MOODY'S INVESTORS SERVICE

Credit Opinion: BPCE

Global Credit Research - 22 Apr 2016

Paris, France

Ratings

Category	Moody's Rating
Outlook	Stable
Bank Deposits	A2/P-1
Baseline Credit Assessment	ba2
Adjusted Baseline Credit Assessment	baa2
Counterparty Risk Assessment	A1(cr)/P-1(cr)
Senior Unsecured	A2
Subordinate	Baa3
Pref. Stock Non-cumulative	Ba2 (hyb)
Commercial Paper	P-1
Other Short Term	(P)P-1
Natixis US Medium-Term Note Program LLC	
Outlook	Stable
Bkd Senior Unsecured	A2
Natixis Securities Americas LLC	
Outlook	Stable
Bkd Issuer Rating	A2
Bkd ST Issuer Rating	P-1
Natixis Loan Funding	
Outlook	Stable
Senior Unsecured -Dom Curr	A2
Other Short Term -Dom Curr	(P)P-1

Contacts

Analyst	Phone
Laurent Le Mouel/Paris	33.1.53.30.10.20
Guillaume Lucien-Baugas/Paris	
Nicholas Hill/Paris	
Pierre-Alexandre Germont/London	44.20.7772.5454

Key Indicators

Groupe BPCE (Consolidated Financials) [1]

	[2]**12-15**	[2]**12-14**	[3]**12-13**	[3]**12-12**	[3]**12-11**	**Avg.**
Total Assets (EUR million)	**1,107,044.0**	**1,154,968.0**	**1,068,855.0**	**1,073,433.0**	**1,138,395.0**	[4]**-0.7**
Total Assets (USD million)	**1,202,576.7**	**1,397,572.6**	**1,472,820.1**	**1,415,205.0**	**1,477,801.7**	[4]**-5.0**
Tangible Common Equity (EUR million)	**48,881.7**	**45,132.8**	**39,964.4**	**40,116.5**	**34,932.0**	[4]**8.8**
Tangible Common Equity (USD million)	**53,100.0**	**54,613.1**	**55,068.6**	**52,889.3**	**45,346.8**	[4]**4.0**
Problem Loans / Gross Loans (%)	**3.8**	**3.9**	**4.1**	**3.9**	**3.6**	[5]**3.9**
Tangible Common Equity / Risk Weighted Assets (%)	**12.5**	**11.5**	**10.8**	**10.5**	**9.0**	[6]**12.0**
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	**37.7**	**39.9**	**44.7**	**42.4**	**43.9**	[5]**41.7**

Net Interest Margin (%)	**1.0**	**1.1**	**1.1**	**1.0**	**1.2**	[5]**1.1**
PPI / Average RWA (%)	**1.9**	**1.9**	**1.8**	**1.7**	**1.8**	[6]**1.9**
Net Income / Tangible Assets (%)	**0.3**	**0.3**	**0.3**	**0.3**	**0.3**	[5]**0.3**
Cost / Income Ratio (%)	**68.8**	**68.9**	**70.1**	**70.9**	**69.1**	[5]**69.5**
Market Funds / Tangible Banking Assets (%)	**40.1**	**46.1**	**44.2**	**48.2**	**53.6**	[5]**46.4**
Liquid Banking Assets / Tangible Banking Assets (%)	**28.2**	**29.9**	**28.2**	**29.5**	**24.4**	[5]**28.1**
Gross loans / Due to customers (%)	**120.5**	**125.2**	**125.3**	**130.7**	**140.7**	[5]**128.5**

Source: Moody's

[1] All figures and ratios are adjusted using Moody's standard adjustments [2] Basel III - fully-loaded or transitional phase-in; IFRS [3] Basel II; IFRS [4] Compound Annual Growth Rate based on IFRS reporting periods [5] IFRS reporting periods have been used for average calculation [6] Basel III - fully-loaded or transitional phase-in & IFRS reporting periods have been used for average calculation

Opinion

SUMMARY RATING RATIONALE

This credit opinion refers to both:

- Groupe BPCE (or "the group"), which is comprised of (1) the cooperative networks of Banques Populaires (BP) and Caisses d'Epargne (CE), and (2) BPCE S.A. and its operating subsidiaries, notably Natixis (A2 stable; ba2) and Crédit Foncier de France (CFF, A2 stable; ; b1);

- and BPCE (or "the bank"), being the sub-group of Groupe BPCE consolidating the entity BPCE S.A. and its operating subsidiaries.

On 23 June 2015, we affirmed BPCE's (the bank) adjusted baseline credit assessment (BCA) of baa2 and assigned the bank a counterparty risk (CR) assessment of A1(cr)/Prime-1(cr). We also affirmed the bank's subordinated debt rating at Baa3, and its non-cumulative preferred stock rating at Ba2(hyb) and removed the outlook. All other ratings of the bank remained unchanged.

BPCE's BCA of ba2 reflects the combined intrinsic strength of the main subsidiaries of the group, which are in turn exposed to risks stemming from a moderate growth in France and the rest of Europe. BPCE's adjusted BCA of baa2 incorporates three notches of affiliate-backed support from Groupe BPCE based on the strong solidarity mechanisms prevailing within the group and enshrined in French banking law. The baa2 adjusted BCA reflects the group's strong domestic franchise, diversified range of activities and relatively stable flow of retail and commercial banking earnings. It also incorporates (1) our expectation of moderate economic growth in France and Europe; (2) the group's significant reliance on wholesale funding; (3) its increasing profitability; (4) weak efficiency; and (5) the more volatile nature of some of the group's wholesale banking operations.

The A2 long-term deposit and senior unsecured debt ratings are underpinned by (1) the bank's adjusted BCA of baa2, (2) the two-notch uplift under our Advanced Loss Given Failure (LGF) analysis, resulting from the group's large outstandings of deposits and senior long-term debt; and (3) our view that there is a moderate probability of government support for these instruments, reflected in a one - notch additional uplift.

Rating Drivers

1. The group's profitability is moderate but increasing;

2. Its relatively high reliance on wholesale funding constrains the group's rating;

3. Despite improved performance in 2015, a moderate economic growth in France could imply asset quality deterioration;

4. The group's capitalisation is adequate and on an improving trend;

5. The large volume of deposits, senior and junior debt at Groupe BPCE results in deposit and senior unsecured debt ratings benefiting from a very low loss-given-failure;

6. The probability of government support is moderate.

Rating Outlook

The outlook on BPCE's long-term deposit and senior unsecured ratings is stable, reflecting our view that the currently foreseen risks to creditors, particularly those resulting from a moderate growth in France and unattended consequences of low commodity prices, are already incorporated in our assessment.

What Could Change the Rating - Up

The bank's adjusted BCA could be upgraded if the group further improves its capitalization and funding structure. A positive change in the bank's adjusted BCA would likely affect all ratings.

The bank's deposit and senior unsecured ratings could also be upgraded if Groupe BPCE's liability structure results in a lower loss-given-failure for deposits than currently assessed, through an increase in subordination.

What Could Change the Rating - Down

BPCE's adjusted BCA could be downgraded if Groupe BPCE's credit fundamentals were to weaken through (1) a reduction in solvency resulting for example from a deterioration in asset quality, or (2) a worsening in funding and liquidity. A downgrade in BPCE's adjusted BCA would likely affect all ratings.

The bank's deposit and senior unsecured ratings could also be downgraded if Groupe BPCE's liability structure results in a higher loss-given-failure for these debt classes through a decrease in their own volume.

DETAILED RATING CONSIDERATIONS

GROUPE BPCE'S PROFITABILITY IS MODERATE BUT INCREASING

Groupe BPCE operates in France mainly through its networks of regional banks ("Banques Populaires" and "Caisses d'Epargne") together holding a market share of approximately 21% for deposits and 22% for loans. The group also comprises major subsidiaries including Natixis, its wholesale banking arm and CFF, a specialised real-estate finance firm, funded mainly through covered bonds. We view the earnings base for the consolidated Groupe BPCE as well diversified on a sectorial viewpoint but dependent on the French macroeconomic environment. Groupe BPCE's profitability has increased markedly in 2015 with a net profit of EUR 3.2 billion (+11.6% from 2014), mainly driven by increased net revenues in asset management and insurance activities (+24.5% from 2014).

The group's earnings generation capacity could be challenged in 2016 as a result of moderate economic prospects in France and protracted low interest rates, bringing pressure on the bank's net interest margins. The bank has the potential to offset some of these pressures by developing cross-selling opportunities among the group entities (especially between bank and insurance sectors), or through further cost rationalization and international growth in selected activities and geographies, as set out in its strategic plan 2014-17. The group's cost-to-income ratio was relatively high at 67.7% in 2015 (down from 68.4% in 2014), compared to a targeted 65% over the cycle of the strategic plan.

The baa3 score assigned to the group's profitability factors in the stability and diversity of its earnings, which is not fully reflected in the moderate net income to tangible assets ratio of 0.3%. An upward adjustment is also made for BPCE but of one notch only to reflect the bank's narrower earnings base.

GROUPE BPCE'S LIQUIDITY AND FUNDING POSITION IS IMPROVING, BUT STILL RELIES ON WHOLESALE FUNDING

Like most French banks, Groupe BPCE has a relatively high, albeit reducing, gross customer loan-to-deposit ratio of approximately 119% at year-end 2015. As a result, the group is reliant on the confidence-sensitive interbank and capital markets, which represents its main credit rating constraint.

The group has reduced its overall funding requirements since 2011 through deleveraging and transitioning its wholesale activities to an "originate-to-distribute" model. Furthermore, wholesale market conditions for the group improved over the same period: funding costs dropped as a result of lower credit spreads and the group further diversified its funding sources (44% of 2015 unsecured issues in the institutional market are denominated in foreign currencies, principally in USD JPY).

A large share of Groupe BPCE's wholesale funding is short-term (EUR 117 billion at end-December 2015, including EUR 24 billion of medium- to long-term debt maturing over the following 12 months). Although this amount is 138% covered by the group's liquidity buffer of EUR 161 billion, a material portion of this buffer is comprised of loans and retained securitisations eligible as collateral by the ECB but which do not necessarily benefit from a liquid private secondary market. For those assets, thus, the central bank is likely to be the only source of liquidity in a stress scenario. This constrains the group's liquidity despite the fact that it reported a Liquidity Coverage Ratio (LCR) above 110% as at December 2015.

The group baa3 combined liquidity score reflects those elements.

DESPITE IMPROVED PERFORMANCE IN 2015, A MODERATE ECONOMIC GROWTH IN FRANCE COULD IMPLY ASSET QUALITY DETERIORATION

The group's asset quality remains robust, reflecting principally the low-risk profile of its domestic retail banking activities. In 2015, the group's aggregate cost of risk stood at 29 basis points (bps) of gross loans, decreasing from 31 bps in 2014.

Most of the bank's non-strategic assets have been disposed of, with the exception of its 40% stake in Coface and a residual stake in Banca Carige.

The group's overall asset quality masks material differences across loan portfolios. Whilst the cost of risk on housing loans remains very low, reflecting traditionally conservative lending practices at French banks, the asset quality within Natixis' main activities has been volatile in recent years, with a cost of risk reaching 53 bps in 2013 and decreasing to 36 bps in 2015. However, due to uncertainties over the growth prospect in certain emerging countries and large borrower concentrations in wholesale banking, the average cost of risk could pick up again in 2016. For example, Natixis has a EUR 12.1 billion exposure to corporates in the oil and gas sector, which we expect to lead to additional loan loss provisions in 2016. Finally, the group's exposures are mainly concentrated in France, making Groupe BPCE's overall asset quality profile highly correlated to this economy, where economic prospects are moderate.

The group's risk management framework is still evolving. A new risk, compliance and permanent control department was set up in December 2015, which is a milestone in the implementation of a fully integrated group-wide risk management architecture.

The expected trend in asset quality is reflected in the baa1 score assigned to the group's asset risk, one notch below the a3 score resulting from the bank's low ratio of non-performing loans. For the bank, the score is adjusted two notches downward, from baa1 to baa3, to reflect, in addition to the previous factor, the lower level of asset and risk diversification within BPCE compared to that within the whole group.

CAPITALISATION IS ADEQUATE AND ON AN IMPROVING TREND

Groupe BPCE is adequately capitalized with respect to its risk profile, with a Common Equity Tier 1 (CET1) ratio of 12.9%, a Tier 1 ratio of 13.3% and a total capital ratio of 16.7% (Basel III fully applied) at the end of December 2015, at the higher end of large French banks' capital ratios. Groupe BPCE is targeting a total capital ratio of 18% in 2019, to comply with TLAC requirements. The group has also disclosed a Basel III leverage ratio (Basel III fully applied) of 5% at end-December 2015 (up 50 basis points versus end-December 2014), which is broadly in line with some of the group's domestic peers. These elements are reflected in the group's capital score of a3.

The ratio for the bank is lower, with a Basel III phased-in Tier 1 ratio of 9.8% at year-end 2015. This is reflected in a relatively low capital score of caa1, due to the fact that a large amount of the group's goodwill and deferred tax assets (which are deducted from our measure of tangible common equity) are booked in the bank. However, the full operational and strategic integration of BPCE within Groupe BPCE and the strong solidarity mechanisms prevailing within the group mitigate the low capitalisation of the bank on a standalone basis.

Notching Considerations

AFFILIATE SUPPORT

We assign an adjusted BCA of baa2 to BPCE, incorporating three notches of uplift from its BCA of ba2 reflecting affiliate-backed support provided by Groupe BPCE. As the central institution of Groupe BPCE and the holding company for the group's operating subsidiaries outside the cooperative networks, BPCE is fully integrated in the group both operationally and strategically. BPCE also falls in the legal scope of the strong solidarity mechanisms prevailing within Groupe BPCE.

LOSS GIVEN FAILURE AND ADDITIONAL NOTCHING

Groupe BPCE and its operating entities in France are subject to the EU Bank Resolution and Recovery Directive (BRRD), which we consider to be an Operational Resolution Regime. We assume that resolution if any, would occur at the level of Groupe BPCE in the event that the group reaches the point of non-viability. If financial difficulties occur at the level of the bank, this would be addressed by the group through the solidarity mechanism. Our LGF analysis is therefore based on Groupe BPCE's consolidated liability structure. We also assume residual tangible common equity of 3% and losses post-failure of 8% of tangible banking assets, a 25% run-off in "junior" wholesale deposits (representing 26% of total deposits), a 5% run-off in preferred deposits, and assign a 25% probability to deposits being preferred to senior unsecured debt. These are in line with our standard assumptions.

Deposits and senior unsecured debt have a very low loss-given-failure in our LGF analysis. This reflects the loss absorption provided by the combination of the substantial volume of these debt classes (junior deposits and senior debt make up about 8.5% and 9%, respectively, of the group's tangible banking assets in failure), and the subordination of about 4.8% of tangible banking assets (and 14% for deposits in the event they are being preferred to senior debt). This results in a two-notch uplift from the Adjusted BCA.

For subordinated and junior securities, our LGF analysis indicates a high loss-given-failure, given the small volume of debt and limited protection from more subordinated instruments and residual equity. We also incorporate additional notching for junior subordinated and preference share instruments reflecting coupon suspension risk ahead of failure. As a result, subordinated and junior securities are rated respectively one notch and three notches below the group's adjusted BCA at Baa3 and Ba2.

GOVERNMENT SUPPORT

Groupe BPCE is considered as a global systemically important bank by the Financial Stability Board. We thus expect a moderate probability of government support for both deposits and senior unsecured debt, resulting in a one-notch uplift for both classes of debt issued by Groupe BPCE's issuing entities.

CR ASSESSMENT

CR Assessments are opinions of how counterparty obligations are likely to be treated if a bank fails and are distinct from debt and deposit ratings in that they (1) consider only the risk of default rather than both the likelihood of default and the expected financial loss suffered in the event of default and (2) apply to counterparty obligations and contractual commitments rather than debt or deposit instruments. The CR assessment is an opinion of the counterparty risk related to a bank's covered bonds, contractual performance obligations (servicing), derivatives (e.g., swaps), letters of credit, guarantees and liquidity facilities.

BPCE's CR Assessment is positioned at A1(cr) / Prime-1(cr), three notches above its adjusted BCA of baa2, based on the cushion against default provided to the senior obligations represented by the CR assessment by subordinated instruments amounting to 23% of tangible banking assets at failure. The CR Assessment also benefits from one notch of public support, consistent with our view that any support provided by governmental authorities to a bank which benefits senior unsecured debt or deposits is very likely to benefit operating activities and obligations reflected by the CR Assessment as well, in order to reduce contagion and preserve a bank's critical functions.

ABOUT MOODY'S BANK SCORECARD

Our Scorecard is designed to capture, express and explain in summary form our Rating Committee's judgment. When read in conjunction with our research, a fulsome presentation of our judgment is expressed. As a result, the output of our Scorecard may materially differ from that suggested by raw data alone (though it has been calibrated to avoid the frequent need for strong divergence). The Scorecard output and the individual scores are discussed in rating committees and may be adjusted up or down to reflect conditions specific to each rated entity.

Rating Factors

Groupe BPCE

Macro Factors	
Weighted Macro Profile	Strong +

Financial Profile						
Factor	**Historic Ratio**	**Macro Adjusted Score**	**Credit Trend**	**Assigned Score**	**Key driver #1**	**Key driver #2**
Solvency						
Asset Risk						
Problem Loans / Gross Loans	3.9%	a3	↓	baa1	Expected trend	
Capital						
TCE / RWA	12.5%	a3	←→	a3		
Profitability						
Net Income / Tangible Assets	0.3%	ba2	↑	baa3	Earnings quality	Loan loss charge coverage
Combined Solvency Score		baa1		baa1		
Liquidity						
Funding Structure						
Market Funds / Tangible Banking Assets	40.1%	b1	↑	ba2	Market funding quality	Term structure
Liquid Resources						
Liquid Banking Assets / Tangible Banking Assets	28.2%	a3	←→	a3	Quality of liquid assets	
Combined Liquidity Score		ba1		baa3		

Financial Profile	**baa2**

Qualitative Adjustments	**Adjustment**
Business Diversification	0
Opacity and Complexity	0
Corporate Behavior	0
Total Qualitative Adjustments	**0**

Sovereign or Affiliate constraint	Aa2
Scorecard Calculated BCA range	**baa1 - baa3**
Assigned BCA	**Private**
Affiliate Support notching	**--**
Adjusted BCA	**Private**

Instrument Class	Loss Given Failure	Additional notching	Preliminary Rating	Government Support	Local Currency	Foreign Currency

	notching		Assessment	notching	rating	rating

Rating Factors

BPCE

Macro Factors						
Weighted Macro Profile	**Strong +**	**100%**				
Financial Profile						
Factor	**Historic Ratio**	**Macro Adjusted Score**	**Credit Trend**	**Assigned Score**	**Key driver #1**	**Key driver #2**
Solvency						
Asset Risk						
Problem Loans / Gross Loans	4.8%	baa1	←→	baa3	Quality of assets	Market risk
Capital						
TCE / RWA	5.7%	caa1	←→	caa1	Risk-weighted capitalisation	
Profitability						
Net Income / Tangible Assets	0.2%	b1	←→	ba3	Earnings quality	
Combined Solvency Score		ba3		ba3		
Liquidity						
Funding Structure						
Market Funds / Tangible Banking Assets	74.3%	caa3	←→	ba2	Market funding quality	Term structure
Liquid Resources						
Liquid Banking Assets / Tangible Banking Assets	45.1%	aa3	←→	baa3	Quality of liquid assets	
Combined Liquidity Score		ba3		ba1		

Financial Profile	**ba2**

Qualitative Adjustments	**Adjustment**
Business Diversification	0
Opacity and Complexity	0
Corporate Behavior	0
Total Qualitative Adjustments	**0**

Sovereign or Affiliate constraint:	Aa2
Scorecard Calculated BCA range	**ba1-ba3**
Assigned BCA	**ba2**
Affiliate Support notching	3
Adjusted BCA	**baa2**

Instrument class	Assigned LGF Notching	Additional Notching	Preliminary Rating Assessment	Government Support	Local Currency Rating	Foreign Currency Rating
Counterparty Risk	3	0	a2 (cr)	1	A1 (cr)	--

Assessment						
Deposits	2	0	a3	1	A2	A2
Senior unsecured bank debt	2	0	a3	1	A2	A2
Dated subordinated bank debt	-1	0	baa3	0	Baa3	Baa3
Non-cumulative bank preference shares	-1	-2	ba2 (hyb)	0	Ba2 (hyb)	Ba2 (hyb)

- Where dashes are shown for a particular factor (or sub-factor), the score is based on non-public information.

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