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Ratings

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BPCE

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Table Of Contents

Major Rating Factors

Outlook

Rationale

Related Criteria

Related Research

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 contributes 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.

Outlook: Stable

S&P Global Ratings has a stable outlook on BPCE and all its core and highly strategic subsidiaries. This 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 we thought they could increase managerial risks. We could also 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 our risk-weight assets (RWAs); 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 strengthening its bail-in-able debt buffer and ALAC. We believe that the group will strengthen its balance sheet, supported by stable earnings, a low pay-out ratio along with its cooperative structure, recurring sales of cooperative shares, and annual growth in S&P Global Ratings' RWA of about 3% over 2018-2020. We forecast that our measure of ALAC will increase to 6.0%-6.5% in 2019-2020, above our 5.0% threshold for one notch of ALAC support on BPCE. Our expectations reflect our belief that BPCE will raise its total loss-absorbing capacity (TLAC), based on planned issuance of €4 billion-€5 billion a year in senior nonpreferred notes until 2020. We view BPCE's risk management capabilities as adequate compared with peers', and the group's risk policy as conservative. In our view, BPCE has successfully reduced its risk profile and wound down much of its legacy assets. That said, the group has only moderate growth potential in the mature French domestic banking market, and we think low interest rates have a dampening effect on its revenues in domestic retail. In addition, its profitability and efficiency are not on par with those of market leaders in other countries, and we see its 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 is projected to decline only slowly; and decreased external competitiveness in the corporate sector. We expect GDP to grow by 1.6% in 2018 as the economy enters a more mature phase of the cycle.

Domestic credit is growing faster than in other European countries, but not outpacing others enough to indicate a significant credit bubble, in our view. On the housing market, low interest rates have fueled loan production (included renegotiations in 2017), but the market is now likely to regulate itself back closer to long-term averages (around 2% nominal price increase in 2019, after 2.7% in 2018). We anticipate that credit losses will remain very low in 2018-2019, increasing from the recent record low level--estimated at 18 basis points (bps)--in 2017. We project stable economic risk.

Our '3' industry risk score reflects our view that banks are currently operating in a less favorable environment, with low interest rates compounded by regulated-rate savings constraining prospective revenues. Nevertheless, French banks' strong and diverse business model, low credit risk, and the concentrated mature market in which they operate should help them 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, particularly because of the still-dense branch networks in France. Household credit has grown at a sustained pace, and most loans are granted at fixed rates. In our analysis, we consider the implications, particularly for banks' balance sheet structure. The system's relatively heavy reliance on wholesale funding is partly attributable to households' propensity to save in nonbank saving and regulated deposits. The system also benefits from the depth of the domestic financial market. We project stable industry risk.

Table 1

BPCE Group Key Figures

		--Year-ended Dec. 31--			
(Mil. €)	**2018***	**2017**	**2016**	**2015**	**2014**
Adjusted assets	1,103,357.0	1,086,059.0	1,066,613.0	1,017,312.0	1,078,267.0
Customer loans (gross)	645,921.0	629,870.0	603,126.0	579,103.0	565,898.0
Adjusted common equity	56,487.0	55,359.0	50,453.0	52,337.4	48,299.0
Operating revenues	12,357.0	24,018.0	23,697.0	24,128.0	23,635.0
Noninterest expenses	8,841.0	17,099.0	16,673.0	16,248.0	16,330.0
Core earnings	1,991.1	3,710.2	3,663.4	3,643.0	3,317.8

*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 7,800 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 Société Générale, Crédit Agricole, or Nordea. BPCE is not a global player in corporate and investment banking (CIB), but has strong expertise in certain types of business, 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 to the group's strategy.

We consider the group's earnings generation to be solid and predictable, but reflective of limited cost-efficiency. Notably, we see BPCE's profitability as structurally constrained because its business model entails significant concentration on lower-margin domestic mortgage activity. We expect annual revenues to increase on average by close to 3% in the next couple of years, held down by the current low interest rates, as more than half of BPCE's revenues come from its French retail activities. Since 2017, sizable early repayments and renegotiation of fixed-rate loans have increasingly weighed on the already-low profitability prospects of the group's real estate specialist, Crédit Foncier de France (CFF). This is mitigated by the dynamic growth in BPCE's loans and deposits volumes in French retail, and by the sizable and recurring contribution to net profit generated by other businesses, like CIB and asset management, which are incorporated under Natixis.

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 all specialized financial services), 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 oriented toward digital transformation and strengthening customers' experience. Under this plan, BPCE aims to achieve growth in all business segments while further 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 to remain the cornerstone of the group's business position.
- BPCE to consolidate its bank-insurance position along with strong development of its insurance activities.
- International development to be selective and targeted.
- Cost management to continue, particularly in light of the dampening effect of low interest rates on revenues.

Table 2

BPCE Group Business Position

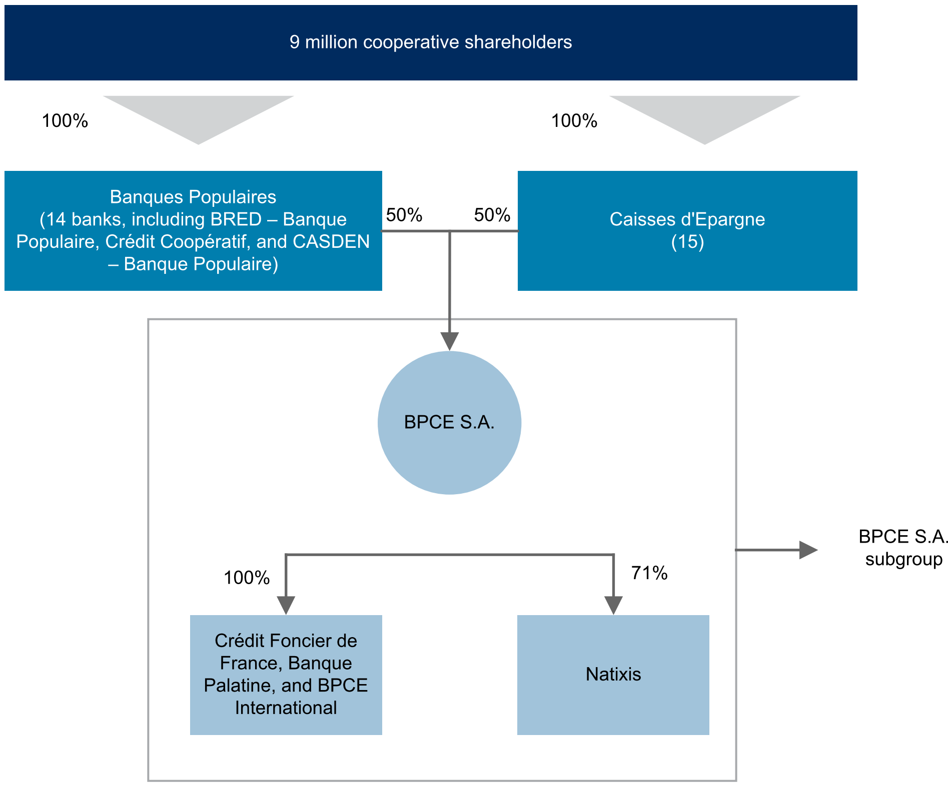
		--Year-ended Dec. 31--			
(%)	**2018***	**2017**	**2016**	**2015**	**2014**
Total revenues from business line (currency in millions)	12,386	24,180	24,773	24,329	23,884
Commercial banking/total revenues from business line	21.3	20.5	18.9	18.0	16.9
Retail banking/total revenues from business line	62.4	63.2	60.4	63.2	63.0
Asset management/total revenues from business line	12.9	12.9	13.6	14.4	11.8
Other revenues/total revenues from business line	3.4	3.4	7.2	4.4	8.3
Return on average common equity	5.1	4.8	6.7	5.8	5.5

*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).

Chart 1

BPCE Group Organization Chart As Of End-September 2018



BPCE gradually simplified the complex structure it inherited as a result of the merger, and 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 June 2018, BPCE announced its plan to execute a reorganization that will integrate CFF's expertise and employees into the group's other companies. Since 2017, sizable early repayments and renegotiation of fixed-rate loans have weighed increasingly on the subsidiary's already-low profitability prospects. The plan is to transfer new loan generation to the Caisses d'Epargne and Banques Populaires networks (financing for individuals; corporate financing for social housing), and to Natixis (financing for project and infrastructure), while specialized real-estate subsidiaries Socfim and Crédit Foncier Immobilier would become subsidiaries of BPCE S.A., the group's parent bank. As a result, CFF would concentrate on refinancing the group via its covered bond issuer, Compagnie de Financement Foncier (CFiF), and on managing the existing loan portfolio. BPCE said that the project remains subject to an information and consultation process involving the works councils. We anticipate that this initiative could address historical profitability concerns that we had identified at CFF, and so help to improve BPCE's profitability overall.

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

BPCE has a typical structure for a cooperative group. It was fully owned by 29 regional banks as at end-September 2018 (14 Banques Populaires--including Bred, CASDEN, and Crédit Coopératif--and 15 Caisses d'Epargne), in turn owned by 9 million member-customers (who hold the cooperative shares issued by these regional entities and elect their board of directors). Although BPCE S.A. does not have a specific role in managing 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, of €450 million each, and has organized a Mutual Guarantee Fund which totaled €362 million at end-June 2018. 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, embodies the wholesale banking, asset and wealth management, and SFS business lines. BPCE's stake in Natixis was 71% as at Sept. 30, 2018, with the remaining shares listed on the Paris Stock Exchange. CFF, too, is affiliated with the cooperative group.

BPCE's Business Lines

Retail banking and insurance. This line generated 71% of revenues, excluding the corporate center, in the first nine months of 2018. Operating through 7,800 branches, BPCE is the No. 2 domestic banking network in France and is well dispersed throughout the country. At mid-2018, its domestic market share stood at 21.1% in credits, and at 21.5% in deposits and savings. As a cooperative group, BPCE's retail banking in France is carried out by regional banks (Banques Populaires and Caisses d'Epargne et de Prévoyance are the group's two main brands). The Caisses d'Epargne et de Prévoyances' roots lie in serving individuals, while the Banques Populaires serve more largely local entrepreneurs and small and midsize enterprises (SMEs). The group has engaged in a reorganization of the activities currently operated by CFF. While the group's other network, Banque Palatine, enhances BPCE's domestic presence, we consider that the group's international retail presence is limited, as BPCE International operates mostly in French territories overseas and has announced its intention to divest its banking subsidiaries in Africa. The SFS segment is primarily directed toward serving BPCE's retail banking activities, and we anticipate that Natixis will continue to reinforce its role in supporting the franchise of the retail banks. Recently, the group announced a plan to sell to BPCE S.A. the retail banking activities currently hosted by Natixis (that is, part of SFS), which include: factoring, lease financing, consumer credit, sureties and financial guarantees, and securities services. Although BPCE does not have full ownership of Natixis, the project would mostly constitute an intragroup transfer to gain industrial benefits and increased synergies.

Since 2014, BPCE's group insurance companies have been part of the Natixis subgroup; most are owned by Natixis

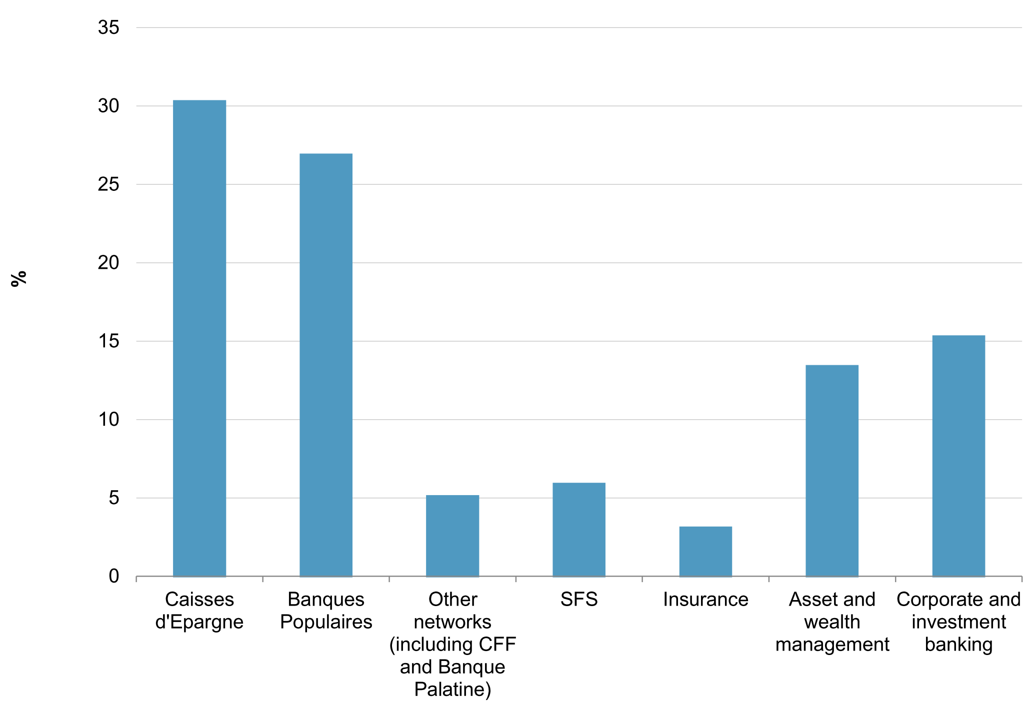
Assurances. BPCE also owns a 16.1% stake in CNP Assurances, through which it historically distributed life insurance. This minority interest is consolidated under the equity method, and it was posted to the corporate center in 2017. After the distribution agreement expired on Dec. 31, 2015, BPCE and CNP Assurances signed a new partnership lasting seven years, which calls on Natixis Assurances to design and manage all savings and pension funds to be newly distributed by the Caisse d'Epargne network. This agreement will enable BPCE to gradually consolidate its position in bancassurance.

Asset and wealth management division (formerly "investment solution," but excluding insurance). This line generated 14% of revenues, excluding the corporate center, in the first nine months of 2018. BPCE's asset and wealth management businesses totaled €895 billion in assets under management (AUM) at the end of September 2018. For the record, at end-2017, Natixis Investment Managers was the 15th largest asset manager globally, by AUM. Asset management is expanding internationally, particularly in the U.S. We believe growth in asset gathering activities, possibly through bolt-on external acquisitions, to be a mainstay of the group's strategy.

Corporate and investment banking. This line generated 15% of revenues, excluding the corporate center, in the first nine months of 2018. We consider Natixis to be a second-tier wholesale banking player that comprises financing and capital market activities, which each contributed roughly 7.5% of BPCE's consolidated revenues in the first nine months of 2018. Natixis benefits from a longstanding and solid domestic franchise in lending to midsize and large corporations, and in structured and commodity financing.

Chart 2

BPCE Group Revenues 2017



Source: BPCE. CFF is the group's real estate specialist.

Capital and earnings:Solid capitalization, supported by earnings retention and sale 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 improve to 10.5%-11.0% in 2019-2020. Quality of capital is also a supportive factor, as total adjusted capital (TAC) included hardly any contribution from hybrid capital instruments at year-end 2017, and deferred tax assets--which we view as a lower quality element within our measure of TAC--accounted for less than 4% of its total.

At end-2017, we estimated the group's RAC ratio at 10.1%, well above the 9.3% achieved at end-2016. Much of the improvement stemmed from strong retained earnings of about €2.8 billion; the generation of €1.6 billion of capital through the sale of cooperative shares; and from a low 1% growth in risk exposures, as measured under our RWA.

Our forecast that the RAC ratio will be 10.5%-11.0% in 2019-2020 reflects our view that BPCE will adhere to its conservative financial policy and improve its capital ratios on the back of stable profitability. We expect issuance of cooperative shares to remain dynamic (following €10 billion in new shares issued to member-customers over 2012-2017), still modest dividend pay-outs (reflecting the cooperative status), and annual RWA growth of about 3%, higher than the increase achieved in 2017. Our forecast does not include any issuance of additional Tier 1 (AT1) instruments as we understand that the group's strategy is to strengthen its common equity ratio through retained earnings, while most issuance of loss-absorbing debt is expected to be in the form of senior nonpreferred debt.

As part of the planned sale by Natixis to BPCE S.A. of the retail banking activities currently hosted under the SFS division, we expect BPCE's TAC to fall by €0.5 billion. This cut would come as a result of the €1.5 billion special dividend that Natixis intends to consecutively distribute to its shareholders, 29% of which would be paid out of the group to Natixis' minority shareholders. In addition, we expect that the group's reorganization projects will incur costs, which could weigh on the profit before tax, beyond the €0.4 billion incurred in the nine months of 2018. We factor in a €1.6 billion negative impact on TAC from the first-time application of International Financial Reporting Standard 9 on Jan. 1, 2018.

Natixis is also to accelerate its development and could invest up to €2.5 billion, primarily in the asset and wealth management division, compared with previous planned investment of up to €1.0 billion. Our forecasts reflect our view that this could put additional weight on BPCE's capital position by 2020, although we expect the impact to remain limited.

At Sept. 30, 2018, BPCE had a total capital ratio of 19.2%, and a common equity Tier 1 ratio of 15.4% (fully loaded).

Over the first nine months of 2018, the group achieved €3.0 billion in net profit (including minority interests), of which a €0.3 billion negative contribution stemmed from restructuring costs. This was a similar performance to the €3.0 billion achieved in the same period of 2017, which included €0.1 billion from nonrecurring charges.

Under our base-case scenario, the group's underlying profit in 2018 will be in line with that achieved in the first nine months of the year, hence comparable with the sound profitability demonstrated in 2017. This is a solid level, in our view. Equally importantly, we view the group's earnings as extremely predictable due to its low-risk business model. We expect that the low interest rates, and intensive renegotiation by customers of French mortgage loans in the past three years, will continue to weigh on the net interest margin, but be largely offset by an increase in lending volumes. Meanwhile, the strategic focus on cross-selling, and on the insurance and savings businesses, should gradually benefit other operations. We expect incremental growth in the group's earning capacity from 2019 onward, and that BPCE's cost of risk will remain low at 20bps on average for 2018 and 2019.

Table 3

BPCE Group Capital And Earnings

		--Year-ended Dec. 31--			
(%)	2018*	2017	2016	2015	2014
Tier 1 capital ratio	15.4	15.4	14.5	13.3	12.7
S&P Global Ratings' RAC ratio before diversification	N/A	10.1	9.3	8.4	7.9
S&P Global Ratings' RAC ratio after diversification	N/A	11.1	10.2	10.4	9.7
Adjusted common equity/total adjusted capital	99.9	99.9	99.3	99.2	97.0
Net interest income/operating revenues	35.7	42.6	46.0	45.8	48.8
Fee income/operating revenues	37.4	39.3	37.1	38.0	34.4
Market-sensitive income/operating revenues	12.0	15.6	12.0	12.0	9.9
Noninterest expenses/operating revenues	71.5	71.2	70.4	67.3	69.1
Preprovision operating income/average assets	0.6	0.6	0.6	0.7	0.6
Core earnings/average managed assets	0.3	0.3	0.3	0.3	0.3

*Data as of June 30. RAC--Risk-adjusted capital. N/A--Not applicable.

Table 4

BPCE Group 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 and central banks	308,648	18,924	6	10,380	3
Of which regional governments and local authorities	61,471	12,606	21	2,968	5
Institutions and CCPs	58,901	8,664	15	11,143	19
Corporate	247,958	149,188	60	206,314	83
Retail	391,273	79,631	20	147,166	38
Of which mortgage	312,008	51,017	16	88,867	28
Securitization§	15,398	5,560	36	8,063	52
Other assets†	22,785	22,299	98	41,583	182
Total credit risk	1,044,964	284,264	27	424,648	41
Credit valuation adjustment					
Total credit valuation adjustment	--	1,848	--	6,342	--
Market risk					
Equity in the banking book	7,840	50,994	650	58,982	752
Trading book market risk	--	10,704	--	15,884	--
Total market risk	--	61,698	--	74,866	--
Operational risk					

Table 4

BPCE Group Risk-Adjusted Capital Framework Data (cont.)					
Total operational risk	--	38,055	--	44,852	--
(Mil. €)		**Basel III RWA**		**S&P Global Ratings RWA**	**% of S&P Global Ratings RWA**
Diversification adjustments					
RWA before diversification		385,866		550,709	100
Total diversification/concentration adjustments		--		(49,194)	(9)
RWA after diversification		385,866		501,515	91
(Mil. €)		**Tier 1 capital**	**Tier 1 ratio (%)**	**Total adjusted capital**	**S&P Global Ratings RAC ratio (%)**
Capital ratio					
Capital ratio before adjustments		59,490	15.4	55,435	10.1
Capital ratio after adjustments‡		59,490	15.4	55,435	11.1

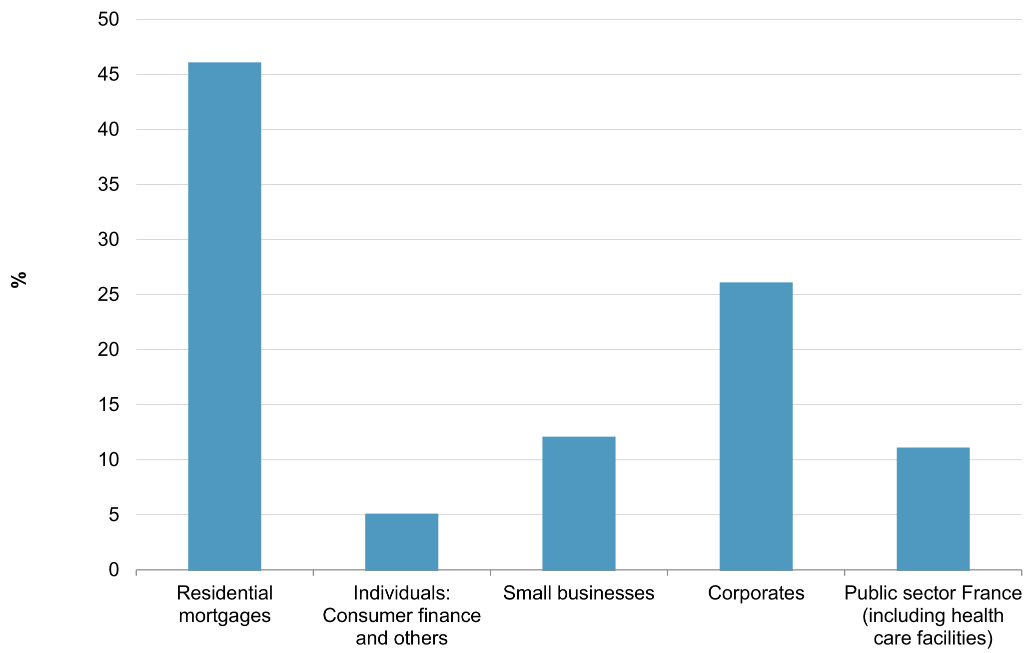
*Exposure at default. §Securitization exposure includes the securitization tranches deducted from capital in the regulatory framework. †Other assets includes Deferred Tax Assets (DTAs) not deducted from ACE. ‡Adjustments to Tier 1 ratio are additional regulatory requirements (e.g., transitional floor or Pillar 2 add-ons). RWA--Risk-weighted assets. RW--Risk weight. RAC--Risk-adjusted capital. Sources: Company data as of Dec. 31, 2017; 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 the bank's 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. We estimate that lower-risk mortgage loans made up about 46% of total loans at end September 2018 (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

BPCE Customer Loan Book To End-September 2018 (%)



Source: BPCE.

BPCE's exposures are mostly concentrated in France. In the first nine months of 2018, the cost of risk stood at a low 17bps, below the 20bps level achieved in 2017. 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 volatility in Natixis' cost of risk. Our measure of the group's gross nonperforming loans has shown a steady decrease over the past five years. At mid-2018, it was a moderate 3.5% of total customer loans, down from 4.3% on Dec. 31, 2013. The coverage rate by reserves is satisfactory and very stable, reflecting the group's aggregate risk position and the collateralized nature most of its risks.

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

Most of BPCE's market and operational risks lie with Natixis and the group's largest regional bank BRED – Banque Populaire. The consistency of measurement has improved across the group, in our view. BPCE's average value-at-risk (VAR; 99%, one-day) stood at €7.7 million in 2017, similar to 2016. Global stress testing complements the VAR.

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

BPCE Group Risk Position					
		--Year-ended Dec. 31--			
(%)	**2018***	**2017**	**2016**	**2015**	**2014**
Growth in customer loans	5.1	4.4	4.1	2.3	3.1
Total diversification adjustment/S&P Global Ratings' RWA before diversification	N/A	(8.9)	(8.8)	(19.4)	(18.5)
Total managed assets/adjusted common equity (x)	22.8	22.8	24.5	22.3	25.3
New loan loss provisions/average customer loans	0.2	0.2	0.2	0.3	0.3
Gross nonperforming assets/customer loans + other real estate owned	3.5	3.7	3.9	4.0	4.1
Loan loss reserves/gross nonperforming assets	56.8	51.2	52.2	53.1	53.3

*Data as of June 30. N/A--Not applicable.

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 the past years, BPCE 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', in our view. We expect that BPCE will 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 at mid-2018, down from 175% at end-2010. Despite this material improvement, BPCE still compared unfavorably with large domestic peers. Its major funding imbalances arise from wholesale-funded subsidiaries Natixis and CFF. We believe that the group's ability to repackage mortgage loans into covered bonds, raise funds throughout its large retail banking networks, and its loyal deposit base are strong qualitative mitigating factors, though. 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 funding pools: BPCE and CFF. The latter funds itself autonomously through CFiF, which is the largest private covered bond issuer in Europe. Thanks to CFiF and BPCE SFH--the group's second-largest covered bonds issuer--the bank secures the financing of its longer-term assets in a competitive way, which is positive for the consolidated creditworthiness, in our view. 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-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 2017 medium- and long-term funding plan stood at €22 billion. At end-October 2018, BPCE had completed 117% of this annual plan.

At mid-2018, we estimated our stable funding ratio at 93.3% and our broad liquid assets to short-term wholesale funding ratio at 0.96x, slightly improving from the levels achieved in 2016 and 2017. We consider that the comparatively large amount of retail deposits BPCE collects from regulated saving plans (mostly Livret A), and centralizes at the Caisse des Dépôts et Consignations, contributes to our funding and liquidity indicators being weaker than peers' (we adjust our metrics because we do not see these deposits as available for refinancing of assets).

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

Table 6

BPCE Group Funding And Liquidity

		--Year-ended Dec. 31--			
(%)	**2018***	**2017**	**2016**	**2015**	**2014**
Core deposits/funding base	47.4	48.2	46.7	47.9	41.9
Customer loans (net)/customer deposits	141.5	139.2	142.3	140.3	148.8
Long-term funding ratio	72.0	72.9	72.3	74.3	67.1
Stable funding ratio	93.3	91.9	91.1	93.0	87.6
Short-term wholesale funding/funding base	30.0	29.0	29.6	27.4	34.9
Broad liquid assets/short-term wholesale funding (x)	1.0	0.9	0.9	1.0	0.9
Short-term wholesale funding/total wholesale funding	56.9	56.0	55.4	52.6	59.9
Narrow liquid assets/three-month wholesale funding (x)	2.0	1.9	1.8	1.9	1.7

*Data as of June 30.

Support: One notch of support and 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 to 6.0%-6.5%, above the 5.0% threshold for one notch of ALAC uplift. We understand that BPCE plans to further increase its bail-in-able buffer, chiefly by issuing sizable amounts of senior nonpreferred debt. We expect this trend to be also supported by the increase in TAC as the RAC ratio will improve (which will accentuate the excess above the 10% limit for our current strong assessment of capital and earnings), and by contained annual growth in our RWA, of about 3%.

At year-end 2017, with our capital and earnings assessment still at adequate at that time, our ALAC ratio for BPCE was 6.96% of our RWA measure, compared with 5.69% at year-end 2016. The improvement essentially reflected the issuance of senior nonpreferred debt and 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 (see "France-Based BPCE Upgraded To 'A+/A-1' On Strengthened Balance Sheet; Outlook Stable" published on Oct. 19, 2018) had a 300bps negative impact on the ALAC ratio, as excess TAC was reduced; therefore, the pro forma ALAC ratio at year-end 2017 was 3.96%. We expect the group to increase its ALAC buffer to about 5.0% at end-2018, stemming largely from the issuance of close to €7.3 billion of new senior nonpreferred debt--this volume has already been executed over the first nine months of 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 no longer 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 Compagnies 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 notching reference because such insurance does not benefit end-customers--instead it support the client-banks that originated the loans and carry them on their books. Consequently, we factor in 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, given that we view it as being highly strategic to BPCE and that CFF is also affiliated with the cooperative group.

Additional rating factors: None

There are no additional rating factors.

Resolution counterparty ratings (RCR)

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 Banque Populaire. These RCR are currently at 'AA-/A-1+' level, except for CFF at '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-' rating on the bank's senior nonpreferred debt 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. Indeed, we believe that 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-' 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 their regulatory tiering (no notch on the Tier 2 instruments as they are nondeferrable); and
- One further notch because we anticipate they would absorb losses through principal in 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: 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
- Criteria - Financial Institutions - Banks: Bank Hybrid Capital And Nondeferrable Subordinated Debt Methodology And Assumptions, Jan. 29, 2015
- General Criteria: Principles For Rating Debt Issues Based On Imputed Promises, Dec. 19, 2014
- General Criteria: Group Rating Methodology, Nov. 19, 2013
- 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

- 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
- Top 100 Banks: Banks Are On Track To Withstand A Credit Cycle Turn, Oct. 1, 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
- Resolution Counterparty Ratings Jurisdiction Assessment For France Completed, June 11, 2018
- The Resolution Story For Europe's Banks: The Clock Is Ticking, April 25, 2018
- Proposed Backstop For The Eurozone Bank Resolution Fund Is Potentially Ratings-Positive, April 24, 2018
- The Adoption Of IFRS 9 And Bank Ratings, Feb. 19, 2018
- On This Year's Menu For French Banks: Digitalization And Efficiency Gains, Feb. 13, 2018
- Creditor Insurance Policies: The End Of Easy Money For French Bancassurers, Jan. 22, 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 December 10, 2018)

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 December 10, 2018) (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 December 10, 2018) (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.