Crédit Foncier de France Issuer Rating Report

STABLE A+

Scope's credit view (summary)

The issuer ratings of Crédit Foncier de France (CFF) and its wholly owned subsidiary, Compagnie de Financement Foncier (CoFF), reflect the credit quality of CFF's parent, BPCE S.A. (BPCE), the central body of Groupe BPCE. CFF and CoFF have the status of affiliates within Groupe BPCE and therefore benefit from the intra-group solidarity mechanism under French law.

The A+ issuer rating on both CFF and CoFF reflect the following credit considerations:

- CFF and CoFF benefit from the strong internal solidarity system within Groupe BPCE. Any change in the credit quality of BPCE, the central body of Groupe BPCE, entails a similar rating impact for CFF and CoFF. In our opinion, the strength of intra-group support is ultimately sensitive to the group's ability to improve its structural efficiency.
- CoFF operates as a refinancing tool for the group. Covered bond issuance is of high strategic importance for the group's funding strategy. Some of Crédit Foncier's ancillary activities were redeployed across Groupe BPCE following the 2018 strategic review. The strategic role has not been impacted and we do not expect other changes to the business perimeter. .
- Risk management is fully aligned with Groupe BPCE's framework, allowing creditors of CFF and CoFF to benefit from the group's strong risk control culture.

Outlook

The Outlook is Stable, reflecting our view that CFF will retain its strategic importance for the group's funding strategy and its access to the intra-group solidarity mechanisms.

Credit strengths	Credit weaknesses
• Affiliate status within Groupe BPCE • Strategic importance stemming from the issuance of covered bonds, an attractive refinancing source for the group	• Groupe BPCE's credit challenges driving the ratings of CFF and CoFF • Reducing balance sheet as a result of strategic refocus

Positive rating-change drivers	Negative rating-change drivers
• Upgrade of BPCE issuer rating	• Weakening of CFF's and CoFF's strategic importance • Downgrade of BPCE issuer rating

Ratings & Outlook

Crédit Foncier de France

Issuer rating	A+
Outlook	Stable

Compagnie de Financement Foncier

Issuer rating	A+
Outlook	Stable
Covered bonds ratings	AAA
Covered bonds outlook	Stable

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[1] Scope maintains a subscription rating for BPCE via its credit intelligence platform ScopeOne. Investors can sign up for this service by contacting the ScopeOne Service Centre by emailing servicecentre@scopegroup.com.

Issuer profile

CFF is a wholly owned subsidiary of BPCE, the central institution of Groupe BPCE, a leading French cooperative banking group. BPCE was established in 2009 following the merger of two large French banking groups, Banques Populaires (BP) and Caisses d'Epargne (CE), each with co-operative shareholders. BP and CE have retained some autonomy, including their own retail networks. BP and CE co-own BPCE, which in turn controls the specialised subsidiaries of Groupe BPCE.

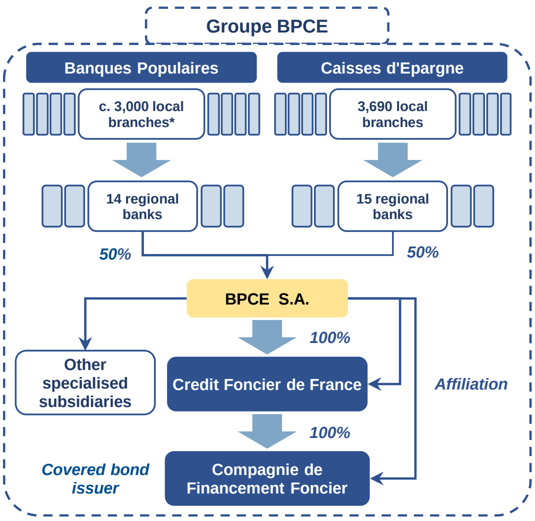
CFF is organised as a 'société anonyme' (public limited company) and is therefore subject to French commercial law. It is also subject to the French Monetary and Financial Code (Code monetaire et financier) as a credit institution and registered as as a specialist financial institution. CFF's roots date back to 1852. It was taken over by CE in 1999. Within Groupe BPCE, CFF has been operating as a leading specialist in property financing, real estate services and public entity financing. Following a strategic review in 2018, CFF no longer originates loans but continues to manage its portfolio and, more importantly, refinance the group through covered bonds issued by its subsidiary, CoFF.

CoFF is wholly owned by CFF and licensed as a specialist credit institution and 'société de credit foncier'. CoFF was set up in 1999, the result of a new legal framework (French Savings and Financial Security Act) established upon CE's acquisition of CFF put in place for covered bond issuance.

The purpose of a société de crédit foncier is defined in Article L. 513-2 of the French Monetary and Financial Code, which is to grant or acquire guaranteed loans (loans backed by first-ranked mortgages or real property collateral conferring at least an equivalent guarantee, or exposures to public sector entities) and finance these loans through the issuance of 'obligations foncières' (covered bonds). CoFF's role is to fund public sector lending on behalf of Groupe BPCE and continue refinancing the existing mortgage assets in its cover pool. CoFF is one of the largest covered bond issuers in the world.

We view CFF as a fully integrated subsidiary of Groupe BPCE. The issuer rating is therefore aligned with the rating of BPCE S.A..

Figure 1:



*Scope estimate. Source: company, Scope Ratings

Strong intra-group solidarity mechanism drives the ratings

CFF and CoFF both benefit from a strong internal solidarity system within Groupe BPCE. This is primarily through the direct support from the group's central body, BPCE, which uses its own capital resources in its duty as a shareholder. The entities are further backed by guarantee funds within Group BPCE as well as the ability to tap the resources of its member banks. Therefore, any material change in the credit quality of BPCE would have a direct impact on the ratings of CFF and CoFF.

All credit institutions affiliated with Groupe BPCE, including CFF and CoFF, are covered by the group's guarantee and solidarity mechanism, set up pursuant to Article L. 512-107-6 of the French Monetary and Financial Code. BPCE, as the group's central institution, is tasked with ensuring the liquidity and capital adequacy of Groupe BPCE and the BP and CE networks. This includes defining the principles covering intragroup cash flows and investments, as necessary for managing liquidity. It also covers internal financing mechanisms ensuring the group's solvency, including the establishment and administration of a mutual guarantee fund shared by the BP and CE networks. BPCE also manages the BP Network Fund and the CE Network Fund. Deposits made to BPCE for the three funds must amount to 0.15%-0.3% of the group's risk-weighted assets.

Although CFF's role has been changing following the strategic review in 2018, the solidarity mechanism remains unchanged. CFF and CoFF continue to carry the legal status of group affiliates, which supports the continued equalisation of their issuer ratings with the credit quality of BPCE. If CFF or CoFF were to encounter financial difficulty, these funds can be called upon in the following order until sufficient:

1. BPCE's own capital (in accordance with its duty as a shareholder)
2. The mutual guarantee fund created and controlled by BPCE
3. The guarantee funds of the BP and CE networks, called upon in equal proportions
4. Additional sums requested from all member banks in the BP and CE networks

We note that the aforementioned guarantee funds consist of a Groupe BPCE internal guarantee mechanism that can be activated by BPCE's executive board or the French banking regulator.

The group's aggregated Tier 1 capital may be used to cover any financial failing of any affiliate. As of 30 June 2021, the CET 1 capital of Groupe BPCE stood at EUR 68.4bn.

As affiliates, CFF and CoFF do not contribute to Groupe BPCE's guarantee mechanism and will not be called upon in the event of a regional bank's default.

Group BPCE has a track record in supporting group members

Groupe BPCE has a strong history of supporting group entities, such as Natixis, the wholesale banking arm of the group. We also note that CFF benefited from a EUR 1.5bn capital increase in late 2011. CFF's securitisation portfolio was transferred to BPCE in September 2014, and BPCE's risk management division performed the monitoring of this. A disposal plan was also established and coordinated by the group's finance division. In 2015, Groupe BPCE also implemented measures to ensure the capital adequacy of its networks and subsidiaries. For example, BPCE can grant redeemable subordinated loans or subscribe to perpetual, deeply subordinated notes.

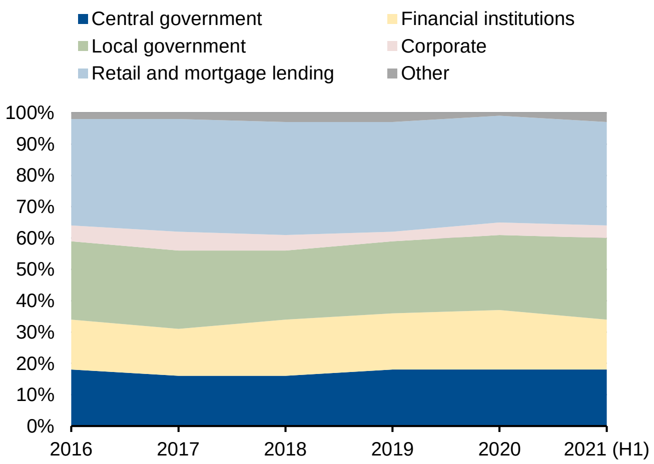
CFF remains strategically important despite narrower group role

CFF's strategic importance stems from its clearly defined purpose within Groupe BPCE, which is to manage its existing loan portfolio in run-off and, more importantly, refinance other group entities through covered bonds issued by its subsidiary, CoFF. CFF's balance sheet continues to gradually reduce as existing loans roll off. In our view, this does not jeopardise its strategic importance because CoFF is an active issuer in France's deep market for covered bonds. The outstanding amount of covered bonds, while reducing, remains material. Moreover, we understand that CFF is actively looking for business development opportunities within the group in its core area of expertise.

The change in CFF's role since early 2019 was undertaken to improve group efficiencies. Most of the operational aspects took effect in H1 2019. New loan production ceased in February 2019 and was redeployed in other group entities, along with other activities such as property financing and real estate services. Many CFF staff accepted roles elsewhere in the group or took voluntary redundancies. Meanwhile, Groupe BPCE decided to retain the CFF brand and legal entity.

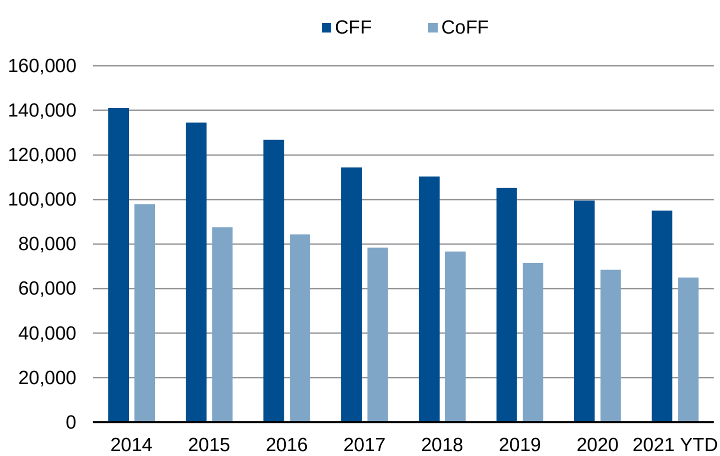
Given the long-term nature of many of its existing loans and the overall size of its portfolio, CFF's balance sheet is reducing only gradually. We note that the composition of CFF's exposure at default remains balanced over the years (figure 2). In the meantime, CFF's and CoFF's balance sheet sizes are gradually converging, as expected (figure 3).

Figure 2: Development of CFF's exposure at default



Source: company, Scope Ratings

Figure 3: CFF's and CoFF's total assets, 2014-21



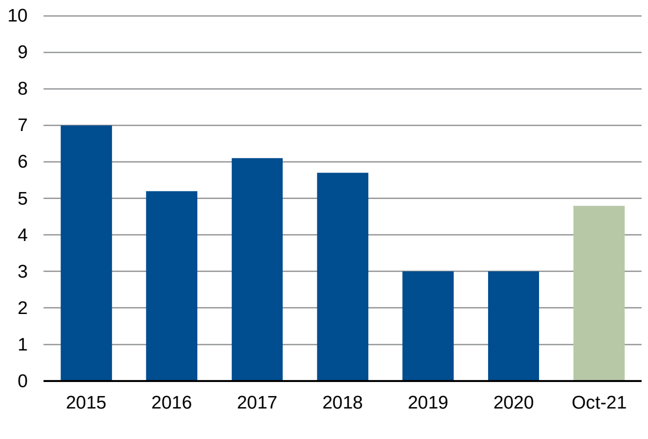
Source: company, Scope Ratings

Since early 2019, CoFF's role has refocused on refinancing public sector and similar assets generated by Groupe BPCE. Previously CoFF was refinancing residential mortgages and public sector loans granted by CFF and Groupe BPCE's other networks.

CoFF selects loans over two stages: i) the other party (no longer CFF, but other members of Groupe BPCE) originates the loans; and ii) CoFF applies risk filters to screen the loans added to its balance sheet. CoFF has achieved deep and diversified market access for its covered bond offerings, which we expect to continue. CoFF kept issuing during 2020 and we have observed some more business momentum since early 2021 (figure 4).

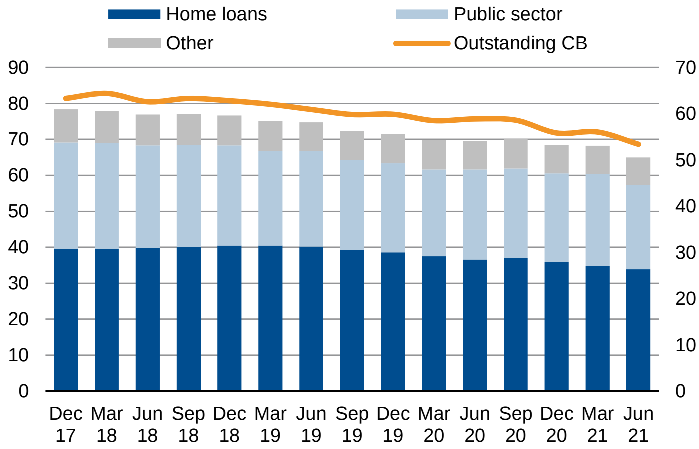
CFF has undertaken commercial initiatives to increase contacts with a larger panel of group entities, including regional banks, to provide them access to the covered bond market. This is positive for CFF as it strengthens its relevance for the group.

Figure 4: CoFF covered bond issuance (EUR bn)



Source: company, Scope Ratings

Figure 5: Quarterly development of CoFF balance sheet composition (%)

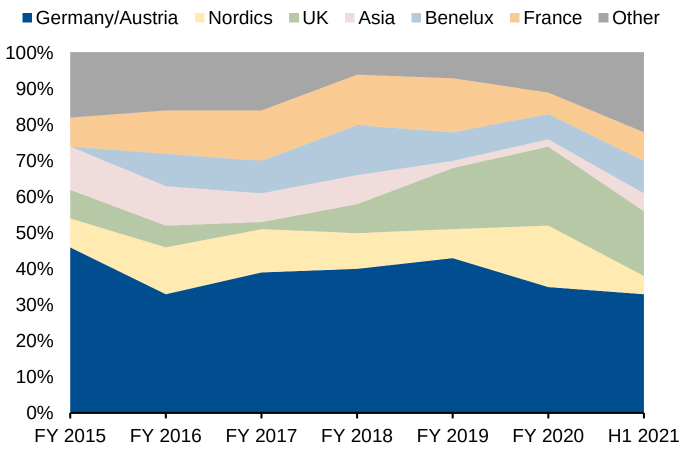


Source: company, Scope Ratings

As one of the world's largest covered bond issuers, CoFF has developed a deep and diverse investor base for its covered bonds, both by geography and by investor type (figures 6 and 7). We expect this to continue.

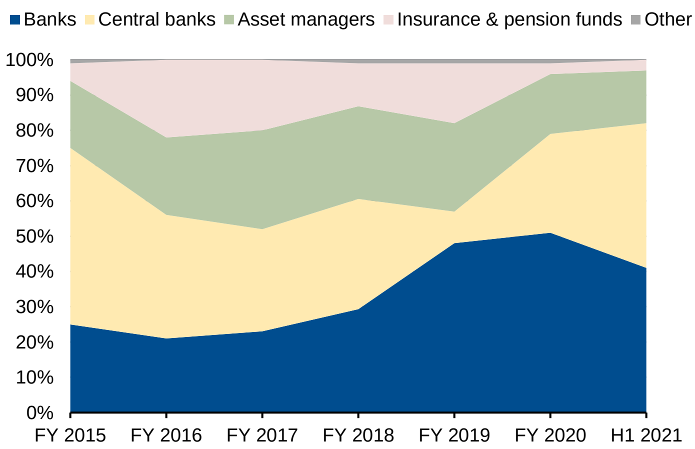
Cover pools for CoFF's issuances have mixed collateral types that have broad investor appeal (public sector and mortgages). In the future, CoFF may refinance some retail mortgages from other group entities, given the depth of its investor base and the margins it can achieve.

Figure 6: Covered bond issuance by geography (%)



Source: company, Scope Ratings

Figure 7: Covered bond issuances by investor type (%)



Source: company, Scope Ratings

Risk management strongly aligned with Groupe BPCE framework

Bondholders benefit from the group's strong risk control culture and oversight as well as the expertise developed by CFF in property financing.

While CFF's executive management implements internal controls, BPCE is responsible, as stipulated by the French Monetary and Financial Code, for defining the internal control system of Groupe BPCE and its networks, controlling the financial position of affiliated institutions, and defining group risk management policies, procedures and limits. Thus, CFF's control systems incorporate BPCE's standards and have become more integrated with them since 2012. Internal audits are periodically performed by members of BPCE's General Inspection department.

CFF has its own risk department and a board-level risk management committee. The risk control systems were developed by CFF over a long period.

CFF's board is presided over by the management board chair and the CEO of Groupe BPCE. Its exposures are regularly reviewed in risk management committees at group level. CFF's risk and compliance functions are responsible for CoFF's internal controls and compliance.

I. Appendix: Selected financial information – Crédit Foncier de France

	2016Y	2017Y	2018Y	2019Y	2020Y
Balance sheet summary (EUR m)					
Assets					
Cash and interbank assets	14,551	12,106	15,558	15,096	14,933
Total securities	17,043	13,093	19,176	20,386	20,163
of which, derivatives	14,504	10,718	8,888	10,492	11,359
Net loans to customers	86,406	81,157	71,316	67,748	63,012
Other assets	8,731	7,963	4,307	1,953	1,433
Total assets	**126,731**	**114,319**	**110,357**	**105,183**	**99,541**
Liabilities					
Interbank liabilities	30,028	28,002	28,231	25,040	23,741
Senior debt	76,169	69,295	68,002	66,096	62,553
Derivatives	11,421	8,616	8,045	8,947	8,749
Deposits from customers	528	587	320	415	246
Subordinated debt	291	291	10	10	10
Other liabilities	4,681	3,772	2,241	1,212	757
Total liabilities	**123,118**	**110,563**	**106,849**	**101,720**	**96,056**
Ordinary equity	2,991	3,132	2,916	2,948	2,970
Equity hybrids	526	527	527	515	515
Minority interests	96	97	65	0	0
Total liabilities and equity	**126,731**	**114,319**	**110,357**	**105,183**	**99,541**
Core tier 1/ common equity tier 1 capital	*2,911*	*3,181*	*2,970*	*2,944*	*2,949*
Income statement summary (EUR m)					
Net interest income	472	322	374	334	165
Net fee & commission income	232	225	196	184	165
Net trading income	16	-111	-129	-234	-37
Other income	84	122	121	169	26
Operating income	**804**	**558**	**562**	**453**	**319**
Operating expenses	511	473	545	397	231
Pre-provision income	**293**	**85**	**17**	**56**	**88**
Credit and other financial impairments	120	81	60	19	27
Other impairments	0	0	13	0	0
Non-recurring items	0	0	234	-21	0
Pre-tax profit	**173**	**-19**	**-292**	**58**	**61**
Income from discontinued operations	0	0	0	0	0
Income tax expense	115	-54	-100	16	29
Net profit attributable to minority interests	1	2	2	0	0
Net profit attributable to parent	**57**	**33**	**-194**	**42**	**32**

Source: SNL, Scope Ratings

II. Appendix: Selected financial information – Crédit Foncier de France

	2016Y	2017Y	2018Y	2019Y	2020Y
Funding and liquidity					
Liquidity coverage ratio (%)	NA	NA	NA	130%	137%
Asset mix, quality and growth					
Net loans/ assets (%)	68.2%	71.0%	64.6%	64.4%	63.3%
Problem loans/ gross customer loans (%)	3.9%	4.3%	4.6%	4.4%	4.3%
Loan loss reserves/ problem loans (%)	29.6%	31.6%	26.3%	25.4%	27.2%
Net loan growth (%)	-5.1%	-6.1%	-2.9%	-5.0%	-7.0%
Problem loans/ tangible equity & reserves (%)	73.9%	68.6%	74.5%	71.4%	64.6%
Asset growth (%)	-5.8%	-9.8%	-3.5%	-4.7%	-5.4%
Earnings and profitability					
Net interest margin (%)	0.4%	0.3%	0.3%	0.3%	0.2%
Net interest income/ average RWAs (%)	1.5%	1.0%	1.2%	1.2%	0.7%
Net interest income/ operating income (%)	58.7%	57.7%	66.5%	73.7%	51.7%
Net fees & commissions/ operating income (%)	28.9%	40.3%	34.9%	40.6%	51.7%
Cost/ income ratio (%)	63.6%	84.8%	96.9%	87.6%	72.4%
Operating expenses/ average RWAs (%)	1.6%	1.5%	1.8%	1.4%	1.0%
Pre-impairment operating profit/ average RWAs (%)	0.9%	0.3%	0.1%	0.2%	0.4%
Impairment on financial assets / pre-impairment income (%)	41.0%	95.3%	346.8%	33.9%	30.7%
Loan loss provision/ average gross loans (%)	0.1%	0.1%	0.1%	0.0%	0.0%
Pre-tax profit/ average RWAs (%)	0.5%	-0.1%	-1.0%	0.2%	0.3%
Return on average assets (%)	0.0%	0.0%	-0.2%	0.0%	0.0%
Return on average RWAs (%)	0.2%	0.1%	-0.6%	0.2%	0.1%
Return on average equity (%)	1.6%	0.9%	-5.3%	1.2%	0.9%
Capital and risk protection					
Common equity tier 1 ratio (%, fully loaded)	NA	NA	9.8%	11.6%	13.1%
Common equity tier 1 ratio (%, transitional)	9.2%	10.3%	9.8%	11.6%	13.1%
Tier 1 capital ratio (%, transitional)	11.4%	12.6%	11.7%	13.8%	15.6%
Total capital ratio (%, transitional)	11.4%	12.6%	11.7%	13.8%	15.6%
Leverage ratio (%)	3.4%	3.9%	3.7%	3.6%	3.8%
Asset risk intensity (RWAs/ total assets, %)	25.1%	27.0%	27.4%	24.1%	22.6%

Source: SNL, Scope Ratings

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