FitchRatings

Fitch Revises Groupe BPCE's Outlook to Positive; Affirms IDR at 'A'

Link to Fitch Ratings' Report: Groupe BPCE - Rating Action Report (https://www.fitchratings.com/site/re/914036)

Fitch Ratings-Paris-18 December 2017: Fitch Ratings has revised Groupe BPCE's (GBPCE) Outlook to Positive from Stable. At the same time, Fitch has affirmed the bank's Long-Term Issuer Default Rating (IDR) at 'A', Short-Term IDR at 'F1' and Viability Rating (VR) at 'a'.

A full list of rating actions is available in the related Rating Action Report via the link above.

KEY RATING DRIVERS
IDRS, VR AND SENIOR DEBT
The Outlook revision of GBPCE reflects its improving capitalisation and higher new common equity Tier 1 (CET1) ratio target, strong execution of its 2014-2017 strategic plan and ability to generate recurring earnings despite an unfavourable interest rate environment.

The ratings reflect the group's strong and diversified company profile focussed on French retail and commercial banking, fairly low risk appetite, strengthening capitalisation and sound liquidity. The ratings also factor in a higher impaired loans/gross loans ratio than the average for similarly rated international peers.

GBPCE mainly operates in France, where it is the second-largest player in retail and commercial banking. It has also built a strong global franchise in asset management with Natixis Investment Managers. The group's strategy is to expand its market positions primarily through organic growth and revenue synergies from additional cross-selling.

Capitalisation is sound and improving from solid internal capital generation and regular issuance of cooperative shares. The group has set a new CET1 ratio target of above or equal to 15.5% in its 2018-2020 strategic plan compared with above 12% previously. The group's fully loaded CET1 ratio was 15% at end-September 2017 and the Fitch core capital (FCC) ratio was in the same range. Contained growth of risk-weighted assets (RWAs) and a modest dividend payout ratio explained by GBPCE's cooperative structure should support a further gradual increase in capital ratios.

GBPCE's retail and commercial banking revenue is affected by the low-interest-rate environment. The bank's profitability is impacted by investments in digitalisation and successive mergers of regional banks, although we expect this to ultimately deliver recurring cost savings. Revenue pressure is nevertheless mitigated by the diversification of the group's activities and loan growth.

GBPCE has a modest risk appetite. Its loan portfolio is mainly concentrated in France, half of which is low-risk housing loans. An additional 10% is with low-risk French local authorities. In corporate and investment banking, the bank has an originate-to-distribute model and fairly low appetite for market risk.

The impaired loans/gross loans ratio of GBPCE was 3.6% at end-June 2017. French banks generally do not write off impaired loans before they are fully resolved as opposed to some jurisdictions with a swifter write-off policy. Reserve coverage of about 50% is moderate compared with French peers and leaves the group reliant on collateral valuation and realisation.

GBPCE benefits from the strong deposit franchise of its regional banks. About half of its total funding (excluding derivatives) consists of deposits. The loans/customer 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.

GBPCE's market funding is diversified in terms of products and currencies. Liquidity management is prudent. Short-term wholesale funding and long-term funding maturing over the next 12 months are adequately covered by high quality liquid assets and central bank deposits.

AFFILIATED ENTITIES
GBPCE is a cooperative banking group bound by a legally established cross-support mechanism comprising its 14 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 and in line with Annex 4 of our Global Bank Rating Criteria, Fitch has the same IDRs for GBPCE, BPCE S.A., the BPs, the CEPs, Credit Maritime Mutuel and the three main affiliates.

Fitch has withdrawn the ratings of Banque Populaire de l'Ouest following its absorption by Banque Populaire Atlantique, subsequently renamed Banque Populaire Grand Ouest on 7 December 2017.

Natixis has some debt guaranteed by Caisse des Depots et Consignations (AA/Stable), a special agency controlled by the French state. The ratings of these securities are aligned with the long-term rating 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 issuing entities are part of the leasing and factoring arm of Natixis.

DERIVATIVE COUNTERPARTY RATINGS
Fitch has affirmed the 'A(dcr)' Derivative Counterparty Ratings (DCRs) of 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 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 AND JUNIOR SUBORDINATED DEBT
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) as well as a higher risk of non-performance (an additional two notches).

RATING SENSITIVITIES
IDRS, VR AND SENIOR DEBT
An upgrade of the ratings is contingent on a continued strengthening in GBPCE's capitalisation, consistent execution of the bank's 2018-2020 strategic plan as well as generation of stable and recurring profits. Fitch also expects the bank to maintain a modest risk appetite, to continue to reduce the stock of impaired loans and to maintain strict liquidity policies.

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 (Fitch estimates a required buffer of between 8%-9% of RWAs). GBPCE's qualifying junior debt and non-preferred senior debt buffer stood at around 6% of RWAs at end-June 2017.

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 unlikely.

The long-term ratings of Natixis' guaranteed debt is sensitive to rating actions 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 S.A. and guaranteed by Natixis are primarily sensitive to a change in Natixis' Short-Term IDR.

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. and Natixis. The latter are currently aligned with the banks' Long-Term IDRs and are primarily sensitive to changes to these.

SUPPORT RATING AND SUPPORT RATING FLOOR
An upgrade of GBPCE's SR and upward revision of the bank's 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 AND JUNIOR SUBORDINATED DEBT
The ratings of the subordinated and the deeply subordinated debt issued by BPCE S.A. and Natixis 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.

Contact:

Primary Analyst
Francois-Xavier Deucher, CFA
Director
+33 1 44 29 92 72
Fitch France S.A.S.
60 rue de Monceau
75008 Paris

Secondary Analyst
Julien Grandjean
Associate Director
+33 1 44 29 91 41

Committee Chairperson
Bjorn Norrman
Senior Director
+44 20 3530 1330

Media Relations: Francoise Alos, Paris, Tel: +33 1 44 29 91 22, Email: francoise.alos@fitchratings.com; Peter Fitzpatrick, London, Tel: +44 20 3530 1103, Email: peter.fitzpatrick@fitchratings.com.

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)

Additional Disclosures
Dodd-Frank Rating Information Disclosure Form (https://www.fitchratings.com/site/dodd-frank-disclosure/1034195)
Solicitation Status (https://www.fitchratings.com/site/pr/1034195#solicitation)
Endorsement Policy (https://www.fitchratings.com/regulatory)

experts, including independent auditors with respect to financial statements and attorneys with respect to legal and tax matters. Further, ratings and forecasts of financial and other information are inherently forward-looking and embody assumptions and predictions about future events that by their nature cannot be verified as facts. As a result, despite any verification of current facts, ratings and forecasts can be affected by future events or conditions that were not anticipated at the time a rating or forecast was issued or affirmed.

The information in this report is provided “as is” without any representation or warranty of any kind, and Fitch does not represent or warrant that the report or any of its contents will meet any of the requirements of a recipient of the report. A Fitch rating is an opinion as to the creditworthiness of a security. This opinion and reports made by Fitch are based on established criteria and methodologies that Fitch is continuously evaluating and updating. Therefore, ratings and reports are the collective work product of Fitch and no individual, or group of individuals, is solely responsible for a rating or a report. The rating does not address the risk of loss due to risks other than credit risk, unless such risk is specifically mentioned. Fitch is not engaged in the offer or sale of any security. All Fitch reports have shared authorship. Individuals identified in a Fitch report were involved in, but are not solely responsible for, the opinions stated therein. The individuals are named for contact purposes only. A report providing a Fitch rating is neither a prospectus nor a substitute for the information assembled, verified and presented to investors by the issuer and its agents in connection with the sale of the securities. Ratings may be changed or withdrawn at any time for any reason in the sole discretion of Fitch. Fitch does not provide investment advice of any sort. Ratings are not a recommendation to buy, sell, or hold any security. Ratings do not comment on the adequacy of market price, the suitability of any security for a particular investor, or the tax-exempt nature or taxability of payments made in respect to any security. Fitch receives fees from issuers, insurers, guarantors, other obligors, and underwriters for rating securities. Such fees generally vary from US$1,000 to US$750,000 (or the applicable currency equivalent) per issue. In certain cases, Fitch will rate all or a number of issues issued by a particular issuer, or insured or guaranteed by a particular insurer or guarantor, for a single annual fee. Such fees are expected to vary from US$10,000 to US$1,500,000 (or the applicable currency equivalent). The assignment, publication, or dissemination of a rating by Fitch shall not constitute a consent by Fitch to use its name as an expert in connection with any registration statement filed under the United States securities laws, the Financial Services and Markets Act of 2000 of the United Kingdom, or the securities laws of any particular jurisdiction. Due to the relative efficiency of electronic publishing and distribution, Fitch research may be available to electronic subscribers up to three days earlier than to print subscribers.

For Australia, New Zealand, Taiwan and South Korea only: Fitch Australia Pty Ltd holds an Australian financial services license (AFS license no. 337123) which authorizes it to provide credit ratings to wholesale clients only. Credit ratings information published by Fitch is not intended to be used by persons who are retail clients within the meaning of the Corporations Act 2001

Fitch Ratings, Inc. is registered with the U.S. Securities and Exchange Commission as a Nationally Recognized Statistical Rating Organization (the "NRSRO"). While certain of the NRSRO’s credit rating subsidiaries are listed on Item 3 of Form NRSRO and as such are authorized to issue credit ratings on behalf of the NRSRO (see HTTPS://WWW.FITCHRATINGS.COM/SITE/REGULATORY (https://www.fitchratings.com/site/regulatory). other credit rating subsidiaries are not listed on Form NRSRO (the "non-NRSROs") and therefore credit ratings issued by those subsidiaries are not issued on behalf of the NRSRO. However, non-NRSRO personnel may participate in determining credit ratings issued by or on behalf of the NRSRO.

Solicitation Status

Fitch Ratings was paid to determine each credit rating announced in this Rating Action Commentary (RAC) by the obligatory being rated or the issuer, underwriter, depositor, or sponsor of the security or money market instrument being rated, except for the following:

Endorsement Policy - Fitch's approach to ratings endorsement so that ratings produced outside the EU may be used by regulated entities within the EU for regulatory purposes, pursuant to the terms of the EU Regulation with respect to credit rating agencies, can be found on the EU Regulatory Disclosures (https://www.fitchratings.com/regulatory) page. The endorsement status of all International ratings is provided within the entity summary page for each rated entity and in the transaction detail pages for all structured finance transactions on the Fitch website. These disclosures are updated on a daily basis.