

## Research Update:

# BPCE Upgraded To 'A+' On Increased Senior Non-Preferred Issuance To Boost Loss-Absorbing Capacity; Outlook Stable

July 15, 2024

## Overview

- BPCE has been increasing its senior non-preferred notes issuance, independently from any regulatory requirement, driving its additional loss-absorbing capacity (ALAC) above 6% of S&P Global Ratings' risk-weighted assets (RWA) as of end-2023.
- At the same time, BPCE's credit quality continues to balance weaker profitability and cost efficiency than that of rated peers, against positive factors that strengthen its balance sheet, such as its No.2 retail position in France, earnings retention policies due to its mutual status, and modest risk profile.
- We therefore raised our long-term issuer credit rating on BPCE to 'A+' from 'A', affirmed our 'A-1' short-term issuer credit rating, and raised our long- and short-term resolution counterparty ratings to 'AA-/A-1+' from 'A+/A-1'.
- The stable outlook reflects our view that BPCE will maintain an ALAC ratio above 6% of our RWAs while gradually returning to its previous level of profitability without material deterioration of the operating environment for banks in France.

**PRIMARY CREDIT ANALYST****Nicolas Malaterre**

Paris

+ 33 14 420 7324

nicolas.malaterre

@spglobal.com

**SECONDARY CONTACT****Mathieu Plait**

Paris

+ 33 14 420 7364

mathieu.plait

@spglobal.com

**ADDITIONAL CONTACT****Nicolas Poirier**

Paris

nicolas.poirier

@spglobal.com

## Rating Action

On July 15, 2024, S&P Global Ratings raised its long-term issuer credit rating on BPCE and its core group members to 'A+' from 'A'. We affirmed the 'A-1' short-term issuer credit rating. We raised the long- and short-term issuer credit ratings on Credit Foncier de France to 'A/A-1' from 'A-/A-2'. The outlook is stable for all entities.

At the same time, we raised the long-term and short-term resolution counterparty ratings (RCRs) on BPCE and its core group members to 'AA-/A-1+' from 'A+/A-1' and the long-term RCR on Credit Foncier de France to 'A+' from 'A'. We affirmed the 'A-1' short-term resolution credit rating on Credit Foncier de France.

Finally, we affirmed the ratings on the hybrid instruments.

## Rationale

**BPCE has built an additional loss-absorbing capacity (ALAC) buffer above 6%, our threshold for a second notch of ALAC.** We now rate the bank two notches higher than our assessment of its stand-alone credit profile (SACP), on the back of its additional ALAC buffer. This reflects BPCE's accumulation of a larger cushion of ALAC instruments, which in a resolution scenario would be available to absorb losses and recapitalize the bank, thus reducing further the likelihood of authorities imposing losses on more senior obligations. The bank's ALAC is about 6.3% of RWAs as of year-end 2023 and we anticipate it will remain above 6.0% in 2025-2026. We believe this is also supported by its strategic 2023 plan of a subordinated minimum requirement for own funds and eligible liabilities (MREL) of 25.5%. BPCE has been increasing its senior non-preferred notes and tier 2 notes emissions, issuing €12.3 billion in 2023. We assume gross issuances will total €8.5 billion-€11.5 billion in the coming years. BPCE is subject to both a requirement of total loss-absorbing capacity (TLAC) and MREL. As of March 2024, the group estimated that both its TLAC ratio and subordinated MREL ratio stood at 26.1% of regulatory RWAs. This is above the regulatory requirement for 2024 of 22.4%.

**BPCE's through-the-cycle profitability remains modest, with more pronounced weaknesses in profitability and efficiency metrics than French and international peers.** BPCE's credit quality continues to balance weaker profitability and cost efficiency than those of rated peers, against stronger factors. It has the second-largest retail position in France and established franchises in corporate and investment banking and asset gathering, both hosted at Natixis. Its earnings-retention policies due to its mutual status and a modest risk profile also foster BPCE's credit quality.

**We continue to forecast BPCE will gradually return to its previous level of profitability over the next 18 months.** Both BPCE's net interest margin and return on average common equity declined in 2023, settling at 0.7% and 3.4% (from 0.9% and 4.9% in 2022). More volatile business and market conditions could delay its profitability improvements. This is because of possible negative effects with lower corporate and consumer confidence given policy uncertainties and potentially higher cost of wholesale funding, which is important for BPCE. Despite its large customer deposit base, a substantial portion of BPCE's deposits is centralized at Caisse des Depots et Consignations in line with the regulated savings framework and hence cannot be used to finance the group's activities. Our view is that the risk from high reliance on confidence-sensitive funding is mitigated by the group's funding policy (funding source diversification and a repayment profile), and its 2024 funding program is well advanced. The bank's cost of risk decreased slightly in 2023, setting at 20 basis points, and we expect it to modestly increase in the next 12-18 months, as the bank also benefits from forward-looking provisions to mitigate the higher cost of risk associated with stage 3 nonperforming exposures.

**BPCE's strong solvency, measured by its risk-adjusted capital (RAC), remains a strength for the group's credit profile.** The bank's RAC ratio increased to 10.7% in 2023 from 10.3% in 2022 on the back of higher total adjusted capital and a positive impact on our RWAs from our measure of the insurance capital position. This could, however, reduce and be volatile over time. Therefore, we assume the RWAs will grow higher than the customer loans growth. We also incorporate the integration of the equipment finance activities from Société Générale Equipment Finance w in 2025 (see "BPCE's Offer For SG's Equipment Finance Activities Signals Its Ambition To Also Expand Beyond France," published April 11, 2024). This deal will shrink BPCE's buffer, leaving it

with less capacity to absorb any additional pressure on asset quality, asset growth, earnings, and, more generally, one-off events that could ultimately erode its buffer. However, over time, earnings retention will support again capital build.

**Our view on the operating environment for French banks is unchanged, despite business and market volatility following indecisive parliamentary elections.** We still see solid reasons to expect French banks' profitability to improve over time and a stable operating environment in France. This is due to our forecast of macroeconomic support over the next two years, the benefits from banks' diversified business models, and our base-case assumption that asset quality should remain good. (see "French Banks Face Increased Volatility Amid Policy Uncertainty," published July 10, 2024).

Outlook

The stable outlook on BPCE reflects our expectation that the bank will maintain its ALAC ratio comfortably above our 6% of RWAs threshold in the next two years while gradually returning to its previous level of profitability. It also assumes no material deterioration of the operating environment for banks in France.

Downside scenario

We could downgrade BPCE if we saw pressure on our assessment of the group's SACP from a worsening of the operating environment for French Banks or because of BPCE underperforming versus peers. A downgrade could also be triggered by the ALAC buffer falling below our threshold for a second notch of ALAC.

Upside scenario

We see a higher rating for BCPE as unlikely.

Ratings Score Snapshot

	To	From
Issuer Credit Rating	A+/Stable/A-1	A/Stable/A-1
SACP	a-	a-
Anchor	bbb+	bbb+
Business position	Adequate (0)	Adequate (0)
Capital and earnings	Strong (+1)	Strong (+1)
Risk position	Adequate (0)	Adequate (0)
Funding and liquidity	Adequate and adequate (0)	Adequate and adequate (0)
Comparable ratings analysis	0	0
Support	2	1
ALAC support	2	1
GRE support	0	0

	To	From
Issuer Credit Rating	A+/Stable/A-1	A/Stable/A-1
Group support	0	0
Sovereign support	0	0
Additional factors	0	0

SACP--Stand-alone credit profile.

## Related Criteria

- Criteria | Financial Institutions | General: Risk-Adjusted Capital Framework Methodology, April 30, 2024
- General Criteria: Hybrid Capital: Methodology And Assumptions, March 2, 2022
- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Dec. 9, 2021
- Criteria | Financial Institutions | General: Financial Institutions Rating Methodology, Dec. 9, 2021
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Group Rating Methodology, July 1, 2019
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- General Criteria: Guarantee Criteria, Oct. 21, 2016
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

## Ratings List

### Upgraded

	To	From
<b>BPCE</b>		
<b>Natixis S.A.</b>		
<b>Natixis (New York Branch)</b>		
<b>BRED - Banque Populaire</b>		
Resolution Counterparty Rating	AA/--/A-1+	A+/--/A-1
<b>Compagnie Europeenne de Garanties et Cautions</b>		
Issuer Credit Rating		
Local Currency	A+/Stable/--	A/Stable/--
Financial Strength Rating		
Local Currency	A+/Stable/--	A/Stable/--

**Credit Foncier de France**

Issuer Credit Rating	A/Stable/A-1	A-/Stable/A-2
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**Parnasse Garanties**

Issuer Credit Rating	A+/Stable/--	A/Stable/--
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**BPCE**

Senior Unsecured	A+	A
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**Natixis S.A.**

Senior Unsecured	A+	A
Senior Unsecured	A+p	Ap

**Natixis Structured Issuance S.A.**

Senior Unsecured	A+	A
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**Natixis Structured Products Ltd.**

Senior Unsecured	A+	A
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**Natixis US Medium-Term Note Program LLC**

Senior Unsecured	A+	A
Senior Unsecured	A+p	Ap

**Upgraded; Ratings Affirmed**

	<b>To</b>	<b>From</b>
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**BPCE**
**Natixis S.A.**
**Natixis Financial Products LLC**
**Natixis Australia Pty Ltd.**
**Natixis (New York Branch)**
**BRED - Banque Populaire**

Issuer Credit Rating	A+/Stable/A-1	A/Stable/A-1
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**Credit Foncier de France**

Resolution Counterparty Rating	A+/-/-A-1	A/-/-A-1
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**Ratings Affirmed**
**BPCE**

Senior Subordinated	BBB+
Subordinated	BBB
Commercial Paper	A-1

**BRED - Banque Populaire**

Commercial Paper	A-1
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**Natixis (New York Branch)**

Commercial Paper	A-1
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**Natixis S.A.**

Subordinated	BBB
Junior Subordinated	BB+

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at [www.spglobal.com/ratings](http://www.spglobal.com/ratings) for further information. A description of each of S&P Global Ratings' rating categories is contained in "S&P Global Ratings Definitions" at <https://disclosure.spglobal.com/ratings/en/regulatory/article/-/view/sourceId/504352>. Complete ratings information is available to RatingsDirect subscribers at [www.capitaliq.com](http://www.capitaliq.com). All ratings affected by this rating action can be found on S&P Global Ratings' public website at [www.spglobal.com/ratings](http://www.spglobal.com/ratings). Alternatively, call S&P Global Ratings' Global Client Support line (44) 20-7176-7176.

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