Compagnie de Financement Foncier
French Covered Bonds – Performance Update

The AAA rating with a Stable Outlook on the French covered bonds (obligations foncières) issued by Compagnie de Financement Foncier S.A. (CoFF) are based on the bank's issuer rating of A+ enhanced by governance support of up to six notches.

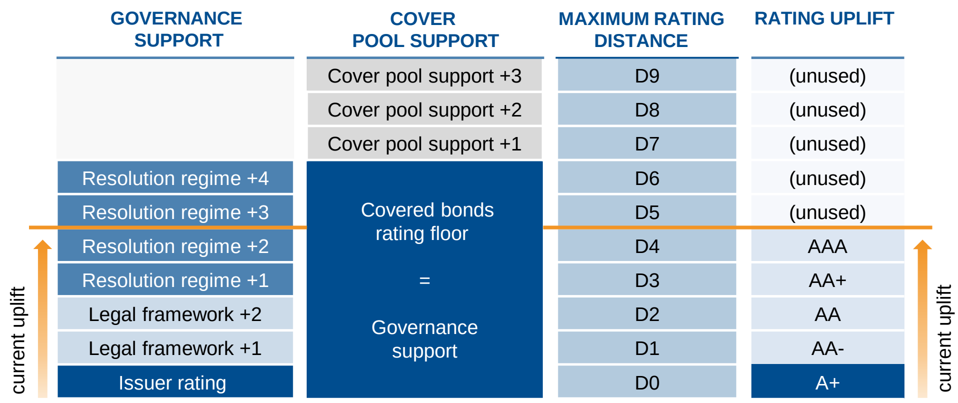
Cut-off date	Cover pool	Cover asset type	Covered bonds	Rating/Outlook
30 Sep 2022	EUR 59.4bn	Mixed	EUR 51.7bn	AAA/Stable

CoFF, wholly owned by Crédit Foncier (CFF) is an integral member of Groupe BPCE, a leading banking group in France. Both CoFF and CFF are rated A+/Stable by Scope. CoFF is the main covered bond issuer of Groupe BPCE and provides secured funding for the group's financing activities. Our issuer rating on CoFF reflects its role as a strategic subsidiary within the group and its inclusion in the group's internal guarantee and solidarity system.

Governance support is the primary rating driver. It provides six notches of uplift above the issuer rating. Only four notches are needed to raise the covered bond rating to the highest achievable level.

We have assigned the interplay between complexity and transparency a cover pool complexity (CPC) category of 'low', allowing for a maximum uplift from cover pool support of three notches on top of the governance uplift. This means, together with unused governance support of two notches, the programme benefits from a five-notch buffer against an issuer downgrade.

Covered bond rating building blocks



Stable Outlook

The Stable Outlook on the covered bonds reflects the rating buffer provided by our governance and cover pool support analyses, which shields the covered bond rating from a multi-notch issuer rating deterioration.

Changes since last performance update

In line with strategic changes within Groupe BPCE, CoFF's mixed cover pool has a stronger focus on domestic sub-sovereign and lower-tier public sector exposures. The mortgage pool is also still de-risking, reflecting the progression in loan amortisation and seasoning. The cover pool's size and the covered bonds' outstanding amount are expected to further decrease without materially changing the programme's risk profile, thanks to the issuer's strategy to mitigate market risk.

Ratings & Outlook

Issuer rating	**A+**
Outlook	Stable
Last rating action	No Action
Last rating action date	16 Sept 22
Covered bond rating	**AAA**
Outlook	Stable
Rating action	Affirmation
Last rating action date	2 Nov 22

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Related Research

Scope affirms Compagnie de Financement Foncier's French covered bonds at AAA/Stable
November 2022

Scope has completed a monitoring review on Crédit Foncier de France and its subsidiary CoFF
September 2022

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Bloomberg: RESP SCOP

The issuer

Dedicated covered bond issuer within Groupe BPCE

CoFF, wholly owned by CFF, is an integral member of Groupe BPCE and the group's largest covered bond issuer. Both CFF and CoFF benefit from the strong internal solidarity system within Groupe BPCE. Any change in the credit quality of BPCE SA, the central body of Groupe BPCE, will entail a similar rating impact for CFF and CoFF. In our opinion, the strength of intragroup support is ultimately sensitive to the group's ability to improve its structural efficiency.

BPCE has a leading position in France

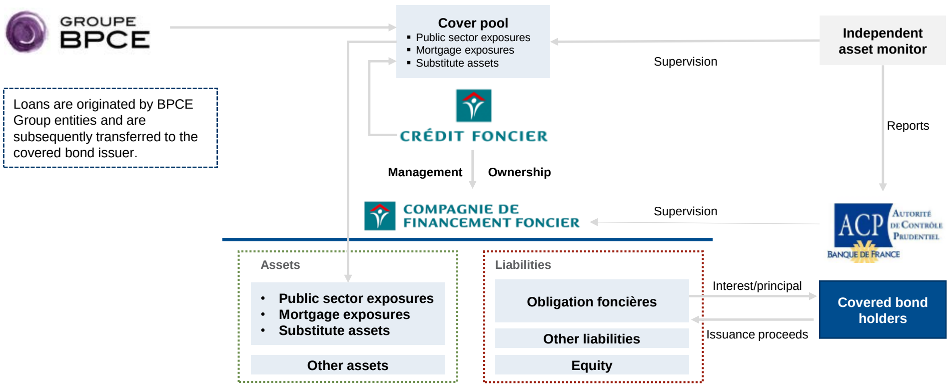
Our credit view reflects the stable and generally predictable financial fundamentals of Groupe BPCE, as well as its low-risk business model, anchored in domestic retail banking and financial services. Groupe BPCE holds a leading position in the French banking and financial services market.

Further details on our credit assessment of CoFF are available at www.scoperatings.com.

Programme structure

CoFF issues obligations foncières as a société de crédit foncier (SCF). The French covered bond framework permits issuers to operate as specialist banks. Most of CoFF's operations are provided by its parent, CFF, and these activities are governed by service-level agreements. The issuer needs to independently maintain compliance with regulatory requirements and is independently supervised.

Issuance structure



Source: Scope Ratings

Governance support analysis

Governance support factors enhance the covered bond rating by six notches above CoFF's issuer rating. Only four of these notches are needed to maintain the AAA rating. Our view is based on: i) France's strong legal covered bond framework; and ii) the beneficial resolution regime and the systemic importance of CoFF's covered bonds.

Two notches of uplift based on the legal framework analysis…

The current French covered bond framework meets all the relevant criteria in our rating methodology, allowing up to two notches of rating differentiation. Only minor changes were needed to implement European covered bond harmonisation as the French framework had already met or even exceeded European standards. The harmonised framework came into effect on 8 July 2022.

… plus four notches of uplift reflecting the resolution regime

CoFF's covered bonds benefit from credit differentiation of four notches above the issuer rating. This is because the following aspects help to avoid negative credit implications for the covered bonds should the issuer fall into distress: the credit-positive resolution regime for obligations foncières, the issuer's resolvability, the systemic importance in France of obligations foncières, CoFF's high visibility as one of the largest covered bond issuers worldwide, and France's active community of covered bond stakeholders. For more information, see our related research.

Cover pool characteristics

Reporting date	Jun 2021	Sep 2022
Balance (EUR bn)	63.8	59.4
Residential (%)	52.3	46.1
Commercial (%)	1.0	1.0
Public sector (%)	36.6	43.2
Substitute (%)*	10.1	9.7

*as classified by the issuer

Mortgage pool characteristics

Reporting date	Jun 2021	Sep 2022
No. of exposures	415,126	351,780
Avg. size (EUR '000)	80.5	79.1
Top 10	0.4%	0.6%
WA (indexed) LTV	71.7%	65.4%

Collateral type (%)

Reporting date	Jun 2021	Sep 2022
Owner-occupied	70.6	70.1
of which, subsidised	52.8	53.3
Buy-to-let	26.0	26.2
Other	3.3	3.7

Repayment type (%)

Reporting date	Jun 2021	Sep 2022
Amortising	98.0	97.8
Bullet	2.0	2.2

Interest type (%)

Reporting date	Jun 2021	Sep 2022
Fixed	92.8	93.5
Floating	7.2	6.5

Cover pool analysis

The programme's governance credit support of up to six notches already provides for the highest possible rating. It is the key rating driver and, as such, cover pool support is not needed. We determine whether cover pool support could further stabilise the ratings, in part by examining the interplay between complexity and transparency. This analysis translates into a CPC category of 'low', which allows for a maximum three-notch cover pool-related uplift on top of the governance-related uplift.

Our cover pool analysis stabilises the rating at AAA, even if the bank were downgraded to BBB- as long as the current overcollateralisation is maintained.

Cover pool composition

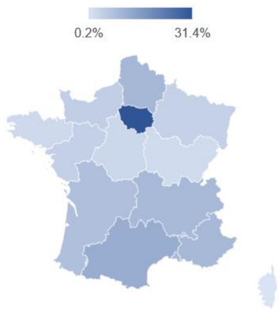
CoFF's covered bond programme is secured by a mixed cover pool comprising public-sector loans (43.2%), mortgage exposures (47.1%; of which 46.1% are residential and 1.0% commercial) and substitute assets (9.7%). This composition has remained broadly stable within the respective sub-pools.

Mortgage pool: composition and credit risk analysis

The mortgage pool is highly granular with more than 350,000 loans, which are well diversified across France. Owner-occupied properties, including subsidised housing, make up around 70% of the mortgage asset sub-pool, with the remainder mainly comprising buy-to-let mortgages.

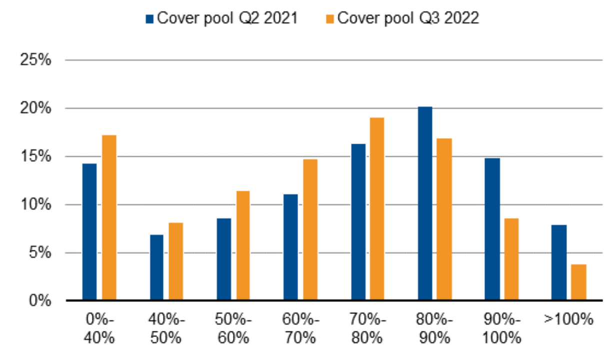
Indexed loan-to-value (LTV) ratios have decreased by around 7 pp. This is due to the de-risking of the mortgage cover pool, reflecting further loan amortisation and the limited inflow of new loans into the cover pool. We expect this trend to continue in the coming years.

Regional distribution



Source: Scope Ratings, CoFF

LTV distribution (indexed)



Source: Scope Ratings, CoFF

The credit quality of the cover pool remains strong. Our mortgage credit risk analysis takes into account default and recovery vintage data provided by the issuer. The analysed data includes the credit performance of annual origination vintages during 2000-18, a timeframe which contains several periods of economic stress.

We assumed an annual average default probability of 15 bp, unchanged since the last review. This reflects the limited inflow into the pool of newly underwritten mortgages, which are typically more risky than highly seasoned mortgages. We further assume a weighted average recovery rate of 70.0% (up from 67.0%) under the most stressful scenario, reflecting the lower LTVs.

Public sector pool characteristics

Reporting date	Jun 2021	Sep 2022
No. of exposures	7,641	7,351
Avg. size (EUR '000)	2,977	3,475
Top 10*	28.3%	29.5%

*per Scope aggregated borrower

Debtor type (%)

Reporting date	Jun 2021	Sep 2022
Sovereigns	18.8	19.5
Regions	33.5	32.4
Municipalities	27.8	29.0
Other	19.9	20.2

Repayment type (%)

Reporting date	Jun 2021	Sep 2022
Amortising	74.7	77.5
Bullet	75.3	22.5

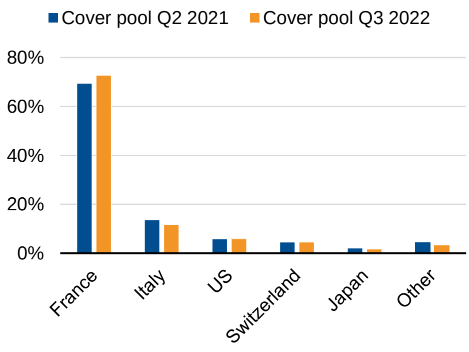
Interest type (%)

Reporting date	Jun 2021	Sep 2022
Fixed	71.5	74.4
Floating	26.8	22.8
Other	1.7	2.8

Public sector pool: composition and credit risk analysis

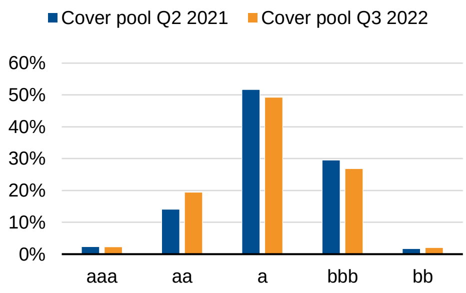
The public sector pool mainly comprises self-originated, domestic sub-sovereign and lower-tier public sector exposures. Following strategic changes at group level, the relative share of the public sector sub-pool and the domestic focus of the pool continue to increase. International exposures, currently about a quarter of the sub-pool, will amortise but not be replenished upon maturity. The weighted average credit quality remained stable, at an equivalent rating of a-.

Geographical distribution



Source: Scope Ratings, CoFF

Credit quality



Source: Scope Ratings, CoFF

For the public sector pool, we derived a default distribution by using name-by-name credit assessments and consolidating the exposures into risk-representing entities, reflecting the obligors final guarantor. We also used a correlation framework to incorporate the impact of geographical and issuer concentrations. The annual average default probability further decreased to 12 bp from 14 bp in our previous analysis, reflecting a lower share of riskier international exposures. At the same time, the coefficient of variation increased to 121% from 117%.

For each exposure, we applied stressed recovery rate assumptions of between 40% and 75% based on obligor type. This led to a weighted average recovery rate of 65.0% under the most stressful scenario.

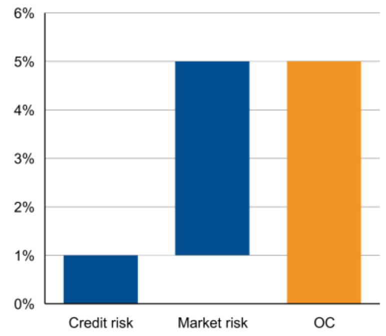
Cash flow risk analysis

The overcollateralisation (OC) that supports the AAA rating at the legal minimum of 5% is based on governance support. Consequently, cover pool support is not a rating driver.

To test rating stability we determined the overcollateralisation needed to support the current rating uplift if the programme had to rely on cover pool support. We performed a full analysis supported by detailed data provided by CFF. We found that cover pool support can maintain the current AAA rating up to a five-notch issuer downgrade.

The issuer has a prudent strategy to mitigate market risk (i.e. interest and foreign exchange risks). Residual interest rate risk is low. Maturity mismatch is also limited, reflecting the issuer's focus on matching cash flows, particularly in the short term, and its provision of immediate liquidity for the first 180 days via highly liquid collateral registered in the cover pool.

Supporting OC breakdown



Source: Scope Ratings

The rating-supporting OC mainly reflects the programme's sensitivity to low prepayments in combination with increasing and non-reverting interest rates. In a scenario in which asset sales are needed to repay interest or principal, we calculated the net present value of remaining cash flows using a discount curve, adding asset-specific liquidity premiums that reflect the composition of the sub-pools. We used liquidity premiums of 300 bp for mortgage assets and 283 bp for public sector assets. Market risk in total accounted for an 4 pp (unchanged) of the supporting OC of 5.0%.

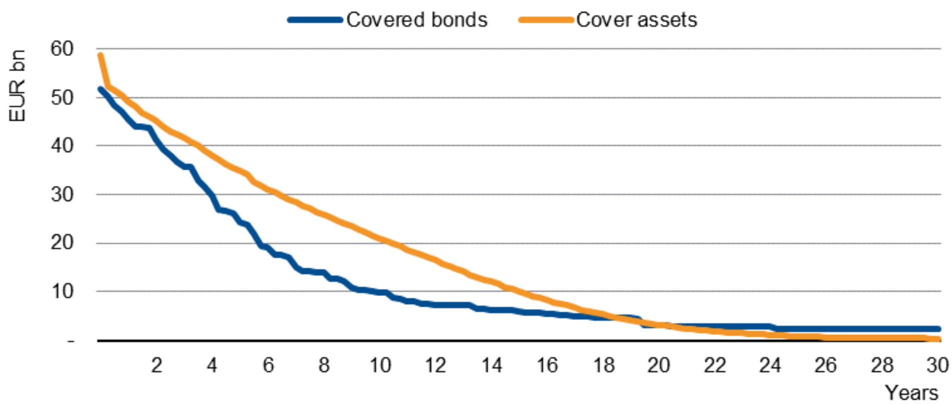
Asset-liability mismatches

	Assets	Liabilities
EUR*	100%	100%
Fixed**	84.1%	93.5%
Floating**	15.9%	6.5%
WAL (years)	8.2	7.1

*post-hedge
**pre-hedge

Credit risk only accounts for 1 pp (unchanged) of the supporting OC. This is low, reflecting the portfolio lifetime mean default rate of 2.2%, a coefficient of variation of 145.8% and a stressed recovery rate of 67.3%.

Amortisation profile



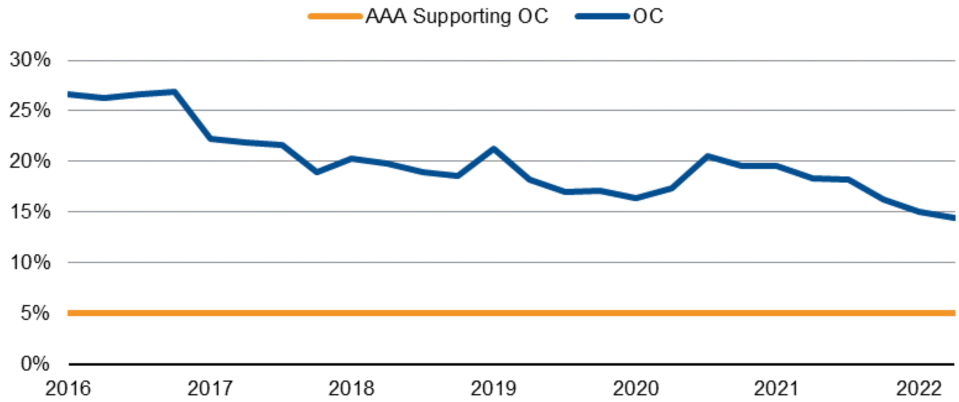
Source: Scope Ratings, CoFF

Availability of overcollateralisation

OC well above legal minimum

CoFF typically provides much higher OC than the French legal minimum, currently at 5%. This demonstrates the issuer's willingness and ability to support the covered bond programme's strong credit quality. We also view positively that the internal OC guidance is not static but a function of the portfolio's composition and risk profile. We are not aware of plans that would significantly change the risk profile or reduce available OC.

Available overcollateralisation vs rating-supporting level



Source: Scope Ratings, CoFF

Other risk considerations

Derivative counterparties generally have high credit quality

CoFF actively uses derivatives to limit or eliminate market risk. We take comfort from the fact that the derivative counterparties generally have high credit quality, benefit from the Bank Recovery and Resolution Directive and are resolvable. Further, most of the derivatives entered into by CoFF have mechanisms to mitigate counterparty risk, i.e. collateralisation upon a counterparty's negative credit migration, including the ability to replace it with counterparties of stronger credit quality. Most of the derivatives are market-standard micro and macro hedges, and the diversity of counterparties should also facilitate their replacement.

Sovereign risk does not affect the ratings

Scope currently rates the French sovereign at AA/Stable. Sovereign risk does not limit the covered bond rating. The risks of an institutional framework meltdown, legal insecurity or currency-convertibility problems are immaterial at present.

Governance factors remain key

Governance considerations, such as the strength of supervision and management, play a major role in our covered bond analysis, reflected in both our governance analysis and our cover pool support analysis. In addition, we measure the issuer's management of the interplay between complexity and the level of transparency provided to investors based on the CPC category. For CoFF, this assessment allows for the maximum cover pool support of three notches on top of the governance-related uplift.

Sensitivity analysis

Two-notch buffer from governance support …

The issuer rating of A+ in combination with the governance support uplift of up to six notches allows the AAA rating to be maintained without the need for credit support from the cover pool, even upon an issuer downgrade of up to two notches.

… plus three notches from cover pool support

The covered bond rating can even withstand an issuer downgrade of five notches, considering the possible three notches of uplift provided by the cover pool. However, such an issuer rating downgrade would require a major adverse shock to the French economic and banking environment. Such a shock would also likely result in changes in the cover pool's asset quality and risk structure and would thus require the constant monitoring of the programme's credit quality.

Reporting date[1]	30 June 2021	30 September 2022
Issuer name	Compagnie de Financement Foncier S.A.	
Country	France	
Covered bond name	Obligations foncières (French covered bonds)	
Covered bond legal framework	French legal covered bond framework	
Cover pool type	Mixed assets	
Composition	Residential = 52.3% Commercial = 1.0% Public sector = 36.6% Substitute assets = 10.1%	Residential = 46.1% Commercial = 1.0% Public sector = 43.2% Substitute assets = 9.7%
Issuer rating	A+/Stable	A+/Stable
Current covered bond rating	AAA/Stable	AAA/Stable
Covered bond maturity type	Hard bullet	Hard bullet
Cover pool currencies	EUR (100% hedged)	EUR (100% hedged)
Covered bond currencies	EUR (100% hedged)	EUR (100% hedged)
Governance support (notches)	6	6
Maximum additional uplift from CPC category (notches)	3	3
Maximum achievable covered bond uplift (notches)	9	9
Potential covered bond rating buffer (notches)	5	5
Cover pool (EUR bn)	63.8	59.4
thereof, substitute assets and deposits (EUR bn)	6.4	5.7
Covered bonds (EUR bn)	53.4	51.7
Overcollateralisation: current / legal minimum	19.6% / 5.0%	14.4% / 5.0%
Overcollateralisation to support current rating	5.0% (legal minimum)	5.0% (legal minimum)
Overcollateralisation upon a one-notch issuer downgrade	5.0% (legal minimum)	5.0% (legal minimum)
Weighted average life of assets	8.4 years	8.2 years
Weighted average life of liabilities	7.0 years	7.1 years
Number of exposures (public sector / mortgages)	7,641 / 415,126	7,351 / 351,780
Average loan size (public sector / mortgages, in EUR '000s)	2,977 / 80.5	3,475 / 79.1
Top-10 exposures (public sector / mortgages)	28.3% / 0.4%	29.5% / 0.6%
Interest rate type – assets (before hedge)	Fixed: 83.9% Floating: 16.1%	Fixed 84.1% Floating 15.9%
Interest rate type – liabilities (before hedge)	Fixed: 93.0% Floating: 7.0%	Fixed 93.5% Floating 6.5%
Weighted average LTV (indexed)	71.7%	65.4%
Geographic split (top 3) **Public sector**	France (69.5%) Italy (13.6%%) US (5.8%%)	France (72.8%) Italy (11.8%) US (5.9%)
Default measure (public sector / mortgages)	Non-parametric / Inv Gaussian	Non-parametric / Inv Gaussian
Mean default rate (public sector / mortgages)	2.3% / 2.2%	2.0% / 2.2%
Coefficient of variation (public sector / mortgages)	117.3% / 150.0%	121.2% / 150.0%
Weighted average recovery assumption (D0/D9) (public sector)	100% / 65.0%	100% / 65.5%
Weighted average recovery assumption (D0/D9) (mortgage)	95.0% / 67.0%	95.0% / 70.0%
Max liquidity premium (public sector / mortgages)	289 bp / 300 bp	283 bp / 300 bp
Servicing fee (public sector / mortgages)	10 bp / 25 bp	10 bp / 25 bp

*D0 and D9 denote the stresses commensurate with the rating distance from the minimum and maximum achievable covered bond uplift

[1] Scope analysed the covered bonds based on detailed performance information provided by the bank. We reconciled this data with publicly available HTT information. Data presented in this report refers to the publicly available information unless noted.

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