Creditreform Bank Rating
BPCE SA (Group)

Creditreform Rating

Rating Object	Rating Information
BPCE SA (Group) Creditreform ID: 493455042 Management: Laurent Mignon (CEO) Christine Fabresse (Head of Retail & Insurance) Béatrice Lafaurie (Head of Human Resources) Jean-François Lequoy (Head of Finance & Strategy) Nicolas Namias (CEO Natixis)	Long Term Issuer Rating / Outlook: **A- / positive** Short Term: **L2** Stand Alone Rating: **BBB** Type: Update / Unsolicited
Rating Date: **24 November 2021** Monitoring until: withdrawal of the rating Rating Methodology: CRA "Bank Ratings v.3.0" CRA "Rating of Bank Capital and Unsecured Debt Instruments v.2.0" CRA "Environmental, Social and Governance Score for Banks v.1.0" CRA "Rating Criteria and Definitions v.1.3" CRA "Institutional Protection Scheme Banks v1.0" Rating History: www.creditreform-rating.de	Rating of Bank Capital and Unsecured Debt Instruments: Preferred Senior Unsecured: **A-** Non-Preferred Senior Unsecured: **BBB+** Tier 2: **BB+** Additional Tier 1: **BB**

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Key Rating Driver

+ Groupe BPCE is one of the largest banking groups in France; G-SIB status
+ Solid capitalization and good asset quality on Group level
+ New business plan *BPCE 2024* tackling inefficiencies, simplifying and streamlining business; firmer grasp on Natixis with tender offer and subsequent squeeze-out

+/- Solid capitalization, only average profitability of BPCE SA and Group

+/- Acquisitions and disinvestments cases of success and failure of diversification and expansion strategy

- Low interest environment cuts into profitability
- Very high reliance on French home market

Executive Summary

BPCE SA's long-term issuer rating is confirmed at 'A-' and the outlook is raised to 'positive'. In the course of the COVID-19 crisis, earnings and risk provisions have developed sharply negative. At the same time, Creditreform Rating does not expect these effects to have a lasting negative impact on earnings power and asset quality; the half-year and Q3 figures already indicate a rapid recovery. The sharp rise in loan defaults still expected in the previous year will probably not take place, due to generous government support programs, according to Creditreform Rating. BPCE SA benefits from an additional notching of two rating grades due to the results of the Institutional Support Assessment.

Company Overview

Groupe BPCE (hereinafter: Group) is the one of the largest banking groups in France and includes two independent cooperative banking networks. The banking group is the result of the merger of 15 Banque Populaire banks (BP) and 16 Caisses d'Epargne (CE) in 2009 (today 14 BP and 15 CE each). It serves over 36 million customers and employs over 100,000 people in 40 countries. The balance sheet total in 2020 was EUR 1.45tn and has EUR 1.1tn AUM.

Nine million cooperative shareholders own the constituent Banque Populaires and Caisses d'Epargne, while both banking networks hold 50% each of the central institute BPCE SA (hereinafter: BPCE SA or central institute), which in turn owns 100% of Natixis (after a tender offer and subsequent squeeze out of the remaining 29.3% between June and July 2021) and other subsidiaries such as Banque Palatine and Oney Bank.

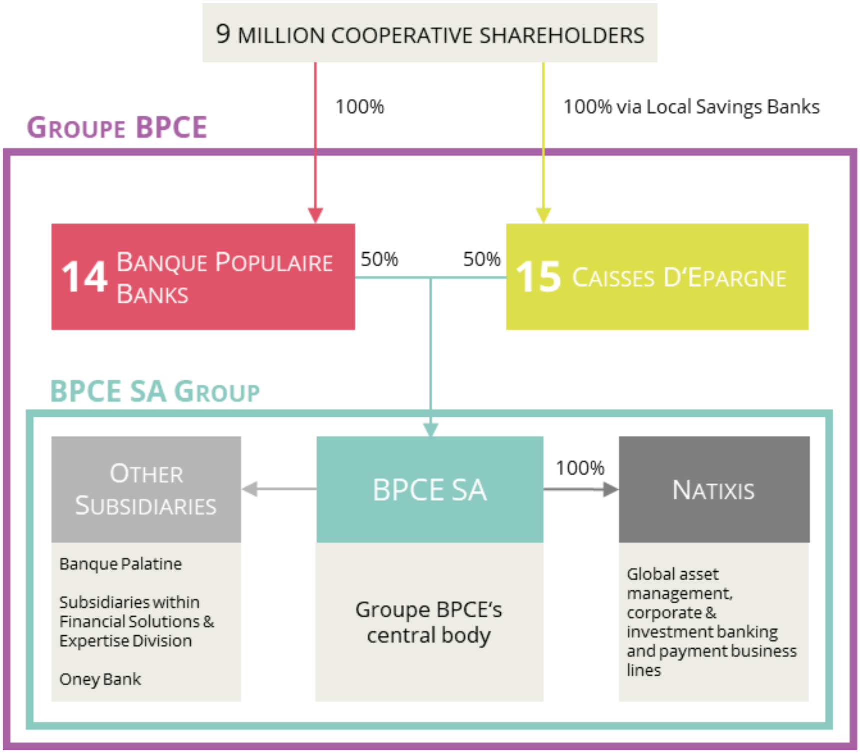
Groupe BPCE operates four business lines. "Retail Banking, Financial Solutions & Expertise and Insurance" are operated under BP, CE, Banque Palatine and Oney Bank brands, while "Asset & Wealth Management", "Corporate & Investment Bank" and "Payments" are operated under Natixis brands.

In February 2020 Natixis announced the sale of 29.5% of the share capital of Coface (insurance) to a specialist insurer in the United States. The loss on disposal was recognized at EUR 146 million. The Group also intends to sell its entire stake of H2O, but as of year-end 2020 H2O remained fully consolidated. The loss on disposal was estimated at EUR 48 million. The sale was suspended pending regulatory approval. In the first half of 2020 it was further decided to sell the stake of Fidor Bank AG. The sale is estimated to lead to a loss on disposal of EUR 141 million.

In February 2021, the Group announced its intention to simplify the Group structure and acquire the remaining 29.3% of Natixis in a simplified takeover bid. The tender process ran from the beginning of June to the beginning of July this year. By the end of the process, BPCE SA held 91.8% of Natixis. The remaining shares were brought under control through an announced squeeze out, and the remaining shareholders were compensated on the same terms.

The current group structure of Groupe BPCE, the Banque Populaire Banks and Caisses d'Epargne and BPCE SA Group is as follows:

Chart 1: Group Structure of Groupe BPCE | Source: Website of BPCE, own illustration



In July 2021, BPCE unveiled its new *BPCE 2024* business plan with the tagline "More United, More Useful, More Robust." This is accompanied by three strategic priorities and key principles, including a focus on climate change and a simplification/efficiency increase of the organization. The plan follows its predecessor *TEC2020*, which drove the transformation and consolidation of the group. Key financial targets of the new plan are net banking income growth of approximately 3.5% per year and savings of almost EUR 800 million per year. Transformation costs of €900 million are expected over the life of the plan. As of 2024, the Group is targeting, among other things, net banking income of approximately EUR 25.5 billion (currently approximately EUR 22.5 billion), a cost income ratio of below 65% (currently 74%), net profit of more than EUR 5 billion (pre-COVID-19: EUR 3.7 billion) and a Common Equity Tier 1 ratio of 16% (15.5%).

BPCE SA is defined as a central institution by the French Banking Law. Among other things, BPCE SA represents the interests of its respective affiliates vis-à-vis the regulatory authorities, organizes deposit insurance and the smooth running of the group institutions. As a holding company, BPCE SA acts as the head of the group and defines the business strategy. In accordance with articles L511-31 and L512-107-6 of the French Monetary and Financial Code, a guarantee and solidarity mechanism has been set up to guarantee the liquidity and capital adequacy of the Group and its members and to organize financial support within the Group. BPCE SA is charged with exhausting all possibilities to ensure the capital adequacy of the group of networks and also to set up internal financing mechanisms. For this purpose, three different funds exist. Two funds are provided by each of the networks (Banque Populaire and Caisse d'epargne), each with €450 million, and a mutual guarantee fund of €176 million for both networks, which means that the emergency funds currently provide almost €1.1 billion. The three funds must also not fall short of 0.15% of RWA or exceed 0.3% of RWA. As of 2020 (RWA: EUR 431 billion), these lower and upper limits would amount to just under EUR 0.65 billion and EUR 1.3 billion, respectively. In addition, BPCE SA is required to mobilize up to all cash and cash equivalents and capital available to all contributing affiliates. The Management Board of BPCE SA has all authority to mobilize the resources of the contributors without delay and in the agreed order based on prior authorization.

In the Institutional Support Assessment, Creditreform Rating examines the extent to which an existing cross-guarantee system or IPS can have an influence on BPCE's rating. As a result, Creditreform Rating comes to the conclusion that in the case of BPCE's long-term issuer (LT issuer) rating, there is a strong connection between Groupe BPCE and BPCE SA due to its role as central institution and the mandated support required by law to ensure the liquidity and solvency of the affiliated group entities. This enables additional notching. In the opinion of Creditreform Rating, a stand-alone rating of BPCE is thus not appropriate due to its affiliation with Groupe BPCE. As the result of Institutional Support Assessment, BPCE's rating is subject to additional notching of two grades due to its relationship with Groupe BPCE.

Business Development

Profitability

BPCE's operating income decreased massively from almost EUR 12.1 billion to EUR 10.5 billion in the 2020 financial year. Apart from net interest income, the earnings contribution decreased in every structural item. Net interest income increased by more than EUR 350 million compared with the previous year, following a decline in both interest income and interest expense. On the expense side, expenses from own issues in particular decreased by almost EUR 1 billion, allowing the bank to benefit from the low interest rate environment, while net interest income from customer loans decreased by more than EUR 0.5 billion year-on-year.
The main pillar of income on the part of the holding company of Groupe BPCE was, as in previous years, the commission business. The decrease was at a similar level compared to net interest income. The main negative driver here was a sharp decline in Trust Management Services (mainly lower performance fees) and Financial Instruments and off-balance sheet transactions. Financial Services produced a positive offset, which reduced the loss.
The second largest pillar, net insurance income, decreased by almost EUR 800 million and thus accounted for the largest reduction in absolute terms. The main factor here was a reduction of almost EUR 2 billion in the incomes from investments, while net income from premiums and claims contributed EUR 1.2 billion to net income.
In 2020, the trading and fair value business recorded a decline of almost EUR 750 million year-on-year due to the market turbulence.

Operating expenses also decreased significantly in 2020, from EUR 9.6 billion to only EUR 8.5 billion. The decrease was made up in roughly equal parts of other expenses and lower payroll costs due to the lower headcount.

In total, operating profit decreased to just below EUR 2 billion, compared with EUR 2.5 billion in the previous year. Risk costs rose sharply in the context of the COVID-19 crisis and doubled compared with the previous year, mainly due to the increase in expected credit losses. A loss of EUR 0.3 billion, which Creditreform Rating considers non-recurring and therefore removed from operations for better comparability, was incurred largely in connection with the sale of shares/disposal of Coface, H20 and Fidor Bank as mentioned in the previous section.

The end result for BPCE SA was a profit of only €311 million, a decrease of more than three quarters on the previous year.

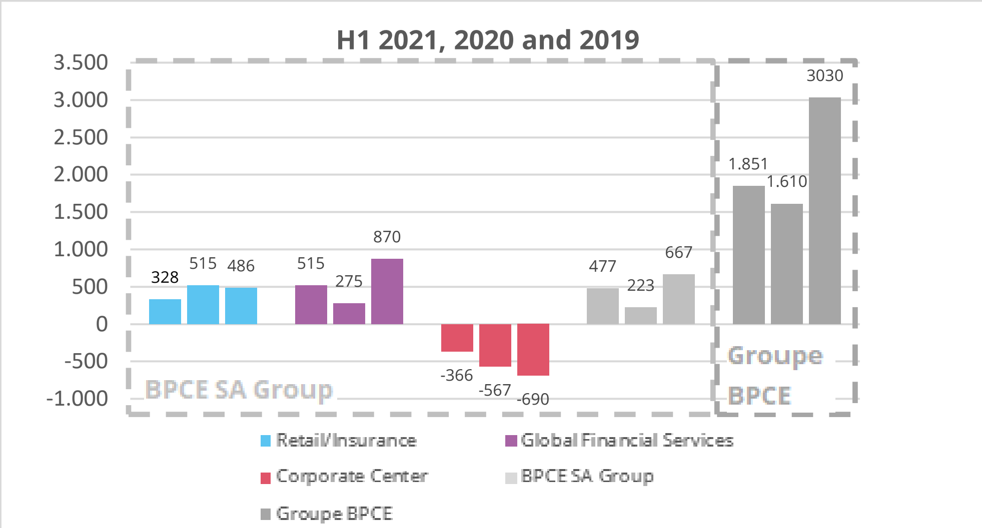
At Group level, the development was very similar. For all figures concerning the Group, please consult the annex of this rating report. With the exception of net interest income, all the main sources of income decreased compared with the previous year, in some cases very sharply. Net interest income, together with net fee and commission

income, generate around 40% of operating income each. In total, operating income decreased by almost EUR 2 billion compared with the previous year.
Operating expenses decreased by almost EUR 1 billion, mainly as a result of cost savings in Asset & Wealth Management and Corporate & Investment Banking, and thus almost exclusively in the business segments of the holding company. Retail Banking and Insurance expenses, which largely stem from the network, were practically unchanged from the previous year.
Operating profit was more than EUR 0.9 billion lower, while risk costs more than doubled to almost EUR 3 billion. After deducting non-recurring costs, mainly from the sale of the Coface shares, net income for the year was only EUR 1.7 billion, compared with EUR 3.7 billion in the previous year. At just over 53%, the decline was less pronounced than that of the central institution, where profit fell by more than three quarters.

Profitability at BPCE SA and at Group level showed a strong recovery in the first half of 2021. Net banking income increased strongly in all business areas at BPCE SA, while costs also rose in all areas, but only comparatively moderately. The central institution generated net income of EUR 477 million for the first half of the year, compared with a loss of EUR 239 million in the first half of the previous year, also because risk costs declined significantly compared with the first half of the previous year. A similar development was also seen at Group level, with half-year profit jumping from EUR 312 million to EUR 1.86 billion, driven by a strong operating result, achieved in particular through cost discipline, and sharply declining risk costs. Q3 figures indicate a continuation of the trend and follow the strong second quarter at all levels.

Chart 2 shows the development of net profit in relation to the business segments of BPCE SA and Groupe BPCE as a whole. The Global Financial Services business segment replaces and combines the Asset and Wealth Management and Corporate & Investment Banking segments as of the first half of 2021. The slump in net profit was clearly visible in 2020, particularly in Global Financial Services and especially on an aggregated basis for BPCE SA and Groupe BPCE. The very positive development in the first half of 2021 is all the more striking, with the full-year results of the previous year already exceeded in some cases.

Chart 2: Net profit by business segment of BPCE SA and Groupe BPCE in EUR million | Source: Registration Documents 2020 and H1 2021



A detailed group income statement for the years of 2017 through 2020 can be found in Figure 1 below:

Figure 1: Group income statement | Source: eValueRate / CRA

Income Statement (EUR m)	2020	%	2019	2018	2017
Income					
Net Interest Income	1.771	+25,0	1.417	1.486	2.822
Net Fee & Commission Income	3.692	-8,5	4.037	4.013	3.973
Net Insurance Income	2.350	-25,0	3.132	2.934	-126
Net Trading Income	1.135	-39,4	1.872	1.740	3.047
Equity Accounted Results	159	-31,2	231	248	241
Dividends from Equity Instruments	59	-37,2	94	67	170
Other Income	1.333	+1,9	1.308	1.282	1.249
Operating Income	**10.499**	**-13,2**	**12.091**	**11.770**	**11.376**
Expense					
Depreciation and Amortisation	618	-8,8	678	385	339
Personnel Expense	4.690	-9,7	5.194	5.221	4.864
Tech & Communications Expense	-	-	-	-	-
Marketing and Promotion Expense	-	-	-	-	-
Other Provisions	-	-	-	-	-
Other Expense	3.179	-14,1	3.702	3.910	3.574
Operating Expense	**8.487**	**-11,4**	**9.574**	**9.516**	**8.777**
Operating Profit & Impairment					
Pre-impairment Operating Profit	**2.012**	**-20,1**	**2.517**	**2.254**	**2.599**
Asset Writedowns	1.204	> +100	587	402	511
Net Income					
Non-Recurring Income	0	-100,0	8	6	104
Non-Recurring Expense	308	> +100	15	2	66
Pre-tax Profit	**500**	**-74,0**	**1.923**	**1.856**	**2.126**
Income Tax Expense	189	-68,2	594	389	611
Discontinued Operations	-	-	-	-	-
Net Profit	**311**	**-76,6**	**1.329**	**1.467**	**1.515**
Attributable to minority interest (non-controlling interest)	136	-80,5	698	782	670
Attributable to owners of the parent	176	-72,1	631	685	845

In the crisis year 2020, earnings slumped due to the above-mentioned factors, with a corresponding impact on the bank's key earnings figures. The cost income ratio of the holding company remains high, and the key figures based on net profit are in some cases only a quarter or a fifth of the values of previous years.
From a Group perspective, the development is also clearly negative, although the ratios have only fallen by slightly more than half.

The positive development of the first three quarters will have corresponding effects on both BPCE SA and Group level, possibly even surpassing 2019 levels if the current trend continues. Especially the cost income ratio should profit given the progress in keeping costs low while business rebounds.

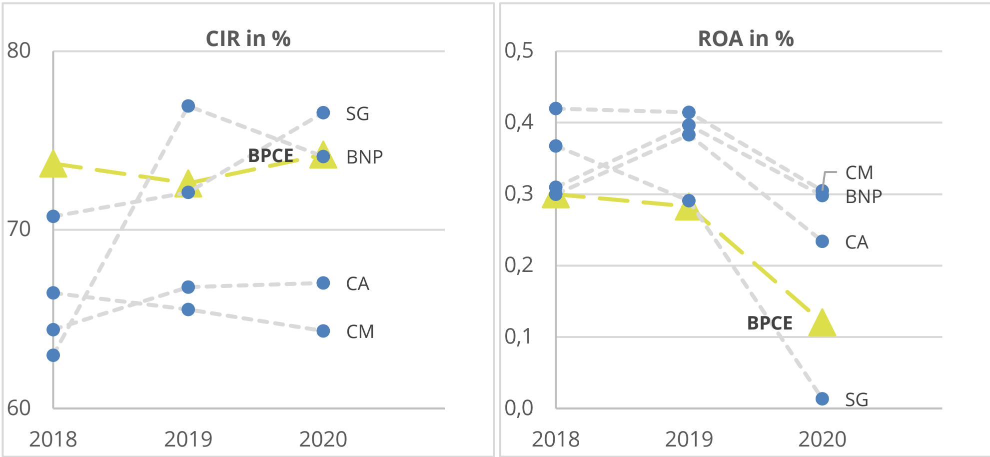
A detailed overview of the income ratios for the years of 2017 through 2020 can be found in Figure 2 below:

Figure 2: Group key earnings figures| Source: eValueRate / CRA

Income Ratios (%)	2020	%	2019	2018	2017
Cost Income Ratio (CIR)	80,84	+1,65	79,18	80,85	77,15
Cost Income Ratio ex. Trading (CIRex)	90,63	-3,05	93,69	94,88	105,38
Return on Assets (ROA)	0,04	-0,14	0,17	0,20	0,20
Return on Equity (ROE)	1,20	-3,59	4,80	5,50	5,85
Return on Assets before Taxes (ROAbT)	0,06	-0,19	0,25	0,25	0,28
Return on Equity before Taxes (ROEbT)	1,94	-5,01	6,94	6,96	8,21
Return on Risk-Weighted Assets (RORWA)	-	-	-	-	-
Return on Risk-Weighted Assets before Taxes (RORWAbT)	-	-	-	-	-
Net Interest Margin (NIM)	0,41	-0,11	0,52	0,53	0,85
Pre-Impairment Operating Profit / Assets	0,24	-0,09	0,33	0,30	0,34
Cost of Funds (COF)	1,31	-0,35	1,66	1,59	1,72
Change in %Points					

Chart 3 compares representative earnings figures of the bank with those of a peer group of French competitors. To ensure comparability with the peer group, the key figures of Groupe BPCE are used. The comparison shows that the earnings power and profitability of Groupe BPCE are average. In particular, profitability in terms of ROA fell sharply in the crisis year 2020, but was also fully in line with the trend among competitors.

Chart 3: CIR & ROA of Groupe BPCE in comparison to the peer group | Source: eValueRate / CRA

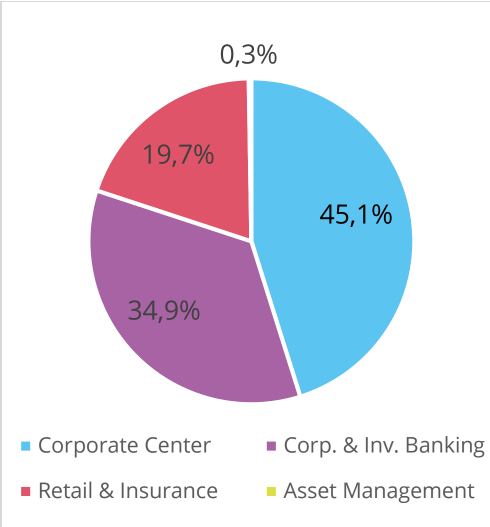


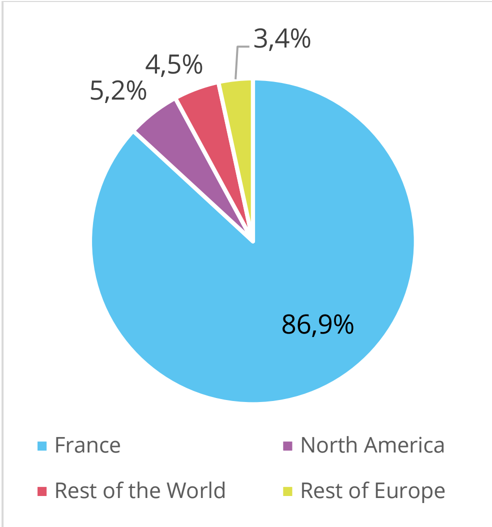
Asset Situation and Asset Quality

Total assets increased sharply in the 2020 financial year to just under EUR 850 billion (+EUR 84 billion). Liquid assets (cash and central bank balances) and bank deposits accounted for a large share of this total, contributing EUR 76 billion and EUR 21 billion respectively. The main reason for the increase in central bank deposits is the participation in the TLTRO III program, from which BPCE SA drew EUR 82 billion as of December 2020. Customer loans, on the other hand, decreased by more than EUR 8 billion year-on-year.

Chart 4 shows assets by business segment and geography of BPCE SA, ordered by size. By far the largest share of assets is attributed to the corporate center, followed by corporate and investment banking. In terms of geographic distribution, BPCE is very much centered in France and thus completely dependent on the economic and political development in France proper. Given the omission of the retail network in the consolidation scope of BPCE SA, the geographic concentration of assets in France is even higher (in excess of 92%) on Group level.

Chart 4: Assets by segment and geography of BPCE SA | Source: BPCE registration document 2020





Total assets at Group level also increased significantly by almost EUR 125 billion. Cash and cash equivalents and central bank balances also increased significantly by EUR 73 billion at Group level. In contrast to the central institution, the lending business was very robust, with customer loans increasing by almost EUR 52 billion year-on-year.

Total assets increased only marginally in the first six months of fiscal 2021. However, there were certainly major movements within the balance sheet. Loans at Fair Value (especially repos) decreased sharply, while loans to banks increased substantially. In parallel, excess liquidity at central banks was reduced. At Group level, too, there were hardly any changes in total; on a consolidated basis, loans to customers and loans to banks increased slightly compared with year-end 2020. No detailed figures are available for the third quarter at BPCE SA level, but there was dynamic growth at Group level, particularly in the area of customer loans as well as central bank balances and cash holdings.

A detailed look at the development of the asset side of the balance sheet for the years of 2017 through 2020 can be taken in Figure 3 below:

Figure 3: Development of assets | Source: eValueRate / CRA

Assets (EUR m)	2020	%	2019	2018	2017
Cash and Balances with Central Banks	148.709	> +100	72.602	66.656	82.721
Net Loans to Banks	149.322	+16,3	128.383	128.264	115.217
Net Loans to Customers	169.684	-4,6	177.817	175.655	201.201
Total Securities	89.272	+1,6	87.858	70.747	137.010
Total Derivative Assets	59.605	+3,7	57.487	60.713	64.896
Other Financial Assets	90.448	-14,6	105.916	110.446	92.599
Financial Assets	**707.040**	**+12,2**	**630.063**	**612.481**	**693.644**
Equity Accounted Investments	4.102	+8,8	3.769	3.523	3.625
Other Investments	65	-11,0	73	96	1.111
Insurance Assets	117.104	+4,8	111.787	103.281	13.627
Non-current Assets & Discontinued Ops	2.599	> +100	578	6.167	1.195
Tangible and Intangible Assets	6.788	-7,5	7.340	5.946	5.723
Tax Assets	2.490	-8,9	2.732	2.363	3.119
Total Other Assets	8.753	+2,4	8.550	17.705	37.577
Total Assets	**848.941**	**+11,0**	**764.892**	**751.562**	**759.621**

The development of BPCE's asset quality at both holding and group level is solid. Although the NPL ratio increased at holding level, it continued to decline at group level despite COVID-19. However, the development of potential problem loans under IFRS 9 (Stage 2) is noteworthy. In contrast to the general industry trend, the stage 2 ratio decreased compared with the previous year, although the already high level of previous years should not be disregarded.

Asset quality did not deteriorate significantly in the first half of the year, but notable declines in potential problem loan exposures (Stage 2), as in the industry trend, were not observed. The NPL ratio at BPCE SA customer loan level was above average at 5.1% (2020: 4.8%) and at Group level at a low 2.9% (2.8%).

A detailed overview of the asset quality for the years of 2017 through 2020 can be found in Figure 4 below:

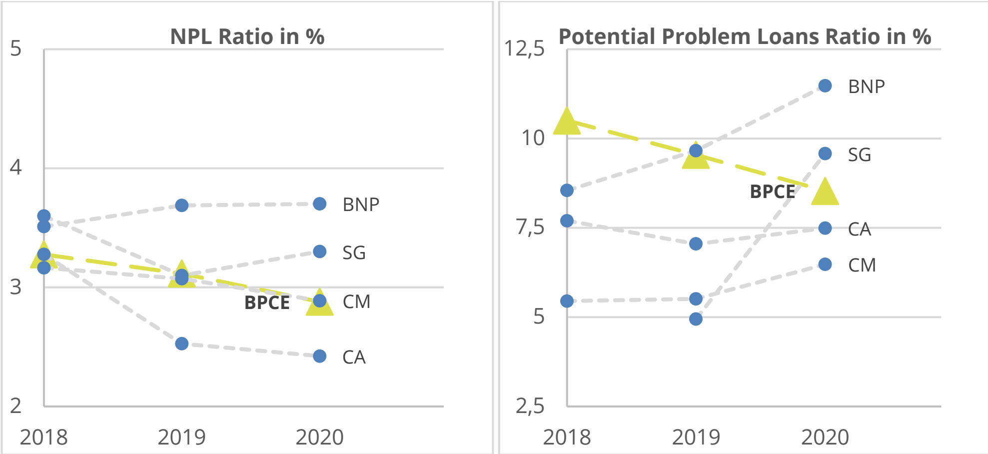
Figure 4: Development of asset quality | Source: eValueRate / CRA

Asset Ratios (%)	2020	%	2019	2018	2017
Net Loans/ Assets	19,99	-3,26	23,25	23,37	26,49
Risk-weighted Assets/ Assets	-	-	-	-	-
NPLs*/ Net Loans to Customers	4,93	+0,36	4,57	4,47	4,61
NPLs*/ Risk-weighted Assets	-	-	-	-	-
Potential Problem Loans**/ Net Loans to Customers	17,69	-0,41	18,11	20,22	2,43
Reserves/ NPLs*	39,83	-1,29	41,12	38,56	38,14
Reserves/ Net Loans	1,96	+0,08	1,88	1,72	1,76
Net Write-offs/ Net Loans	0,71	+0,38	0,33	0,23	0,25
Net Write-offs/ Risk-weighted Assets	-	-	-	-	-
Net Write-offs/ Total Assets	0,14	+0,07	0,08	0,05	0,07
Level 3 Assets/ Total Assets	1,08	-0,33	1,41	0,61	0,71
Change in % Points					

* NPLs are represented from 2017 onwards by Stage 3 Loans.
** Potential Problem Loans are Stage 2 Loans where available.

Chart 5 compares representative key figures of the bank's asset quality with those of the peer group. Here, too, the bank is in the midfield, but in contrast to the peer group, the bank can report a consistently positive development. The positive development of the potential problem loan ratio (Stage 2) is particularly noteworthy, not only in France but also internationally.

Chart 5: NPL and PPL ratios of Groupe BPCE in comparison to the peer group | Source: eValueRate / CRA



Refinancing, Capital Quality and Liquidity

The increase in liabilities is mainly attributable to the increase in deposits from banks. As already described in the previous section, this was due to participation in the ECB's TLTRO III program. BPCE SA is drawing EUR 82 billion in this way at an interest rate of -1% p.a. if all criteria are met. Against the backdrop of very favorable ECB refinancing, own issues decreased by a net 16%. Equity decreased by EUR 1.9 billion year-on-year. The main reason is the sale of the Coface shares/loss of control, which reduced retained earnings accordingly, in addition to dividend distributions for 2019.

Refinancing for balance sheet growth at Group level was provided not only by the central institution's participation in the ECB's TLTRO III tender but also by very robust customer deposit growth of around EUR 72 billion. The majority of debt is issued by the central institution and its subsidiaries; the decline in the face of favorable refinancing opportunities at the ECB is not surprising and has already been discussed in the previous section. Equity increased on a consolidated basis; the aforementioned sale of the Coface shares only had the effect of reducing equity. Capital increases, e.g. in the form of cooperative shares, together with corresponding retained earnings, led to an increase in equity of just under EUR 1.2 billion.

A significant event in the current fiscal year 2021 was the simplified tender offer for the Natixis shares not owned by BPCE SA. At the end of the year, BPCE SA held 29.3% of Natixis shares. At the end of the first half of 2021, this figure was only 20.3%. This had a far-reaching impact on the equity of both BPCE SA and the Group. Overall, shareholders' equity decreased by EUR 1.15 billion, comprising a decrease in non-controlling interest of EUR 1.62 billion and an increase in equity attributable to shareholders

of EUR 0.47 billion. At the same time, there was an obligation to the remaining shareholders of EUR 2.56 billion (non-controlling interests EUR 3.67 billion minus equity attributable to shareholders EUR 1.11 billion) under the current tender offer. In total, equity decreased by EUR 1.5 billion at Group level and by EUR 2.7 billion at the level of the acquiring BPCE SA at the half-year point 2021.
As of Q3, this decrease was already more than offset, and for the year as a whole, total equity increased by more than EUR 0.33 billion to EUR 78.74 billion from a Group perspective. The outstanding TLTRO III outstanding amount was EUR 97.2 billion, up EUR 15 billion from year-end 2020.

A detailed overview of the development of liabilities for the years of 2017 through 2020 can be found in Figure 5 below:

Figure 5: Development of refinancing and capital adequacy| Source: eValueRate / CRA

Liabilities (EUR m)	2020	%	2019	2018	2017
Total Deposits from Banks	199.224	+87,6	106.199	104.337	102.969
Total Deposits from Customers	46.059	+1,8	45.266	61.203	56.222
Total Debt	252.689	-5,9	268.608	246.653	245.759
Derivative Liabilities	51.643	-1,6	52.494	58.984	61.357
Securities Sold, not yet Purchased	-	-	-	-	-
Other Financial Liabilities	147.608	+3,2	142.968	132.211	143.479
Total Financial Liabilities	**697.223**	**+13,3**	**615.535**	**603.388**	**609.786**
Insurance Liabilities	106.918	+3,8	102.982	91.690	86.373
Non-current Liabilities & Discontinued Ops	1.945	> +100	528	4.975	717
Tax Liabilities	1.832	-18,3	2.243	1.488	1.375
Provisions	2.637	-0,8	2.659	3.048	2.825
Total Other Liabilities	12.566	-5,2	13.253	20.321	32.645
Total Liabilities	**823.121**	**+11,7**	**737.200**	**724.910**	**733.721**
Total Equity	**25.820**	**-6,8**	**27.692**	**26.652**	**25.900**
Total Liabilities and Equity	**848.941**	**+11,0**	**764.892**	**751.562**	**759.621**

Capital ratios of BPCE are essentially only collected on a Group basis. On the basis of the holding company, the regulatory capital ratios are low, but on the Group level they are very solid. The equity ratio decreased due to the strong balance sheet growth as well as the sale of Coface and the low net income. However, the regulatory capital ratios developed positively, in the course of the leverage ratio also due to transitional provisions in the context of the COVID-19 crisis. The minimum ratios were complied with at all times and the ratios themselves provide a sufficient buffer for times of crisis. The BPCE 2024 strategic plan envisages a Common Equity Tier 1 ratio of over 15.5% by 2024, which the Group already exceeds with 16% at year-end 2020. Thus, no further increase in capitalization is expected in the medium term and is not necessary in view of existing buffers, also from the perspective of Creditreform Rating.

Capitalization deteriorated marginally. The CET1 ratio as of Q3 2021 was 15.8%, the leverage ratio 5.8% under transitional provisions due to the COVID-19 crisis.

A detailed overview of the development of capital and liquidity ratios for the years of 2017 through 2020 can be found in Figure 6 below:

Figure 6: Development of capital and liquidity ratios | Source: eValueRate / CRA

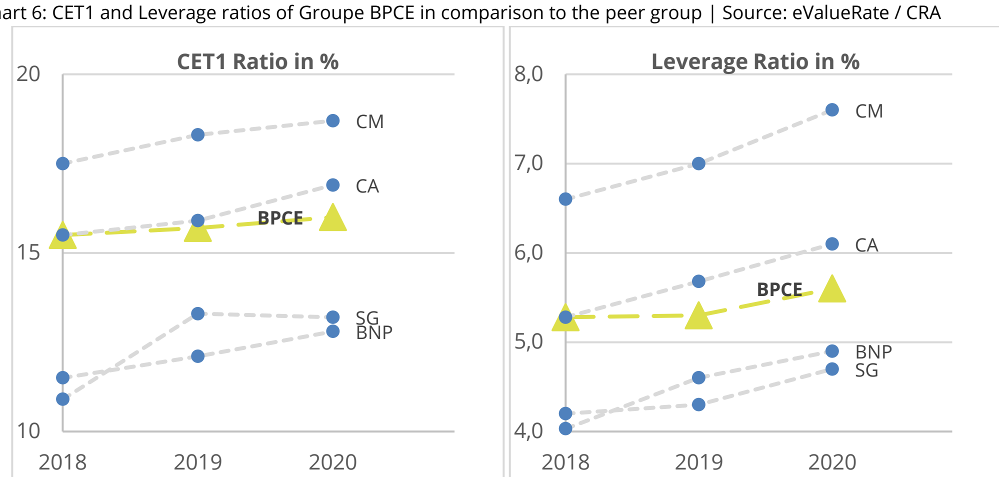
Capital Ratios and Liquidity (%)	2020	%	2019	2018	2017
Total Equity/ Total Assets	3,04	-0,58	3,62	3,55	3,41
Leverage Ratio	-	-	-	-	-
Common Equity Tier 1 Ratio (CET1)*	-	-	-	-	-
Tier 1 Ratio (CET1 + AT1)*	10,50	-0,70	11,20	10,90	10,30
Total Capital Ratio (CET1 + AT1 + T2)*	15,50	-3,10	18,60	19,10	18,40
SREP Capital Requirements	-	-	-	-	-
MREL / TLAC Ratio	-	-	-	-	-
Net Loans/ Deposits (LTD)	368,41	-24,42	392,83	287,00	357,87
Interbank Ratio	74,95	-45,94	120,89	122,93	111,89
Liquidity Coverage Ratio	-	-	-	-	-
Customer Deposits / Total Funding (excl. Derivates)	5,97	-0,64	6,61	9,19	8,36

Change in %Points
* Fully-loaded where available

Due to BPCE's bank capital and debt structure, as well as its status as a G-SIB, BPCE's Preferred Senior Unsecured Debt instruments have not been notched down in comparison to the long-term issuer rating. Due to the seniority structure, BPCE's Non-Preferred Senior Unsecured debt has been notched down by one notch. However, BPCE's Tier 2 capital rating is rated four notches below the long-term issuer rating based on the bank's capital structure and seniority in accordance with our rating methodology. Additional Tier 1 capital is rated five notches below the long-term issuer rating, reflecting a high bail-in risk in the event of resolution.

Chart 6 compares representative key figures of the Group's capitalization with the peer group. Again, BPCE is solidly located in the midfield. From Creditreform Rating's point of view, the general trend toward stronger capitalization is commendable. Compared with its French competitors, Groupe BPCE is no exception.

Chart 6: CET1 and Leverage ratios of Groupe BPCE in comparison to the peer group | Source: eValueRate / CRA



Environmental, Social and Governance (ESG) Score Card

BPCE has one significant and two moderate ESG rating drivers

• Corporate Governance is identified as a highly significant rating driver. The relevance for the credit rating results from the impact of the Corporate Governance factor on all other ESG factors and the overall well-being of the bank. This sub-factor is rated neutral, due in part to the only average performance of the Group in recent years, as well as failed investments and joint-ventures.

• Corporate Behaviour and Green Financing / Promoting are identified as moderate rating drivers. Green Financing / Promoting and Corporate Behaviour are rated positive and neutral respectively. Green Financing activity has recently ramped up, and there are no known large scandals in the recent years bar a higher number of general lawsuits which are expected for a banking group of this size in the latter.

ESG Score
3,6 / 5

ESG Score Guidance	
> 4,25	Outstanding
>3,5 - 4,25	Above-average
>2,5 - 3,5	Average
>1,75 - 2,5	Substandard
< = 1,75	Poor

Factor	Sub-Factor	Consideration	Relevance Scale 2021	Eval.
Environmental	1.1 Green Financing / Promoting	The sub-factor "Green Financing/Promoting" has a moderate relevance for the credit rating, and is rated positive in terms of the CRA ESG criteria.	3	(+)
	1.2 Exposure to Environmental Factors	The sub-factor "Exposure to Environmental Factors" has a low relevance for the credit rating, and is rated positive in terms of the CRA ESG criteria.	2	(+)
	1.3 Resource Efficiency	The sub-factor "Resource Efficiency" has no significant relevance for the credit rating, and is rated positive in terms of the CRA ESG criteria.	1	(+)
Social	2.1 Human Capital	The sub-factor "Human Capital" has low relevance for the credit rating, and is rated positive in terms of the CRA ESG criteria.	2	(+)
	2.2 Social Responsibility	The sub-factor "Social Responsibility" has no significant relevance for the credit rating, and is rated positive in terms of the CRA ESG criteria.	1	(+)
Governance	3.1 Corporate Governance	The sub-factor "Corporate Governance" is highly relevant for the credit rating, and is rated neutral in terms of the CRA ESG criteria.	4	( )
	3.2 Corporate Behaviour	The sub-factor "Corporate Behaviour" has a moderate relevance for the credit rating, and is rated neutral in terms of the CRA ESG criteria.	3	( )
	3.3 Corporate Transparency	The sub-factor "Corporate Transparency" has no significant relevance for the credit rating, and is rated positive in terms of the CRA ESG criteria.	1	(+)

ESG Relevance Scale	
5	Highest Relevance
4	High Relevance
3	Moderate Relevance
2	Low Relevance
1	No significant Relevance

ESG Evaluation Guidance	
(+ +)	Strong positive
(+)	Positive
( )	Neutral
(-)	Negative
(- -)	Strong negativ

The ESG Score is based on the Methodology "Environmental, Social and Governance Score of Banken (Version 1.0)" of Creditreform Rating AG, which is available on our homepage https://creditreform-rating.de/en/about-us/regulatory-requirements.html. In addition, we refer to CRA's position paper "Consodering the Impact of ESG Factors".

Conclusion

Creditreform Rating confirms the long-term issuer rating of 'A-'. The outlook is upgraded from 'stable' to ‘positive’. Although net profit slumped in fiscal year 2020 in the wake of the COVID-19 crisis, a rebound already occurred in the first half of 2021. From a Group perspective, there was also a sharp downturn in 2020, only to return much stronger in the first half of the year. At the same time, asset quality remained at a solid level. There have been no clustered defaults to date, and an even more pronounced downturn in the economy has been prevented by generous government aid. The expected sharp rise in defaults is therefore unlikely to take place, according to the analysts; instead, Creditreform Rating expects a period of increased default rates. Capital adequacy remains solid and well in excess of regulatory requirements.

Overall, Groupe BPCE can look back on turbulent fiscal years 2020 and 2021, precisely because of the adversity caused by the COVID-19 crisis. In particular, very high loan loss provisions weighed on the result in 2020, coupled with a general decline in business and market distortions. Further burdens were the discontinuation of some businesses and efforts to disinvest participations. As part of the new *BPCE 2024* business strategy, the Group is streamlining its business and focusing on general simplification and efficiency enhancement, in the context of which the remaining minority interests from the free float of Natixis were acquired in a tender offer and subsequent squeeze out. Unlike other major banks, asset quality did not deteriorate significantly during the crisis, although the ratio of potential problem loans had already been elevated in previous years. However, the NPL ratio from a Group perspective is to be assessed as low. Capitalization is solid, with sufficient buffers against any shocks. Overall, the interim figures for the half-year and Q3 2021 suggest a broad recovery, and a negative shock seems unlikely in the short term.

Outlook

The outlook of the Long-Term Issuer Rating of BPCE SA is upgraded from ‘negative’ to ‘positive’. The sharp rise in loan defaults still expected in the previous year is unlikely to materialize due to generous government support programs. At the same time, the banking sector has shown itself to be resilient in face of the crisis and at the same time has sustainably implemented necessary cost savings. Hence, in the medium term, CRA expects no further deterioration in asset quality and return to the profitability of previous years, considering the good development in the first nine months of 2021. In addition, the transformation of the business model and savings that were made during the COVID-19 crisis and due to *BPCE 2024* should enhance profitability in short and medium term. Creditreform Rating expects the gradual improvement in economic activity in France and Europe as a whole.

Best-case scenario: A+

Worst-case scenario: BBB+

Please note:

The scenarios are based on information available at the time of the rating. Within the forecast horizon, circumstances may occur that could lead to a change of the rating out of the indicated range.

Scenario Analysis

In a scenario analysis, the bank is able to reach an A+ rating in the best-case scenario and a BBB+ rating in the worst-case scenario. The ratings of bank capital and senior unsecured debt would behave similarly based on our rating mechanism. These ratings are especially sensitive to changes in total equity and to the bank capital and debt structure in general.

We might upgrade BPCE SA's long-term issuer credit rating and its bank capital and debt instruments, if we see that BPCE SA and the Group can sustainably increase profitability and cost efficiency. Furthermore, asset quality should not deteriorate at the very least.

In contrast, a downgrade of the long-term issuer rating as well as the bank capital and debt instruments would be likely, if the group cannot achieve a sustainable improvement in profitability or if asset quality were to decline significantly in the wake of COVID-19 or other crises. Creditreform Rating will pay particular attention to developments under the new *BPCE 2024* business plan.

Appendix

Bank ratings

The bank ratings are dependent on a host of quantitative and qualitative factors. An improvement in either sub-category may result in a higher rating score.

LT Issuer / Outlook / Short-Term **A- / positive / L2**

Bank Capital and Debt Instruments Ratings

The ratings for bank capital and debt instruments are inter alia dependent on subordination and relative size of the instrument class, based on the long-term issuer rating of the bank.

Preferred Senior Unsecured Debt (PSU): **A-**
Non-Preferred Senior Unsecured Debt (NPS): **BBB+**
Tier 2 (T2): **BB+**
Additional Tier 1 (AT1): **BB**

Rating History

Please consult our website www.creditreform-rating.de for additional information regarding the dates of publication.

Figure 7: Rating History

Bank Issuer Rating	Rating Date	Result
LT / Outlook / Short-Term (Initial)	04.12.2018	A - / stable / L2
Rating Update	19.12.2019	A- / stable / L2
Monitoring	24.03.2020	A- / NEW / L2
Rating Update	19.11.2020	A- / negative / L2
Rating Update	24.11.2021	A- / positive / L2
Bank Capital and Debt Instruments	**Rating Date**	**Result**
Senior Unsecured / T2 / AT1 (Initial)	04.12.2018	A- / BB+ / BB
PSU / NPS / T2 / AT1	19.12.2019	A- / BBB+ / BB+ / BB
PSU / NPS / T2 / AT1	24.03.2020	A- / BBB+ / BB+ / BB (NEW)
PSU / NPS / T2 / AT1	19.11.2020	A- / BBB+ / BB+ / BB
PSU / NPS / T2 / AT1	24.11.2021	A- / BBB+ / BB+ / BB

Figure 8: Income statement of Groupe BPCE | Source: eValueRate / CRA

Income Statement (EUR m)	2020	%	2019	2018	2017
Income					
Net Interest Income	9.170	+5,9	8.660	8.641	10.232
Net Fee & Commission Income	9.187	-4,2	9.585	9.568	9.451
Net Insurance Income	2.550	-22,9	3.306	3.094	-248
Net Trading Income	1.250	-44,7	2.262	2.255	3.177
Equity Accounted Results	174	-39,6	288	293	276
Dividends from Equity Instruments	138	-18,8	170	119	257
Other Income	1.093	-12,0	1.242	1.123	1.177
Operating Income	**23.562**	**-7,6**	**25.513**	**25.093**	**24.322**
Expense					
Depreciation and Amortisation	1.317	+3,5	1.273	904	851
Personnel Expense	10.029	-5,0	10.555	10.629	10.327
Tech & Communications Expense	-	-	-	-	-
Marketing and Promotion Expense	-	-	-	-	-
Other Provisions	-18	-52,6	-38	-187	59
Other Expense	6.158	-8,6	6.735	7.151	6.819
Operating Expense	**17.486**	**-5,6**	**18.525**	**18.497**	**18.056**
Operating Profit & Impairment					
Pre-impairment Operating Profit	**6.076**	**-13,1**	**6.988**	**6.596**	**6.266**
Asset Writedowns	2.998	> +100	1.451	1.315	1.445
Net Income					
Non-Recurring Income	14	+40,0	10	15	695
Non-Recurring Expense	303	> +100	9	-	-
Pre-tax Profit	**2.789**	**-49,6**	**5.538**	**5.296**	**5.516**
Income Tax Expense	1.045	-42,0	1.801	1.477	1.811
Discontinued Operations	-	-	-	-	-
Net Profit	**1.744**	**-53,3**	**3.737**	**3.819**	**3.705**
Attributable to minority interest (non-controlling interest)	134	-81,0	707	793	681
Attributable to owners of the parent	1.610	-46,9	3.030	3.026	3.024

Figure 9: Key earnings figures of Groupe BPCE | Source: eValueRate / CRA

Income Ratios (%)	2020	%	2019	2018	2017
Cost Income Ratio (CIR)	74,21	+1,60	72,61	73,71	74,24
Cost Income Ratio ex. Trading (CIRex)	78,37	-1,30	79,67	80,99	85,39
Return on Assets (ROA)	0,12	-0,16	0,28	0,30	0,29
Return on Equity (ROE)	2,22	-2,61	4,83	5,20	5,20
Return on Assets before Taxes (ROAbT)	0,19	-0,23	0,42	0,42	0,44
Return on Equity before Taxes (ROEbT)	3,56	-3,60	7,16	7,21	7,75
Return on Risk-Weighted Assets (RORWA)	0,40	-0,48	0,89	0,97	0,96
Return on Risk-Weighted Assets before Taxes (RORWAbT)	0,65	-0,67	1,31	1,35	1,43
Net Interest Margin (NIM)	0,81	-0,12	0,94	0,98	1,14
Pre-Impairment Operating Profit / Assets	0,42	-0,11	0,53	0,52	0,50
Cost of Funds (COF)	1,08	-0,33	1,41	1,40	1,50
Change in %Points					

Figure 10: Development of assets of Groupe BPCE | Source: eValueRate / CRA

Assets (EUR m)	2020	%	2019	2018	2017
Cash and Balances with Central Banks	153.403	+91,2	80.244	76.458	94.702
Net Loans to Banks	87.886	+3,8	84.708	84.891	78.306
Net Loans to Customers	746.058	+7,4	694.498	658.172	652.769
Total Securities	144.927	+2,7	141.166	119.873	155.808
Total Derivative Assets	58.782	+4,2	56.423	59.507	62.773
Other Financial Assets	90.343	-15,8	107.309	114.000	133.418
Financial Assets	**1.281.399**	**+10,1**	**1.164.348**	**1.112.901**	**1.177.776**
Equity Accounted Investments	4.586	+8,0	4.247	4.033	4.112
Other Investments	770	+0,1	769	783	1.994
Insurance Assets	124.566	+4,6	119.046	110.295	13.392
Non-current Assets & Discontinued Ops	2.599	> +100	578	2.639	1.195
Tangible and Intangible Assets	11.567	-5,2	12.202	10.106	9.932
Tax Assets	4.414	-1,1	4.461	4.047	4.551
Total Other Assets	16.368	+2,3	15.997	29.122	46.898
Total Assets	**1.446.269**	**+9,4**	**1.321.648**	**1.273.926**	**1.259.850**

Figure 11: Development of asset quality of Groupe BPCE | Source: eValueRate / CRA

Asset Ratios (%)	2020	%	2019	2018	2017
Net Loans/ Assets	51,59	-0,96	52,55	51,66	51,81
Risk-weighted Assets/ Assets	29,82	-2,08	31,90	30,80	30,66
NPLs*/ Net Loans to Customers	2,88	-0,24	3,12	3,28	3,58
NPLs*/ Risk-weighted Assets	4,98	-0,15	5,13	5,50	6,04
Potential Problem Loans**/ Net Loans to Customers	8,54	-1,01	9,55	10,51	1,36
Reserves/ NPLs*	63,03	+3,82	59,20	58,51	50,45
Reserves/ Net Loans	1,81	-0,03	1,84	1,92	1,80
Net Write-offs/ Net Loans	0,40	+0,19	0,21	0,20	0,22
Net Write-offs/ Risk-weighted Assets	0,70	+0,35	0,34	0,34	0,37
Net Write-offs/ Total Assets	0,21	+0,10	0,11	0,10	0,11
Level 3 Assets/ Total Assets	1,06	-0,06	1,12	1,14	1,48
Change in % Points					

* NPLs are represented from 2017 onwards by Stage 3 Loans.
** Potential Problem Loans are Stage 2 Loans where available.

Figure 12: Development of refinancing and capital adequacy of Groupe BPCE | Source: eValueRate / CRA

Liabilities (EUR m)	2020	%	2019	2018	2017
Total Deposits from Banks	128.256	+82,3	70.342	76.714	73.966
Total Deposits from Customers	636.044	+12,8	563.795	538.167	509.173
Total Debt	268.826	-5,2	283.479	259.053	257.207
Derivative Liabilities	52.781	-1,4	53.524	60.425	62.762
Securities Sold, not yet Purchased	-	-	-	-	-
Other Financial Liabilities	134.798	+3,0	130.809	124.790	144.292
Total Financial Liabilities	**1.220.705**	**+10,8**	**1.101.949**	**1.059.149**	**1.047.400**
Insurance Liabilities	114.608	+3,5	110.697	98.855	93.549
Non-current Liabilities & Discontinued Ops	1.945	> +100	528	2.096	717
Tax Liabilities	1.724	-21,2	2.188	1.146	998
Provisions	6.213	+0,9	6.156	6.574	6.392
Total Other Liabilities	22.662	-0,6	22.789	32.701	39.593
Total Liabilities	**1.367.857**	**+9,9**	**1.244.307**	**1.200.521**	**1.188.649**
Total Equity	**78.412**	**+1,4**	**77.341**	**73.405**	**71.201**
Total Liabilities and Equity	**1.446.269**	**+9,4**	**1.321.648**	**1.273.926**	**1.259.850**

Figure 13: Development of capital ratios of Groupe BPCE | Source: eValueRate / CRA

Capital Ratios and Liquidity (%)	2020	%	2019	2018	2017
Total Equity/ Total Assets	5,42	-0,43	5,85	5,76	5,65
Leverage Ratio	5,60	+0,30	5,30	5,28	5,10
Common Equity Tier 1 Ratio (CET1)*	16,00	+0,30	15,70	15,50	15,40
Tier 1 Ratio (CET1 + AT1)*	16,00	+0,30	15,70	-	15,50
Total Capital Ratio (CET1 + AT1 + T2)*	18,10	-0,70	18,80	19,20	19,20
SREP Capital Requirements	10,50	+0,00	10,50	9,00	7,50
MREL / TLAC Ratio	30,20	+1,00	29,20	-	-
Net Loans/ Deposits (LTD)	117,30	-5,89	123,18	122,30	128,20
Interbank Ratio	68,52	-51,90	120,42	110,66	105,87
Liquidity Coverage Ratio	156,00	+15,00	141,00	129,70	127,00
Customer Deposits / Total Funding (excl. Derivates)	48,37	+1,02	47,35	47,20	45,22

Change in % Points

* Fully-loaded where available

Regulatory

Creditreform Rating AG was neither commissioned by the rating object nor by any other third party for the rating. The analysis took place on a voluntary basis by Creditreform Rating AG and is to be described in the regulatory sense as an unsolicited rating. The following scheme clarifies the level of participation of the rated entity (rating object):

Unsolicited Credit Rating	
With Rated Entity or Related Third Party Participation	No
With Access to Internal Documents	No
With Access to Management	No

The rating is based on publicly available information and internal evaluation methods for the rated bank. The quantitative analysis is based mainly on the latest annual accounts, interim reports, other investor relations information of the bank, and calculated key figures by eValueRate / CRA.

The information and documents processed met the requirements of the rating system of Creditreform Rating AG as published on the website www.creditreform-rating.de. The rating was carried out on the basis of the rating methodology for bank ratings as (v3.0), the methodology for the rating of bank capital and unsecured debt instruments (v2.0), the methodology for the rating of Institutional Protection Scheme Banks (v1.0) as well as the rating methodology for Environmental, Social and Governance Score for Banks (v1.0) in conjunction with Creditreform's basic document Rating Criteria and Definitions (v1.3).

The complete presentation of the rating methodologies used by Creditreform Rating AG and the basic document Rating Criteria and Definitions (v1.3) are published on our homepage:

https://www.creditreform-rating.de/en/about-us/regulatory-requirements.html

On 24 November 2021, the rating was presented by the analysts to the rating committee and adopted in a resolution.

The rating result was communicated to BPCE SA (Group), and the preliminary rating report was made available to the bank. There was no change in the rating score.

The rating is valid until withdrawal and is subject to monitoring from the rating date (see cover page). The rating will be comprehensively reviewed at least once every year. Within this period, the rating can be updated.

In 2011 Creditreform Rating AG was registered within the European Union according to EU Regulation 1060/2009 (CRA-Regulation). Based on the registration Creditreform Rating AG (CRA) is allowed to issue credit ratings within the EU and is bound to comply with the provisions of the CRA-Regulation.

Rating Endorsement Status: The rating of BPCE SA (Group) was not endorsed by Creditreform Rating AG from a third country as defined in Article 4 (3) of the CRA-Regulation.

Conflict of Interests

No conflicts of interest were identified during the rating process that might influence the analyses and judgements of the rating analysts involved or any other natural person whose services are placed at the disposal or under the control of Creditreform Rating AG and who are directly involved in credit rating activities or approving credit ratings and rating outlooks.

In case of providing ancillary services to the rated entity, CRA will disclose all ancillary services in the credit rating report.

Rules on the Presentation of Credit Ratings and Rating Outlooks

The approval of credit ratings and rating outlooks follows our internal policies and procedures. In line with our policy "Rating Committee," all credit ratings and rating outlooks are approved by a rating committee based on the principle of unanimity.

To prepare this credit rating, CRA has used following substantially material sources:

1. Aggregated data base by eValueRate

2. Annual Report and interim reports

3. Investors relations information and other publications

4. Website of the rated bank

5. Public and internal market analyses

6. Internet research

There are no other attributes and limitations of the credit rating or rating outlook other than displayed on the CRA website. Furthermore CRA considers satisfactory the quality and extent of information available on the rated entity. In regard to the rated entity Creditreform Rating AG regarded available historical data as sufficient.

Between the disclosure of the credit rating to the rated entity and the public disclosure no amendments were made to the credit rating.

The "Basic data" information card indicates the principal methodology or version of methodology that was used in determining the rating, with a reference to its comprehensive description.

In case where the credit rating is based on more than one methodology or where reference only to the principal methodology might cause investors to overlook other important aspects of the credit rating, including any significant adjustments and deviations, Creditreform Rating AG explains this fact in the credit rating and indicates how the different methodologies or these other aspects are taken into account in the credit rating. This information is integrated in the credit rating report.

The meaning of each rating category, the definition of default or recovery and any appropriate risk warning, including a sensitivity analysis of the relevant key rating assumptions, such as mathematical or correlation assumptions, accompanied by worst-case scenario credit ratings as well as best-case scenario credit ratings are explained in mentioned methodologies and / or in the credit rating report.

The date at which the credit rating was released for distribution for the first time and when it was last updated including any rating outlooks is indicated clearly and prominently in the "Basic data" card as a "Rating action"; first release is indicated as "initial rating", other updates are indicated as an "update", "upgrade or downgrade", "not rated", "confirmed", "selective default" or "default".

In the case of a rating outlook, the time horizon is provided during which a change in the credit rating is expected. This information is available within „Basic data" information card.

In accordance to Article 11 (2) EU-Regulation (EC) No 1060/2009 registered or certified credit rating agency shall make available in a central repository established by ESMA information on its historical performance data, including the ratings transition frequency, and information about credit ratings issued in the past and on their changes. Requested data are available at the ESMA website: https://cerep.esma.europa.eu/cerep-web/statistics/defaults.xhtml.

An explanatory statement of the meaning of Creditreform's default rates are available in the credit rating methodologies disclosed on the website.

Disclaimer

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