FitchRatings

FITCH: CHANGES IN GROUPE BPCE'S STRUCTURE RATINGS NEUTRAL

Fitch Ratings-Paris/London-20 February 2013: Fitch Ratings says that the future change in Groupe BPCE's (GBPCE; 'A+'/Negative/'a-') internal ownership structure has no impact on the ratings of both GBPCE and Natixis ('A+'/Negative). Moreover, GBPCE's Q412 results, which show a contained fall in operating profit year-on-year and the continued progress in enhancing the bank's capital and funding profile, are ratings neutral.

GBPCE announced on 17 February 2013 that it will simplify its internal ownership structure, by eliminating the cross shareholding in place. Currently, Natixis owns 20% of GBPCE's two main retail banking networks - Banques Populaires (BPs) and Caisses d'Epargne et de Prevoyance (CEPs). BPs and CEPs will buy back the 20% share, which will then be cancelled. The agency understands the transaction will have a minimal negative impact on GBPCE's consolidated capital ratios (a 15bp decrease in the Basel 3 core equity Tier 1 ratio at end-2012, as estimated by the bank, due to the exceptional dividend paid by Natixis) and is neutral for consolidated operating results.

GBPCE's operating profit contracted by 12% in Q412 yoy, largely due to declining revenue and rising loan impairment charges in the retail banking segment, the group's main earnings contributor by far. Fitch derives operating profit, its measure of underlying earnings, after excluding certain items such as revaluation of own debt (a loss of EUR150m in Q412 as spreads reduced further).

Operating profit from the retail banking business was down 18% yoy. The difficult economic environment in France, where GBPCE concentrates 97% of its retail banking business, continued to weigh on results, with a general fall in new lending, a rise in loan impairment charges and sluggish customer fee generation. Loan impairment charges rose both yoy and quarter-on-quarter, but remained low (31bp of customer loans in Q412 on an annualised basis) and Fitch does not expect any material rise in the coming quarters.

Operating profit from GBPCE's Investment Solutions and Specialised Financial Services remained resilient. Fitch expects a higher contribution from both businesses to the group's earnings mix, as the bank could continue considering opportunistic external growth in asset management and some specialised financing businesses still have some room to grow organically.

Operating profit from corporate and investment banking (CIB) decreased by 9% due to higher loan impairment charges, but is a modest contributor to the group's earnings. Revenue from financing activities was resilient in Q412 yoy, while capital markets, where GBPCE (through Natixis) maintains some modest and selective European positions, generated higher revenue yoy (+19%).

Fitch considers GBPCE's capital ratios to be acceptable as compared to its risk profile. The bank's Basel 2.5 core Tier 1 regulatory capital ratio rose to 10.7% at end-2012 and its Basel 3 core equity Tier 1 ratio (as calculated by GBPCE i.e. excluding deferred tax assets deduction) rose to 9%. This is a result of retaining healthy earnings and deleveraging. Fitch considers GBPCE's cooperative ownership structure as positive for capital retention, as highlighted by the low dividend pay-out ratio since the creation of the group.

GBPCE's funding profile significantly improved throughout 2012. The bank's one year short-term wholesale funding (EUR103bn at end-2012) was covered 1.4 times by the liquidity buffer. Nonetheless, Fitch views the quality of this liquidity buffer as weaker than for certain other large French banks. Deposits with central banks represented 32% of the liquidity buffer at end-2012, or 45% of one-year short-term funding.

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