moneger, Paris (33) 1-4420-6688; francois.moneger@spglobal.com

Secondary Contact:
Sylvie Dalmaz, PhD, Paris (33) 1-4420-6682; sylvie.dalmaz@spglobal.com

Table Of Contents

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+/Stable/A-1

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

Major Rating Factors

Strengths:	Weaknesses:
• Second-largest retail bank in France, with a stable franchise in its core businesses. • Focused strategy oriented toward areas of expertise and building on the bank-insurance model. • Solid capital metrics based on earnings retention and benefits from the cooperative status. • Rapid issuance of senior nonpreferred debt, contributing to the group's loss-absorbing capacity.	• Moderate growth potential in the French domestic banking market. • Dampening effect of low interest rates on retail revenues and overall efficiency. • Comparatively unfavorable return on equity (ROE).

Outlook: Stable

S&P Global Ratings' stable outlook on BPCE and all its core and highly strategic subsidiaries signifies that we expect the group to maintain a solid balance sheet and achieve business development in line with its strategic plan. That said, we also anticipate that BPCE will face difficulties in translating its business position into stronger earnings commensurate with those of comparable peers globally.

We could lower the ratings if the group proved unable to achieve business development and improve efficiency in line with its strategic plan to 2020. Sizable acquisitions could also weigh on our ratings if they affected our capital assumptions or if we thought they could increase managerial risks. We could lower the ratings if the group was unable to sustain its capital position and improve its loss-absorbing capacity in line with our expectations. This could be the case, for instance, if there was a strong increase in new business volumes that inflated S&P Global Ratings' risk-weighted assets (S&P RWA); if BPCE did not issue sufficient debt eligible as additional loss-absorbing capacity (ALAC) in the coming years; or if we saw subdued retained earnings prospects.

We consider an upgrade scenario as remote.

Rationale

Our ratings on French bank BPCE are supported by the group's prominent and longstanding franchise in domestic retail banking and asset management, as well as by its growing insurance activities, predictable earnings, and conservative management and financial policy. We expect BPCE to sustain a risk-adjusted capital (RAC) ratio above 10%, while further increasing its bail-inable debt buffer and ALAC. We believe that the group will continue to strengthen its balance sheet, supported by stable earnings, a low payout ratio owing to its cooperative structure, and recurring sales of cooperative shares.

We believe that the growth in S&P RWA will reach mid-single digits over the full-year 2019. Growth in customer loans was close to 2.5% in the first half of 2019, and the group's regulatory RWA increased strongly to close to 4% in the same period, of which more than 3% occurred in the first quarter of the year. Factoring in this dynamic business trend, particularly in domestic mortgages, we now expect a 4% average increase in S&P RWA over 2019-2021. Consequently, we forecast that our measure of ALAC to S&P RWA will increase within the 5.50%-6.00% range in the next 18-24 months, up from 5.03% at end-2018, constrained by a more pronounced rate of S&P RWA growth, but still well above our 5.00% threshold for one notch of ALAC support in the long-term rating on BPCE. Our expectations reflect our belief that BPCE will raise its total loss-absorbing capacity, based on annual planned issuance of close to €4 billion of new senior nonpreferred notes on average until 2021.

We view BPCE's risk management capabilities as adequate compared with its peers', and the group's risk policy as conservative. We consider that it has successfully reduced its risk profile and wound down much of its legacy assets. That said, BPCE has only moderate growth potential in the mature French domestic banking market. Although we see BPCE's earnings as extremely predictable, its profitability and efficiency, with a cost-to-income ratio at about 73%, are not on par with those of market leaders in other countries.

In the first half of 2019, the group's ROE declined to close to a low 4% by our measure of return on average common equity. We think that this is largely due to structural costs, and to the public sector portfolio's and the group's real estate specialist Crédit Foncier de France's (CFF's) low-margin loans, but such an absolute level is well below that of peers. We also think that BPCE has a marked sensitivity to the interest-rate environment, and that any decline in interest rates would have a further dampening effect on its revenue base in domestic retail.

Although not a distinctive factor for our ratings on BPCE, we see the group's funding and liquidity positions as comparatively unfavorable.

We assess BPCE's unsupported group credit profile (UGCP) at 'a'.

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

We use our Banking Industry Country Risk Assessment (BICRA) 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 ('1' is the lowest risk and '10' is the highest). BPCE's weighted economic risk score rounds to '3', indicating that the bulk of its assets are in its domestic market. Consequently, the anchor for BPCE is 'bbb+', the starting point from which we derive its UGCP.

The French economy is stable and wealthy; it has low private-sector credit risk and benefits from a growing population. Therefore, we assess economic risk in France at '3'. The French economy's resilience to adverse external developments has been eroded by its relatively high public debt burden; elevated unemployment, which we project will decline only slowly; and decreased external competitiveness in the corporate sector. We expect GDP to grow by 1.4% in 2019, after 1.7% in 2018, with the economy now in a more mature phase of the cycle. Domestic credit growth is on an upward trajectory, outpacing other European countries, but not at a magnitude that would indicate a significant credit bubble, in our view. In the housing market, low interest rates have fueled loan production, including renegotiations in 2017, but the market is now likely to regulate itself back closer to long-term averages (nominal price increase of around 2.4% in 2019, after 2.8% in 2018). We anticipate that credit losses will remain low in 2019-2020, increasing from the recent record low of an estimated 17 basis points (bps) in 2018. We project stable economic risk.

Our '3' industry risk score reflects our view that banks are operating in a less favorable environment, with low interest rates, compounded by regulated-rate savings, constraining their prospective revenues. Nevertheless, banks' strong and diverse business models, low credit risks, and operations in a concentrated mature market should help French banks to preserve their revenues. We see room for improvement in cost efficiency, which is a relative weakness for French banks compared with their European peers, notably due to the still-dense branch networks in France. We also consider the sustained pace of growth of household credit, mostly granted at fixed rates, particularly in relation to the banks' balance sheet structures. The system's relatively large reliance on wholesale funding is partly attributable to households' propensity to save in nonbank savings and regulated deposit accounts. It also benefits from the depth of the domestic financial market, among other supporting factors. We project stable industry risk.

Table 1

Groupe BPCE Key Figures

		--Year-ended Dec. 31--			
(Mil. €)	**2019***	**2018**	**2017**	**2016**	**2015**
Adjusted assets	1,143,569.0	1,089,089.0	1,086,059.0	1,066,613.0	1,017,312.0
Customer loans (gross)	678,717.0	663,380.0	629,870.0	603,126.0	579,103.0
Adjusted common equity	59,373.3	58,241.5	55,359.0	50,453.0	52,337.4
Operating revenues	12,206.0	24,255.0	24,018.0	23,697.0	24,128.0
Noninterest expenses	8,867.0	17,687.0	17,099.0	16,673.0	16,248.0
Core earnings	1,677.2	3,737.0	3,710.2	3,663.4	3,643.0

*Data as of June 30.

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

BPCE is a universal banking group that predominantly focuses on retail banking in France, where it ranks No. 2 and has 7,441 branches. The group's leading 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 its geographic diversification to be limited compared with large European peers, such as the Société Générale, Crédit Agricole, or Nordea Bank Abp groups. BPCE is not a global player in corporate and investment banking (CIB), but has strong expertise in certain types of businesses, while asset and wealth management, and specialized financial services (SFS) complement its business set-up. We see continued growth in insurance and asset-gathering activities as a key component in the group's strategy.

We consider BPCE's earnings generation to be solid and predictable, but reflective of limited cost-efficiency with a consolidated cost-to-income of about 73% in 2018 and in the first half of 2019, which we do not expect will go below 70% in the near future. As regards cost reduction, the efforts provided by the group under the 2020 strategic plan have been partly offset by transformation costs. Besides, we see BPCE's profitability as structurally constrained because its business model entails significant concentration on lower-margin domestic mortgage activity. We expect growth in revenues to remain constrained in the next couple of years by low interest rates, as about two-thirds of the group's revenues come from its French retail lending activities. This is mitigated, though, by the dynamic growth in BPCE's lending volumes in the French retail sector. Other businesses, like CIB, and asset and wealth management, typically generate 30% of the group's revenues, and make sizable contributions to consolidated earnings, despite bearing specific operational risks that can produce one-off effects.

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 and insurance (including SFS), asset and wealth management, and CIB (see "BPCE's business lines" below).

In November 2017, BPCE unveiled its medium-term strategic plan, TEC2020, which is focused on digital transformation and strengthening customers' experience. Under this plan, BPCE aims to achieve growth in all business segments while developing synergies of revenues and costs. We consider that the group has potential for growth through further leveraging its large customer base in France and intensifying cross-selling.

We expect to see the following:

- Retail banking and customer-related wholesale banking remaining the cornerstone of the group's business position.
- BPCE consolidating its bank-insurance position, along with strong development of its insurance activities.
- International development being selective and targeted.
- Adaptation efforts and intensifying cost management to support cost-efficiency, particularly in light of the dampening effect of low interest rates on revenues.

Table 2

Groupe BPCE Business Position

		--Year-ended Dec. 31--			
(%)	**2019***	**2018**	**2017**	**2016**	**2015**
Total revenues from business line (€ mil.)	12,206.0	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	17.9
Retail banking/total revenues from business line	62.7	63.1	63.2	60.4	63.2
Asset management/total revenues from business line	14.0	14.1	12.9	13.6	14.4
Other revenues/total revenues from business line	5.3	3.5	3.4	7.2	4.4
Return on average common equity	3.8	4.6	4.8	6.7	5.8

*Data as of June 30.

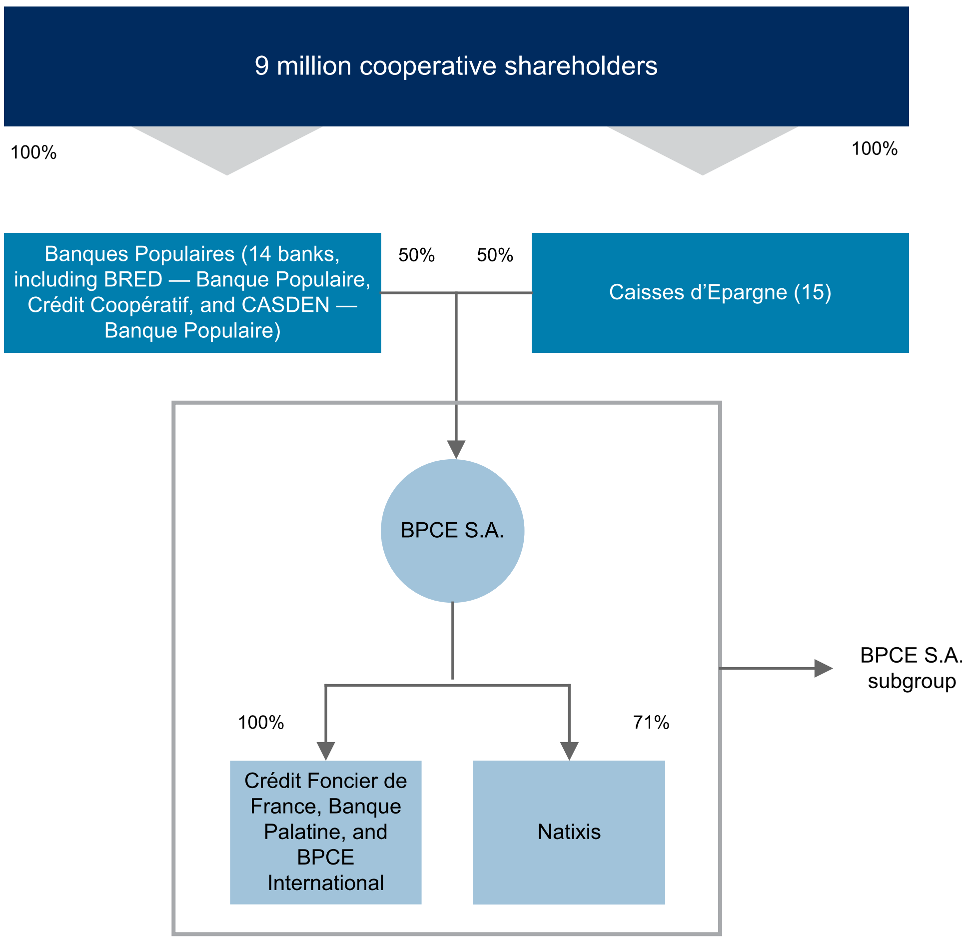
Groupe Banque Populaire and Groupe Caisse d'Epargne merged in mid-2009 to form the BPCE group (see chart 1).

BPCE has a typical structure for a cooperative group. It was fully owned by 29 regional banks as of end-June 2019: 14 Banques Populaires--including BRED Banque Populaire (BRED), CASDEN Banque Populaire, and Crédit Coopératif--and 15 Caisses d'Epargne. In turn, nine million member-customers hold the cooperative shares issued by these regional entities and elect their boards of directors. Although the parent bank, BPCE S.A., is not involved directly in managing these 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 S.A. 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 S.A. manages the Banque Populaire Network Fund and the Caisse d'Epargne Network Fund, which total €450 million each, and has organized a Mutual Guarantee Fund that totaled €362 million at end-June 2019. As for all French cooperative banking groups, we consider the solidarity mechanism binding the central body and its member banks to be strong and reliable. Natixis, which is affiliated with the cooperative group and covered by its financial solidarity mechanism, principally embodies wholesale banking and asset and wealth management. BPCE's stake in Natixis S.A. was 71% as of June 30, 2019, with the remaining shares listed on the Paris Stock Exchange. CFF, too, is affiliated with the cooperative group.

Chart 1

Groupe BPCE Organization Chart As Of End-June 2019



BPCE has gradually simplified the complex structure it inherited as a result of the merger, and has 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, exemplified since 2014 by the 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.

In the first half of 2019, BPCE completed its announced plan to integrate CFF's expertise and employees into the group's other companies. New loan generation was transferred to the Banques Populaires and Caisses d'Epargne networks (financing for individuals and corporate financing for social housing), and to Natixis (financing for project and infrastructure). Also, the specialized real-estate subsidiaries Socfim and Crédit Foncier Immobilier will eventually become subsidiaries of BPCE S.A., the group's parent bank. As a result, CFF is managing the existing loan portfolio, and Compagnie de Financement Foncier (CFiF), which is the largest private covered bond issuer in Europe, has been maintained as a refinancing vehicle for the BPCE group. We consider that, by nature, this initiative can help to improve BPCE's overall profitability. Indeed, it can address the historical profitability concerns that we had identified at CFF (moreover, the situation became complicated in 2017-2018, as sizable early repayments and renegotiation of fixed-rate loans weighed increasingly on CFF's already-low profitability prospects).

In April 2019, BPCE signed a long-term partnership agreement with French retailer Auchan Holding (Auchan) to acquire a 50.1% majority stake in the latter's subsidiary, Oney Bank. This agreement followed exclusive negotiations in February 2019 (see "France-Based Oney Bank 'BBB' Long-Term Rating Placed On CreditWatch Positive On Potential Acquisition By BPCE," published on Feb. 21, 2019). The completion of the acquisition remains subject to approval by the competent authorities, mainly the French and European banking regulators. Considering the size of Oney Bank relative to that of BPCE--in the region of 1% by S&P RWA and earnings--we do not expect this acquisition to alter either the group's earning capacity or its capitalization significantly. We believe that the move can support the expansion of the group's retail activities, as Oney Bank operates in 11 countries and works with many retailers as well as Auchan, and as retail stores constitute an additional distribution channel. Furthermore, we see Oney Bank as benefiting from its advanced expertise in digital profiling and payment solutions.

BPCE announced in September 2018 that it has entered into exclusive negotiations with the Moroccan banking group Banque Centrale Populaire to divest its banking interests in Tunisia (BTK), Cameroon, Madagascar, and the Democratic Republic of the Congo, which would further increase its business focus, in our view.

BRED, which is part of the Banque Populaire network, has 358 branches and is one of the largest banks within the BPCE cooperative group. It benefits from a regional presence in greater Paris and Normandy, as well as a large footprint in overseas French Departments and Territories (in the Antilles, and Pacific and Indian Oceans) and in small emerging Asian countries. BRED offers a full suite of banking services including retail and online banking; private banking; asset and wealth management; life and non-life insurance; specialized financing; international trade finance; corporate banking geared toward small and midsize enterprises (SMEs); and access to capital markets. Predominantly retail-oriented, the bank primarily services households and SMEs. BRED's strategy focuses on expanding its universal bank profile, while avoiding direct competition with the rest of the BPCE group. The bank reported consolidated profits of between €0.2 billion and €0.3 billion in the past five years, and contributed nicely to the group's performance.

BPCE's Business lines

Retail banking and insurance. This line generated 71% of revenues, excluding the corporate center, in the first six months of 2019. Operating through 7,441 branches, BPCE is the No. 2 domestic banking network in France and is well represented throughout the country. At end-2018, its domestic market share stood at 21.1% in credit, and at 21.5% in deposits and savings. As a cooperative group, BPCE's retail banking in France is carried out by regional banks, with Banques Populaires and Caisses d'Epargne et de Prévoyance being the group's two main brands. The Caisses d'Epargne et de Prévoyances' roots lie in serving individuals, while the Banques Populaires largely serve more local entrepreneurs and SMEs. While BPCE's other network, Banque Palatine, enhances the group's domestic presence, we consider that its international retail activity is limited, as BPCE International is small and has announced its intention to divest its banking subsidiaries in Africa.

The SFS segment is primarily directed toward BPCE's retail banking activities. In 2019, BPCE S.A. acquired from Natixis all the retail banking activities from the SFS business line. These activities included factoring, lease financing, consumer credit, sureties and financial guarantees, and securities services (that is, all SFS operations except payments, employee saving plans, and film industry financing, which Natixis still hosts). Although BPCE does not have full ownership of Natixis, this operation mostly constituted an intragroup transfer to gain industrial benefits and increased synergies. We anticipate that Natixis will continue to reinforce its role in supporting the franchise of the retail banks.

Since 2014, BPCE's group insurance companies have been part of the Natixis subgroup; most are owned by Natixis Assurances. Under the shareholder agreement in place with La Banque Postale, BPCE also owns a 16.1% stake in CNP Assurances, which is consolidated using the equity method and included in the group's corporate center. In recent years, the group has gradually consolidated its position in bancassurance. Notably, BPCE and CNP Assurances signed a new partnership, effective from 2016, under which Natixis Assurances took over the design and management of all savings and pension funds newly distributed by the Caisse d'Epargne network, and entered into an agreement with CNP Assurances for collective payment protection insurance. In July 2019, BPCE and CNP Assurances agreed to renew their agreements (to be effective from 2020) and extend their partnership until end-2030.

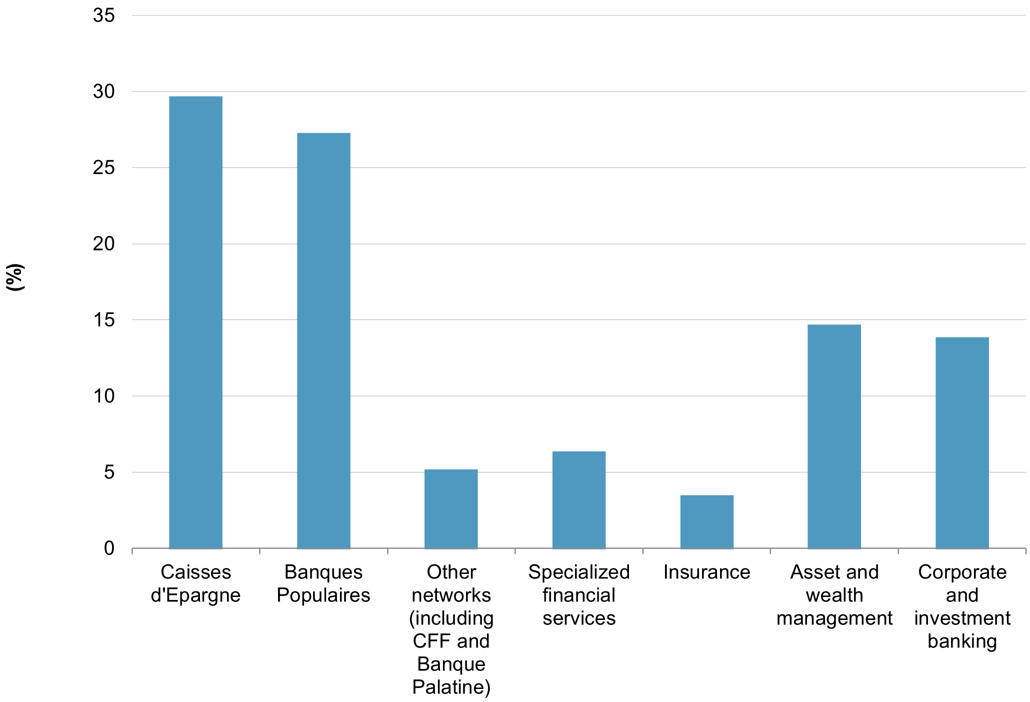
Asset and wealth management division (formerly "Investment solutions," but excluding insurance). This line generated 15% of revenues, excluding the corporate center, in the first six months of 2019. BPCE's asset and wealth management businesses totaled €898 billion in assets under management (AUM) at the end of June 2019. At end-2018, Natixis Investment Managers was the 16th largest asset manager globally by AUM. Asset management is expanding internationally, particularly in the U.S. We believe that growth in asset-gathering activities, possibly through bolt-on external acquisitions, is a mainstay of the group's strategy.

In July 2019, Ostrum Asset Management--an affiliate of Natixis Investment Managers and an insurance-related euro-fixed-income specialist--and La Banque Postale Asset Management agreed on the main principles for the creation of a joint venture to be controlled by Natixis. This would create a leading European asset manager with €400 billion in AUM, leveraging advanced technology and operating resources. The entities contemplate reaching a binding agreement and obtaining all regulatory authorizations by mid-2020.

Corporate and investment banking. This line generated 14% of revenues, excluding the corporate center, in the first six months of 2019. We consider Natixis to be a second-tier wholesale banking player that comprises financing and capital market activities. Each of these activities contributed 7% of the total revenues generated by BPCE's business lines in the first six months of 2019. Natixis benefits from a longstanding and solid domestic franchise in lending to midsize and large corporations, and in structured and commodity financing.

Chart 2

Groupe BPCE Revenues 2018



Source: BPCE. Excludes the corporate center.

Capital and earnings: Solid capitalization, supported by earnings retention and recurring sales of cooperative shares

Our assessment of BPCE's capital and earnings reflects the steady strengthening in the group's capital position over the past five years, and our expectation that the RAC ratio will increase incrementally within the 10.5%-11.0% range in the next 18-24 months. Quality of capital is also a supportive factor, as total adjusted capital (TAC) includes hardly any contribution from hybrid capital instruments at end-2018, and as deferred tax assets--which we view as a lower-quality element within our measure of TAC--accounted for less than 4% of the total.

At end-2018, we estimated the group's RAC ratio at 10.2%. The limited improvement from 10.1% at end-2017 balanced strong earnings retention of €2.9 billion and more than 4% growth in S&P RWA. The increase in the insurance subsidiaries' capital, which we deduct from our measure of the group's capital, the negative impact from the first application of International Financial Reporting Standard No. 9, and various marginal impacts, overall offset the benefit from the net new €1.4 billion in capital through the sale of cooperative shares.

Our forecast of the RAC ratio within the 10.5%-11.0% range in the coming 18-24 months reflects our view of BPCE's conservative financial policy on the back of stable profitability. We expect the issuance of cooperative shares to remain dynamic and to increase capital by €1.3 billion annually. We also expect still-modest dividend payouts reflecting the group's cooperative status, and annual S&P RWA growth of above 4%, in line with that achieved in 2018. Our forecast does not include any issuance of additional Tier 1 (AT1) or Tier 2 instruments, as we understand that the group's strategy is to uphold its common equity ratio through retained earnings, and that most issuance of loss-absorbing debt is to be in the form of senior nonpreferred debt.

In the first half of 2019, we estimate a cut in TAC of more than €0.4 billion due to Natixis' sale to BPCE S.A. of the SFS division's retail banking activities. This cut results from the €1.5 billion special dividend that Natixis distributed to its shareholders following the sale, and of which it has paid out 29% to minority shareholders. On June 30, 2019, BPCE had a total capital ratio of 19.0%, and a common equity Tier 1 ratio of 15.5%.

Over the first six months of 2019, the group achieved €1.6 billion in net profit (including minority interests), of which a €0.3 billion negative contribution stemmed from transformation and reorganization costs. Consolidated revenues decreased by 1.5% compared to the first half of 2018, which included a more than 13% decrease in the CIB division. By our measure of return on average common equity, ROE declined to close to a low 4%. Although we see this as being largely due to structural costs, and to the public sector portfolio's and CFF's low-margin loans, such an absolute level stands largely below that of peers. We expect the group to incur more limited transformation and reorganization costs in the second half of 2019, and over the full year, to report a net profit (including minority interests) similar to the €3.8 billion it achieved in 2018, reflecting our view of the group's very resilient profitability. According to BPCE, the consolidated profit before tax reported in 2018 included €0.7 billion in transformation and reorganization costs, of which about €335 million was for CFF.

We view the group's earnings as extremely predictable due to its overall low-risk business model. However, we continue to believe that BPCE will face difficulties in generating stronger earnings, notably as we expect that low interest rates will continue to constrain its net interest margin. We believe that any decline in interest rates would have a further dampening effect on BPCE's revenue base in domestic retail, although this could be mitigated by a further strong increase in lending volumes. Meanwhile, the strategic focus on cross-selling, and on the insurance and savings businesses, should gradually benefit the other operations. We expect incremental growth in BPCE's earnings capacity from 2020 onward, and that the cost of risk will remain low at about 20 bps in 2019.

Table 3

Groupe BPCE Capital And Earnings

		--Year-ended Dec. 31--			
(%)	**2019***	**2018**	**2017**	**2016**	**2015**
Tier 1 capital ratio	15.6	15.9	15.4	14.5	13.3
S&P Global Ratings' RAC ratio before diversification	N.A.	10.2	10.1	9.3	8.4
S&P Global Ratings' RAC ratio after diversification	N.A.	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	34.4	35.6	42.6	46.0	45.8
Fee income/operating revenues	37.0	39.4	39.3	37.1	38.0
Market-sensitive income/operating revenues	12.2	9.2	15.6	12.0	12.0
Noninterest expenses/operating revenues	72.6	72.9	71.2	70.4	67.3
Preprovision operating income/average assets	0.5	0.5	0.6	0.6	0.7

Table 3

Groupe BPCE Capital And Earnings (cont.)

		--Year-ended Dec. 31--			
(%)	2019*	2018	2017	2016	2015
Core earnings/average managed assets	0.3	0.3	0.3	0.3	0.3

*Data as of June 30. N.A.--Not available.

Table 4

Groupe BPCE Risk-Adjusted Capital Framework Data

(Mil. €)	Exposure*	Basel III RWA	Average Basel III RW(%)	S&P Global RWA	Average S&P Global RW (%)
Credit risk					
Government & central banks	290,645	18,742	6	10,183	4
Of which regional governments and local authorities	59,381	12,127	20	2,802	5
Institutions and CCPs	58,217	7,649	13	11,735	20
Corporate	263,537	157,626	60	221,993	84
Retail	412,670	81,809	20	154,846	38
Of which mortgage	329,709	52,352	16	93,715	28
Securitization§	15,854	5,362	34	6,571	41
Other assets†	23,744	21,620	91	45,784	193
Total credit risk	1,064,666	292,807	28	451,112	42
Credit valuation adjustment					
Total credit valuation adjustment	--	2,313	--	4,830	--
Market risk					
Equity in the banking book	7,155	48,621	680	56,076	784
Trading book market risk	--	10,603	--	16,201	--
Total market risk	--	59,224	--	72,277	--
Operational risk					
Total operational risk	--	38,057	--	46,067	--
(Mil. €)	**Exposure**	**Basel III RWA**	**Average Basel II RW (%)**	**S&P Global RWA**	**% of S&P Global RWA**
Diversification adjustments					
RWA before diversification	--	392,401	--	574,286	100
Total diversification/ concentration adjustments	--	--	--	(52,839)	(9)
RWA after diversification	--	392,401	--	521,447	91
(Mil. €)		**Tier 1 capital**	**Tier 1 ratio (%)**	**Total adjusted capital**	**S&P Global RAC ratio (%)**
Capital ratio					
Capital ratio before adjustments		62,522	15.9	58,302	10.2
Capital ratio after adjustments‡		62,522	15.9	58,302	11.2

Table 4

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

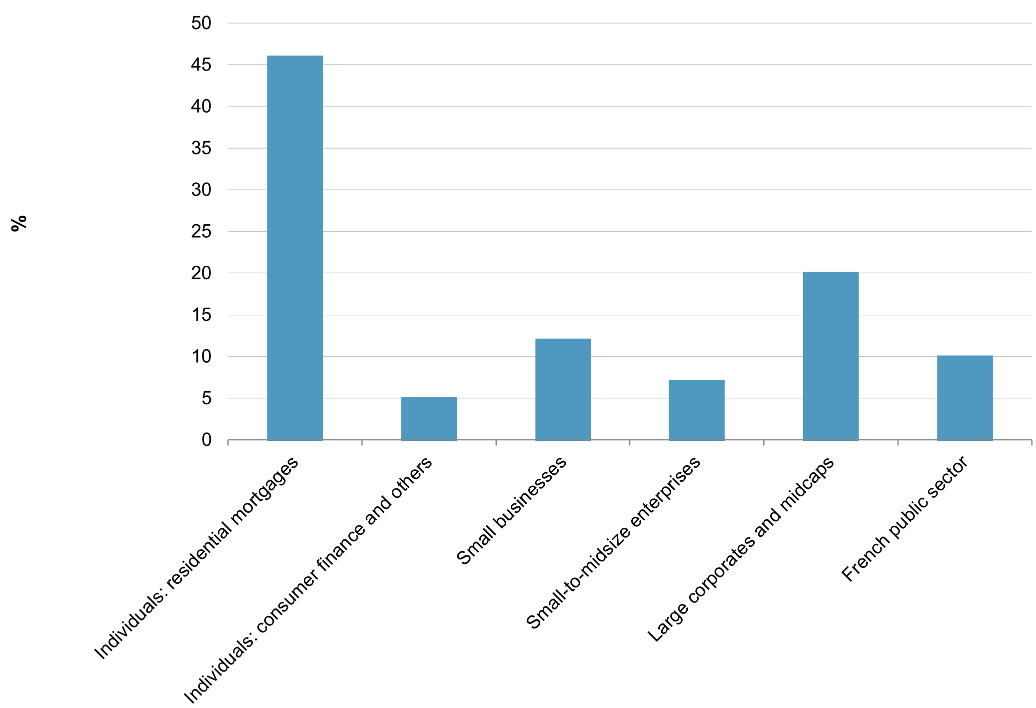
*Exposure at default. §Securitization exposure includes the securitization tranches deducted from capital in the regulatory framework. †Exposure and S&P Global Ratings' risk-weighted assets for equity in the banking book include minority equity holdings in financial institutions. ‡Adjustments to Tier 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, 2018, S&P Global Ratings.

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

Our assessment of BPCE's risk position is underpinned by its targeted growth strategy around a few selected areas of expertise, and our view of its adequate risk management capabilities. The group faces areas of risk that differ widely in nature, ranging from its simple businesses to more sophisticated market and credit activities. However, we view its balance sheet as being less complex than that of larger international peers. BPCE's domestic loan book is of good quality. Lower-risk mortgage loans made up about 46% of total loans at end-June 2019 (see chart 3). The group is primarily targeting expansion in its traditional areas of expertise, including insurance and asset management--the latter naturally entails limited credit risk. We think that BPCE has a good track record in credit risk management in its core lending business.

Chart 3

Groupe BPCE Customer Loan Book Breakdown, End-June 2019



Source: BPCE.

BPCE's exposures are mostly concentrated in France. In the first six months of 2019, the cost of risk stood at a low 18 bps, close to the 19 bps achieved in 2018. We estimate that the group will sustain a low level of credit risk in the coming year, although exposure to large corporates could lead to some single-name impacts and volatility in Natixis' cost of risk. Our measure of the group's gross nonperforming loans (NPLs) has shown a steady decrease over the past five years. At mid-2019, NPLs were 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 position and the collateralized nature of most of its risks.

We consider that BPCE has successfully reduced its risk profile. As planned, it had wound down its legacy asset portfolios by mid-2014, and had transferred to Natixis' CIB the exposures that remained in the former GAPC legacy portfolio, as well as more than 90% of CFF's residual securitization exposures to BPCE. These exposures are managed in run-off mode. We estimate that the residual exposures in international securitization in CFF's legacy portfolio, also managed in run-off mode, are very 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 the Caisses d'Epargne network and CFF.

Most of BPCE's market and operational risks lie with Natixis and BRED. Illustrating this, in late 2018, Natixis' revenues suffered a €259 million hit from its Asian equity derivatives trading desk. We understand that this incident stemmed from the use of a hedging model with features specific to this product, and therefore was confined to this particular business. We also understand that this episode did not damage Natixis' franchise as the hedging differences translated into losses for the bank, not for its clients, and as this trading activity was not part of the solution-type product offering that is central to Natixis' strategy in CIB. We believe that the Natixis multi-affiliates model in asset management is agile but more scattered (see "Developments At Natixis' H2O Asset Management Highlight The Importance Of Governance Standards To Market Participants," published on June 25, 2019).

BPCE's average value-at-risk (VAR; 99%, one-day) stood at €9.3 million in 2018, broadly similar to the €7.7 million in 2017. Global stress-testing complements the VAR. Besides, structural exposure to interest rates lies primarily in the large retail banking books. The group's risk appetite is moderate and its monitoring tools are adequate, in our view.

Table 5

Groupe BPCE Risk Position

		--Year-ended Dec. 31--			
(%)	**2019***	**2018**	**2017**	**2016**	**2015**
Growth in customer loans	4.6	5.3	4.4	4.1	2.3
Total diversification adjustment/S&P Global Ratings' RWA before diversification	N.A.	(9.2)	(8.9)	(8.8)	(19.4)
Total managed assets/adjusted common equity (x)	22.5	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
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	60.0	58.9	51.2	52.2	53.1

*Data as of June 30. N.A.--Not available.

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

The group relies on a large and stable deposit base and on confidence-sensitive wholesale funding to support 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 domestic 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 142% as of mid-2019, almost unchanged since 2015, after a material improvement from 175% at end-2010. BPCE still compares unfavorably with large domestic peers. Its major funding imbalances arise from its wholesale-funded subsidiaries Natixis and CFF. However, we believe that the group's ability to repackage mortgage loans into covered bonds and raise funds throughout its large retail banking networks, and its loyal deposit base, are strong qualitative mitigating factors. 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 main operators: BPCE and CFiF. Thanks to CFiF and BPCE SFH--the group's second-largest covered bonds issuer--the group secures the financing of its longer-term assets in a competitive way, which in our view is positive for consolidated creditworthiness. BPCE 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 estimate that assets pledged as collateral for funding in the form of covered bonds represented about 8% of the group's total asset base at end-2018, the same as at end-2017, and we do not expect any major deviation in the next couple of years.

The group has steadily reduced its annual funding needs since 2011, and its 2018 medium- and long-term funding plan stood at €22 billion. At mid-year, BPCE had already completed 80% of its €20 billion annual plan for 2019.

At mid-2019, we estimated our stable funding ratio at 94.5%, compared to 87.6% at end-2014, and our broad liquid assets to short-term wholesale funding ratio at 0.99x. We consider that the comparatively large amount of retail deposits that BPCE collects from regulated saving plans (mostly Livret A), and centralizes at the Caisse des Dépôts et Consignations, contributes to its funding and liquidity indicators being weaker than peers'. (We adjust our metrics because we do not see these deposits as being available for refinancing assets.)

We do not see funding and liquidity as distinctive factors for our rating on BPCE. BPCE's access to European Central Bank funding is opportunistic.

Table 6

Groupe BPCE Funding And Liquidity

		--Year-ended Dec. 31--			
(%)	**2019***	**2018**	**2017**	**2016**	**2015**
Core deposits/funding base	48.1	49.0	48.2	46.7	47.9
Customer loans (net)/customer deposits	142.2	142.4	139.2	142.3	140.3
Long-term funding ratio	73.4	73.6	72.9	72.3	74.3
Stable funding ratio	94.5	94.2	91.9	91.1	93.0
Short-term wholesale funding/funding base	28.4	28.3	29.0	29.6	27.4
Broad liquid assets/short-term wholesale funding (x)	1.0	1.0	0.9	0.9	1.0
Short-term wholesale funding/total wholesale funding	54.7	55.5	56.0	55.4	52.6
Narrow liquid assets/3-month wholesale funding (x)	2.1	2.0	1.9	1.8	1.9

*Data as of June 30.

Support: One notch of support and a strengthening ALAC buffer

Our long-term rating on BPCE is one notch higher than the UGCP, as we incorporate one notch of ALAC support. We forecast that our ALAC ratio will increase within the range of 5.50%-6.00% in the coming 18-24 months, constrained by a more pronounced rate of S&P RWA growth, but still well above our 5.00% threshold for one notch of ALAC uplift in the long-term rating on BPCE.

We understand that BPCE plans to further increase its bail-inable buffer, chiefly by issuing significant amounts of senior nonpreferred debt, which we expect to average close to €4 billion per year until 2021. In the first half of 2019, BPCE had already issued €3.9 billion of its announced plan to issue between €3 billion and €4 billion in senior nonpreferred debt over the year. This trend in ALAC would also be supported by the increase in TAC, along with our expectations that the RAC ratio will improve, which would increase our measure of the capital standing in excess of the 10% upper limit for our strong assessment of capital and earnings.

This forecast factors in our expectation of 4% average growth in S&P RWA over 2019-2021, reflecting our view of dynamic business trends, which we believe will slow the increase in the group's ALAC ratio. In addition, we foresee that the ALAC trajectory will be curbed in 2021, given that more than €6.5 billion of senior nonpreferred and Tier 2 instruments maturing in 2023, and because, under our methodology, we deduct from our measure of ALAC the amount of eligible debt maturing within 12-24 months that we estimate in excess of 0.5% of S&P RWA.

At end-2018, the group's ratio of ALAC to S&P RWA stood at 5.03%, compared to 3.96% at end-2017. The improvement essentially reflected BPCE's issuance of a sizable €7.3 billion in senior nonpreferred debt, and an increase in the group's TAC, which primarily stemmed from retained earnings and issuance of cooperative shares. The revision of our assessment of capital and earnings to strong in October 2018 had a 300 bps negative impact on the ALAC ratio, alongside the mechanical reduction in excess TAC, and therefore the pro forma ALAC ratio at end-2017 was 3.96% (see "France-Based BPCE Upgraded To 'A+/A-1' On Strengthened Balance Sheet; Outlook Stable," published on Oct. 19, 2018).

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, for systemic banks like BPCE, we do not include any uplift in the long-term rating for possible extraordinary government support. 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 consider that the ALAC uplift can be transferred to all core members of the group--including Compagnie 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. Even though these subsidiaries operate insurance activities, we use the supported group credit profile as a notching reference because such insurance does not benefit end-customers--instead it supports the client-banks that originated the loans and carry them on their books. Consequently, we factor in the fact that if these guarantors were not supported, the group's operations would have to bear the losses, even if not as part of a bail-in scheme. We also consider that the ALAC uplift can be transferred to CFF, as we view this subsidiary as being highly strategic to BPCE, and as CFF is affiliated with the cooperative group.

Additional rating factors: None

There are no additional rating factors.

Resolution counterparty ratings (RCRs)

Following the completion of our RCR jurisdiction assessments on France and other countries where the group operates, we assigned RCRs in May 2018 to BPCE S.A., Natixis S.A. and its New York branch, CFF, and BRED. These long- and short-term RCRs are 'AA-/A-1+' on all the entities except CFF, which has RCRs of 'A+/A-1'.

Rating approach for hybrid capital instruments and senior subordinated debt

We rate the bank's hybrid instruments and senior subordinated (that is senior nonpreferred) notes by notching down from our assessment of its stand-alone credit profile (SACP), which is 'a'.

Our 'A-' long-term rating on the bank's senior nonpreferred notes is one notch lower than its SACP, owing to our view that such notes are subordinated (although not labeled as such) to more senior obligations, and do not carry additional default risk relative to that represented by BPCE's SACP. We believe that the senior nonpreferred 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.

Our 'BBB+' and 'BBB-' long-term ratings on the bank's Tier 2 and AT1 instruments are, respectively, two and four notches below its SACP. This reflects the deduction of:

- One notch for subordination;
- Two notches on the AT1 instruments to reflect the standard risk of coupon nonpayment, considering the instruments' regulatory tiering. (There is no notch deducted on the Tier 2 instruments as they are nondeferrable); and
- One further notch because we anticipate that the instruments would absorb losses through principal in the application of a mandatory contingent capital clause, be it contractual or statutory.

The 'BBB-' rating on the AT1 instruments factors in our expectation that the group will maintain a sufficient buffer against the trigger for potential regulatory restrictions on their paying coupon (maximum distributable amount). If this were not the case, we could increase the number of notches we deduct to derive the rating.

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

Related Research

- Banking Industry Country Risk Assessment Update: August 2019, Aug. 27, 2019
- ECB Stimulus Signal Is Good For Growth, Bad For Bank Profits, July 26, 2019
- The Resolution Story For Europe's Banks: Life In The Halfway House, July 18, 2019
- BRED - Banque Populaire, July 4, 2019
- Bulletin: Developments At Natixis' H2O Asset Management Highlight The Importance Of Governance Standards To Market Participants, June 25, 2019
- For Global Banks, The Fickleness Of Capital Markets Revenue Is On Full Display, June 19, 2019
- EU Banking Reform Package: Enhanced Balance Sheets, Incomplete Market Integration, June 18, 2019
- Natixis Structured Issuance's Proposed ZAR Senior Unsecured Notes Rated 'A+' On Natixis Guarantee, May 22, 2019
- Credit FAQ: What France's Higher Countercyclical Capital Buffer Could Mean For Large Domestic Banks, April 2, 2019
- ECB's Fresh Stimulus Spotlights Rising Risks For European Banks, March 8, 2019
- The Top Trends Shaping European Bank Ratings In 2019, Feb. 28, 2019
- France-Based Oney Bank 'BBB' Long-Term Rating Placed On CreditWatch Positive On Potential Acquisition By BPCE, Feb. 21, 2019
- Large French Banks' Profitability Is Unlikely To Strengthen Significantly In 2019, Feb. 4, 2019
- 2018 EU Bank Stress Test: Harsher Macro Assumptions And IFRS 9 Will Raise The Bar For Some Banks, Oct. 31, 2018
- France-Based BPCE Upgraded To 'A+/A-1' On Strengthened Balance Sheet; Outlook Stable, Oct. 19, 2018

- Risk-Adjusted Capital (RAC) Ratios For The Top 50 Western European Banks, Oct. 17, 2018
- Applying The Risk-Adjusted Capital Framework Methodology, Sept. 13, 2018
- Credit FAQ: What Could Potential Ownership Changes Mean For The Creditworthiness Of CNP Assurances, La Poste, La Banque Postale, And CDC?, Aug. 6, 2018
- Banking Industry Country Risk Assessment: France, July 11, 2018
- Bulletin: Credit Foncier's Announced Reorganization Plan Has No Rating Impact, June 27, 2018
- S&P Global Ratings' National And Regional Scale Mapping Specifications, June 25, 2018

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 August 30, 2019)*

BPCE	
Issuer Credit Rating	A+/Stable/A-1
Resolution Counterparty Rating	AA-/--/A-1+
Commercial Paper	A-1
Junior Subordinated	BBB-
Senior Subordinated	A-
Senior Unsecured	A+
Short-Term Debt	A-1
Subordinated	BBB+
Issuer Credit Ratings History	
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+

Ratings Detail (As Of August 30, 2019)*(cont.)	
Related Entities	
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+/Stable/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+/Stable/--
Issuer Credit Rating	
Local Currency	A+/Stable/--
Credit Foncier de France	
Issuer Credit Rating	A/Stable/A-1
Resolution Counterparty Rating	A+/--/A-1
Senior Unsecured	A
Short-Term Debt	A-1
Natixis Australia Pty Ltd.	
Issuer Credit Rating	A+/Stable/A-1
Natixis Financial Products LLC	
Issuer Credit Rating	A+/Stable/A-1
Natixis (New York Branch)	
Issuer Credit Rating	A+/Stable/A-1
Resolution Counterparty Rating	AA-/--/A-1+
Commercial Paper	
Local Currency	A-1
Natixis S.A.	
Issuer Credit Rating	A+/Stable/A-1
Resolution Counterparty Rating	AA-/--/A-1+
Commercial Paper	
Local Currency	A-1
Junior Subordinated	BBB-
Senior Unsecured	A+
Subordinated	BBB+

Ratings Detail (As Of August 30, 2019)*(cont.)	
Parnasse Garanties	
Issuer Credit Rating	A+/Stable/--
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.

Additional Contact:
Financial Institutions Ratings Europe; FIG_Europe@spglobal.com