FitchRatings

Banks
Universal Commercial Banks
France

Groupe BPCE

Update

Key Rating Drivers

Strong, Diversified Company Profile: Groupe BPCE's (GBPCE) ratings reflect its strong franchise and diversified business model, strong regulatory capitalisation metrics and a focus on generally low-risk businesses. Asset quality and profitability are rating weaknesses compared with other 'A+' rated peers' and Fitch Ratings expects increased pressure on both factors in the near term as a result of the economic fallout from the coronavirus pandemic.

Cooperative Structure: GBPCE is a cooperative banking group bound by a legally established cross-support mechanism comprising its 14 Banques Populaires (BPs), 15 Caisses d'Epargne et de Prevoyance (CEPs), its central body BPCE S.A. and many other affiliates, the largest being Natixis S.A., Credit Foncier de France S.A. (CFF) and Banque Palatine S.A. Fitch has the same IDRs for GBPCE, BPCE S.A., the regional banks, Natixis, CFF and Banque Palatine.

Large French Banking Group: GBPCE mainly operates in France, where it ranks as the second-largest domestic player in retail and commercial banking. GBPCE has a universal bancassurance business model. Its partially listed subsidiary Natixis is a niche player in corporate and investment banking (CIB), but is a significant global player in asset management through its 24 affiliates (including H2O Asset Management, which is being sold).

Strong Capitalisation: GBPCE's common equity Tier 1 (CET1) ratio is a key rating strength. GBPCE has established a long record of maintaining its capital metrics well above regulatory requirements, and we expect the CET1 ratio (16.1% at end-March 2021) to remain in line with the group's strategic target of at least 15.5%.

Downside Asset Quality Risk: GBPCE's impaired loan ratio is broadly in line with other French cooperative banks', at about 3%. The stock of Stage 3 loans has moderately increased in the year-to-date as extensive government support schemes in France have provided relief to many private-sector borrowers. However, we expect GBPCE's asset quality to deteriorate in the next 12-18 months, but with an impaired loans ratio not materially higher than 4% by end-2022.

Profitability Under Pressure: We expect GBPCE's profitability to be weaker than previously expected, at least until end-2021. We expect the bank will only return to an operating profit/risk-weighted assets (RWAs) closer to 1.5% during 2022 on renewed revenue growth, realised cost savings and normalising loan impairment charges (LICs). To reach profitability more in line with that of similarly rated peers, further cost savings while continuing to grow its revenue organically are important.

Diversified Funding Sources: GBPCE benefits from the strong deposit franchise of its regional banks in France, 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 by instrument, currency and investor base.

Rating Sensitivities

Negative Outlook: The Negative Outlook on GBPCE's Long-Term IDR reflects downside risks to the group's financial profile. A slowdown in, or severe setbacks to, the economic recovery in France would exacerbate these downside risks.

Weaker Profitability and Asset Quality: We would likely downgrade GBPCE's ratings if its asset quality deteriorates faster than expected, meaning that the impaired loans ratio would remain above 4% for an extended period, or if operating profit/RWAs fails to improve to levels close to 1.5% by 2022. In such an event, we would also consider whether GBPCE's CET1 ratio remains commensurate with its credit risk profile.

Ratings

Foreign Currency	
Long-Term IDR	A+
Short-Term IDR	F1
Viability Rating	a+
Support Rating	5
Support Rating Floor	No Floor
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 (February 2020)

Related Research

French Bancassurance Business Models (April 2021)

Large European Banks Quarterly Credit Tracker - 4Q20 (March 2021)

Moment of Reckoning Approaching for Western EU Banks' Loan Moratoria (April 2021)

Groupe BPCE (November 2020)

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Related Issuer Ratings

BPCE S.A.	Rating
Long-Term IDR	A+
Short-Term IDR	F1
Derivative Counterparty Rating	A+(dcr)
Natixis S.A.	
Long-Term IDR	A+
Short-Term IDR	F1
Derivative Counterparty Rating	A+(dcr)
Credit Foncier de France S.A.	
Long-Term IDR	A+
Short-Term IDR	F1
Banque Palatine S.A.	
Long-Term IDR	A+
Short-Term IDR	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 in accordance with Annex 4 of our Bank Rating Criteria 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

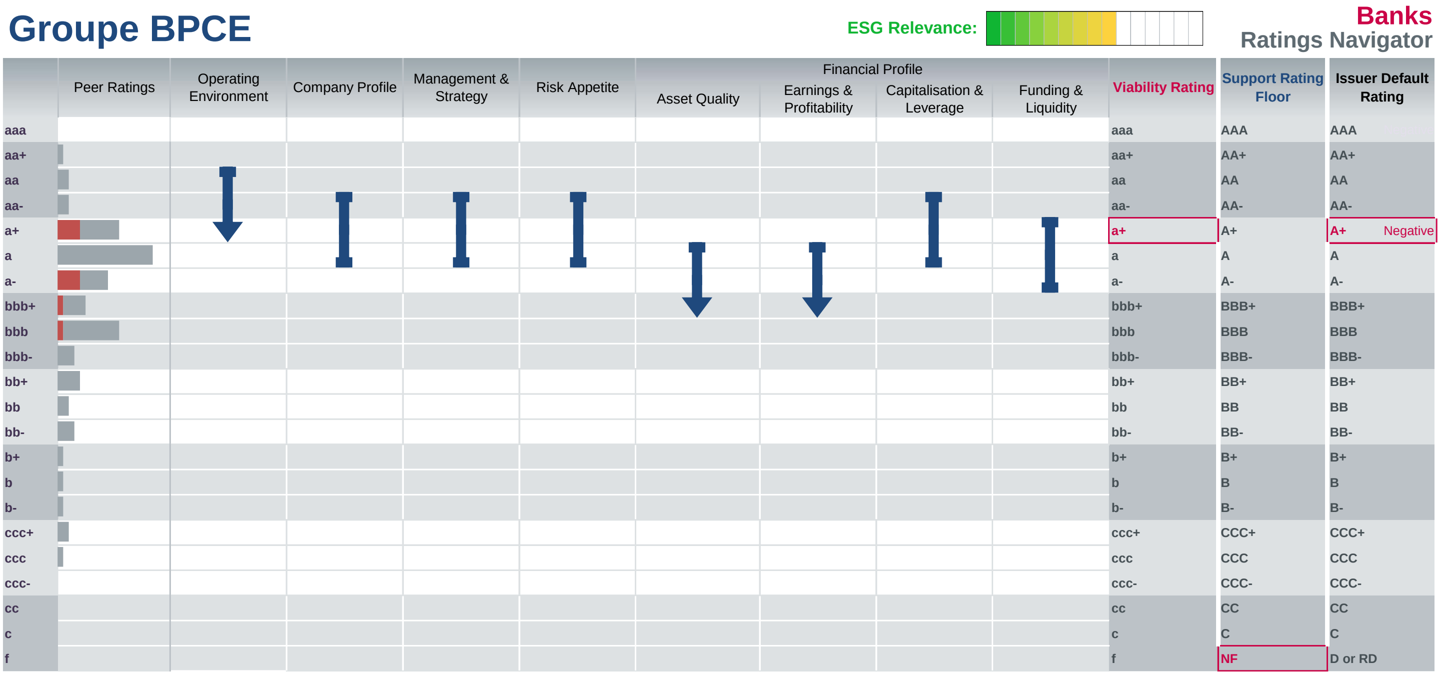
[a] Credit Cooperatif is a Banque Populaire
Source: Fitch Ratings

Fitch rates the senior preferred debt of GBPCE's group entities in line with their IDRs (A+/Negative/F1). This is because GBPCE is expected to use senior preferred debt to meet its minimum requirement for own funds and eligible liabilities (MREL) 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.'s 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 default/non-performance of the bank.

Ratings Navigator



Significant Changes

Profitability Set to Recover in 2021

GBPCE's profitability recovered further in 1Q21 to a level similar to 1Q19's, benefiting from improved economic conditions and a high level of CIB activity, while large French banks have generally reported stronger profitability in 1Q21 compared with 1Q19. All business lines exhibited better or stable revenue compared with 1Q20, which however was a low base.

CIB performed well in 1Q21 across all businesses. The equity business recorded a very strong quarter, outperforming Natixis' expected run-rate, indicating potential difficulties to maintain this level for the rest of 2021. Reduced funding costs due to the TLTRO and healthy commercial activity have supported strong revenue growth in the retail-banking networks, which should benefit from the gradual withdrawal of lockdown measures in France.

Asset- and wealth-management revenue remained stable yoy, supported by increasing assets under management to EUR1,153 billion at end-March 2021. The expected disposal of H2O asset management should lead to a moderate decline in revenue, which should be absorbed by business growth elsewhere.

GBPCE's operating expenses remained stable in 1Q21 yoy, highlighting strong cost discipline as observed in recent quarters, despite investments in insurance and payments, where the bank is still growing its franchises.

Operating profit continues to be affected by higher LICs than in 2019, even though provisioning is starting to normalise. LICs decreased to 26bp of gross loans in 1Q21 (35bp in 1Q20 excluding a positive methodological effect), as forward-looking provisions on Stage 1 and Stage 2 loans decreased to about a fifth of total LICs.

Stage 3 loans increased slightly qoq and we expect further inflows in 2021, which should lead to a moderate increase in GBPCE's impaired loan ratio. GBPCE did not record provision reversals in 1Q21, indicating a prudent approach to assessing downside risks to asset quality. Uncertainties remain on the performance of some vulnerable French SMEs and small businesses once government-support measures expire.

Bar Chart Legend

Vertical bars – VR range of Rating Factor

Bar Colors – 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 Mar 2021	31 Dec 2020	31 Dec 2019	31 Dec 2018
	3 Months - 1st Quarter	3 Months - 1st Quarter	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	n.a.	n.a.	9,308.0	8,830.0	8,760.0
Net fees and commissions	n.a.	n.a.	9,187.0	9,585.0	9,568.0
Other operating income	7,262	6,194.0	4,225.0	6,155.0	5,956.0
Total operating income	7,262	6,194.0	22,720.0	24,570.0	24,284.0
Operating costs	5,458	4,655.0	16,644.0	17,582.0	17,687.0
Pre-impairment operating profit	1,804	1,539.0	6,076.0	6,988.0	6,597.0
Loan and other impairment charges	575	490.0	2,998.0	1,367.0	1,299.0
Operating profit	1,230	1,049.0	3,078.0	5,621.0	5,298.0
Other non-operating items (net)	-1	-1.0	-289.0	-83.0	-1.0
Tax	483	412.0	1,045.0	1,801.0	1,478.0
Net income	746	636.0	1,744.0	3,737.0	3,819.0
Other comprehensive income	n.a.	n.a.	-144.0	809.0	-45.0
Fitch comprehensive income	746	636.0	1,600.0	4,546.0	3,774.0
Summary Balance Sheet					
Assets					
Gross loans	882,418	752,597.0	753,446.0	699,501.0	663,380.0
- of which impaired	n.a.	n.a.	20,755.0	20,926.0	21,433.0
Loan loss allowances	n.a.	n.a.	13,538.0	12,810.0	12,617.0
Net loans	882,418	752,597.0	739,908.0	686,691.0	650,763.0
Interbank	114,633	97,768.0	87,863.0	84,624.0	84,684.0
Derivatives	18,113	15,448.0	58,782.0	64,511.0	59,507.0
Other securities and earning assets	478,866	408,415.0	356,027.0	365,637.0	340,691.0
Total earning assets	1,494,030	1,274,228.0	1,242,580.0	1,201,463.0	1,135,645.0
Cash and due from banks	211,580	180,452.0	153,403.0	80,244.0	76,458.0
Other assets	38,196	32,577.0	50,286.0	56,357.0	61,823.0
Total assets	1,743,806	1,487,257.0	1,446,269.0	1,338,064.0	1,273,926.0
Liabilities					
Customer deposits	756,459	645,169.0	625,732.0	554,705.0	523,469.0
Interbank and other short-term funding	186,676	159,212.0	313,799.0	269,620.0	260,328.0
Other long-term funding	516,297	440,339.0	191,635.0	190,865.0	181,092.0
Trading liabilities and derivatives	16,526	14,095.0	75,255.0	81,836.0	81,591.0
Total funding	1,475,958	1,258,815.0	1,206,421.0	1,097,026.0	1,046,480.0
Other liabilities	174,382	148,727.0	161,133.0	163,394.0	153,706.0
Preference shares and hybrid capital	n.a.	n.a.	303.0	455.0	1,169.0
Total equity	93,466	79,715.0	78,412.0	77,189.0	72,571.0
Total liabilities and equity	1,743,806	1,487,257.0	1,446,269.0	1,338,064.0	1,273,926.0
Exchange rate		USD1 = EUR0.85288	USD1 = EUR0.821963	USD1 = EUR0.89015	USD1 = EUR0.873057

Source : Fitch Ratings, Fitch Solutions, GBPCE

Summary Financials and Key Ratios

	31 Mar 2021	31 Dec 2020	31 Dec 2019	31 Dec 2018
Ratios (annualised as appropriate)				
Profitability				
Operating profit/risk-weighted assets	1.0	0.7	1.3	1.4
Net interest income/average earning assets	n.a.	0.8	0.8	0.8
Non-interest expense/gross revenue	75.2	73.8	72.3	73.7
Net income/average equity	3.3	2.3	5.0	5.4
Asset quality				
Impaired loans ratio	n.a.	2.8	3.0	3.2
Growth in gross loans	-0.1	7.7	5.4	1.4
Loan loss allowances/impaired loans	n.a.	65.2	61.2	58.9
Loan impairment charges/average gross loans	0.3	0.4	0.2	0.2
Capitalisation				
Common equity Tier 1 ratio	16.1	16.0	15.7	15.8
Fully loaded common equity Tier 1 ratio	16.1	16.0	15.7	15.9
Tangible common equity/tangible assets	4.9	4.9	5.3	5.2
Basel leverage ratio	5.4	5.6	5.3	5.3
Net impaired loans/common equity Tier 1	n.a.	10.5	12.3	14.2
Funding and liquidity				
Loans/customer deposits	116.7	120.4	126.1	126.7
Liquidity coverage ratio	165.0	156.0	n.a.	n.a.
Customer deposits/funding	51.8	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 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. This implies 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.

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	E Scale
GHG Emissions & Air Quality	1	n.a.	n.a.	5
Energy Management	1	n.a.	n.a.	4
Water & Wastewater Management	1	n.a.	n.a.	3
Waste & Hazardous Materials Management; Ecological Impacts	1	n.a.	n.a.	2
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	1

Social (S)

General Issues	S Score	Sector-Specific Issues	Reference	S Scale
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	5
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	4
Labor Relations & Practices	2	Impact of labor negotiations, including board/employee compensation and composition	Company Profile; Management & Strategy	3
Employee Wellbeing	1	n.a.	n.a.	2
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	1

Governance (G)

General Issues	G Score	Sector-Specific Issues	Reference	G Scale
Management Strategy	3	Operational implementation of strategy	Management & Strategy	5
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	4
Group Structure	3	Organizational structure; appropriateness relative to business model; opacity; intra-group dynamics; ownership	Company Profile	3
Financial Transparency	3	Quality and frequency of financial reporting and auditing processes	Management & Strategy	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 Priniciples 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.

GBPCE's 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.

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.