FitchRatings

Banks
Universal Commercial Banks
France

Groupe BPCE

Update

Key Rating Drivers

Strong, Diversified Company Profile: Groupe BPCE's (GBPCE) ratings reflect a strong franchise and diversified business model, strong capitalisation and a focus on generally low-risk businesses. The ratings also reflect asset quality and profitability that are weaker than at most 'A+' rated peers. They further factor in Fitch Ratings' expectation that one-off transformation costs related to the group's 2021-2024 strategic plan and weaker cost efficiency than at many peers will put pressure on GBPCE's profitability in the short term.

Cooperative Structure: GBPCE is a cooperative banking group bound by a mutual-support mechanism comprising its 14 Banques Populaires (BPs), 15 Caisses d'Epargne et de Prevoyance (CEPs), its central body BPCE S.A., and many affiliates, the largest of which are Natixis, Credit Foncier de France (CFF) and Banque Palatine. The group publishes consolidated accounts and affiliated entities share a common strategy and central risk management functions. Fitch consequently has the same Issuer Default Ratings (IDRs) for all these entities.

Large French Banking Group: GBPCE mainly operates in France, where it is the second-largest domestic retail and commercial bank. The group primarily operates through the two large networks of the BPs and the CEPs and has a universal bancassurance business model. Its subsidiary Natixis is a niche corporate and investment bank (CIB), but has significant global asset-management operations.

Strong Capitalisation: Capitalisation is strong and underpins the group's ratings. The common equity Tier 1 (CET1) ratio was 15.8% at end-2021, a level already in line with the medium-term target of above 15.5%. GBPCE has established a long record of maintaining capital well above requirements and we expect further capital accretion over the medium term.

Moderate Risks to Asset Quality: GBPCE's impaired loans ratio is higher than that of similarly rated European banks, but broadly in line with other French cooperative banks following material improvements before the pandemic. The impaired loans ratio remained below 3% in 2021 and we expect a slight increase above 3% by end-2022. Fitch believes asset-quality risks are mitigated by effective state-support measures to the private sector in France and GBPCE's adequate loan loss allowance coverage of impaired loans.

Downside Risks to Profitability: GBPCE's profitability has been stable but moderate relative to that of European peers, in part due to a low risk appetite but also weaker cost efficiency and tighter net interest margins. GBPCE's 2022 performance could suffer from revenue challenges and its structurally high cost/income ratios in comparison with peers following a strong rebound in 2021. However, we expect the bank will continue to focus on implementing its cost savings plan to reduce its performance gap with peers over the medium term.

Diversified Funding Sources: GBPCE benefits from the strong deposit franchise of its regional banks in France. However, its loans/deposits ratio remains higher than that of large French peers, as Natixis and CFF, GBPCE's two largest subsidiaries, are mostly wholesale funded. GBPCE's market funding is diversified by instrument, currency and investor base.

Rating Sensitivities

Weaker Profitability and Asset Quality: We would be likely to downgrade GBPCE if we no longer saw a medium-term path for the group to improve its operating profit/risk-weighted assets (RWAs) to close to 1.5%. The ratings would also come under pressure if we expected the impaired loans ratio to rise above 4%.

Sustained Earnings Improvement: The Outlook could be revised to Stable if there were sustained improvements in earnings with an operating profit/RWAs close to 1.5%.

Ratings

Foreign Currency	
Long-Term IDR	A+
Short-Term IDR	F1
Viability Rating	a+
Support Rating	5
Support Rating Floor	NF
Sovereign Risk	
Long-Term Foreign- and Local-Currency IDRs	AA
Country Ceiling	AAA

Outlooks

Long-Term Foreign-Currency IDR	Negative
Sovereign Long-Term Foreign- and Local-Currency IDRs	Negative

Applicable Criteria

Bank Rating Criteria (November 2021)

Related Research

Fitch Affirms Groupe BPCE at 'A+'; Negative Outlook (October 2021)
Large European Banks Quarterly Credit Tracker (December 2021)
Fitch Ratings 2022 Outlook Western European Banks (December 2021)

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Related Issuer Ratings

BPCE S.A.	Rating
Long- and Short-Term IDRs	A+/Negative/F1
Derivative Counterparty Rating	A+(dcr)
Natixis S.A.	
Long- and Short-Term IDRs	A+/Negative/F1
Derivative Counterparty Rating	A+(dcr)
Credit Foncier de France S.A.	
Long- and Short-Term IDRs	A+/Negative/F1
Banque Palatine S.A.	
Long- and Short-Term IDRs	A+/Negative/F1

Source: Fitch Ratings

GBPCE 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 and have the same IDRs for the entities in the above table and the 14 BPs and 15 CEPs.

Debt Rating Classes

Rating level	Rating
BPCE S.A.	
Senior preferred	A+/F1
Senior non-preferred	A
Subordinated Tier 2	A-
Natixis S.A.	
Senior preferred	A+/F1
Subordinated Tier 2	A-
Credit Foncier de France S.A.	
Senior preferred	A+
Banque Palatine S.A.	
Senior preferred	A+/F1
Credit Cooperatif[a]	
Senior preferred	A+/F1

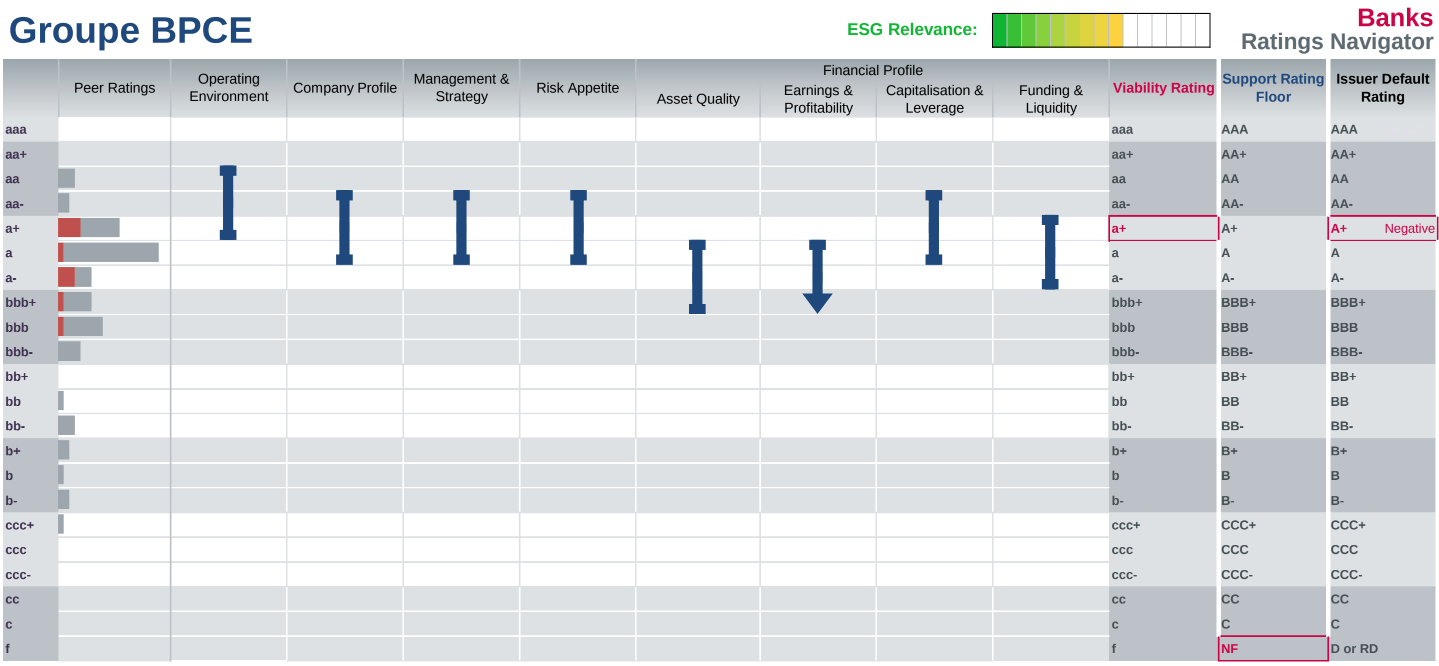
[a] Credit Cooperatif is a Banque Populaire
Source: Fitch Ratings

Fitch rates the senior preferred debt of GBPCE's group entities in line with their IDRs. This is because we expect GBPCE to use senior preferred debt to meet its minimum requirement for own funds and eligible liabilities over the medium term, and buffers of subordinated and senior non-preferred debt are unlikely to exceed 10% of RWAs on a sustained basis.

Senior non-preferred notes issued by BPCE S.A. are rated 'A' or one notch below the central body's Long-Term IDR. This is to reflect the risk of below-average recoveries on these instruments in a resolution.

BPCE S.A. and Natixis's subordinated Tier 2 debt ratings are rated two notches below GBPCE's Viability Rating (VR) for loss severity as we expect recoveries to be poor for this type of debt in the event of a default or non-performance by the bank.

Ratings Navigator



Significant Changes

Strong Rebound in Operating Performance in 2021

GBPCE's good performance in 4Q21 concludes a year of strong rebound from a comparatively weak 2020. Operating profit/RWAs was slightly above 1.5% in 2021, when excluding restructuring costs. This level of profitability still lags behind large European peers despite being better than throughout 2017-2020. Maintaining or improving its operating profit beyond this level is key to GBPCE's ratings. The improved profitability in 2021 mainly came from record revenue at EUR25.7 billion, which was even above GBPCE's 2024 target. GBPCE's key businesses grew their revenue at a moderate to strong pace in 4Q21 and 2021.

A strong revenue growth in excess of costs and a material decline in loan impairment charges also positively contributed to the group's performance. GBPCE's asset quality remains satisfactory and benefited from a sale of impaired loans in 4Q21. Direct banking exposures to Russia and Ukraine are moderate and below EUR1 billion net of guarantees, and present limited risks to GBPCE's asset quality.

Fitch believes GBPCE will not repeat the same level of revenue in 2022. The group estimates that the end of the bonification period (with an up to -1% rate) for its TLTRO drawings in June 2022 and the higher interest rate on French regulated savings will affect its revenue by as much as EUR600 million. We also expect Natixis' revenue in CIB and asset management to level off in 2022, while other businesses will have to deliver on their ambitious growth plans.

As a result of the weaker revenue outlook for 2022, the group will have to intensify cost-efficiency measures to continue improving its weak cost/income ratio towards its 2024 target of 65%. Cost/income was still 69% in 2021 (below 68% when adjusted for regulatory levies), although this is better than the four-year average of about 73%. Further improvements will be gradual and will mainly result from the group's ongoing simplification and revenue growth in excess of costs.

GBPCE has ample headroom relative to its updated total capital requirement, with a high CET1 ratio of 15.8%. The latter increased by 25bp as GBPCE's Pillar 2 requirement was set at a higher level, reflecting the weak 2020 performance and structural weaknesses that the group has been addressing.

Bar Chart Legend

Vertical bars – VR range of Rating Factor

Bar Colours – Influence on final VR

- Higher influence
- Moderate influence
- Lower influence

Bar Arrows – Rating Factor Outlook

⇧	Positive	⇩	Negative
⇳	Evolving	▫	Stable

Summary Financials and Key Ratios

		31 Dec 2021	31 Dec 2020	31 Dec 2019	31 Dec 2018
	Year End	Year End	Year End	Year End	Year End
	USDm	EURm	EURm	EURm	EURm
	Unaudited	Unaudited	Audited - Unqualified	Audited - Unqualified(Emphasis of Matter)	Audited - Unqualified
Summary Income Statement					
Net interest and dividend income	11,356	10,041.0	9,308.0	8,830.0	8,760.0
Net fees and commissions	11,676	10,324.0	9,187.0	9,585.0	9,568.0
Other operating income	6,301	5,571.0	4,225.0	6,155.0	5,956.0
Total operating income	29,334	25,936.0	22,720.0	24,570.0	24,284.0
Operating costs	20,177	17,840.0	16,644.0	17,582.0	17,687.0
Pre-impairment operating profit	9,157	8,096.0	6,076.0	6,988.0	6,597.0
Loan and other impairment charges	2,017	1,783.0	2,998.0	1,367.0	1,299.0
Operating profit	7,140	6,313.0	3,078.0	5,621.0	5,298.0
Other non-operating items (net)	-93	-82.0	-289.0	-83.0	-1.0
Tax	2,201	1,946.0	1,045.0	1,801.0	1,478.0
Net income	4,846	4,285.0	1,744.0	3,737.0	3,819.0
Other comprehensive income	313	277.0	-144.0	809.0	-45.0
Fitch comprehensive income	5,160	4,562.0	1,600.0	4,546.0	3,774.0
Summary Balance Sheet					
Assets					
Gross loans	893,229	789,769.0	753,446.0	699,501.0	663,380.0
- of which impaired	24,603	21,753.0	21,479.0	21,552.0	21,433.0
Loan loss allowances	15,526	13,728.0	13,538.0	12,810.0	12,617.0
Net loans	877,703	776,041.0	739,908.0	686,691.0	650,763.0
Interbank	104,556	92,446.0	87,863.0	84,624.0	84,684.0
Derivatives	63,640	56,269.0	58,782.0	64,511.0	59,507.0
Other securities and earning assets	406,685	359,580.0	356,027.0	365,637.0	340,691.0
Total earning assets	1,452,585	1,284,336.0	1,242,580.0	1,201,463.0	1,135,645.0
Cash and due from banks	210,725	186,317.0	153,403.0	80,244.0	76,458.0
Other assets	51,311	45,368.0	50,286.0	56,357.0	61,823.0
Total assets	1,714,620	1,516,021.0	1,446,269.0	1,338,064.0	1,273,926.0
Liabilities					
Customer deposits	748,890	662,148.0	625,732.0	554,705.0	523,469.0
Interbank and other short-term funding	368,436	325,761.0	313,799.0	269,620.0	260,328.0
Other long-term funding	224,944	198,889.0	191,635.0	190,865.0	181,092.0
Trading liabilities and derivatives	89,477	79,113.0	75,255.0	81,836.0	81,591.0
Total funding and derivatives	1,431,746	1,265,911.0	1,206,421.0	1,097,026.0	1,046,480.0
Other liabilities	192,513	170,215.0	161,133.0	163,394.0	153,706.0
Preference shares and hybrid capital	343	303.0	455.0	455.0	1,169.0
Total equity	90,019	79,592.0	78,260.0	77,189.0	72,571.0
Total liabilities and equity	1,714,620	1,516,021.0	1,446,269.0	1,338,064.0	1,273,926.0
Exchange rate		USD1 = EUR0.884173	USD1 = EUR0.821963	USD1 = EUR0.89015	USD1 = EUR0.873057

Source: Fitch Ratings, Fitch Solutions, GBPCE

Summary Financials and Key Ratios

	31 Dec 2021	31 Dec 2020	31 Dec 2019	31 Dec 2018
Ratios (annualised as appropriate)				
Profitability				
Operating profit/risk-weighted assets	1.4	0.7	1.3	1.4
Net interest income/average earning assets	0.8	0.8	0.8	0.8
Non-interest expense/gross revenue	69.4	73.8	72.3	73.7
Net income/average equity	5.5	2.3	5.0	5.4
Asset quality				
Impaired loans ratio	2.8	2.9	3.1	3.2
Growth in gross loans	4.8	7.7	5.4	1.4
Loan loss allowances/impaired loans	63.1	63.0	59.4	58.9
Loan impairment charges/average gross loans	0.2	0.4	0.2	0.2
Capitalisation				
Common equity Tier 1 ratio	15.8	16.0	15.7	15.8
Fully loaded common equity Tier 1 ratio	15.8	16.0	15.7	15.9
Tangible common equity/tangible assets	4.8	4.9	5.3	5.2
Basel leverage ratio	5.8	5.6	5.3	5.3
Net impaired loans/common equity Tier 1	11.5	11.5	13.3	14.2
Funding and liquidity				
Gross loans/customer deposits	119.3	120.4	126.1	126.7
Liquidity coverage ratio	158.0	156.0	141.0	n.a.
Customer deposits/total non-equity funding	54.6	54.2	53.6	53.0

Source: Fitch Ratings, Fitch Solutions, GBPCE

Sovereign Support Assessment

Support Rating Floor			Value
Typical D-SIB SRF for sovereign's rating level (assuming high propensity)			A or A-
Actual country D-SIB SRF			NF
Support Rating Floor:			**NF**
Support Factors	**Positive**	**Neutral**	**Negative**
Sovereign ability to support system			
Size of banking system relative to economy			✓
Size of potential problem	✓		
Structure of banking system			✓
Liability structure of banking system		✓	
Sovereign financial flexibility (for rating level)	✓		
Sovereign propensity to support system			
Resolution legislation with senior debt bail-in			✓
Track record of banking sector support		✓	
Government statements of support		✓	
Sovereign propensity to support bank			
Systemic importance		✓	
Liability structure of bank		✓	
Ownership		✓	
Specifics of bank failure		✓	
Policy banks			
Policy role			
Funding guarantees and legal status			
Government ownership			

No Reliance on Sovereign Support

GBPCE's Support Rating of '5' and Support Rating Floor of 'No Floor' reflect Fitch's view that, although possible, sovereign support cannot be relied on. 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 or ahead of the bank receiving sovereign support, despite GBPCE's systemic importance.

Environmental, Social and Governance Considerations

FitchRatings **Groupe BPCE**

Banks
Ratings Navigator

Credit-Relevant ESG Derivation

Groupe BPCE has 5 ESG potential rating drivers

- Groupe BPCE has exposure to compliance risks including fair lending practices, mis-selling, repossession/foreclosure practices, consumer data protection (data security) but this has very low impact on the rating.
- Governance is minimally relevant to the rating and is not currently a driver.

			Overall ESG Scale
key driver	0	issues	5
driver	0	issues	4
potential driver	5	issues	3
not a rating driver	4	issues	2
	5	issues	1

Environmental (E)

General Issues	E Score	Sector-Specific Issues	Reference
GHG Emissions & Air Quality	1	n.a.	n.a.
Energy Management	1	n.a.	n.a.
Water & Wastewater Management	1	n.a.	n.a.
Waste & Hazardous Materials Management; Ecological Impacts	1	n.a.	n.a.
Exposure to Environmental Impacts	2	Impact of extreme weather events on assets and/or operations and corresponding risk appetite & management; catastrophe risk; credit concentrations	Company Profile; Management & Strategy; Risk Appetite; Asset Quality

E Scale: 5, 4, 3, 2, 1

Social (S)

General Issues	S Score	Sector-Specific Issues	Reference
Human Rights, Community Relations, Access & Affordability	2	Services for underbanked and underserved communities: SME and community development programs; financial literacy programs	Company Profile; Management & Strategy; Risk Appetite
Customer Welfare - Fair Messaging, Privacy & Data Security	3	Compliance risks including fair lending practices, mis-selling, repossession/foreclosure practices, consumer data protection (data security)	Operating Environment; Company Profile; Management & Strategy; Risk Appetite
Labor Relations & Practices	2	Impact of labor negotiations, including board/employee compensation and composition	Company Profile; Management & Strategy
Employee Wellbeing	1	n.a.	n.a.
Exposure to Social Impacts	2	Shift in social or consumer preferences as a result of an institution's social positions, or social and/or political disapproval of core banking practices	Company Profile; Financial Profile

S Scale: 5, 4, 3, 2, 1

Governance (G)

General Issues	G Score	Sector-Specific Issues	Reference
Management Strategy	3	Operational implementation of strategy	Management & Strategy
Governance Structure	3	Board independence and effectiveness; ownership concentration; protection of creditor/stakeholder rights; legal /compliance risks; business continuity; key person risk; related party transactions	Management & Strategy; Earnings & Profitability; Capitalisation & Leverage
Group Structure	3	Organizational structure; appropriateness relative to business model; opacity; intra-group dynamics; ownership	Company Profile
Financial Transparency	3	Quality and frequency of financial reporting and auditing processes	Management & Strategy

G Scale: 5, 4, 3, 2, 1

How to Read This Page
ESG scores range from 1 to 5 based on a 15-level color gradation. Red (5) is most relevant and green (1) is least relevant.

The Environmental (E), Social (S) and Governance (G) tables break out the individual components of the scale. The right-hand box shows the aggregate E, S, or G score. General Issues are relevant across all markets with Sector-Specific Issues unique to a particular industry group. Scores are assigned to each sector-specific issue. These scores signify the credit-relevance of the sector-specific issues to the issuing entity's overall credit rating. The Reference box highlights the factor(s) within which the corresponding ESG issues are captured in Fitch's credit analysis.

The Credit-Relevant ESG Derivation table shows the overall ESG score. This score signifies the credit relevance of combined E, S and G issues to the entity's credit rating. The three columns to the left of the overall ESG score summarize the issuing entity's sub-component ESG scores. The box on the far left identifies some of the main ESG issues that are drivers or potential drivers of the issuing entity's credit rating (corresponding with scores of 3, 4 or 5) and provides a brief explanation for the score.

Classification of ESG issues has been developed from Fitch's sector ratings criteria. The General Issues and Sector-Specific Issues draw on the classification standards published by the United Nations Principles for Responsible Investing (PRI) and the Sustainability Accounting Standards Board (SASB).

Sector references in the scale definitions below refer to Sector as displayed in the Sector Details box on page 1 of the navigator.

CREDIT-RELEVANT ESG SCALE

How relevant are E, S and G issues to the overall credit rating?

5	Highly relevant, a key rating driver that has a significant impact on the rating on an individual basis. Equivalent to "higher" relative importance within Navigator.
4	Relevant to rating, not a key rating driver but has an impact on the rating in combination with other factors. Equivalent to "moderate" relative importance within Navigator.
3	Minimally relevant to rating, either very low impact or actively managed in a way that results in no impact on the entity rating. Equivalent to "lower" relative importance within Navigator.
2	Irrelevant to the entity rating but relevant to the sector.
1	Irrelevant to the entity rating and irrelevant to the sector.

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 the way in which they are being managed by the entity. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg.

The ratings above were solicited and assigned or maintained at the request of the rated entity/issuer or a related third party. Any exceptions follow below.