

Jun 24, 2015

R&I Assigns A, Stable: BPCE S.A.

Rating and Investment Information, Inc. (R&I) has announced the following:

ISSUER: BPCE S.A.
Issuer Rating: A, Assigned
Rating Outlook: Stable

RATIONALE:

BPCE S.A. was created in 2009 as the central institution (term defined by French banking law) of Groupe BPCE, a major cooperative group in France. The creditworthiness of BPCE S.A. directly reflects the Group's creditworthiness, considering the Group internal guaranty and solidarity system, etc. Its domestic retail banking networks have historical strength in home loans for individual customers and small and mid-sized enterprise loans. Its franchise is thus robust. The Group is reducing non-strategic assets, and the loan-to-deposit ratio has been lowered, while there is room for improvement in risk resilience and liquidity compared to what the A rating suggests. In consideration of the above and other factors, R&I has assigned an Issuer Rating of A. The Rating Outlook is Stable.

Groupe BPCE was established following the merger of two retail banking networks, Banque Populaire (BP) and Caisse d'Epargne (CE). The Group is the second largest banking group in France, with a more than 20% share of customer deposits/savings and loans in the country. It has strength not only in the retail banking business but also in the corporate and investment banking (CIB) business, the asset management business and the insurance business, which are operated by BPCE S.A.'s subsidiary Natixis. Furthermore, BPCE S.A.'s direct and indirect wholly owned subsidiaries, BPCE SFH and Compagnie de Financement Foncier (CoFF), are major French players of the covered bond market.

Considering low interest rates resulting from quantitative-easing in Europe and slow growth in the French economy, profitability may remain under downward pressure for the foreseeable future. While working to boost revenue through the expansion of Natixis's asset management business and other efforts, the Group is focusing on cost management. In its strategic plan through 2017, it plans to reduce the cost-to-income ratio to 65% or below. R&I will keep eyes on whether the Group will be able to achieve stable profits.

Credit costs stay at low levels. The Group has already withdrawn from the retail banking business in Central and Eastern Europe. Even so, its exposure to corporate customers, which account for a large proportion of risk weighted assets, is more sensitive to the situation of the domestic economy and public works compared with individual home loans. Moreover, the Group has increased allowances for its exposure to Austria-based Heta Asset Resolution AG (all exposure to this entity was sold in June 2015) and Natixis's exposure to North American independent oil producers. R&I needs to keep careful eyes on changes in credit costs going forward.

The Group's Common Equity Tier 1 capital (CET1) ratio was 11.9% under transitional measures as of the end of December 2014. This is close to EU major banks' weighted average CET1 ratio reported by the European Banking Authority (EBA). The Group estimates the CET1 ratio (without transitional measures excluding deferred tax assets) of 12.0%. The ratio improved to 12.2% as of the end of March 2015. Further improvements can be expected through the accumulation of retained earnings and the issuance of cooperative shares. However, compared to what the rating suggests, there is room for improvement in risk resilience, since several issues including the reduction of non-strategic assets in the equity interests business and securitization activities still remain.

The customer loan-to-deposit ratio was 119% (excluding CoFF, an issuer of covered bonds) as of the end of March 2015. Although the ratio has been falling since 2010, the level is still relatively high. As the Group has worked to diversify primary issue markets and investors, its dependence on short-term funding has started to fall. Concern about short-term liquidity is not material.

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The primary rating methodologies applied to this rating are provided at "R&I's Basic Methodology for Corporate Credit Ratings", "Shared Rating Approach for Financial Institutions, etc.", "Depository Financial Institutions" and "R&I's Analytical Approach to Financial Groups". The methodologies are available at the web site listed below, together with other rating methodologies that are taken into consideration when assigning the rating.

<http://www.r-i.co.jp/eng/cfp/about/methodology/index.html>

R&I RATINGS:

ISSUER: BPCE S.A.
Issuer Rating

RATING: A, Assigned

RATING OUTLOOK: Stable