

19 Nov 2019 | Affirmation

Fitch Affirms Groupe BPCE at 'A+'; Stable Outlook

Fitch Ratings-Paris-19 November 2019:

Fitch Ratings has affirmed Groupe BPCE's (GBPCE) Long-Term Issuer Default Rating (IDR) at 'A+' with a Stable Outlook and Viability Rating (VR) at 'a+'.

Fitch has also affirmed the Long-Term IDRs of GBPCE's main entities: BPCE S.A., the Banques Populaires (BPs), the Caisses d'Epargne et de Prevoyance (CEPs), Natixis S.A., Credit Foncier de France S.A. (CFF) and Banque Palatine S.A. A full list of rating actions is at the end of this rating action commentary.

Caisse d'Epargne et de Prevoyance Grand Est Europe; Long Term Issuer Default Rating; Affirmed; A+; RO:Sta

; Short Term Issuer Default Rating; Affirmed; F1

Caisse d'Epargne et de Prevoyance Loire Drome Ardeche; Long Term Issuer Default Rating; Affirmed; A+; RO:Sta

; Short Term Issuer Default Rating; Affirmed; F1

Banque Populaire du Nord; Long Term Issuer Default Rating; Affirmed; A+; RO:Sta

; Short Term Issuer Default Rating; Affirmed; F1

Natixis S.A.; Long Term Issuer Default Rating; Affirmed; A+; RO:Sta

; Short Term Issuer Default Rating; Affirmed; F1

; Derivative Counterparty Rating; Affirmed; A+(dcr)

---guaranteed; Long Term Rating; Affirmed; AA

---subordinated; Long Term Rating; Affirmed; A

---Senior preferred; Long Term Rating; Affirmed; A+

---Senior preferred; Short Term Rating; Affirmed; F1

BPCE Lease S.A.

---Senior preferred; Short Term Rating; Affirmed; F1

Caisse d'Epargne et de Prevoyance de Rhone Alpes; Long Term Issuer Default Rating; Affirmed; A+; RO:Sta

; Short Term Issuer Default Rating; Affirmed; F1

Caisse d'Epargne et de Prevoyance Normandie; Long Term Issuer Default Rating; Affirmed; A+; RO:Sta

; Short Term Issuer Default Rating; Affirmed; F1
Banque Populaire Bourgogne, Franche-Comte; Long Term Issuer Default Rating; Affirmed; A+;
RO:Sta

; Short Term Issuer Default Rating; Affirmed; F1
Caisse d'Epargne et de Prevoyance Hauts de France; Long Term Issuer Default Rating; Affirmed;
A+; RO:Sta

; Short Term Issuer Default Rating; Affirmed; F1
Caisse d'Epargne et de Prevoyance de Midi-Pyrenees; Long Term Issuer Default Rating; Affirmed;
A+; RO:Sta

; Short Term Issuer Default Rating; Affirmed; F1
Caisse d'Epargne et de Prevoyance Loire-Centre; Long Term Issuer Default Rating; Affirmed; A+;
RO:Sta

; Short Term Issuer Default Rating; Affirmed; F1
Caisse d'Epargne CEPAC; Long Term Issuer Default Rating; Affirmed; A+; RO:Sta

; Short Term Issuer Default Rating; Affirmed; F1
Banque Populaire Grand Ouest; Long Term Issuer Default Rating; Affirmed; A+; RO:Sta

; Short Term Issuer Default Rating; Affirmed; F1
Banque Populaire Aquitaine Centre Atlantique (BPACA); Long Term Issuer Default Rating; Affirmed;
A+; RO:Sta

; Short Term Issuer Default Rating; Affirmed; F1
Groupe BPCE; Long Term Issuer Default Rating; Affirmed; A+; RO:Sta

; Short Term Issuer Default Rating; Affirmed; F1
; Viability Rating; Affirmed; a+
; Support Rating; Affirmed; 5
; Support Rating Floor; Affirmed; NF

Banque Populaire Auvergne Rhone Alpes; Long Term Issuer Default Rating; Affirmed; A+; RO:Sta

; Short Term Issuer Default Rating; Affirmed; F1
Banque Populaire Mediterranee; Long Term Issuer Default Rating; Affirmed; A+; RO:Sta

; Short Term Issuer Default Rating; Affirmed; F1
Caisse d'Epargne et de Prevoyance de Bourgogne Franche-Comte; Long Term Issuer Default
Rating; Affirmed; A+; RO:Sta

; Short Term Issuer Default Rating; Affirmed; F1
Banque Populaire Occitane; Long Term Issuer Default Rating; Affirmed; A+; RO:Sta

; Short Term Issuer Default Rating; Affirmed; F1
Credit Cooperatif; Long Term Issuer Default Rating; Affirmed; A+; RO:Sta

; Short Term Issuer Default Rating; Affirmed; F1
----Senior preferred; Long Term Rating; Affirmed; A+
----Senior preferred; Short Term Rating; Affirmed; F1

Caisse d'Epargne et de Prevoyance Bretagne-Pays de Loire; Long Term Issuer Default Rating; Affirmed; A+; RO:Sta
; Short Term Issuer Default Rating; Affirmed; F1
BRED Banque Populaire; Long Term Issuer Default Rating; Affirmed; A+; RO:Sta
; Short Term Issuer Default Rating; Affirmed; F1
BPCE Lease Immo S.A.
----Senior preferred; Short Term Rating; Affirmed; F1
Caisse d'Epargne et de Prevoyance Cote d'Azur; Long Term Issuer Default Rating; Affirmed; A+; RO:Sta
; Short Term Issuer Default Rating; Affirmed; F1
Banque Populaire Val-de-France; Long Term Issuer Default Rating; Affirmed; A+; RO:Sta
; Short Term Issuer Default Rating; Affirmed; F1
Banque Populaire du Sud; Long Term Issuer Default Rating; Affirmed; A+; RO:Sta
; Short Term Issuer Default Rating; Affirmed; F1
Cicobail S.A.
----Senior preferred; Short Term Rating; Affirmed; F1
Credit Foncier de France S.A.; Long Term Issuer Default Rating; Affirmed; A+; RO:Sta
; Short Term Issuer Default Rating; Affirmed; F1
----Senior preferred; Long Term Rating; Affirmed; A+
BPCE Bail S.A.
----Senior preferred; Short Term Rating; Affirmed; F1
Banque Populaire Rives de Paris; Long Term Issuer Default Rating; Affirmed; A+; RO:Sta
; Short Term Issuer Default Rating; Affirmed; F1
Caisse d'Epargne et de Prevoyance Aquitaine Poitou Charentes; Long Term Issuer Default Rating; Affirmed; A+; RO:Sta
; Short Term Issuer Default Rating; Affirmed; F1
Caisse d'Epargne et de Prevoyance d'Auvergne et du Limousin; Long Term Issuer Default Rating; Affirmed; A+; RO:Sta
; Short Term Issuer Default Rating; Affirmed; F1
BPCE Factor S.A.
----Senior preferred; Short Term Rating; Affirmed; F1
BPCE S.A.; Long Term Issuer Default Rating; Affirmed; A+; RO:Sta
; Short Term Issuer Default Rating; Affirmed; F1
; Derivative Counterparty Rating; Affirmed; A+(dcr)
----Senior preferred; Long Term Rating; Affirmed; A+
----subordinated; Long Term Rating; Affirmed; A
----Senior non-preferred; Long Term Rating; Affirmed; A+
----Senior preferred; Short Term Rating; Affirmed; F1

Banque Populaire Alsace-Lorraine- Champagne; Long Term Issuer Default Rating; Affirmed; A+;
RO:Sta

; Short Term Issuer Default Rating; Affirmed; F1

Caisse d'Epargne et de Prevoyance du Languedoc-Roussillon; Long Term Issuer Default Rating;
Affirmed; A+; RO:Sta

; Short Term Issuer Default Rating; Affirmed; F1

Banque Palatine S.A.; Long Term Issuer Default Rating; Affirmed; A+; RO:Sta

; Short Term Issuer Default Rating; Affirmed; F1

---Senior preferred; Long Term Rating; Affirmed; A+

---Senior preferred; Short Term Rating; Affirmed; F1

Caisse d'Epargne et de Prevoyance Ile-de-France; Long Term Issuer Default Rating; Affirmed; A+;
RO:Sta

; Short Term Issuer Default Rating; Affirmed; F1

CASDEN - Banque Populaire; Long Term Issuer Default Rating; Affirmed; A+; RO:Sta

; Short Term Issuer Default Rating; Affirmed; F1

Key Rating Drivers

IDRS, VR AND SENIOR DEBT

GBPCE's ratings reflect the group's strong and diversified company profile, low risk appetite and sound asset quality as well as solid capitalisation and adequate liquidity.

GBPCE mainly operates in France, where it is the second-largest player in retail and commercial banking. GBPCE has a universal bancassurance business model. It operates two large distribution networks of the BPs and the CEPs. Its partially listed subsidiary Natixis is a recognised niche player in corporate and investment banking (CIB). Natixis also has a significant global franchise in asset management.

GBPCE's risk appetite is modest and influenced by its cooperative nature. The group further strengthened its risk controls as a result of a EUR260 million trading loss in Korean equity derivatives in 4Q18 and EUR5 billion of net outflows at H2O Asset Management in 2Q19, triggered by significant investments in private placements linked to a controversial German financier. The two incidents are isolated and the group reacted swiftly to adjust its risk management. We view positively the higher level of centralisation of risk controls triggered by these events.

GBPCE's impaired loans ratio is improving and was 3.1% at end-June 2019, just above our 3.0% benchmark for a 'a' asset quality score in France. The group's loan loss allowances on impaired loans ratio of 60% is average compared with large European peers but is the lowest of major

French banks. This leaves the group partially reliant on collateral valuation and realisation.

GBPCE is resistant against the low interest rate environment, owing to its diversified business model and high resulting proportion of non-interest income (close to 65% of revenue in 1H19). Revenue was flat in retail and commercial banking in 9M19 and 2018. Growth in insurance, asset management and payments offset declining CIB revenue, which nevertheless showed some signs of stabilisation in 3Q19. Recent profitability has been affected by restructuring costs aimed at generating close to EUR1 billion in annual cost savings in 2020. All of these costs have been expensed and we expect related savings to positively impact operating profitability and cost efficiency in 2020.

Capitalisation is solid and stable. The group's fully-loaded common equity Tier 1 (CET1) ratio was 15.5% at end-September 2019 in line with the Fitch Core Capital ratio and the group's 2020 strategic plan target. The group's capitalisation is supported by a contained dividend payout ratio and regular issuance of cooperative shares. The regulatory leverage ratio was satisfactory at 5.1% at end-September 2019.

GBPCE benefits from the strong deposit franchise of its regional banks but only about half of total funding consists of deposits as its two largest subsidiaries (Natixis and CFF) are mostly wholesale funded. GBPCE's market funding is diversified in terms of products and currencies. High-quality liquid assets were 13% of the balance sheet excluding insurance assets at end-September 2019 and covered wholesale and interbank funding maturing over the next 12 months. GBPCE's 'F1' short-term rating is the lower of the two possible Short-Term IDRs mapping to a 'A+' Long-Term IDR due to Fitch's funding and liquidity assessment of 'a' for the banking group.

Preferred and non-preferred senior debt ratings are aligned because the group's buffers of qualifying junior debt and non-preferred senior debt (in combination slightly below 8% of risk-weighted assets (RWAs) at end-June 2019) are not sustainable at this level to justify an uplift of the preferred senior debt ratings under our criteria.

AFFILIATED ENTITIES

GBPCE is a cooperative banking group bound by a legally established cross-support mechanism comprising its 14 BPs, 15 CEPs, its central body BPCE S.A., and many affiliates, the largest being Natixis, CFF and Banque Palatine. The group publishes consolidated accounts and the entities affiliated to BPCE S.A. share a common strategy and coordinated marketing activities. Risk management is also centralised. We consequently assign group ratings in accordance with Annex 4 of our Bank Rating Criteria and have the same IDRs for all these entities.

Natixis has some debt guaranteed by Caisse des Depots et Consignations (AA/Stable), a special

agency controlled by the French state. The rating of the remaining notes maturing early 2020 is aligned with the long-term rating of Caisse des Depots et Consignations and has been affirmed.

The ratings of the negotiable European commercial paper (NEU CP) programmes of BPCE Factor S.A., BPCE Lease S.A., BPCE Lease Immo S.A., BPCE Bail S.A. and Cicobail S.A. guaranteed by BPCE S.A. are aligned with its 'F1' Short-Term IDR. This reflects Fitch's view that BPCE S.A. 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 GBPCE's leasing and factoring activities, which transferred to BPCE S.A. from Natixis in 2019.

DERIVATIVE COUNTERPARTY RATINGS

Fitch has affirmed the Derivative Counterparty Ratings (DCRs) of BPCE S.A. and Natixis at 'A+(dcr)'. They are notable derivative counterparties within GBPCE. The DCRs are at the same level as BPCE S.A.'s and Natixis's preferred senior debt ratings. 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 although possible, sovereign support cannot be relied upon. Legislative, regulatory and policy initiatives (including the implementation of the EU's Bank Recovery and Resolution Directive) have substantially reduced the likelihood of sovereign support for EU commercial banks in general, implying that senior creditors would probably be required to participate in losses, if necessary, instead of, or ahead of, the bank receiving sovereign support, despite GBPCE's systemic importance.

SUBORDINATED DEBT

We rate subordinated Tier 2 debt issued by BPCE S.A. and Natixis one notch below GBPCE's VR to reflect below-average recoveries for this type of debt.

RATING SENSITIVITIES

IDRS, VR AND SENIOR DEBT

The Stable Outlook on GBPCE's Long-Term IDR reflects our expectation that the group will maintain its low risk appetite and its strong capitalisation in line with the group's target. Fitch also expects the bank to continue to reduce its stock of impaired loans, to maintain strict liquidity policies and to improve operating profitability.

GBCPE's ratings are sensitive to an increase in risk appetite, such as a rapid expansion in consumer finance in Europe or a large acquisition difficult to integrate. The ratings are also sensitive to a significant decline in operating profitability and in further failures in risk controls. A significantly lower coverage of wholesale funding maturities by high quality liquid assets would also be negative for the ratings.

An upgrade would be contingent on significant franchise expansion, significant improvement in profitability and liquidity coverage, lower short-term wholesale funding as well as a materially lower stock of impaired loans significantly below 3% of gross loans. Further improvement in capitalisation would also be positive for the ratings.

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 is maintained at a level sufficient to protect preferred senior creditors from default in case of failure. Fitch estimates a required buffer of above 8% of RWAs, which would need to be sustainable over the medium term.

If Fitch's final Bank Rating Criteria is in line with the Exposure Draft published on Friday 15 November 2019 (see: <https://www.fitchratings.com/site/re/10101980>), GBPCE's senior preferred debt ratings could also be upgraded if we believe the group's resolution buffers (the minimum requirement for own funds and eligible liabilities) will be covered by senior non-preferred and more junior instruments only. In contrast, the senior non-preferred debt ratings could be downgraded by one notch to 'A' from 'A+' if part of the buffers are expected to be met with senior preferred debt.

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 we do not expect.

The long-term ratings of Natixis's guaranteed debt is sensitive to rating action on the guarantor, Caisse des Depots et Consignations, and ultimately on the French sovereign.

The programme ratings of BPCE Factor S.A., BPCE Lease S.A., BPCE Lease Immo S.A., BPCE Bail S.A. and Cicobail S.A. guaranteed by BPCE S.A. are primarily sensitive to a change in BPCE S.A.'s Short-Term IDR.

DCRs

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. They are currently aligned with the banks' Long-Term

IDRs and are primarily sensitive to changes to these.

SR AND SRF

An upgrade of GBPCE's SR and upward revision of the 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

The ratings of the subordinated debt issued by BPCE S.A. and Natixis are primarily sensitive to a change in GBPCE's VR.

If Fitch's final Bank Rating Criteria is in line with the Exposure Draft published on Friday 15 November 2019, the subordinated Tier 2 debt could be downgraded by one notch to 'A-' from 'A'.

Public Ratings with Credit Linkage to other ratings

Natixis has some debt guaranteed by Caisse des Depots et Consignations, a special agency controlled by the French state. The rating of the remaining notes maturing early 2020 is aligned with the long-term rating of Caisse des Depots et Consignations and has been affirmed.

The ratings of negotiable European commercial paper (NEU CP) programmes of BPCE Factor S.A., BPCE Lease S.A., BPCE Lease Immo S.A., BPCE Bail S.A. and Cicobail S.A. guaranteed by BPCE S.A. are aligned with its 'F1' Short-Term IDR. This reflects Fitch's view that BPCE S.A. is highly likely to honour its commitment as guarantor if required, as the guarantees are unconditional, irrevocable and timely.

ESG Considerations

Unless otherwise disclosed in this section the highest level of ESG credit relevance is a score of 3. This means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or to the way in which they are being managed by the entity. For more information on our ESG Relevance Scores, visit www.fitchratings.com/esg.

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Additional information is available on www.fitchratings.com

Applicable Criteria

[Bank Rating Criteria \(pub. 12 Oct 2018\)](#)

[Non-Bank Financial Institutions Rating Criteria \(pub. 12 Oct 2018\)](#)

[Short-Term Ratings Criteria \(pub. 02 May 2019\)](#)

Additional Disclosures

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