

## FITCH AFFIRMS GROUPE BPCE AT 'A'; STABLE OUTLOOK

Fitch Ratings-Paris/London-23 June 2015: Fitch Ratings has affirmed Groupe BPCE's (GBPCE), BPCE S.A.'s and the group subsidiaries' Long-term Issuer Default Ratings (IDRs) at 'A' and Short-term IDRs at 'F1'. The Outlook on the Long-term IDRs is Stable. A full list of rating actions is at the end of this rating actions commentary.

### KEY RATING DRIVERS

#### IDRS, VR AND SENIOR DEBT RATING

GBPCE's IDRs, Viability Rating (VR) and senior debt rating reflect its sound business profile, largely oriented towards modest risk retail banking businesses, conservative risk appetite, and sound capitalisation and asset quality. They also reflect higher dependence on wholesale funding and somewhat weaker profitability than some of its peers.

GBPCE's business model has been stable and its strong retail franchise has been able to generate recurring and satisfactory profitability, albeit weaker than some similarly rated peers. The group's modest-risk/modest-return retail business in France partly explains the lower earnings. It is generating relatively stable earnings through the cycle. GBPCE maintains sizeable market shares in French retail banking through its two leading banking franchises, Banque Populaire (BP) and Caisse d'Epargne et de Prevoyance (CEP). GBPCE's strong asset management franchise also leads to a good recurring earnings base, and has been one of the group's main growth engines as the business saw sound net new money inflows.

The cooperative nature of the group, with only a small part of Natixis' (its corporate and investment banking arm) capital being free floating, means that the group does not suffer from excessive market return pressure and can consequently maintain a modest risk appetite.

The group's asset quality is in line with that of its French peers. Its prudent underwriting criteria and focus on French retail banking has kept the group's impaired loan ratio one of the lowest among large French banks. The coverage ratio is moderate, but should be viewed in light of the sizeable collateral held by GBPCE in many transactions. Nonetheless, GBPCE remains dependent on collateral realisation since its unreserved impaired loans amounted to around 20% of its Fitch core capital at end-2014.

GBPCE's capitalisation is sound and internal capital generation remains solid. Fitch expects the group's earnings generation to remain robust, which combined with modest dividend payout ratios, should support the group in further building capital.

GBPCE's funding profile benefits from its dominant domestic deposit franchises, and the group has been able to continuously increase deposit volumes to replace short-term wholesale funding. Nonetheless, Fitch considers the group remains somewhat more dependent on wholesale funding than most of the other large French banks, reflecting the largely wholesale nature of funding at two of its main subsidiaries, Credit Foncier de France (a bank specialised in mortgage lending) and Natixis, both rated 'A'/Stable. GBPCE's liquidity remains satisfactory, although some international peers have a higher buffer of high quality liquid assets and cash.

GBPCE is a cooperative banking group. Its banking networks (BPs and CEPs) and central body (BPCE S.A.) are bound by a cross-support mechanism according to the French Financial and Monetary Code. Accordingly, Fitch has the same IDRs for GBPCE and BPCE S.A. The IDRs also apply to the BPs and CEPs.

## SUPPORT RATING AND SUPPORT RATING FLOOR

Similar to peers, GBPCE's Support Rating and Support Rating Floor reflect Fitch's view that senior creditors can no longer rely on receiving full extraordinary support from the French sovereign in the event that the group becomes non-viable. In Fitch's view, the EU's Bank Recovery and Resolution Directive (BRRD) and the Single Resolution Mechanism (SRM) are sufficiently progressed to provide a framework for resolving banks that is likely to require senior creditors participating in losses, if necessary, instead of or ahead of a bank receiving sovereign support.

In the EU, BRRD has been effective in member states since 1 January 2015, including minimum loss absorption requirements before resolution financing or alternative financing (eg, government stabilisation funds) can be used. Full application of BRRD, including the bail-in tool, is required from 1 January 2016.

## SUBORDINATED DEBT AND OTHER HYBRID SECURITIES

Subordinated debt and other hybrid capital issued by BPCE S.A. and Natixis are notched down from GBPCE's VR in accordance with Fitch's assessment of each instrument's respective non-performance and relative loss severity risk profiles, which vary considerably.

Subordinated (lower Tier 2) debt is rated one notch below GBPCE's VR to reflect the below-average loss severity of this type of debt.

The innovative and non-innovative Tier 1 securities and preferred stock are rated four notches below GBPCE's VR to reflect the higher than average loss severity risk of these securities (two notches from the VR) as well as high risk of non-performance (an additional two notches).

## SUBSIDIARIES AND AFFILIATED COMPANIES

BPCE S.A. is legally committed to maintain adequate liquidity and solvency for the entities affiliated to it. The affiliation with BPCE S.A. includes over 100 entities, including the group's primary subsidiaries (Natixis, Credit Foncier de France, Banque Palatine and BPCE International et Outre-Mer). The Long- and Short-term IDRs of Natixis, Credit Foncier de France and Banque Palatine are therefore equalised with those of GBPCE.

Natixis, Credit Foncier de France and Banque Palatine are part of the group's cross-support mechanism according to the French Financial and Monetary Code. In line with our 'Banking Structures Backed by Mutual Support Mechanisms' criteria, we do not assign a VR or a Support Rating to the subsidiaries.

Natixis has some debt guaranteed by Caisse des Depots et Consignations (AA/Stable/F1+), a special agency controlled by the French state. The Long- and Short-term ratings of these securities are aligned with those of Caisse des Depots et Consignations.

## RATING SENSITIVITIES

### IDRS, VR AND SENIOR DEBT RATING

Negative pressure on GBPCE's VR could come from significant erosion in asset quality or if the bank fails to maintain capital and leverage ratios in line with similarly rated peers.

An upgrade would be contingent on a material improvement in recurring profitability - likely arising from broader cross-selling among the group - together with strong liquidity management and continued improvement in capital ratios to bring them in line with higher rated peers'.

## SUPPORT RATING AND SUPPORT RATING FLOOR

Any upgrade to GBPCE's Support Rating and upward revision to its Support Rating Floor would be contingent on a positive change in the sovereign's propensity to support its banks. While not impossible, this is highly unlikely in Fitch's view.

## SUBORDINATED DEBT AND OTHER HYBRID SECURITIES

The ratings of subordinated and hybrid debt are primarily sensitive to a change in GBPCE's VR.

## SUBSIDIARIES AND AFFILIATED COMPANIES

The affiliated subsidiaries' IDR's will continue to move in tandem with those of GBPCE unless there is a change in the affiliation status, which Fitch views as extremely unlikely.

The Long- and Short-term ratings of Natixis' guaranteed debt are sensitive to any rating action on the guarantor, Caisse des Depots et Consignations.

The rating actions are as follows:

### Groupe BPCE

Long-term IDR: affirmed at 'A'; Stable Outlook

Short-term IDR: affirmed at 'F1'

Viability Rating: affirmed at 'a'

Support Rating: affirmed at '5'

Support Rating Floor: affirmed at 'NF'

### BPCE S.A.

Long-term IDR: affirmed at 'A'; Stable Outlook

Short-term IDR: affirmed at 'F1'

Senior unsecured debt: affirmed at 'A'

BMTN programme: affirmed at 'A'

EMTN programme: Long-term affirmed at 'A' and Short-term affirmed at 'F1'

Short-term debt: affirmed at 'F1'

Innovative Tier 1: affirmed at 'BBB-'

Non-innovative tier 1: affirmed at 'BBB-'

Lower Tier 2: affirmed at 'A-'

Commercial paper: affirmed at 'F1'

### Natixis

Long-term IDR: affirmed at 'A'; Stable Outlook

Short-term IDR: affirmed at 'F1'

Senior unsecured debt: affirmed at 'A'

Market linked notes: affirmed at 'A(emr)'

Lower Tier 2: affirmed at 'A-'

Hybrid capital instruments: affirmed at 'BBB-'

BMTN programme: affirmed at 'A'

EMTN programme: Long-term affirmed at 'A' and Short-term affirmed at 'F1'

Debt issuance programme guaranteed by Caisse des Depots et Consignations (CDC): Long-term affirmed at 'AA' and Short-term affirmed at 'F1+'

Debt issuance programme guaranteed by BPCE S.A.: Long-term affirmed at 'A' and Short-term affirmed at 'F1'

Senior unsecured debt guaranteed by Caisse des Depots et Consignations (CDC): affirmed at 'AA'

Certificate of deposit: affirmed at 'F1'

Commercial paper: affirmed at 'F1'

### NBP Capital Trust I

Preferred stock: affirmed at 'BBB-'

### Credit Foncier de France

Long-term IDR: affirmed at 'A'; Stable Outlook

Short-term IDR: affirmed at 'F1'

BMTN programme: affirmed at 'A'  
EMTN programme: long-term affirmed at 'A' and short-term affirmed at 'F1'  
Senior unsecured debt: affirmed at 'A'  
Certificate of deposits: affirmed at 'F1'

Banque Palatine

Long-term IDR: affirmed at 'A'; Stable Outlook

Short-term IDR: affirmed at 'F1'

BMTN programme: affirmed at 'A'

Certificate of Deposits: affirmed at 'F1'

The following entities' Long-term IDRs have been affirmed at 'A'/Stable Outlook and their Short-term IDRs have been affirmed at 'F1':

Banque Populaire Atlantique

Banque Populaire Bourgogne, Franche-Comte

Banque Populaire Aquitaine Centre Atlantique

Banque Populaire Cote d'Azur

Banque Populaire d'Alsace- Lorraine-Champagne

Banque Populaire de l'Ouest

Banque Populaire des Alpes

Banque Populaire du Massif-Central

Banque Populaire du Nord

Banque Populaire du Sud

Banque Populaire Loire et Lyonnais

Banque Populaire Occitane

Banque Populaire Provencale et Corse

Banque Populaire Rives de Paris

Banque Populaire Val-de-France

BRED - Banque Populaire

CASDEN - Banque Populaire

Groupe Credit Cooperatif

Credit Maritime Mutuel

Caisse d'Epargne et de Prevoyance d'Alsace

Caisse d'Epargne Aquitaine Poitou Charentes

Caisse d'Epargne et de Prevoyance d'Auvergne et du Limousin

Caisse d'Epargne et de Prevoyance de Bourgogne Franche-Comte

Caisse d'Epargne et de Prevoyance Bretagne-Pays de Loire

Caisse d'Epargne et de Prevoyance Cote d'Azur

Caisse d'Epargne et de Prevoyance Ile-de-France

Caisse d'Epargne et de Prevoyance du Languedoc Roussillon

Caisse d'Epargne et de Prevoyance Loire-Centre

Caisse d'Epargne et de Prevoyance Loire Drome Ardeche

Caisse d'Epargne et de Prevoyance de Lorraine-Champagne-Ardenne

Caisse d'Epargne et de Prevoyance de Midi Pyrenees

Caisse d'Epargne et de Prevoyance Nord France Europe

Caisse d'Epargne et de Prevoyance Normandie

Caisse d'Epargne et de Prevoyance de Picardie

Caisse d'Epargne et de Prevoyance Provence Alpes Corse

Caisse d'Epargne et de Prevoyance de Rhone Alpes

Credit Cooperatif:

Long-term IDR: affirmed at 'A'; Stable Outlook

Short-term IDR: affirmed at 'F1'

BMTN Programme: affirmed at 'A'

Commercial paper: affirmed at 'F1'

Contact:

Primary Analyst

Francois-Xavier Marchand

Director

+33 1 44 29 91 46

Fitch France S.A.S

60 rue de Monceau,

75008 Paris

Secondary Analyst

Olivia Perney Guillot

Senior Director

+33 1 44 29 91 74

Committee Chairperson

Jens Hallen

Senior Director

+44 20 3530 1326

Media Relations: Françoise Alos, Paris, Tel: +33 1 44 29 91 22, Email: francoise.alos@fitchratings.com; Elaine Bailey, London, Tel: +44 203 530 1153, Email: elaine.bailey@fitchratings.com.

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Applicable Criteria

Global Bank Rating Criteria (pub. 20 Mar 2015)

[https://www.fitchratings.com/creditdesk/reports/report\\_frame.cfm?rpt\\_id=863501](https://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=863501)

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