S&P Global
Ratings

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Update: BPCE

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Update: BPCE

SACP	a-	+	Support	+1	+	Additional Factors	0

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

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

Issuer Credit Rating
A/Stable/A-1
Resolution Counterparty Rating
A+/--/A-1

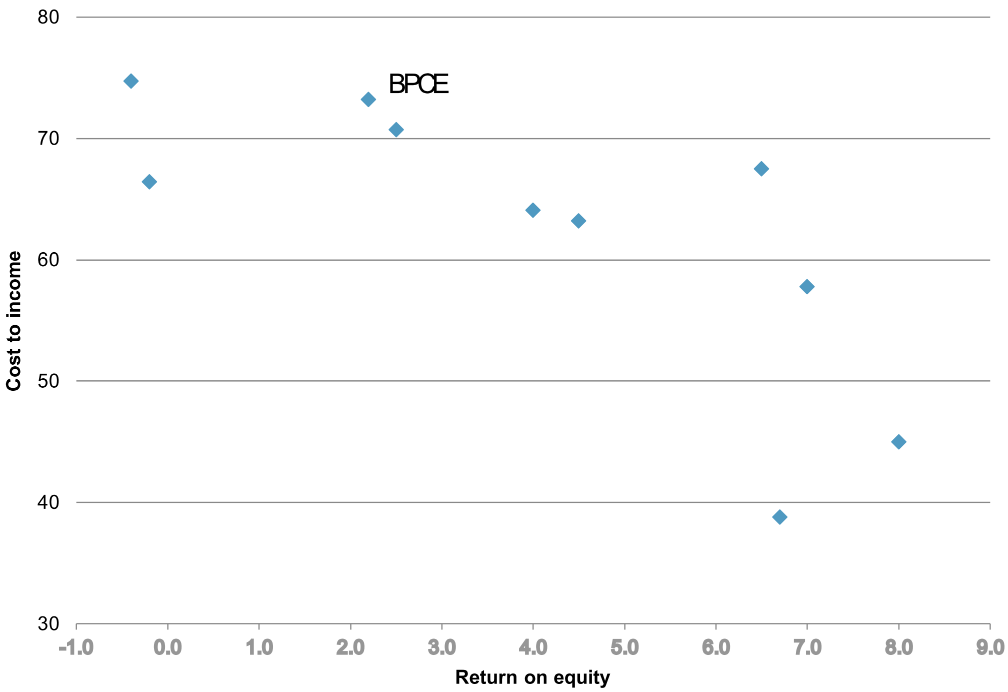
Credit Highlights

Key strengths	Key risks
Well positioned as the second-largest player in France with a stable franchise in core businesses.	Pressure on French retail revenues from low interest rates.
Focused strategy, oriented toward areas of expertise, where insurance and asset management businesses support a significant share of revenue from non-interest income.	Below-average cost efficiency and modest profitability that it aims to address via its new strategic plan.
Strong earnings retention, further reinforced by the full ownership of Natixis.	Natixis' businesses are more cyclical, yet the effect on earnings remains manageable considering Groupe BPCE's diversified and more stable retail and insurance earnings.

BPCE is the second-largest player in domestic retail banking, and has recognized franchises in CIB and asset gathering, both hosted at Natixis. The group primarily operates through the Banques Populaires and Caisses d'Epargne networks. Its subsidiary Natixis (fully owned since July 2021) is a niche corporate and investment bank (CIB), but has significant global asset-management operations. Although stable thanks to well-diversified revenues, the group's through-the-cycle profitability remains modest, with more pronounced weaknesses in profitability and efficiency metrics compared to French and international peers. This adds to challenges posed by low interest rates, and digitalization-related investments, as is the case for all banks in Europe.

Chart 1

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



Source: S&P Global Ratings.

The recent acquisition of the remaining shares of Natixis is a positive step that aligns with the group's new strategic plan. Management has executed its strategy in a coherent manner in the past, in our view. The group has been aiming to expand profitably, reinforce its balance sheet, simplify its structure, and sell its nonstrategic businesses. The new group's 2021-2024 medium-term plan sets an ambitious revenue trajectory and cost savings plan, to reach a cost-to-income ratio below 65%. The new plan will 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 launching additional cost-savings 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.

We view the recent acquisition of the remaining Natixis shares as a positive step that aligns with the group's new strategic plan. In our view, this will simplify the group structure to further strengthen earnings retention and enhance the flexibility of capital flows amid an increasingly strict regulatory environment. That said, the transaction has had a one-off negative impact on the group's solvency in the course of 2021. In 2020, the group, like its peers, suffered from the economic impact of the pandemic, with high loan impairments driving weaker profits, as well as dynamic asset growth boosted by state-guaranteed loans under a government scheme to support the French economy amid the pandemic.

BPCE's strong solvency, measured by its RAC, remains a strength for the group's credit profile and we factor it into our stable outlook. After several years of BPCE's capital position strengthening, our measure of BPCE's capitalization (our risk-adjusted capital or RAC ratio before diversification) dropped to 9.8% at end-2020 compared with 10.3% in 2019. Despite falling below 10% at year-end 2020, we project that the RAC will revert back above 10% by 2022. We believe that the outcomes of capital management will largely offset the impact of the Natixis transaction by the end of 2021, namely the issuance of €1.75 contingent capital Tier 2 notes, the sale of BPCE's stake in CNP, and a likely strong rebound in 2021 earnings. Structurally, the group also benefits from increasing earnings retention and the regular sale of cooperative shares to its member customers. Our forecasted RAC also reflects the following assumptions:

- BPCE continuing to follow its conservative financial policy;
- Net income group share increasing in 2021 and 2022, after a low point in 2020, to around €4 billion in 2021;
- Ongoing issuance of cooperative shares to remain dynamic, worth €1.3 billion annually;
- Annual S&P Global Ratings risk-weighted asset (RWA) growth of about 3% over the projection horizon;
- No issuance of Additional Tier 1 (AT1) instruments, since the group's strategy is to uphold its regulatory common equity ratio through retained earnings;
- No major negative exceptional events.

On Sept. 30, 2021, BPCE had a common equity Tier 1 ratio of 15.8% and a total capital ratio of 17.7%, typically higher than the ratios of domestic and international listed peers.

BPCE started well in 2021, and we expect net income to reach around €4 billion for 2021. In the first nine months of 2021, BPCE achieved €3.2 billion in net profit, up from €1.1 billion in the same period of 2020 (€1.7 billion in full-year 2020). The measure of cost to income improved to 68.9% in the first nine months of 2021 versus 75.7% in the same period of 2020. This is a sharp decrease thanks to the rebound in revenues, but still higher than that of domestic and European peers. With the recovery in the domestic economy 2021 onward, new loan loss provisions should decline progressively. We expect BPCE's net income (group share) to revert toward just above €4 billion in 2021 and €4.2 billion in 2022.

Asset quality remains strong despite the shock from the pandemic. BPCE has a low-to-moderate risk appetite and adequate risk-management capabilities. Compared to larger international peers, BPCE has a less complex balance sheet with a good track record in credit risk management in its core lending business. 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. The fixed-rate housing loan portfolio is characterized by a minimal cost of risk throughout the credit cycle. We think concentrations by sector or name exist, notably at Natixis, but remain contained at the wider group level.

In the first nine months of 2021, BPCE's consolidated cost of risk stood at 20 bps, up from 41 bps at end-December 2020. We expect defaults to increase as support measures wind down. However, as the size of the loan book increases, we expect our measure of gross nonperforming loans (NPLs) as a percentage of gross loans to be stable at around 2%. The coverage by reserves was a satisfactory 62.7% at the end of 2020, 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.

The group relies on a large and stable deposit base and on confidence-sensitive wholesale sources to fund its sizable balance sheet. BPCE is the second-largest deposit-taker in France. We calculate that its loan-to-deposit ratio was 133% as of mid-2021, 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 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.

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 mid-2021. Recourse to targeted longer-term refinancing operations (LTRO III) amounted to €97.2 billion at the end of the third quarter of 2021, with repayments fully integrated into BPCE's medium- and long-term funding plans and maturity profile. The group's average monthly liquidity coverage ratio was 160%, and its liquidity reserves were €329 billion in the same period, equating to a coverage ratio of short-term debt of 242%.

One notch of support for its ALAC buffer. We forecast that the additional loss-absorbing capacity (ALAC) ratio will remain above our 5% threshold in the coming 18-24 months, commensurate with an ALAC uplift of one notch. By Oct. 31, 2021, the group had issued €6.2 billion of senior nonpreferred and Tier 2 debt.

Environmental, social, and governance

We think that BPCE's environmental, social, and governance (ESG) standards are in line with those of other banks in Europe and do not affect its credit quality.

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. 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. Natixis implemented a green weighting factor that favors transactions with positive effects on the climate. Risks related to climate change are well embedded in BPCE's strategy, even if their quantification remains at an early stage.

Outlook: Stable

The outlook on BPCE and its rated entities is stable. BPCE is well positioned in the domestic market and aligned segments such as insurance should support earnings.

Downside scenario

We see a downside risk if the SACP further deteriorates. This could happen if the bank does not adjust its business, including retail banking, to the evolving interest-rate environment, and our RAC trajectory fails to revert above 10%, for example, on the back of materially reduced earnings prospects or a material increase in risk exposure. We could also lower our issuer credit and resolution counterparty ratings if BPCE's ALAC buffer appears set to fall materially short of our above 5% expectation.

Upside scenario

Although unlikely in the next two years, an upgrade could come from improved profitability, better cost-to-income efficiency, in line with those of rated peers with an 'a' SACP. At the 'a-' SACP, our issuer credit and resolution counterparty ratings on the bank could also benefit from a second notch of ALAC support if its bail-inable debt level is sustainably above 8%.

Key Metrics

BPCE--Key Ratios And Forecasts

	--Fiscal year ended Dec. 31--				
(%)	**2019a**	**2020a**	**2021f**	**2022f**	**2023f**
Growth in operating revenue	1.3	(7.5)	10.0-12.3	2.7-3.3	2.9-3.6
Growth in customer loans	5.4	7.7	2.7-3.3	2.7-3.3	2.7-3.3
Growth in total assets	5.0	8.1	1.8-2.2	1.8-2.2	1.8-2.2
Net interest income/average earning assets (NIM)	0.9	0.9	0.8-1.0	0.8-1.0	0.8-1.0
Cost to income ratio	71.6	73.3	67.8-71.3	67.8-71.3	67.6-71.1
Return on average common equity	4.4	2.3	5.1-5.6	4.9-5.4	4.8-5.3
Return on assets	0.3	0.1	0.3-0.4	0.3-0.4	0.3-0.4
New loan loss provisions/average customer loans	0.2	0.4	0.2-0.2	0.2-0.2	0.2-0.2
Gross nonperforming assets/customer loans	3.1	2.9	3.0-3.3	3.1-3.4	3.2-3.5
Risk-adjusted capital ratio	10.3	9.8	9.8-10.3	10.2-10.7	10.5-11.1

All figures are S&P Global Ratings-adjusted. a--Actual. f--Forecast. NIM--Net interest margin.

Key Statistics

Table 1

BPCE--Key Figures

	--Year ended Dec. 31--				
(Mil. €)	**2021***	**2020**	**2019**	**2018**	**2017**
Adjusted assets	1,237,003.0	1,239,863.0	1,142,346.0	1,089,089.0	1,086,059.0

Table 1

BPCE--Key Figures (cont.)

	--Year ended Dec. 31--				
(Mil. €)	**2021***	**2020**	**2019**	**2018**	**2017**
Customer loans (gross)	766,754.0	753,446.0	699,501.0	663,380.0	629,870.0
Adjusted common equity	61,611.0	63,020.0	62,264.9	58,241.5	55,359.0
Operating revenues	12,611.0	22,720.0	24,571.0	24,255.0	24,018.0
Noninterest expenses	8,806.0	16,644.0	17,582.0	17,687.0	17,099.0
Core earnings	2,059.6	1,924.7	3,747.3	3,737.0	3,710.2

*Year to end June 2021.

Table 2

BPCE--Business Position

	--Year ended Dec. 31--				
(%)	**2021***	**2020**	**2019**	**2018**	**2017**
Total revenues from business line (currency in millions)	12,611.0	22,720.0	24,572.0	24,300.0	24,180.0
Commercial banking/total revenues from business line	32.2	17.3	18.1	19.4	20.5
Retail banking/total revenues from business line	60.5	63.5	58.4	59.8	60.2
Commercial & retail banking/total revenues from business line	92.7	80.8	76.5	79.2	80.7
Asset management/total revenues from business line	3.9	4.0	3.4	3.3	3.0
Other revenues/total revenues from business line	3.4	1.0	4.7	3.5	3.4
Return on average common equity	5.0	2.3	4.4	4.6	4.8

*Year to end June 2021.

Table 3

BPCE--Capital And Earnings

	--Year ended Dec. 31--				
(%)	**2021***	**2020**	**2019**	**2018**	**2017**
Tier 1 capital ratio	15.6	16.0	15.7	15.9	15.4
S&P Global Ratings' RAC ratio before diversification	N/A	9.8	10.3	10.2	10.1
S&P Global Ratings' RAC ratio after diversification	N/A	10.8	11.4	11.2	11.1
Adjusted common equity/total adjusted capital	100.0	100.0	99.9	99.9	99.9
Net interest income/operating revenues	38.8	40.4	35.2	35.6	42.6
Fee income/operating revenues	37.7	40.4	39.0	39.4	39.3
Market-sensitive income/operating revenues	9.9	6.1	9.2	9.2	15.6
Noninterest expenses/operating revenues	69.8	73.3	71.6	72.9	71.2
Preprovision operating income/average assets	0.5	0.4	0.5	0.5	0.6
Core earnings/average managed assets	0.3	0.1	0.3	0.3	0.3

*Year to end June 2021. RAC--Risk-adjusted capital.

Table 4

BPCE--Risk-Adjusted Capital Framework Data

(Mil. €)	Exposure*	Basel III RWA	Average Basel III RW(%)	S&P Global Ratings RWA	Average S&P Global Ratings RW (%)
Credit risk					
Government & central banks	409,659.3	23,080.1	5.6	11,266.8	2.8
Of which regional governments and local authorities	5,851,465,404.0	11,902,684,282.0	20,341,373,417,099.0	262,165,741,233,944.0	448,034,335,219,225.0
Institutions and CCPs	51,608.9	5,497.3	10.7	10,587.7	20.5
Corporate	290,003.5	186,964.8	64.5	246,947.8	85.2
Retail	470,114.9	82,954.7	17.6	179,159.1	38.1
Of which mortgage	374,021.1	52,668.8	14.1	106,753.0	28.5
Securitization§	19,219.3	5,053.6	26.3	7,338.0	38.2
Other assets†	23,879.5	21,211.8	88.8	50,712.2	212.4
Total credit risk	1,264,485.5	324,762.3	25.7	506,011.6	40.0
Credit valuation adjustment					
Total credit valuation adjustment	--	1,975.0	--	6,613.1	--
Market Risk					
Equity in the banking book	9,973.7	51,947.2	520.8	64,507.7	646.8
Trading book market risk	--	14,439.0	--	21,770.6	--
Total market risk	--	66,386.2	--	86,278.3	--
Operational risk					
Total operational risk	--	38,317.8	--	46,041.3	--
	Exposure	**Basel III RWA**	**Average Basel II RW (%)**	**S&P Global Ratings RWA**	**% of S&P Global Ratings RWA**
Diversification adjustments					
RWA before diversification	--	431,441.3	--	644,944.3	100.0
Total diversification/ concentration adjustments	--	--	--	(61,856.6)	(9.6)
RWA after diversification	--	431,441.3	--	583,087.8	90.4
		Tier 1 capital	**Tier 1 ratio (%)**	**Total adjusted capital**	**S&P Global Ratings RAC ratio (%)**
Capital ratio					
Capital ratio before adjustments		68,977.0	16.0	63,050.4	9.8
Capital ratio after adjustments‡		68,977.0	15.3	63,050.4	10.8

Table 4

BPCE--Risk-Adjusted Capital Framework Data (cont.)

*Exposure at default. §Securitization exposure includes the securitization tranches deducted from capital in the regulatory framework. †Exposure and S&P Global Ratings' risk-weighted assets for equity in the banking book include minority equity holdings in financial institutions. ‡Adjustments to Tier 1 ratio are additional regulatory requirements (e.g. transitional floor or Pillar 2 add-ons). RWA--Risk-weighted assets. RW--Risk weight. RAC--Risk-adjusted capital. CCPs--Central counterparty clearing house. Sources: Company data as of Dec. 31, 2020, S&P Global Ratings.

Table 5

BPCE--Risk Position

	--Year ended Dec. 31--				
(%)	**2021***	**2020**	**2019**	**2018**	**2017**
Growth in customer loans	3.5	7.7	5.4	5.3	4.4
Total diversification adjustment/S&P Global Ratings' RWA before diversification	N/A	(9.6)	(9.7)	(9.2)	(8.9)
Total managed assets/adjusted common equity (x)	23.6	22.9	21.5	21.9	22.8
New loan loss provisions/average customer loans	0.2	0.4	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	2.9	3.1	3.2	3.7
Loan loss reserves/gross nonperforming assets	60.3	62.7	59.2	58.9	51.2

*Year to end June 2021.

Table 6

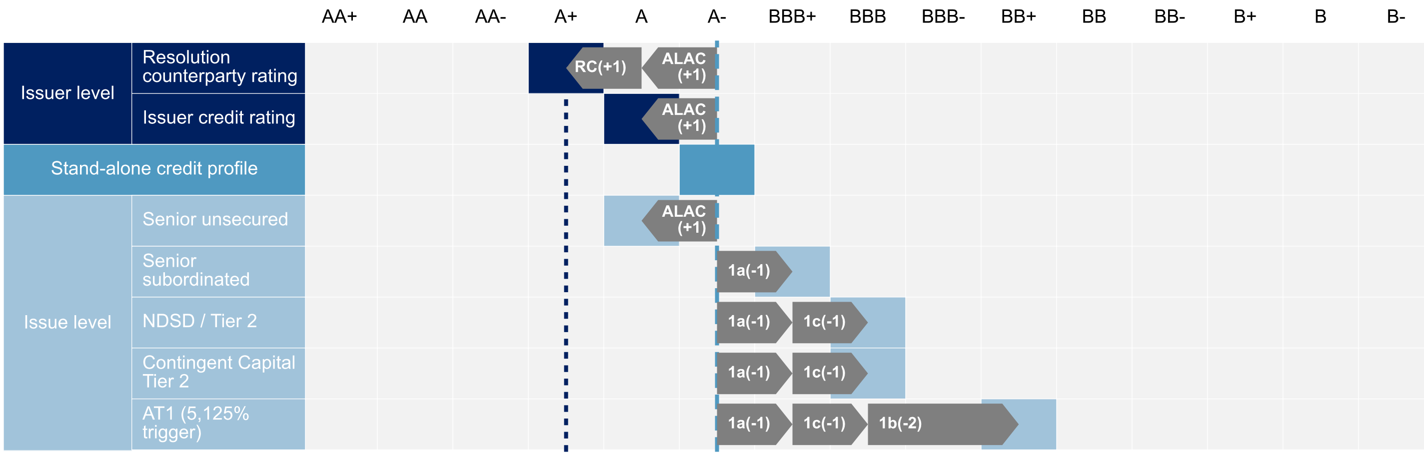
BPCE--Funding And Liquidity

	--Year ended Dec. 31--				
(%)	**2021***	**2020**	**2019**	**2018**	**2017**
Core deposits/funding base	51.6	50.4	49.6	49.0	48.2
Customer loans (net)/customer deposits	132.9	134.0	141.2	142.4	139.2
Long-term funding ratio	76.1	74.5	72.7	73.6	72.9
Stable funding ratio	100.6	100.0	92.9	94.2	91.9
Short-term wholesale funding/funding base	25.4	27.2	29.3	28.3	29.0
Broad liquid assets/short-term wholesale funding (x)	1.1	1.1	0.9	1.0	0.9
Net broad liquid assets/short-term customer deposits	6.2	4.9	(5.8)	(2.0)	(4.6)
Short-term wholesale funding/total wholesale funding	52.6	54.8	58.2	55.5	56.0
Narrow liquid assets/3-month wholesale funding (x)	2.4	2.5	2.0	2.0	1.9

*Year to end June 2021.

Appendix

BPCE: Notching



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. NVCC--nonviability contingent capital.

Related Criteria

- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- 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

Related Research

- Various Rating Actions On French Banks As Easing Macroeconomic Downside Risk Is Dampened By Structural Profit Pressure, June 24, 2021
- BPCE's Contingent Capital Tier 2 Notes Assigned 'BBB' Rating, Sept. 28, 2021

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 December 3, 2021)*	
BPCE	
Issuer Credit Rating	A/Stable/A-1
Resolution Counterparty Rating	A+/--/A-1
Commercial Paper	A-1
Senior Subordinated	BBB+
Senior Unsecured	A
Short-Term Debt	A-1
Subordinated	BBB

Ratings Detail (As Of December 3, 2021)*(cont.)	
Issuer Credit Ratings History	
24-Jun-2021	A/Stable/A-1
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/Stable/A-1
Resolution Counterparty Rating	A+/--/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
Compagnie Europeenne de Garanties et Cautions	
Financial Strength Rating	
Local Currency	A/Stable/--
Issuer Credit Rating	
Local Currency	A/Stable/--
Credit Foncier de France	
Issuer Credit Rating	A-/Stable/A-2
Resolution Counterparty Rating	A/--/A-1
Natixis Australia Pty Ltd.	
Issuer Credit Rating	A/Stable/A-1
Natixis Financial Products LLC	
Issuer Credit Rating	A/Stable/A-1
Natixis (New York Branch)	
Issuer Credit Rating	A/Stable/A-1
Resolution Counterparty Rating	A+/--/A-1
Commercial Paper	
Local Currency	A-1
Natixis S.A.	
Issuer Credit Rating	A/Stable/A-1
Resolution Counterparty Rating	A+/--/A-1
Commercial Paper	
Local Currency	A-1
Junior Subordinated	BB+

Ratings Detail (As Of December 3, 2021)*(cont.)	
Senior Unsecured	A
Subordinated	BBB
Parnasse Garanties	
Issuer Credit Rating	A/Stable/--
Socram Banque	
Issuer Credit Rating	BBB/Negative/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.