



Rating Action: Moody's Ratings changes outlooks on the long-term deposit, senior unsecured debt and issuer ratings of seven French banks to negative

29 Oct 2024

Rating action follows change in outlook on the Government of France's ratings

Paris, October 29, 2024 -- Moody's Ratings (Moody's) has today affirmed the long-term deposit, senior unsecured debt and issuer ratings, where applicable, of seven French banks, their branches and French affiliated entities and changed the outlook on these instruments to negative from stable. This action follows the affirmation of the French government's Aa2 rating with an outlook change to negative from stable on 25 October 2024. The action reflects the weakening capacity of the Government of France to support the country's systemic and strategic banks in case of need, given its recent deteriorating fiscal trajectory and the risk that the government will be unable to implement measures that would prevent a sustained deterioration in the government's debt affordability. For further information on the sovereign rating action, please refer to our press release dated 25 October 2024 ("Moody's Ratings changes France's outlook to negative from stable, affirms the Aa2 rating; <https://ratings.moodys.com/ratings-news/431428>).

We affirmed all the ratings and rating assessments of Banque Federative du Credit Mutuel (BFCM), BNP Paribas (BNPP); Credit Agricole S.A. (CASA), Credit Agricole Corporate and Investment Bank (CACIB) and all Groupe Credit Agricole's (GCA) French regional banks; Credit Industriel et Commercial (CIC) and Credit Mutuel Arkea (CMA); and SFIL. We changed the related outlooks on their long-term issuer, deposits and senior unsecured ratings, where applicable, to negative from stable.

At the same time, we affirmed all Baseline Credit Assessments (BCAs), where applicable, of entities reviewed under the Banks Methodology, reflecting our view that the Macro Profile for France remains "Strong +". The Macro Profile of France incorporates some factors related to the sovereign rating drivers, including a wealthy and diversified economy, a susceptibility to event risk that is driven by geopolitical

risks due to Russia's war in Ukraine, but higher concerns related to institutions and governance strength, more specifically the effectiveness of the French government's fiscal policy in light of France's difficulty to reduce the budget deficit and its public debt. However, we expect overall credit and liquidity conditions to remain broadly stable for French banks, whose lending volumes should bottom out from very low levels experienced since 2023, whilst the resilient economic growth has been supporting low unemployment levels and a recent slowdown in bankruptcies, which associated with lower interest rates will support banks' asset quality.

In the same rating action, we also affirmed the Aa2 long-term deposit, issuer and senior unsecured ratings of Caisse Des Depots et Consignations (CDC), the Aa2 issuer ratings of EPIC Bpifrance and the backed senior unsecured debt ratings of its subsidiary Bpifrance. These ratings are aligned with the rating of the French government. Accordingly, we changed the outlook on these issuers to negative from stable. All the other ratings of EPIC Bpifrance, Bpifrance and CDC were also affirmed.

Concurrently, we affirmed the Aa2 ratings on the backed senior unsecured debts guaranteed by the government of France or by CDC of the following three entities and changed their outlooks to negative from stable:

- Caisse Centrale du Credit Immobilier de France (3CIF) ;
- CDC Ixis and IXIS Corporate & Investment Bank (IXIS CIB), now merged into Natixis.

We also affirmed the short-term and other long-term ratings of 3CIF that are backed by the French government. All the other ratings of 3CIF, CDC Ixis and Ixis CIB were unaffected by today's rating action.

Please click on this link https://www.moodys.com/viewresearchdoc.aspx?docid=PBC_ARFTL497957 for the List of Affected Credit Ratings. This list is an integral part of this Press Release and identifies each affected issuer.

All ratings and assessments of other French banks not mentioned in this press release remain unaffected by today's rating action.

RATINGS RATIONALE

--- NEGATIVE OUTLOOK ON LONG-TERM DEPOSIT, ISSUER AND SENIOR UNSECURED DEBT RATINGS

In today's rating action, we changed the outlook to negative from stable on the Aa3 long-term deposit, senior unsecured debt and issuer ratings, where applicable, of BFCM, BNPP, CIC, CMA, CASA, CACIB, and GCA's Regional Banks that benefit from a one-notch uplift reflecting our view of a moderate probability of government support in case of need. We also changed the outlook to negative on the Aa2 long-term deposit, issuer and senior unsecured debt rating of SFIL, which benefit from a

two-notch uplift resulting from a very high probability of government support.

We assign an unchanged moderate probability of support to the long-term deposit, senior unsecured debt and issuer ratings, where applicable, of systemic and strategic banks in France. Moderate probability of government support typically results in a one-notch uplift to the ratings. However, in operational resolution regimes such as France, an assumption of a moderate probability of government support does not typically result in an uplift when such support leads bank ratings to be in line with the sovereign debt rating. A downgrade of the rating of the Government of France, currently on negative outlook, would therefore likely result for banks' instruments currently rated Aa3, with one-notch government support uplift, in a removal of this uplift.

In the case of SFIL, a downgrade of the French sovereign rating would leave SFIL's long-term deposit and senior unsecured debt ratings with only one notch of government support uplift from two notches currently, because of the potentially weaker capacity of the government to support SFIL and despite an unchanged assumption on the willingness of the government to support SFIL.

We changed the issuer outlook on CDC to negative from stable, in line with the changed outlook on the rating of the Government of France. CDC is intrinsically linked to the French government, given its governance structure as well as operational and financial ties. As a result, we align CDC's ratings and outlook with those of the French government.

The change of the issuer outlook to negative from stable of EPIC Bpifrance and its subsidiary Bpifrance, reflects the changed outlook on the rating of the Government of France. EPIC Bpifrance is fully owned by the French state and benefits through its status as an Etablissement public à caractère industriel et commercial (EPIC) from an implicit guarantee from the state. It is thus intrinsically tied to the French state, both operationally and financially. As such, its issuer rating and outlook are aligned with those of the French government.

The change in the outlook on the Aa2 ratings of backed senior unsecured debt issued by CDC Ixis and IXIS CIB reflects the changed outlook on the Government of France's rating. Following the creation of Groupe BCPE in 2009, these debt obligations continue to be directly guaranteed by, or to benefit from recourse to CDC. Therefore, this debt continues to be aligned with CDC's Aa2 ratings and outlook.

The backed senior unsecured rating of 3CIF is based on the unconditional and irrevocable guarantee from the French government. The change on the outlook on its Aa2 backed senior unsecured ratings reflects the changed outlook on the government of France's ratings.

ISSUER-SPECIFIC CONSIDERATIONS FOR THE AFFIRMATION OF RATINGS AND ASSESSMENTS

--- BFCM, CIC, CMA

BFCM acts as the main bond issuer for Groupe Credit Mutuel (GCM) and serves as the holding company for non-mutualist entities of Credit Mutuel Alliance Federale (CMAF) like CIC and insurance firms. Its BCA mirrors CMAF's creditworthiness, the largest GCM subgroup.

The affirmation of BFCM's BCA of a3 reflects its wide retail bancassurance network in France and its strong financial fundamentals, that have proved their stability through the cycle, more recently in a context of muted economic growth. CMAF's benefits from a focus on low risk residential mortgages coupled with a robust solvency, as illustrated by a Common Equity Tier 1 (CET1) ratio of 18.5% as of end-June 2024.

The bancassurance model, which balances the bank's net interest income with diversified fee and commission sources, has been counteracting margin pressures from higher interest rates since mid-2022 and increased loan provision. We also expect that the more recent decline in interest rates will benefit the bank's lending activity, cost of funding and asset quality.

The affirmation of the baa1 BCA for CIC reflects its stable banking franchise, its moderate solvency and risks from its corporate banking and capital market activities which however, support a good profitability.

The affirmation of the baa1 BCA for CMA reflects the bank's retail bancassurance business, good asset quality and sound capitalization which are mitigated by a low profitability.

The affirmations of the BCAs of BFCM, CIC and CMA also consider their sound liquidity and funding profile.

The solidarity mechanism governing mutualist banks in France drives the affirmation of the Adjusted BCAs of a3 of BFCM, CIC and CMA given the very high probability of support from the group (GCM).

In addition, the affirmation of BFCM, CIC and CMA's long-term senior unsecured debt and long-term deposits ratings also incorporates the application of our Advanced Loss Given Failure (LGF) analysis resulting in two notches of uplift from the Adjusted BCA. These ratings also incorporate a moderate probability of support from the government of France, resulting in an additional uplift of one notch.

--- BNPP

The affirmation of BNPP's Aa3 long-term deposit and senior unsecured debt ratings reflects the bank's baa1 BCA and Adjusted BCA; a three-notch uplift resulting from our Advanced LGF analysis; and an additional one-notch of government support uplift for the bank's senior ratings and assessments, resulting from our moderate

assessment of government support likely to be forthcoming to BNPP in case of need.

The affirmation of BNPP's baa1 BCA reflects the bank's very strong commercial and personal banking franchises in advanced economies and its well-diversified business model providing a stable earnings stream; its sound credit quality and a continued high level of shock absorbers against the ongoing macroeconomic uncertainties; and its well-balanced funding and liquidity profile. The baa1 BCA also considers the bank's lower level of regulatory capitalisation and higher leverage compared with its closest global peers.

BNPP has historically maintained stable profitability and lower earnings volatility than many of its global peers, supported by the higher degree of diversification and lower correlation of earnings within its operations. We recognise these benefits and the stability of the bank's diversified earnings through a one-notch positive qualitative adjustment for Business Diversification, supporting the bank's baa1 BCA. In line with other global investment banks, we apply an offsetting negative qualitative adjustment, reflecting BNPP's reliance on and the inherent opacity and complexity of its global capital markets activities, despite it representing a smaller portion of BNPP's overall revenue and earnings compared with those of its global peers.

--- CASA, CACIB, GCA'S FRENCH REGIONAL BANKS

The affirmation of CASA's long-term deposit and senior unsecured debt ratings at Aa3 reflects (1) the bank's BCA of baa2; (2) two notches of affiliate support from GCA; and (3) a very low loss given failure for long-term depositors and senior unsecured creditors based on our Advanced LGF analysis resulting in a two-notch uplift from the Adjusted BCA of a3; and (4) our assumption of moderate support from the Government of France, resulting in one notch of uplift.

The affirmation of CASA's BCA of baa2 and Adjusted BCA of a3 reflect the Group's strong capitalisation, which benefits from the capacity of the group to retain a larger fraction of its earnings than private banks. It also reflects the Group's dominant retail banking, insurance and asset management franchises in France. GCA's profitability has recently improved, despite the marked slowdown in retail banking loan production and pressure on margins, with underlying net income group share totaling €4.4 billion in H1 2024, up 11% from H1 2023. The group is on track to surpass the Medium Term Plan target of €6 billion of annual net income (at CASA level) by 2025 a year ahead.

The Group's standalone financial strength is also characterised by a high asset quality, which remained stable through the recent economic and market turmoils, stable earnings supported by diversified businesses in France and abroad and a strong funding structure.

The affirmation of CACIB's long-term deposit and senior unsecured debt ratings at Aa3 reflect (1) the bank's BCA of baa3; (2) the credit fundamentals and overall

strength of GCA, resulting in an Adjusted BCA of a3, aligned with CASA's own Adjusted BCA; (3) our Advanced LGF analysis, resulting in two notches of uplift from the Adjusted BCA; and (4) one notch of government support, stemming from our assumption of a moderate probability of support in favor of GCA's junior depositors and senior creditors, given the systemic importance of the group.

The affirmation of CACIB's BCA of baa3 reflects the bank's strong position in corporate banking in France and its strong franchises in several global asset-based finance businesses. It also reflects the bank's single-name concentrations, inherent to its corporate investment bank (CIB) business, its exposures to a number of cyclical sectors sensitive to energy price shocks and related macroeconomic turbulences, including shipping, oil and gas, real estate, construction and air transportation, and its modest capitalization on a standalone basis.

The Group's rated entities' Aa3 long-term deposit and senior unsecured debt ratings also reflect very low loss-given-failure in a resolution scenario, based on the Group's substantial deposits and senior unsecured debt as well as the significant buffer of junior senior unsecured and subordinated debt that would absorb losses ahead of senior creditors. This leads to a two-notch uplift from the rated entities' Adjusted BCA.

--- SFIL

The affirmation of SFIL's long-term deposit and senior unsecured debt ratings of Aa2 reflects (1) the affirmation of SFIL's BCA of a3; (2) the application of our Advanced LGF analysis, which, given the volume of the bank's senior unsecured debt results in two notches of uplift from the Adjusted BCA of a3; and (3) a government support uplift of two notches reflecting a very high support probability from its ultimate owner, the Government of France, through CDC which owns since 2020 all of SFIL's shares but one still owned by the Government of France.

The affirmation of the a3 BCA reflects the bank's leading position in the French public-sector financing and its low-risk profile, because of solid asset quality and adequate funding and liquidity. SFIL's very high nominal leverage and moderate profitability are consistent with such low-risk profile and assigned public-service mission.

SFIL has successfully originated new business through the distribution network of La Banque Postale (LBP, long-term deposit A2 stable, senior unsecured debt A2 stable, BCA baa2), its main historical commercial partner for public-sector lending, and more recently through CDC's Banque des Territoires. SFIL is also gradually scaling up its credit export refinancing activities, insured by Bpifrance Assurance Export (sixth largest global Export Credit Agency in 2023) and guaranteed by the French government, which diversifies SFIL's revenue sources at very low risk.

The two public policy missions of SFIL underpin our view of a very high probability of support from the government of France in case of need. This is also supported by a

letter of support provided by CDC, complemented by a letter of support by the French government.

--- CDC

Today's affirmation of CDC's long-term senior unsecured debt and deposit ratings is reflective of the entity's Government-Related Issuer (GRI) status in view of its credit risk profile, governance structure, missions and close ties with the French State. Therefore, CDC's ratings are aligned with the rating of the Government of France.

Although CDC operates as a distinct legal entity, it supports government objectives and policies, typically acting under the directives from the State. The French government's role in the appointment of CDC's senior management, its ongoing oversight and involvement in CDC's strategic decisions, are evidence of the intrinsic operational and financial ties between CDC and the French State. CDC is a public-sector financial institution ("Etablissement Public") with a specific status ("sui generis") derived from a law dating from 28 April 1816. Although there is no explicit guarantee on its debt, CDC is not subject to liquidation laws (articles L. 631-2 and L. 640-2 of French Commercial Code), while its creditors have ultimate recourse to the French State (Law 80-539 enacted on 16 July 1980).

--- EPIC BPIFRANCE AND BPIFRANCE

Today's affirmation of EPIC Bpifrance's Aa2 long-term issuer rating reflects the specific legal status of the entity, its full ownership by the French State and its missions of general interest defined in French law. We align the ratings of EPIC Bpifrance with those of the government of France also owing to the intrinsic operational and financial ties between them. EPIC Bpifrance does not benefit from any explicit guarantee from the Government of France. That said because of its legal status of "Etablissement Public à Caractère Industriel et Commercial" (EPIC) it is not subject to liquidation laws and its creditors have ultimate recourse to the State.

Bpifrance's Aa2 long-term backed senior unsecured debt rating reflects the benefit of an unconditional and irrevocable guarantee from EPIC Bpifrance.

FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

An upgrade of the long-term deposit, issuer and senior unsecured ratings, where applicable, of BFCM, CIC, CMA, CASA, CACIB, GCA's Regional Banks, BNPP, SFIL, 3CIF, CDC Ixis and Ixis CIB, affected by today's rating action is unlikely as expressed by their negative outlooks. An upgrade of the deposit, issuer and senior unsecured ratings, where applicable, of CDC, EPIC Bpifrance and Bpifrance is also unlikely as expressed by the negative outlook on these issuers.

A downgrade of the France's sovereign debt rating would result in a downgrade of the affected ratings.

--- BFCM, CIC, CMA

An upgrade of the long-term deposit and senior unsecured ratings of BFCM, CIC, CMA, affected by today's rating action is unlikely as expressed by their negative outlooks. The Adjusted BCA of these entities could be upgraded if the Group's solvency and liquidity were to further improve. The proximity of these entities' Aa3 long-term deposit and senior unsecured debt ratings with France' sovereign rating of Aa2 would nonetheless constrain the possibility of an upgrade of these ratings.

BFCM, CIC and CMA's long-term deposit and senior unsecured debt ratings could be downgraded because of a deterioration in their standalone financial strength and that of GCM. This could be driven by a significant weakening in the underlying profitability, mainly as a result of worsening asset quality or a further significant deterioration in GCM's net interest margin; a significant weakening of the group's capitalisation; adverse changes in its liquidity or funding profile; or a significant weakening of the operating environment in France.

BFCM, CIC and CMA's long-term deposit and senior unsecured debt ratings could also be downgraded because of diminished subordinated debt at the GCM level, resulting in a higher loss given failure.

--- BNPP

BNPP's long-term ratings could be upgraded if the group manages towards sustainably higher capitalisation levels while maintaining its above-average and highly stable return profile through any cycle; reduces its recourse to shorter-term wholesale funding; and demonstrates strong and sustained stewardship through disciplined risk management, limiting any sudden and significant increase in problem loans and related cost of risk.

BNPP's long-term ratings could be downgraded if the bank maintained its lower regulatory capital buffers or sustained higher regulatory leverage beyond its 2025 planning horizon, together with a sustained deterioration in asset quality or profitability metrics. Further, a marked increase in risk appetite or a material risk management failure could lead to a downgrade. The ratings could also be downgraded in case of a material deterioration in operating conditions in the bank's main markets, beyond our current expectations, accompanied by a significant weakening of its funding and liquidity profile.

Although highly unlikely at present, the ratings could also be downgraded should there be a significant decrease in the bank's existing stock of bail-in-able liabilities, leading to fewer notches of rating uplift as a result of our Advanced LGF analysis.

--- CASA, CACIB, GCA'S FRENCH REGIONAL BANKS

An upgrade of the long-term deposit, issuer and senior unsecured ratings, where

applicable, of CASA, CACIB, and GCA's Regional Banks, affected by today's rating action is unlikely as expressed by their negative outlooks.

An upgrade of CASA's BCA and Adjusted BCA could nevertheless result from stronger Group financial metrics, in particular if the ongoing diversification were to yield sustained improvements in profitability without a deterioration of currently strong asset quality, and if market funding were to account for a lower share of the Group's funding. The proximity of CASA's Aa3 long-term deposit and senior unsecured debt ratings with France's sovereign rating of Aa2 would constrain the possibility of an upgrade of these ratings.

We could downgrade CASA's long-term ratings in case of a significant increase in the Group's asset risk, due to e.g. a worsening of the operating environment in key markets and/or if further pressure on net interest margin in French retail activities were not offset by other revenues. The senior unsecured debt ratings could also be downgraded because of a decrease in their volume and/or in the volume of instruments subordinated to them, which would result in a higher loss-given-failure.

An upgrade of CACIB's BCA could be the result of significantly stronger earnings over a prolonged period of time alongside other improvements in credit fundamentals and lower credit concentrations to volatile industries. An upgrade of CACIB's BCA alone would likely not result in an upgrade of the bank's senior unsecured debt and long-term deposit ratings, given the proximity of CACIB's Aa3 long-term deposit and senior unsecured debt ratings with France's sovereign rating of Aa2.

Downward pressure on CACIB's standalone BCA could result from (1) an unexpected deterioration in the bank's asset quality; (2) higher bank's risk appetite towards much more aggressive capital market activities, which we believe is unlikely at present; and (3) a deterioration in the bank's funding and liquidity positions.

However, a downgrade of CACIB's BCA would result in a downgrade of the bank's senior unsecured debt and long-term deposit ratings only if CASA's Adjusted BCA were also downgraded. We could downgrade CASA's Adjusted BCA, and hence CASA's long-term ratings in the case of a worsening of the operating environment in key markets and/or if further erosion in net interest margin in French retail activities were not offset by other revenues.

The long-term deposit and senior unsecured debt ratings could also be downgraded as a result of a decrease in their volume and/or in the volume of instruments subordinated to them, at the group level, which would lead to a higher loss-given-failure.

--- SFIL

An upgrade of SFIL's long-term deposit, issuer and senior unsecured ratings is unlikely given the negative outlook.

SFIL's BCA could be downgraded as a result of worse-than-expected asset performance or weakening capitalization. SFIL's long-term ratings could also be downgraded in the event of a downgrade of France's sovereign rating. A lower BCA, or a significant change in the bank's liability structure that would entail a material reduction in the volume of long-term senior unsecured debt, and, hence, an increase in loss given failure, would not necessarily lead to a downgrade of SFIL's long-term ratings, given the very high probability of government support for such instrument.

--- CDC

The ratings of CDC would move in sync with the ratings of the French government.

Additionally, should we perceive a material loosening of the ties between CDC and the French State, the long-term ratings could be downgraded.

--- EPIC BPIFRANCE AND BPIFRANCE

An upgrade of EPIC Bpifrance and Bpifrance's long-term ratings is unlikely given the negative outlook.

A downgrade of France's sovereign rating would prompt a downgrade of EPIC Bpifrance's long-term issuer rating and of Bpifrance's backed long-term senior unsecured rating.

Please click on this link https://www.moodys.com/viewresearchdoc.aspx?docid=PBC_ARFTL497957 for the List of Affected Credit Ratings. This list is an integral part of this Press Release and provides, for each of the credit ratings covered, Moody's disclosures on the following items:

- Principal Methodologies

REGULATORY DISCLOSURES

The List of Affected Credit Ratings announced here are a mix of solicited and unsolicited credit ratings. For additional information, please refer to Moody's Policy for Designating and Assigning Unsolicited Credit Ratings available on its website <https://ratings.moodys.com>. Additionally, the List of Affected Credit Ratings includes additional disclosures that vary with regard to some of the ratings. Please click on this link https://www.moodys.com/viewresearchdoc.aspx?docid=PBC_ARFTL497957 for the List of Affected Credit Ratings. This list is an integral part of this Press Release and provides, for each of the credit ratings covered, Moody's disclosures on the following items:

- EU Endorsement Status
- UK Endorsement Status

- Rating Solicitation
- Issuer Participation
- Participation: Access to Management
- Participation: Access to Internal Documents
- Lead Analyst
- Releasing Office
- Person Approving the Credit Rating

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found on <https://ratings.moodys.com/rating-definitions>.

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Regulatory disclosures contained in this press release apply to the credit rating and, if applicable, the related rating outlook or rating review.

The below contact information is provided for information purposes only. For

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