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BPCE

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Table Of Contents

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BPCE

SACP	a
Anchor	bbb+	
Business Position	Strong	+1
Capital and Earnings	Strong	+1
Risk Position	Adequate	0
Funding	Average	0
Liquidity	Adequate	

\+

Support	+1
ALAC Support	+1
GRE Support	0
Group Support	0
Sovereign Support	0

\+

Additional Factors	0

Issuer Credit Rating

A+/Negative/A-1

Resolution Counterparty Rating

AA-/--/A-1+

Major Rating Factors

Strengths:	Weaknesses:
• Second-largest retail bank in France, with a stable franchise in core businesses. • Focused and well-executed strategy oriented toward areas of expertise.	• Lower profitability due to the COVID-19 pandemic and increased credit provisioning. • Dampening effect of structurally low interest rates on retail revenues. • Comparatively unfavorable group efficiency metrics.

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Outlook: Negative

The negative outlook reflects our view of a negative trend for economic and industry risks in France. We could lower our ratings on French bank BPCE due to rising economic and industry risks in the country's banking market. The negative outlook also reflects bank-specific factors, such as the risk that BPCE could be unable to restore its main credit metrics--notably solvency, profitability, and cost-to-income efficiency--over the next two years, especially compared with rated peers with an 'a' group stand-alone credit profile (SACP).

Downside scenario

We could downgrade BPCE in the next 12-18 months if the pandemic worsens the operating conditions for French banks, leading us to revise downward our Banking Industry Country Risk Assessment, and, notably, the anchor that is the starting point for our rating on a domestic bank. Failure by BPCE to achieve cost-to-income efficiency and generate sustainable operating returns could also result in a downgrade. We will monitor BPCE's ability to narrow the profitability and cost-to-income gap between itself and similarly rated peers, including cooperative and low-risk entities focused on retail banking in Europe. In addition, BPCE's inability to restore its capital strength, with an S&P Global Ratings risk-adjusted capital (RAC) ratio before diversification sustainably above 10%, or maintain its additional loss-absorbing capacity (ALAC), would prompt a downgrade. If we revised downward our assessment of the group SACP, we would downgrade BPCE's subordinated instruments, including the senior nonpreferred notes.

Upside scenario

We would consider revising the outlook to stable once the economic and industry risk trends for the French banking system return to stable. An outlook revision would then also depend on BPCE's capitalization remaining favorable compared with its risks, and BPCE addressing its pockets of inefficiency to restore profitability closer to that of other European banks with an 'a' group SACP.

Rationale

Our 'a' SACP on BPCE ranks among the highest we have assigned to large European banking groups. It reflects our view of BPCE's prominent franchise in French retail banking, coherent strategy, moderate risk appetite, and conservative financial policy. Adding to the diversification of the group's business profile are its recognized positions in corporate and investment banking (CIB) and asset gathering. BPCE relies on a large and sticky deposit base, but also on confidence-sensitive market sources to fund its two largest wholesale-funded subsidiaries, Natixis S.A. and Credit Foncier de France (CFF; managed in run-off). We note that BPCE is one of the 30 global systemically important banks.

Following the COVID-19 pandemic, French and European authorities have delivered unprecedented responses to support their economies, corporate sectors, and populations. However, although we expect banks in France to remain largely resilient to this short-term cyclical shock, we expect it to have a meaningful effect, notably on their asset quality and profitability. The near-term risks that we see for BPCE, as well as for its European peers, relate to the negative aftereffects of the pandemic. In addition, banks with an 'a' group SACP typically display more diversified business models or stronger solvency metrics than BPCE. For this reason, we see stronger earnings at Credit Agricole S.A., BNP Paribas, KBC Group N.V., and ING Groep N.V. (ING), and stronger solvency metrics, as measured by our RAC ratio, at

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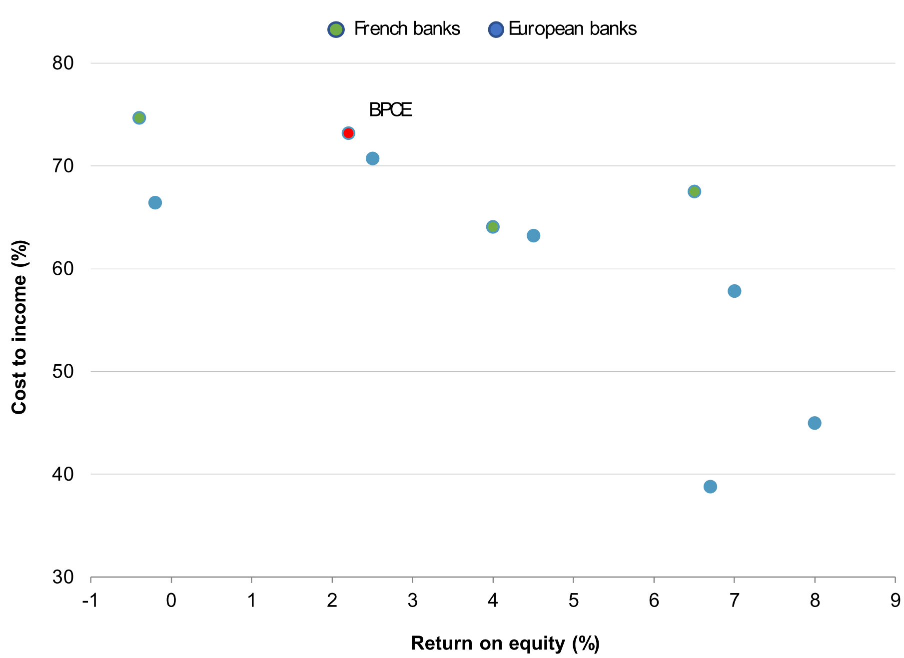
Cooperatieve Rabobank U.A., Swedbank AB, and Nykredit Bank A/S. BPCE's stretched capital ratios for the ratings--together with its structurally modest profitability (2.3% in 2020) and higher cost-to-income ratio (73.3% in 2020) compared with most European peers--are putting additional strain on the ratings. This additional pressure comes from bank-specific factors, and adds to the challenges arising from the economic weakness due to the pandemic, low interest rates, and digitalization-related investments, which all banks in Europe face.

Most of BPCE's exposures are in France and its loan book has good underlying quality. BPCE's large book of domestic housing loans should continue to perform relatively well, but the group is also exposed to corporate sectors hit by the pandemic, such as oil and gas and leveraged finance, as well as to France-based small-to-midsize enterprises (SMEs). We expect that losses will crystallize mostly in these pockets of risk.

BPCE's intended cash purchase of the remaining shares in Natixis will reduce the group's buffers to absorb any additional pressure on asset quality, asset growth, and earnings, thereby weakening its solvency metrics during 2021. However, in our base case, we assume that BPCE's capital strength will recover, thanks to better profits in 2021 and 2022, albeit still lower than in 2020, and note that headroom to absorb deviations in the next two years at the current ratings has diminished. Low dividends and regular sales of cooperative shares support this assessment. Under our central scenario, BPCE's senior preferred bondholders should continue to benefit from the group's regular issuance of senior nonpreferred notes. This enables us to grant one notch of ALAC support to the long-term rating on BPCE.

Chart 1

BPCE's Efficiency And Profitability Measures Versus Peers
Year-end 2020



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Anchor:'bbb+' for banks operating predominantly in France

We use our Banking Industry Country Risk Assessment methodology to determine a bank's anchor, the starting point in assigning an issuer credit rating. France is in group 3, along with the U.S., the U.K., Australia, the Netherlands, and Denmark. Our 'bbb+' anchor for a bank operating in France is based on our economic and industry risk scores of '3', on a scale of '1' to '10' ('1' being the lowest risk). BPCE's weighted economic risk score rounds down to '3', indicating that the bulk of its assets are in its domestic market. Since April 23, 2020, we have seen negative trends for both our economic and our industry risk scores. We see increased risks to French banks' credit profiles resulting from the economic and financial-market implications of the COVID-19 pandemic.

Following severe recessions in France and most European countries in 2020, economies appear to be recovering as lockdowns ease. We anticipate a recovery in 2021, but not one that will immediately and entirely offset damage to the economy, household wealth, and various corporate sectors. We also note that this situation comes at a time when the French banking sector was already suffering from pressure on profitability due to low interest rates and heavy cost bases. For France, we now envisage a 5.6% GDP rebound in 2021. We see unemployment rising to almost 9.5%. Wide-ranging fiscal and related monetary measures have supported the banking system during the pandemic. However, the policy response in France may be less than totally successful in avoiding permanent economic damage later, particularly if the economic recovery is delayed. In addition, a significant component of the fiscal support package entails increasing indebtedness--for the sovereign and many businesses--which may result in greater vulnerabilities. We project that French banks' credit losses in their domestic operations will reach around 50 basis points (bps) in 2021, more than twice the 2019 level.

Regarding industry risk, cost-to-income efficiency is a weakness for French banks compared with their European peers, notably due to a still-dense branch network, the dominance of cooperative banking groups--which have fewer incentives to maximize profits than listed ones--and very low margins on some products, such as housing loans. An increasing gap between the cost-to-income ratios and profitability of French banks versus some of their European peers could indicate a weaker operating environment for French banks. At a time when low interest rates are constraining banks' prospective revenues, this gap could result from banks failing to implement cost-to-income efficiency measures in their domestic retail activities, to rationalize their branches, and to achieve more cross-selling via digital channels.

Finally, the universal banking model of most French banks implies some reliance on wholesale markets, exposing the banking sector to market shocks. Increasing funding costs would exacerbate profitability challenges. The system's relatively large reliance on wholesale funding is partly attributable to households' propensity to save in nonbank and regulated savings accounts.

Table 1

BPCE--Key Figures

	--Year ended Dec. 31--				
(Mil. €)	**2020**	**2019**	**2018**	**2017**	**2016**
Adjusted assets	1,239,863.0	1,142,346.0	1,089,089.0	1,086,059.0	1,066,613.0
Customer loans (gross)	753,446.0	699,501.0	663,380.0	629,870.0	603,126.0
Adjusted common equity	63,020	62,264.9	58,241.5	55,359.0	50,453.0

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Table 1

BPCE--Key Figures (cont.)					
	--Year ended Dec. 31--				
(Mil. €)	**2020**	**2019**	**2018**	**2017**	**2016**
Operating revenues	22,720.0	24,571.0	24,255.0	24,018.0	23,697.0
Noninterest expenses	16,644.0	17,582.0	17,687.0	17,099.0	16,673.0
Core earnings	1,924.7	3,747.3	3,737.0	3,710.2	3,663.4

Business position: Prominent position in a competitive home market with intensifying profitability challenges

BPCE's business profile boasts a leading and longstanding position in domestic retail banking, where it ranks No. 2. Adding to its setup are recognized franchises in CIB and asset gathering, both hosted at Natixis. BPCE's business model results in stable earnings generation, demonstrated by low volatility in revenues over the past decade, although global market equity revenues at Natixis were hit in early 2020 due to dividend cancellations driving structured product markdowns. In addition, BPCE's cost-to-income efficiency remains below the peer average. The group's universal banking model enables it to offer a diversified product range to a large customer base. However, we consider its geographic breadth to be more limited than some European peers', such as Credit Mutuel Group, Crédit Agricole, Nordea Bank Abp, and ING. BPCE is the result of the merger in 2009 of Banque Populaire and Caisse d'Epargne, one of the oldest banks in France.

BPCE's management runs a coherent and focused strategy, which historically it has executed in a consistent manner. In recent years, the group has been aiming to expand profitably, reinforce its balance sheet, simplify its structure, and sell nonstrategic businesses. Under its strategic plan, TEC2020, BPCE has expanded all core businesses and developed synergies, while preserving a moderate risk appetite and strong capital. BPCE has demonstrated its ability to seize opportunities to dispose of noncore assets, but also to expand where it sees growth opportunities. For example, the group has restructured its retail networks and CFF, whose activities it has incorporated within Natixis and its retail networks, and divested a 29.5% stake in French credit insurer Coface. It also plans to divest its residual interests in Africa through the planned sale of its Tunisian subsidiary, and in Fidor Bank AG, a digital bank that no longer fits its digital strategy. In 2019, BPCE acquired a majority stake in Oney Bank, a small consumer finance specialist operating in France as well as in several other countries.

BPCE will unveil its new strategic plan at the beginning of the summer 2021. Our ratings incorporate the following:

- A strategy favoring organic development;
- Retail and customer-related wholesale banking remaining the cornerstone of the group's business model;
- BPCE enhancing its position in bancassurance and digital;
- International development being selective and targeted; and
- An increasing focus on sustainability and the transition to a greener economy.

The new plan will likely reinforce BPCE's efforts and initiatives to tackle costs as the low interest-rate environment in Europe and low margins on housing loans in France continue to exert pressure on operating returns. Although BPCE is

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launching additional cost-saving measures, tangible benefits that would move BPCE's cost-to-income efficiency closer to that of its domestic and international peers may take more time to materialize. In February 2021, BPCE announced its intention to acquire the remaining 29.3% of Natixis in an all-cash transaction. We see the transaction as a positive step ahead of the group's new strategic plan to be unveiled at the beginning of the summer 2021. One aim of BPCE's forthcoming strategic plan will be to simplify the group structure to further strengthen earnings retention and enhance the flexibility of capital flows amid an increasingly strict regulatory environment.

Retail banking and insurance in France traditionally account for more than two-thirds of BPCE's revenues. BPCE's shares of domestic credits and deposits are sticky, standing at 21% and 22%, respectively. BPCE has strong social roots, with 15 million active customers in its two retail networks, Banque Populaire (BP) and Caisse d'Epargne (CE). It operates through a dense network comprising more than 7,000 branches and increasingly through digital channels. Banque Populaire and Caisse d'Epargne are the group's two main brands: the former largely serves local entrepreneurs and SMEs, while the latter mainly caters to individuals. BPCE directs its specialized financial services and insurance activities toward its retail clients. It is gradually consolidating its position in bancassurance, relying on both Natixis Assurances and its renewed partnership with CNP Assurances. Finally, BPCE has completed its plan to integrate CFF's employees into the wider group. CFF is now focusing on managing its loan portfolio through runoff. In 2020, BPCE experienced a strong take-up in digital and self-service transactions, supporting fluid and secure banking operations, including almost five times more active Secur-Pass customers using strong authentication. Consumer loans initiated via digital pathways were up in 2020 14% for BP (+8% versus 2019) and 20% for CE (+5% versus 2019).

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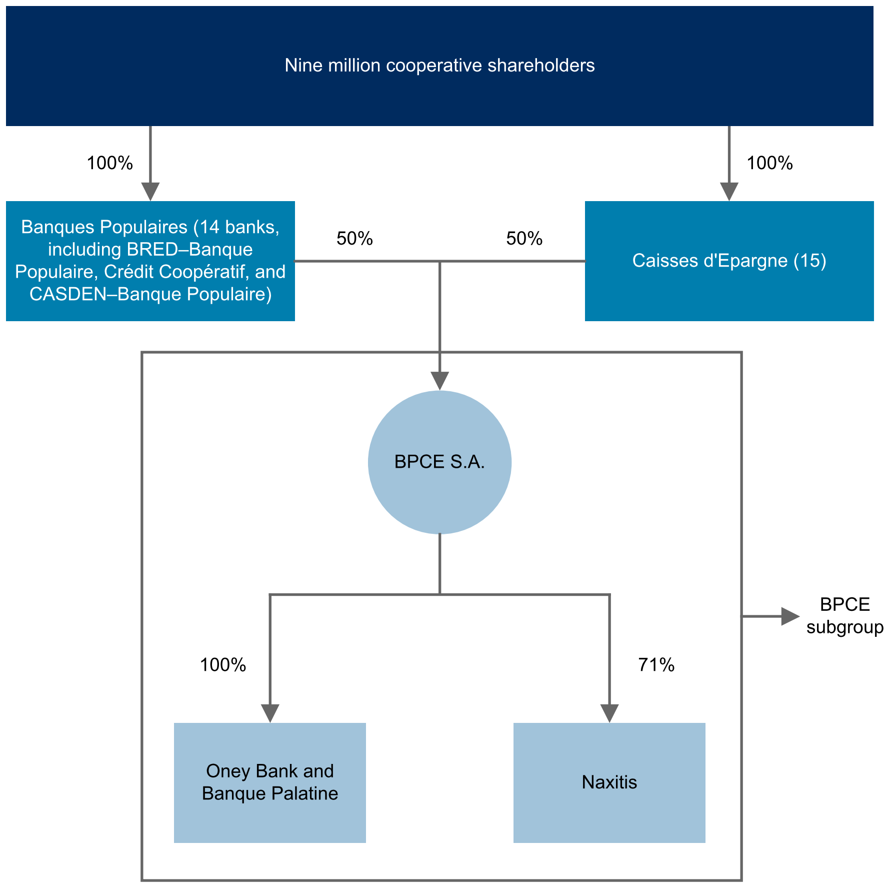
Chart 2

Groupe BPCE Organization Structure

As of end-2020



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CIB and asset and wealth management typically generate about 15% of the group's revenues each and are housed at majority-owned subsidiary Natixis. Both segments offer BPCE an international presence. We consider Natixis to be a second-tier wholesale banking player that has successfully refocused on its selected areas of expertise. Natixis benefits from a longstanding and solid domestic franchise in lending to midsize and large corporations, as well as in structured and commodity financing. Its strategy is typified by a sector-based approach, an efficient originate-to-distribute model, and noticeable forays into sustainable finance. Natixis counts among the top 20 largest asset managers globally. It runs a network of about 25 affiliates, which range from the management of life insurance assets to more entrepreneurial boutique businesses, both in Europe and in the U.S. This model allows for multiple and diverse investment strategies.

We view London-based H20 Asset Management (H2O AM)as an example of an affiliate that serves institutional customers with a higher risk appetite. Its riskier investment choices have opened the door to reputational risks in the past two years, which ended with Natixis selling its majority stake in H2O AM back to the investment firm's

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management team, ending a decade-long relationship. In the asset management sphere, the merger between Ostrum AM and La Banque Postale AM became effective at the end of 2020 and helped to bring total assets under management to more than €1,100 billion at that point. Natixis' performance is naturally more sensitive to market fluctuations and swings in the cost of credit risk than BPCE's regional banks. This was the case in 2020, when Natixis' results rebounded in the fourth quarter thanks to a strong rebound in equity. However, Natixis' 2020 underlying net revenues were down 13%, reflecting a cumulative €283 million negative impact from dividend markdowns in its equity derivatives business due to corporates' 2019 dividend cancellations. The latter resulted in exits from the most complex equity derivatives and tighter limits on low- and medium-risk products.

BPCE has a typical structure for a cooperative group, being fully owned by 29 regional banks. In turn, nine million member-customers hold the cooperative shares issued by these regional entities and elect their boards of directors. BPCE is not directly involved in managing these local banks, but it does help to define the group's strategy. BPCE also closely monitors the group's risk exposures, provides most of its medium- and long-term wholesale funding, coordinates commercial policies, and holds the major subsidiaries. BPCE applies articles L512-106 to L516-108 of the French Monetary Code, according to which it is the central body responsible for taking steps to guarantee the solvency and liquidity of the group and its member banks.

Table 2

BPCE--Business Position

	--Year ended Dec. 31--				
(%)	**2020**	**2019**	**2018**	**2017**	**2016**
Total revenues from business line (mil. €)	22,720.0	24,572.0	24,300.0	24,180.0	24,773.0
Commercial banking/total revenues from business line	17.3	18.1	19.4	20.5	18.9
Retail banking/total revenues from business line	63.5	61.9	63.1	63.2	60.4
Commercial and retail banking/total revenues from business line	80.8	80.0	82.4	83.8	79.2
Asset management/total revenues from business line	14.2	15.3	14.1	12.9	13.6
Other revenues/total revenues from business line	1.0	4.7	3.5	3.4	7.2
Return on average common equity	2.3	4.4	4.6	4.8	6.7

Capital and earnings: Solid capitalization, but headroom has reduced

After several years of BPCE's capital position strengthening, we forecast that its solvency metrics could erode, with our RAC ratio dropping below 10.0% by end of 2021 from 10.3% at year-end 2019. However, we assume that BPCE's capital strength will recover, thanks to improving profits in 2021 and 2022 versus 2020, increasing earnings retention capacity, and regular sales of cooperative shares to its member customers.

The buyout of Natixis' remaining shares will result in a one-off negative impact on our solvency measure for the group during 2021. More importantly, we think that BPCE will have a lower buffer to absorb any additional pressure on asset quality, asset growth, and earnings, and more generally, one-off events that could ultimately erode its strong capital. Before BPCE announced the Natixis transaction, we expected that the RAC ratio would remain just above our 10% threshold for a lower capital assessment.

Quality of capital is a supportive factor. BPCE's total adjusted capital includes hardly any contribution from hybrid capital instruments. On Dec. 31, 2020, BPCE had a common equity tier 1 ratio of 16.0% and a total capital ratio of

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18.2%, typically higher than the ratios of domestic and international listed peers. Our forecast of BPCE's RAC ratio slightly above 10% reflects the following assumptions:

- Ongoing adherence to its conservative financial policy;
- An increase in net income in 2021 and 2022, after a low point in 2020;
- Almost full earnings retention, in line with the group's cooperative status, and the successful delisting of Natixis;
- Ongoing issuance of cooperative shares worth €1.3 billion annually;
- Annual S&P Global Ratings risk-weighted asset (RWA) growth of about 3% over the next two years;
- No issuance of additional tier 1 (AT1) instruments, since the group's strategy is to uphold its regulatory common equity ratio through retained earnings; and
- No major exceptionally negative events.

In 2020, BPCE achieved €1.7 billion in net profit, down from €3.7 billion in 2019. Consolidated revenues decreased by 7.3% compared with 2019, and by 4.5% using restated figures following the sale of Coface in February 2020. Our measure of cost to income plateaued at 73.3%, higher than that of domestic and European peers. Operating expenses were down in 2020, by 2.5% on the restated figures. Going forward, we expect a modest increase in the cost base below 1.5%. In addition, with the recovery in the domestic economy in 2021, new loan loss provisions should decline progressively, as per our base-case scenario, from a cost of risk of €3 billion in 2020, of which €1.4 billion is forward looking. Thanks to the reduction in the cost of risk, we expect BPCE's net income (group share) to revert toward €2.7 billion in 2021 and €3 billion in 2022.

Table 3

BPCE--Capital And Earnings

	--Year ended Dec. 31--				
(%)	**2020**	**2019**	**2018**	**2017**	**2016**
Tier 1 capital ratio	16.0	15.7	15.9	15.4	14.5
S&P Global Ratings' RAC ratio before diversification	N.A.	10.3	10.2	10.1	9.3
S&P Global Ratings' RAC ratio after diversification	N.A.	11.4	11.2	11.1	10.2
Adjusted common equity/total adjusted capital	100.0	99.9	99.9	99.9	99.3
Net interest income/operating revenues	40.4	35.2	35.6	42.6	46.0
Fee income/operating revenues	40.4	39.0	39.4	39.3	37.1
Market-sensitive income/operating revenues	6.1	9.2	9.2	15.6	12.0
Noninterest expenses/operating revenues	73.3	71.6	72.9	71.2	70.4
Preprovision operating income/average assets	0.4	0.5	0.5	0.6	0.6
Core earnings/average managed assets	0.1	0.3	0.3	0.3	0.3

N.A.--Not available. RAC--Risk-adjusted capital.

Risk position: Adequate risk profile, with some pockets of risk due to the pandemic

BPCE's targeted growth strategy around selected areas of expertise, our view of its low-to-moderate risk appetite, and adequate risk management capabilities all underpin our assessment of BPCE's risk position as adequate. The group faces areas of risk that differ widely in nature. However, we view BPCE's balance sheet as less complex than larger

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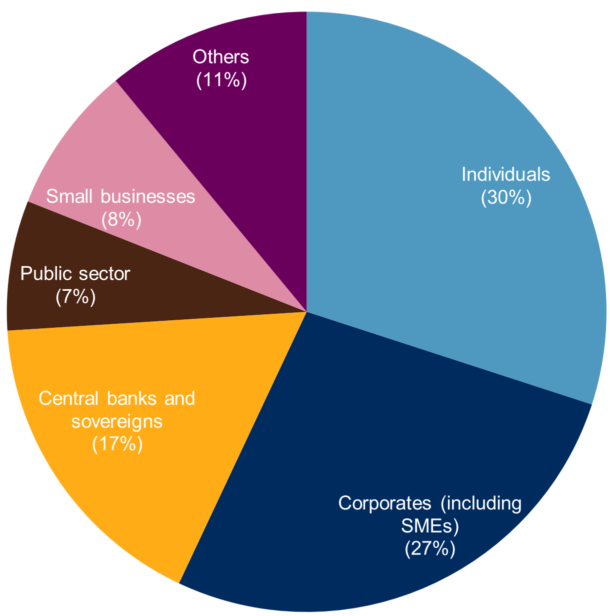
international peers'. We think BPCE has a good track record in credit risk management in its core lending business. However, in 2021, and as for its peers, we expect BPCE's asset quality metrics to deteriorate as a result of the pandemic.

BPCE's exposures are mostly concentrated in France and the underlying quality of its loan book is good. Housing loans made up about 25% of credit risk exposures at end-December 2020 (see chart 3). The fixed-rate housing loan portfolio is characterized by a minimal cost of risk throughout the credit cycle. However, we continue to monitor the trend of dynamic growth in mortgage lending, along with the loosening of some underwriting criteria in France. We think concentrations by sector or name exist, notably at Natixis, but remain contained at the wider group level.

In 2020, BPCE's consolidated cost of risk stood at 41 bps, but 126 bps in CIB. We estimate that BPCE's cost-of-credit risk will stand at 30 bps in 2021. We expect defaults to increase as some support measures wind down. That said, on the back of the forward-looking provisions BPCE made in 2020, we expect a lower cost of risk in 2021. In our view, particular pain points will include BPCE's exposure to SMEs operating in sectors severely hurt by the pandemic--for example, tourism, restaurants and cafés, and wholesale and retail (nonfood) trade--as well as Natixis' exposure to oil and gas, aviation, commercial real estate, and leveraged finance, including its riskiest portfolio of leveraged buyouts.

Chart 3

Breakdown Of Credit Risk Exposures As Of End-2020



SMEs--Small-to-midsize enterprises. Source: S&P Global Ratings.

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The group's gross nonperforming loans (NPLs) have steadily decreased over the past five years, including in 2020, but we believe this has come to an end. At end-2020, NPLs accounted for a moderate 2.9% of total customer loans, following a steady decrease from 4.0% on Dec. 31, 2015. The coverage rate by reserves was a satisfactory 62.7%, reflecting the group's aggregate risk profile and the collateralized nature of most of its loans. We consider that BPCE has successfully reduced its risk profile in recent years.

Most of BPCE's market and operational risks lie with Natixis and BRED Banque Populaire (BRED), for which we expect BPCE to continue implementing enhanced risk-management practices. In asset management, we think Natixis will find it challenging to disseminate its governance and risk standards across its numerous affiliates. Its multi-boutique model, albeit agile and diversified, is more scattered and independent than that of peers. In our view, H20 AM has made questionable investment choices in the past few years, typified either by an undiversified base of illiquid assets, or strategies that proved too risky under adverse market conditions. These resulted in losses that its clients bore in 2019 and early 2020, and finally, in BPCE's disposal of H2O AM. At the wider group level, the reputational damage has been more modest.

Table 4

BPCE--Risk Position

	--Year ended Dec. 31--				
(%)	**2020**	**2019**	**2018**	**2017**	**2016**
Growth in customer loans	7.7	5.4	5.3	4.4	4.1
Total diversification adjustment/S&P Global Ratings' RWA before diversification	N.A.	(9.7)	(9.2)	(8.9)	(8.8)
Total managed assets/adjusted common equity (x)	23.0	21.5	21.9	22.8	24.5
New loan loss provisions/average customer loans	0.4	0.2	0.2	0.2	0.2
Net charge-offs/average customer loans	0.0	0.0	0.0	0.0	0.0
Gross nonperforming assets/customer loans + other real estate owned	2.9	3.1	3.2	3.7	3.9
Loan loss reserves/gross nonperforming assets	62.7	59.2	58.9	51.2	52.2

N.A.--Not available. RWA--Risk-weighted assets.

Funding and liquidity: Average and adequate, but still weaker than large peers'

The group relies on a large and stable deposit base and on confidence-sensitive wholesale sources to fund its sizable balance sheet. In previous years, BPCE has rebalanced its funding profile toward longer-term liabilities and on-balance-sheet savings, while reinforcing its liquidity management under stress-test scenarios. The group's current funding and liquidity positions are below most peers'. We expect BPCE to slightly consolidate these positions, supported by its focus on Natixis' originate-to-distribute model and on the diversification of its funding tools.

BPCE is the second-largest deposit-taker in France. We calculate that its loan-to-deposit ratio was 134% as of end-2020, after a material improvement from 175% at end-2010. BPCE's loan-to-deposit ratio still compares unfavorably with large domestic peers'. Its major funding imbalances arise from its largest and wholesale-funded subsidiaries, Natixis and CFF. However, we think the group's ability to repackage mortgage loans into covered bonds and to raise funds throughout its large retail banking networks, along with its loyal deposit base, are strong qualitative mitigating factors. France's domestic investor base is quite large, and BPCE is increasing diversification beyond its home market, particularly in the U.S. and Asia.

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We estimate BPCE's stable funding ratio at 100% and its ratio of broad liquid assets to short-term wholesale funding at 1.1x as of Dec. 31, 2020. These ratios improved in 2020, as they did for BPCE's peers. We consider that the comparatively large amount of retail deposits that BPCE collects in the form of regulated savings (mostly Livret A)--partially centralized at French parastate institution Caisse des Dépôts et Consignations--contributes to its funding and liquidity indicators being weaker than peers'. We adjust BPCE's metrics for this factor because we do not see these deposits as being available for asset refinancing.

The group organizes its medium- and long-term funding around: BPCE, BPCE SFH, and Compagnie de Financement Foncier, the group's covered bond issuers. BPCE conservatively manages the amount of its encumbered assets. In the past, it has also limited its recourse to covered bonds, despite investor appetite. We estimate that assets pledged as collateral for covered bonds traditionally stand at less than 10% of the group's total asset base, providing BPCE with some flexibility to use more of this competitive funding source. In 2021, BPCE's medium- and long-term funding will stand at €22 billion-€25 billion (excluding asset-backed securities). BPCE had already raised 28% of the 2021 medium- and long-term wholesale funding plan in January 2021. Recourse to targeted longer-term refinancing operations (LTRO III) amounted to €81.5 billion at the end of 2020, with the repayments fully integrated into BPCE's medium- and long-term funding plans and maturity profile. The group's average monthly liquidity coverage ratio was 166% in the fourth quarter of 2020, and its liquidity reserves were €307 billion, equating to a coverage ratio of short-term debt of 246%.

Table 5

BPCE--Funding And Liquidity

	--Year ended Dec. 31--					
(%)	**2020**	**2019**	**2018**	**2017**	**2016**	**2015**
Core deposits/funding base	50.4	49.6	49.0	48.2	46.7	47.9
Customer loans (net)/customer deposits	134.0	141.2	142.4	139.2	142.3	140.3
Long-term funding ratio	74.5	72.7	73.6	72.9	72.3	74.3
Stable funding ratio	100.0	92.9	94.2	91.9	91.1	93.0
Short-term wholesale funding/funding base	27.2	29.3	28.3	29.0	29.6	27.4
Broad liquid assets/short-term wholesale funding (x)	1.1	0.9	1.0	0.9	0.9	1.0
Net broad liquid assets/short-term customer deposits	4.9	(5.8)	(2.0)	(4.6)	(5.7)	(1.0)
Short-term wholesale funding/total wholesale funding	54.8	58.2	55.5	56.0	55.4	52.6
Narrow liquid assets/three-month wholesale funding (x)	2.5	2.0	2.0	1.9	1.8	1.9

Environmental, social, and governance

We see environmental, social, and governance credit factors for BPCE as broadly in line with those of its industry and country peers. Typical of a cooperative group, BPCE's decision-making process and management oversight are decentralized. We expect the best governance practices and values to be aligned at all layers of the organization, including at Natixis, where it may prove more challenging in asset management due to multiple affiliates. BPCE has a prudent risk culture. The group prioritizes the stability of earnings and sustainability above absolute returns.

Social considerations are important in BPCE's strategic goals. For example, during the COVID-19 pandemic, BPCE has been reinforcing its remote communication with individual customers. Like its peers, it has also supported corporate

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customers through loans guaranteed by the French state, as well as an automatic six-month deferral of loan repayments for small businesses and small companies. BPCE also has a significant presence in the housing market, which includes social housing customers. BPCE was a forerunner in issuing social and health care bonds in 2017. Significant misselling issues with the retail clientele have not surfaced so far in France, but it is a risk that banks are increasingly vigilant to.

Although we view BPCE's exposures as less important than at the larger corporate and investment houses, Natixis' banking activities entail lending to or investing in carbon-intensive sectors. Environmental risks and the transition to a greener economy are key challenges for Natixis, but also for BPCE in the housing space. The group has, however, been improving its framework to better capture environmental risks. For example, Natixis recently implemented a green weighting factor that favors transactions with positive effects on the climate. It also announced its withdrawal from shale oil and gas and an accelerated timeline to exit the coal industry. In our view, BPCE has comprehensive policies to restrict, and in some cases, ban, lending to industries with high greenhouse gas emissions. Risks related to climate change are well embedded in BPCE's strategy, even if their quantification remains at an early stage.

Support: One notch of support for a strengthened ALAC buffer

We view BPCE as having high systemic importance in France, but we assess the French government's tendency to support the banking system as uncertain. As a result, we do not include any uplift in the long-term rating for possible extraordinary government support. That said, we consider the French resolution regime as effective under our ALAC criteria, in part because it contains a well-defined bail-in process under which authorities can permit nonviable systemically important banks to continue critical functions as going concerns following a bail-in of eligible liabilities.

We apply the standard 5% threshold for the one notch of ALAC uplift that we incorporate into the issuer credit rating on BPCE S.A. In 2020, the group issued €4.1 billion of senior nonpreferred debt. We forecast that the ALAC ratio will remain above our 5% threshold in the coming 18-24 months, but be lower than we had expected due to the decrease in our RAC projection. Our projected ALAC ratio takes into consideration the following assumptions:

- BPCE's financial plan will further increase its bail-inable buffer, chiefly in the form of new senior nonpreferred notes;
- BPCE's capital strength will recover on the back of stronger earnings in 2021 and 2022; and
- ALAC-eligible notes maturing within 12-24 months that we estimate at in excess of 0.5% of S&P Global Ratings' RWA.

Subsidiaries

Our ratings on Natixis and BRED are aligned with our 'A+' ALAC-supported group credit profile on BPCE, reflecting our assessment of their core position within the banking group. This is based on their close integration and alignment with BPCE's strategy, among other factors.

We also apply ALAC uplift to the ratings on core entities Compagnie Européenne de Garanties et Cautions and Parnasse Garanties. These are captive-like insurance companies providing financial guarantees on housing loans granted by BPCE's retail banks. We use the supported group credit profile as a reference point to rate them because the insurance schemes they provide are beneficial to BPCE's banks that originate the loans. Consequently, we factor in the fact that if BPCE were to stop supporting these in-house guarantors, the group's operations would have to bear the

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losses anyway.

We also apply ALAC uplift to the ratings on CFF, since we view this subsidiary as being highly strategic to BPCE. Although increasingly integrated, CFF's performance continues to stand below other group members'.

Additional rating factors: None

There are no additional rating factors.

Resolution counterparty ratings (RCRs)

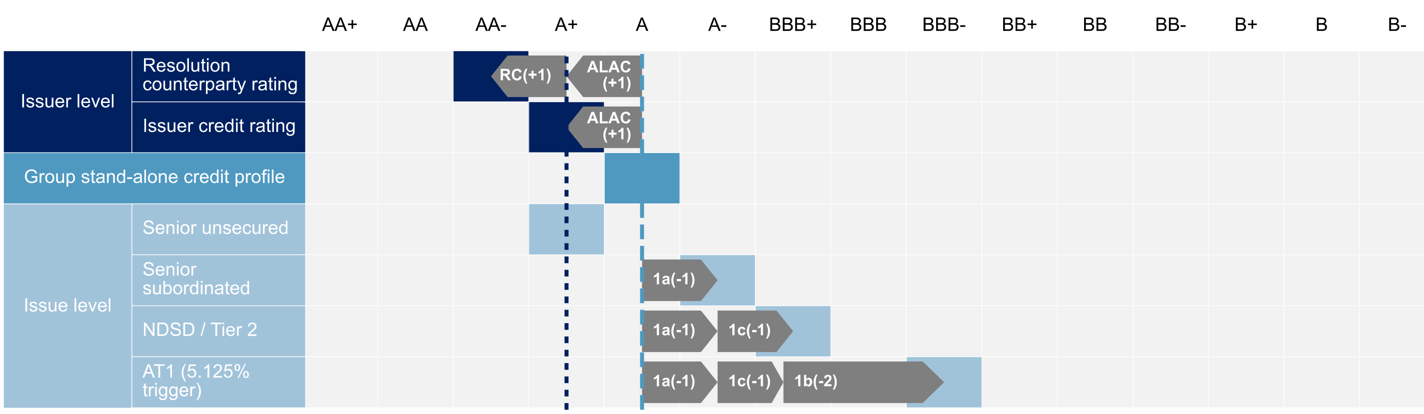
We assign RCRs to BPCE; Natixis and its New York branch, CFF; and BRED. The long- and short-term RCRs are 'AA-/A-1+' on all the entities except CFF, on which the RCRs are 'A+/A-1'. An RCR is a forward-looking opinion of the relative default risk of certain senior liabilities that may be protected from default through an effective bail-in resolution process for the issuing financial institutions. RCRs apply to issuers in jurisdictions where we assess the resolution regime to be effective and we consider the issuer likely to be subject to a resolution that entails a bail-in if it reaches nonviability.

Rating approach for hybrid capital instruments and senior subordinated debt

We rate hybrid debt instruments according to their respective features and by notching them down from our assessment of BPCE's group SACP.

Chart 4

BPCE: Notching of Hybrids



Key to notching

- Group stand-alone credit profile
- Issuer credit rating

RC	Resolution counterpartyliabilities (senior secured debt)
ALAC	Additional loss-absorbing capacity buffer
1a	Contractual subordination
1b	Discretionary or mandatory nonpayment clause and whether the regulator classifies it as regulatory capital
1c	Mandatory contingent capital clause or equivalent

Note: The number-letter labels in the table above are in reference to the notching steps we apply to hybrid capital instruments, as detailed in table 3 of our "Hybrid Capital: Methodology And Assumptions" criteria, published on July 1, 2019.
AT1--Additional Tier 1. NDSD--Non-deferrable subordinated debt.

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Our 'A-' issue rating on BPCE's senior subordinated or senior nonpreferred notes reflects our view that the notes are subordinated (although not labeled as such) to more senior obligations. We also think these notes would be subject to a possible conversion or write-down only in resolution, and, in particular, would be excluded from any burden-sharing under state-aid rules. Because of its strong core capital comprising retained earnings and cooperative shares, AT1 issuances are rare at BPCE. At the time of writing, BPCE had no AT1 issues, while Natixis reported one AT1 issue.

Related Criteria

- General Criteria: Hybrid Capital: Methodology And Assumptions, July 1, 2019
- General Criteria: Group Rating Methodology, July 1, 2019
- General Criteria: Methodology For National And Regional Scale Credit Ratings, June 25, 2018
- Criteria | Financial Institutions | General: Methodology For Assigning Financial Institution Resolution Counterparty Ratings, April 19, 2018
- Criteria | Financial Institutions | General: Risk-Adjusted Capital Framework Methodology, July 20, 2017
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- General Criteria: Guarantee Criteria, Oct. 21, 2016
- Criteria | Financial Institutions | Banks: Bank Rating Methodology And Assumptions: Additional Loss-Absorbing Capacity, April 27, 2015
- Criteria | Financial Institutions | Banks: Assessing Bank Branch Creditworthiness, Oct. 14, 2013
- Criteria | Financial Institutions | Banks: Quantitative Metrics For Rating Banks Globally: Methodology And Assumptions, July 17, 2013
- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9, 2011
- Criteria | Financial Institutions | Banks: Banks: Rating Methodology And Assumptions, Nov. 9, 2011
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011
- Criteria | Financial Institutions | Banks: Commercial Paper I: Banks, March 23, 2004

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Anchor Matrix

Industry Risk	Economic Risk									
	1	2	**3**	4	5	6	7	8	9	10
1	a	a	a-	bbb+	bbb+	bbb	-	-	-	-
2	a	a-	a-	bbb+	bbb	bbb	bbb-	-	-	-
3	a-	a-	**bbb+**	bbb+	bbb	bbb-	bbb-	bb+	-	-
4	bbb+	bbb+	bbb+	bbb	bbb	bbb-	bb+	bb	bb	-
5	bbb+	bbb	bbb	bbb	bbb-	bbb-	bb+	bb	bb-	b+
6	bbb	bbb	bbb-	bbb-	bbb-	bb+	bb	bb	bb-	b+
7	-	bbb-	bbb-	bb+	bb+	bb	bb	bb-	b+	b+
8	-	-	bb+	bb	bb	bb	bb-	bb-	b+	b
9	-	-	-	bb	bb-	bb-	b+	b+	b+	b
10	-	-	-	-	b+	b+	b+	b	b	b-

Ratings Detail (As Of May 4, 2021)*

BPCE	
Issuer Credit Rating	A+/Negative/A-1
Resolution Counterparty Rating	AA-/--/A-1+
Commercial Paper	A-1
Senior Subordinated	A-
Senior Unsecured	A+
Short-Term Debt	A-1
Subordinated	BBB+
Issuer Credit Ratings History	
23-Apr-2020	A+/Negative/A-1
19-Oct-2018	A+/Stable/A-1
20-Oct-2017	A/Positive/A-1
Sovereign Rating	
France	AA/Stable/A-1+
Related Entities	
BPCE SFH	
Senior Secured	AAA/Stable
BRED - Banque Populaire	
Issuer Credit Rating	A+/Negative/A-1
Resolution Counterparty Rating	AA-/--/A-1+
Commercial Paper	
Local Currency	A-1
Senior Unsecured	A+
Compagnie de Financement Foncier	
Commercial Paper	
Local Currency	A-1+
Senior Secured	AAA/Stable

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Ratings Detail (As Of May 4, 2021)*(cont.)	
Compagnie Europeenne de Garanties et Cautions	
Financial Strength Rating	
Local Currency	A+/Negative/--
Issuer Credit Rating	
Local Currency	A+/Negative/--
Credit Foncier de France	
Issuer Credit Rating	A/Negative/A-1
Resolution Counterparty Rating	A+/--/A-1
Natixis Australia Pty Ltd.	
Issuer Credit Rating	A+/Negative/A-1
Natixis Financial Products LLC	
Issuer Credit Rating	A+/Negative/A-1
Natixis (New York Branch)	
Issuer Credit Rating	A+/Negative/A-1
Resolution Counterparty Rating	AA-/--/A-1+
Commercial Paper	
Local Currency	A-1
Natixis S.A.	
Issuer Credit Rating	A+/Negative/A-1
Resolution Counterparty Rating	AA-/--/A-1+
Commercial Paper	
Local Currency	A-1
Junior Subordinated	BBB-
Senior Unsecured	A+
Subordinated	BBB+
Parnasse Garanties	
Issuer Credit Rating	A+/Negative/--
Socram Banque	
Issuer Credit Rating	BBB/Negative/A-2
Certificate Of Deposit	
Local Currency	A-2
Commercial Paper	
Local Currency	A-2
Senior Unsecured	BBB

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.

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