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**Fitch Affirms Groupe BPCE at 'A'; Stable Outlook** Ratings Endorsement Policy

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Fitch Ratings-Paris/London-03 July 2014: 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 comment.

**KEY RATING DRIVERS - IDRS, VR AND SENIOR DEBT RATING**

GBPCE's IDRs, Viability Rating (VR) and senior debt rating are underpinned by its sound business profile, largely oriented towards modest risk banking businesses, low risk appetite, solid asset quality, sound capitalisation and acceptable profitability. They also reflect higher dependence on wholesale funding than some French peers and lower high quality liquidity buffers than some international peers.

GBPCE's business model has been stable and its strong retail franchise has been able to generate recurring and satisfactory profitability. The group focuses on the low-risk - but low-return - retail business in France, generating modest earnings volatility 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). In addition, we view the group's structure as largely positive. Indeed, as a cooperative banking group with a small part of its capital being free floating (28% of Natixis' capital), the group does not suffer from excessive market return pressure and consequently has a modest risk appetite.

GBPCE's profitability is acceptable given its modest risk profile but its ratios are somewhat weaker than those of its French cooperative bank peers, since it was formed more recently and cross-selling and cost synergy opportunities have therefore been more limited. Consequently, we believe the group has more potential for growth in segments where it is below its natural market share, such as insurance or even some specialised financial services.

The group's asset quality compares positively with that of its French peers. Its prudent underwriting criteria and focus on French retail banking translate into one of the lowest impaired loan ratios within large French banks. While the coverage ratio may look moderate (53%, albeit broadly in line with almost all of its French peers), it should be viewed in light of the sizeable collateral held by GBPCE in many transactions. At 20% of the group's equity base at end-2013, the unreserved portion of impaired loans remains manageable.

Although Fitch notes the improvement in GBPCE's funding profile, highlighted by a decline in short-term wholesale funding and a growing deposit base, Fitch considers the group remains somewhat more dependent on wholesale funding than most of the other large French banks. Its loans/deposits ratio was 129% at end-2013, and further significant reduction may be constrained by the largely wholesale nature of funding at two of its main subsidiaries, Credit Foncier de France and Natixis (both rated 'A/Stable'). GBPCE's liquidity has improved significantly and is now satisfactory, although some international peers have a higher buffer of high quality liquid assets and cash.

GBPCE's sound capital ratios are a rating strength. Fitch does not expect adequate capital generation to slow down in the near future given the group's earnings generation, historically modest dividend payout ratios, and ability to issue cooperative shares. In addition, GBPCE's sound weighted capital ratios are penalised by a lower use of internal ratings-based approach (IRBA) for credit risk than most French banks. At end-2013, GBPCE had a sound 'fully-loaded' Basel III leverage ratio of just below 4% (based on Tier 1 capital).

GBPCE's VR is at same level as its Support Rating Floor (SRF), therefore GBPCE's IDRs (and senior debt ratings) are driven by its standalone financial strength. Consequently, GBPCE's IDRs would be unaffected by either a downgrade of France's IDRs or lower availability of support from the French state. GBPCE is not a single entity but 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.

**KEY RATING DRIVERS - SUPPORT RATINGS, SUPPORT RATING FLOORS**

GBPCE's Support Rating (SR) and SRF reflect its systemic importance domestically given its size, significant deposit market shares and the fact it is a core provider of credit and other key financial services to the French economy. The group maintains sizeable market shares in French retail banking, (from 15% to 25% depending on products), second only to Credit Agricole. GBPCE is considered a global systemically important bank according to the Financial Stability Board. BPCE S.A.'s SR and SRF reflect its integral role within GBPCE and Fitch's opinion that potential state support

to the group would flow through BPCE S.A..

#### RATING SENSITIVITIES - IDRS, VR AND SENIOR DEBT

A downgrade of the group's 'a' VR would likely result from an economic downturn in France that would be severe enough to materially impact the group's capital ratios. A downgrade of the VR would not have any impact on the LT IDR as long as GBPCE is assigned an 'A' SRF. Nevertheless, the SRF is expected to be revised to 'No Floor' as announced by Fitch on 26 March 2014 ("Fitch Affirms SRFs of 64 EMEA Banks; Downward Revisions Likely For Most Due To Weakening Support").

A material improvement in recurring profitability - likely arising from broader cross-selling among the group - that would eventually allow the bank to have its capital ratios more in line with higher rated peers, together with lower dependence on wholesale funding and larger high quality liquidity buffer, could lead to an upgrade of the ratings.

#### RATING SENSITIVITIES - SUPPORT RATINGS, SUPPORT RATING FLOORS

GBPCE's and BPCE S.A.'s SRs and SRFs would be sensitive to a decrease in Fitch's view of France's ability (as measured by its rating) or willingness to support GBPCE. These ratings are also sensitive to a change in Fitch's assumptions around the availability of sovereign support for French financial institutions. Fitch expects the probability of support, if needed, is likely to decline during the next one to two years, as further progress is made in enabling effective resolution frameworks. Therefore, Fitch expects to downgrade GBPCE's SR to '5' and revise down its SRF to 'No Floor'. The timing at this stage is likely to be some point in late 2014 or in 1H15.

#### KEY RATING DRIVERS AND SENSITIVITIES - SUBSIDIARIES

BPCE S.A. is legally committed to maintain adequate liquidity and solvency for the entities affiliated to it. The affiliation with BPCE S.A. concerns 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. The affiliated subsidiaries' IDRs will therefore continue to move in tandem with those of GBPCE unless there is a change in the affiliation status, which Fitch views as extremely unlikely.

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 as modified in 2013. Therefore, we feel it is more appropriate to apply our 'Banking Structures Backed by Mutual Support Mechanisms' criteria. According to this criteria, Fitch typically assigns the same Long-Term and Short-Term IDRs (as those assigned to the group) but no VR or SR. Therefore Fitch has withdrawn Natixis' VR and SR and Banque Palatine's and Credit Foncier de France's SR, which allows the application of this criteria in a more consistent manner.

#### KEY RATING DRIVERS AND SENSITIVITY - SUBORDINATED DEBT AND OTHER HYBRID SECURITIES

Subordinated debt and hybrid securities issued by BPCE S.A. and Natixis are notched off GBPCE's VR in accordance with Fitch's criteria 'Rating Bank Regulatory Capital and Similar Securities'. Subordinated lower Tier 2 debt is rated one notch below GBPCE's VR to reflect below average loss severity of this type of debt when compared with average recoveries. The hybrid Tier 1 securities are rated four notches below GBPCE's VR to reflect higher loss severity risk of these securities when compared with average recoveries (two notches from the VR) as well as a higher risk of non-performance (an additional two notches).

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 '1'  
 Support Rating Floor: affirmed at 'A'

BPCE S.A.

Long-term IDR: affirmed at 'A'; Stable Outlook  
 Short-term IDR: affirmed at 'F1'  
 Support Rating: affirmed at '1'  
 Support Rating Floor: affirmed at 'A'  
 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'  
 Support Rating: affirmed at '1' and withdrawn  
 Viability Rating: affirmed at 'a' and withdrawn  
 Senior unsecured debt: affirmed at 'A'  
 Market linked notes: affirmed at 'Aemr'  
 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'  
 Support Rating: affirmed at '1' and withdrawn  
 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'  
 Support Rating: affirmed at '1' and withdrawn  
 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  
 Banque Populaire de l'Ouest  
 Banque Populaire de Lorraine-Champagne  
 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'

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Applicable criteria, 'Global Financial Institutions Rating Criteria', dated 31 January 2014; 'Rating Criteria for Banking Structures Backed by Mutual Support Mechanisms' dated 18 December 2013 are available at [www.fitchratings.com](http://www.fitchratings.com).

**Applicable Criteria and Related Research:**

Global Financial Institutions Rating Criteria  
Rating Criteria for Banking Structures Backed by Mutual Support Mechanisms

**Additional Disclosure**

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