



Fitch Affirms Groupe BPCE at 'A'; Stable Outlook

Fitch Ratings-Paris/London-07 June 2016: Fitch Ratings has affirmed Groupe BPCE's (GBPCE), BPCE S.A.'s and subsidiaries' Long-Term Issuer Default Ratings (IDRs) at 'A' and Short-Term IDRs at 'F1'. The Outlooks on the Long-Term IDRs are stable.

GBPCE is a cooperative banking group. Its banking networks, Banque Populaire (BPs) and Caisse d'Epargne et de Prevoyance (CEPs), and central body (BPCE S.A) are bound by a cross-support mechanism according to the French Financial and Monetary Code.

The ratings actions are part of a periodic portfolio review of the three large French cooperative banking groups rated by Fitch. A full list of rating actions is at the end of this rating action commentary.

KEY RATING DRIVERS

IDRS, VR AND SENIOR DEBT

GBPCE's IDRs, Viability Rating (VR) and senior debt rating reflect its strong company profile, mostly focused on low risk retail banking, conservative risk appetite, and strengthening capitalisation. They also reflect somewhat weaker profitability than similarly rated peers.

GBPCE is the second-largest French retail banking group, with average market shares of 22% in customer deposits and savings, and 21% in customer loans providing it with recurring revenue streams. It conducts its business mainly via its two leading banking franchises, BPs and CEPs.

Like its domestic peers, GBPCE is suffering from the low interest rate environment and strong competitive pressure, in particular in housing lending in France. Retail banking revenues will remain under pressure in 2016. However, the diversification of the group's activities should mitigate the impact. Lower cross-selling rates than at its main competitors mean that there is scope for increased savings, including insurance, product and specialised financing sales. GBPCE also has a strong asset management franchise, supporting recurring earnings generation. We expect to see more revenue synergies combined with tight cost control in 2016, supported by the three mergers of regional banks launched early 2016.

Fitch expects GBPCE's asset quality to remain satisfactory. Lending quality is in line with French peers, reflecting prudent underwriting and a focus on low-risk mortgage loans. Reserve coverage is moderate and slightly weaker than at peers, but the group holds collateral in most transactions. Foreign lending is lower than that of the large French banks and focusses on large corporate financing.

Capitalisation is sound and improving from solid internal capital generation. The focus on asset light businesses and a modest dividend payout should also support further increases in the capital ratios. At end-March 2016, the fully loaded CET1 ratio estimated by the bank was 13%.

GBPCE benefits from a strong and stable deposit base, coming mostly from its retail networks in France. The loans/deposits ratio remained somehow higher than most French peers at end-2015, largely a result of its two largest subsidiaries (Natixis and Credit Foncier de France) remaining mostly wholesale funded. Liquidity management is prudent and liquid assets largely cover short-term wholesale funding.

SUPPORT RATING AND SUPPORT RATING FLOOR

GBPCE's Support Rating and Support Rating Floor reflect Fitch's view that senior creditors can no longer rely on receiving full extraordinary support from the French sovereign in the event that the group becomes non-viable. The EU's Bank Recovery and Resolution Directive and the Single

Resolution Mechanism provide a framework for resolving banks in the eurozone that is likely to require senior creditors participating in losses, if necessary, instead of or ahead of a bank receiving sovereign support.

SUBSIDIARY AND AFFILIATED COMPANY

The regional banks, the BPs and CEPs, and the 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. In line with our criteria, we do not assign a VR or a Support Rating to the 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. includes 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.

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.

SUBORDINATED DEBT AND OTHER HYBRID SECURITIES

Subordinated debt and other hybrid capital issued by BPCE S.A. and Natixis are 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, which vary considerably.

Lower Tier 2 debt is rated one notch below GBPCE's VR to reflect the above-average loss severity of this type of debt.

The innovative and non-innovative Tier 1 securities and preferred stock 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 high risk of non-performance (an additional two notches).

RATING SENSITIVITIES

IDRS, VR AND SENIOR DEBT

Negative pressure on GBPCE's VR 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 a material improvement in recurring profitability, likely arising from broader cross-selling among the group, together with strong liquidity management and continued improvement in capital ratios to bring them in line with higher rated peers'.

SUPPORT RATING AND SUPPORT RATING FLOOR

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

SUBSIDIARY AND AFFILIATED COMPANIES

The affiliated subsidiaries' 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.

SUBORDINATED DEBT AND OTHER HYBRID SECURITIES

The ratings of subordinated and hybrid debt are primarily sensitive in GBPCE's VR. The ratings of innovative and non-innovative Tier 1 securities and preferred stock are also sensitive to Fitch changing its assessment of the probability of their non-performance relative to the risk captured in

GBPCE's VR.

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 '5'

Support Rating Floor: affirmed at 'NF'

BPCE S.A.

Long-Term IDR: affirmed at 'A'; Stable Outlook

Short-Term IDR: affirmed at 'F1'

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'

Senior unsecured debt: affirmed at 'A'

Market linked notes: affirmed at 'A(emr)'

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'

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'

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- Lorraine-Champagne
Banque Populaire de l'Ouest
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 Bank Rating Criteria (pub. 20 Mar 2015)

(https://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=863501&cft=eyJ0eXAiOiJKV1QiLCJhbGciOiJIUzI1NiJ9.eyJleHAiOiJlE0NjUzNTY4NTAsInNlc3Npb25LZXkiOiJFWINNQkxUTktCRTdFUVhFTIRZRjNlQ1FKQktXNVY1QkdDSkNZR1NQIn0.Hfsi-Bmly1HUpZqZGIN-it-b77NgwLdTIF5desS5VQo)

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