



Fitch Affirms Groupe BPCE at 'A'; Stable Outlook

Link to Fitch Ratings' Report: Groupe BPCE - Rating Action Report (<https://www.fitchratings.com/site/re/898785>)

Fitch Ratings-Paris-23 May 2017: Fitch Ratings has affirmed Groupe BPCE's (GBPCE) Long-Term Issuer Default Rating (IDR) at 'A', Short-Term IDR at 'F1' and Viability Rating (VR) at 'a'. The Outlook on the Long-Term IDR is Stable.

Fitch has assigned 'A(dcr)' Derivative Counterparty Ratings (DCRs) to BPCE S.A and Natixis, which are notable derivative counterparties within GBPCE, as part of its roll-out of DCRs to significant derivative counterparties in western Europe and the US.

The rating actions are part of a periodic portfolio review of the large French cooperative banking groups rated by Fitch. A full list of rating actions is available in the related Rating Action Report.

KEY RATING DRIVERS

IDRS, VR AND SENIOR DEBT

GBPCE's ratings reflect the group's strong and diversified company profile focused on low-risk retail and commercial banking, conservative risk appetite, strengthening capitalisation and satisfactory asset quality. They also reflect resilient profits in an unfavourable interest rate environment.

GBPCE is the second-largest French retail banking group, and its strong market shares have enabled the group to generate good recurring revenue streams. As with its domestic and European peers, GBPCE is suffering from the low-interest-rate environment and strong competitive pressure, in particular in housing lending in France, resulting in declining retail banking revenue. However, this is mitigated by the diversification of the group's activities, with the savings/asset management and the corporate and investment banking businesses being strong contributors to group profit. Although the gap is reducing, GBPCE's profitability remains slightly weaker than that of the other French cooperative banking groups, but we see scope for more cross-selling and cost reduction.

Fitch expects GBPCE's asset quality to remain satisfactory and the stock of impaired loans to stabilise. Lending quality is in line with other French cooperative banks, although slightly lower than the average for similarly rated international peers. Underwriting standards are prudent, and a large part of lending is low-risk housing loans. Reserve coverage is moderate and slightly weaker than at peers, leaving the group reliant on collateral valuation and realisation.

Capitalisation is sound and improving from solid internal capital generation and regular issuance of cooperative shares. The stability of the risk-weighted assets denominator and a modest dividend payout ratio should support further increases in the capital ratios. At end-March 2017, the fully loaded common equity Tier 1 (CET1) ratio estimated by the bank was 14.4%, and the Fitch core capital ratio was around a sound 14%-14.5% at end-2016. The group has built a material buffer of junior debt instruments, including non-preferred senior debt, to meet its total loss-absorbing capacity (TLAC) requirements, without reliance on preferred senior debt.

GBPCE benefits from the strong deposit franchise of its regional banks, and around half of total funding (excluding derivatives) consists of deposits. The loans/deposits ratio has been stable but remains higher than most French peers'. This is a result of its two largest subsidiaries (Natixis and Credit Foncier de France) remaining mostly wholesale-funded. Liquidity is well-managed, but with some dependence on central bank facilities to cover contingencies in 2016, although this was no longer the case at end-March 2017. The liquidity reserve, including retained securitisations and loans eligible to central banks, largely covers short-term wholesale funding and long-term funding maturing over the next 12 months.

DERIVATIVE COUNTERPARTY RATINGS

Fitch has assigned 'A(dcr)' DCRs to BPCE S.A. and Natixis, which are notable derivative counterparties within GBPCE. The DCRs are at the same level as BPCE S.A.'s and Natixis' Long-Term IDRs because derivative counterparties in France have no definitive preferential status over other preferred senior obligations in a resolution scenario.

SUPPORT RATING AND SUPPORT RATING FLOOR

GBPCE's Support Rating (SR) of '5' and Support Rating Floor (SRF) of 'No Floor' reflect Fitch's view that senior creditors can no longer rely on receiving full extraordinary support from the sovereign if the group becomes non-viable. The EU's Bank Recovery and Resolution Directive and the Single Resolution Mechanism for eurozone banks 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.

SUBORDINATED DEBT AND HYBRID SECURITIES

Subordinated debt and deeply subordinated debt issued by BPCE S.A. and Natixis are all 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.

The subordinated Tier 2 debt is rated one notch below GBPCE's VR to reflect below-average recoveries for this type of debt.

Legacy deeply subordinated Tier 1 securities 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 a higher risk of non-performance (an additional two notches).

AFFILIATED ENTITIES

GBPCE is a cooperative banking group bound by a legally established cross-support mechanism comprising its 15 Banques Populaires (BPs), 16 Caisses d'Epargne et de Prevoyance (CEPs), its central body BPCE S.A, Credit Maritime Mutuel and many affiliates, the largest being Natixis, Credit Foncier de France and Banque Palatine. As a result Fitch has the same IDRs for GBPCE, BPCE S.A, the BPs, the CEPs, Credit Maritime Mutuel and the three main affiliates. In line with our criteria, we do not assign a VR or a Support Rating to the regional banks nor to the affiliated entities as they are all part of the same mutual support mechanism.

Fitch has withdrawn the ratings of Caisse d'Epargne et de Prevoyance Nord France Europe following its merger with Caisse d'Epargne et de Prevoyance de Picardie, subsequently renamed Caisse d'Epargne et de Prevoyance Hauts de France on 1 May 2017. Fitch has also affirmed and withdrawn the ratings of Groupe Credit Cooperatif as we no longer consider these ratings relevant to our coverage. This does not affect our ratings of Credit Cooperatif, one of the 15 BPs.

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.

The rating of French commercial paper (CP) issued under Natixis Factor's, Natixis Lease's, Natixis Lease Immo's, Natixis Bail's and Cicobail S.A.'s French CP programmes guaranteed by Natixis are aligned with the 'F1' Short-Term IDR of Natixis. This reflects Fitch's view that Natixis is highly likely to honour its commitment as guarantor if required, as the guarantees are unconditional, irrevocable and timely. The subsidiaries are part of the leasing and factoring arm of Natixis.

RATING SENSITIVITIES

IDRS, VR AND SENIOR DEBT

The Outlook on GBPCE's Long-Term IDR is Stable. Negative pressure on its IDRs, VR and senior debt ratings 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 continued improvement in capital ratios, notably the adoption of higher capital ratio targets in the next strategic plan than the current CET1 target ratio of above 12%, reinforced group cohesion and cross-selling, as well as strong liquidity management and cost control.

GBPCE's preferred senior debt could be upgraded to one notch above the group's Long-Term IDR if the buffer of qualifying junior debt plus non-preferred senior debt became sufficient to protect preferred senior creditors from default in case of failure. GBPCE's qualifying junior debt buffer stood at around 6% of risk-weighted assets at end-2016. We would consider an upgrade of the preferred senior debt if the buffer of qualifying junior debt and non-preferred senior debt exceeded 8%-9%, provided that the buffer was sustainable.

DERIVATIVE COUNTERPARTY RATINGS

Under French law, derivative counterparties rank pari passu with preferred senior creditors, meaning that BPCE S.A.'s and Natixis's DCRs are sensitive to the same factors as the preferred senior debt rating of BPCE S.A. They are currently aligned with the banks' Long-Term IDRs and are primarily sensitive to changes to these, but also to a sufficient and sustainable increase in the buffer of qualifying junior debt and non-preferred senior debt available to protect derivative counterparties of those specific banks.

SUPPORT RATING AND SUPPORT RATING FLOOR

An upgrade of GBPCE's SR and upward revision of its SRF would be contingent on a positive change in the French sovereign's propensity to support its banks. While not impossible, this is highly unlikely in Fitch's view.

SUBORDINATED DEBT AND HYBRID SECURITIES

The ratings of subordinated and hybrid capital instruments are primarily sensitive to a change in GBPCE's VR. The ratings of the legacy deeply subordinated Tier 1 securities are also sensitive to Fitch changing its assessment of the probability of their non-performance relative to the risk captured in GBPCE's VR.

AFFILIATED ENTITIES

The affiliated entities' IDRs 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's guaranteed debt are sensitive to any rating action on the guarantor, Caisse des Depots et Consignations.

The ratings of the debt issued by Natixis Factor, Natixis Lease, Natixis Lease Immo, Natixis Bail and Cicobail and guaranteed by Natixis are primarily sensitive to a change in Natixis's IDRs.

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Additional information is available on www.fitchratings.com

Applicable Criteria

Global Bank Rating Criteria (pub. 25 Nov 2016) (<https://www.fitchratings.com/site/re/891051>)

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