

# Crédit Foncier de France S.A. Issuer Rating Report



**A+** STABLE

## Scope's credit view (summary)

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

The A+ issuer ratings on CFF and CieFF reflect the following credit considerations:

- CFF and CieFF benefit from the strong internal solidarity system within Groupe BPCE. It underpins our expectation of full parental group support. Any change in the credit quality of BPCE S.A. entails a similar rating impact for CFF and CieFF.
- The strategic relevance of CFF within Groupe BPCE stems primarily from its refinancing role as active issuer of covered bonds for the benefit of the group's funding diversification. Following a strategic review in 2019, ancillary activities previously performed by CFF were put in run-off. As a result, CFF and CieFF's balance sheets continue to converge.
- Risk management is fully aligned with Groupe BPCE's framework, allowing creditors of CFF and CieFF 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 and therefore benefit from full support from the parent in case of need.

### We would downgrade the rating in case of:

- A weakening of CFF's and CieFF's strategic importance
- A downgrade of BPCE S.A.'s issuer rating

### We would upgrade the rating in case of:

- An upgrade of BPCE S.A.'s 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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Bloomberg: RESP SCOP

### Issuer profile

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

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, refinances the group through covered bonds issued by its subsidiary CieFF.

CieFF's role is to fund public sector lending on behalf of Groupe BPCE and continue refinancing the existing mortgage assets in its cover pool. CieFF is one of the largest covered bond issuers in the world.

CieFF is wholly owned by CFF and licensed as a specialist credit institution and 'société de crédit foncier'. CieFF was set up in 1999 as the result of the new legal framework of the *loi de sécurité financière* established upon CE's acquisition of CFF and 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).

### Recent events:

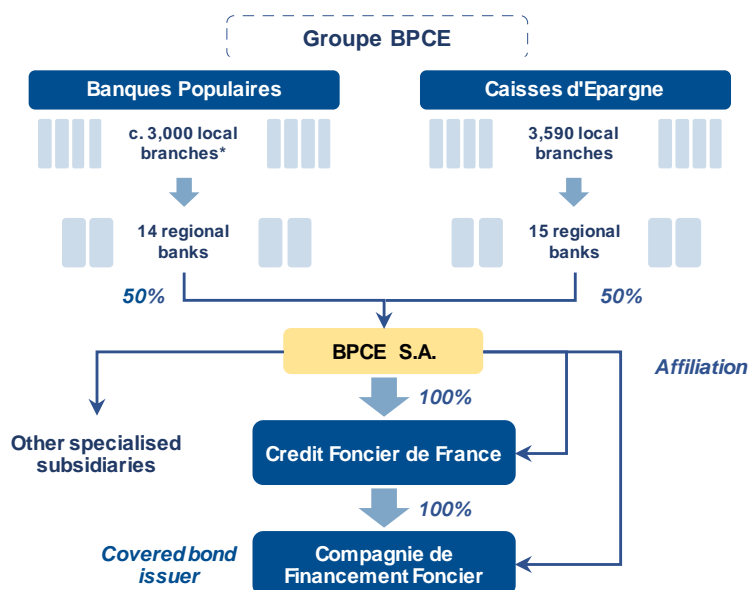
- CFF's issuance of covered bonds amounted to EUR 4.6bn in 2022 and EUR 3.7bn in May 2023, illustrating its relevance for the group.
- CFF's balance sheet reduction continues with total assets reducing to EUR 74bn as of end-2022 (from EUR 110.4bn as of end 2018).
- Following the gradual balance sheet reduction, CFF's implemented a EUR 1bn reduction of CieFF's capital during the first half of 2022. Buffers remain well above regulatory requirements, which is CFF's stated ambition.

### A strong intra-group solidarity mechanism drives the ratings

CFF and CieFF both benefit from a strong internal solidarity system within Groupe BPCE, which underpins our expectation of full support in case of need. This would primarily take the form of direct support from the group's central body, BPCE S.A., which uses its own capital resources in its duty as a shareholder. The entities are further backed by guarantee funds within Groupe BPCE as well as the ability to tap into 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 CieFF.

All credit institutions affiliated with Groupe BPCE, including CFF and CieFF, 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 S.A., as the group's central institution, has to ensure the liquidity and capital adequacy of Groupe BPCE and of the BP and CE networks. This includes defining the principles covering intra-group cash flows and investments, 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 S.A. also manages the BP Network Fund and the CE Network Fund. Deposits made to BPCE S.A. for the three funds must amount to 0.15%-0.3% of the group's risk-weighted assets.

Figure 1: Structure of Groupe BPCE



\*Scope estimate. Source: company, Scope Ratings

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

- i) BPCE S.A.'s own capital (in accordance with its duty as a shareholder)
- ii) The mutual guarantee fund created and controlled by BPCE S.A.
- iii) The guarantee funds of the BP and CE networks, called upon in equal proportions
- iv) Additional sums requested from all member banks in the BP and CE networks

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

The group's aggregated Tier 1 capital may be used to cover financial failings of any affiliate. As of end-2022, CET 1 capital of Groupe BPCE stood at EUR 70.0bn.

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

### Groupe BPCE has a record of supporting group members

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

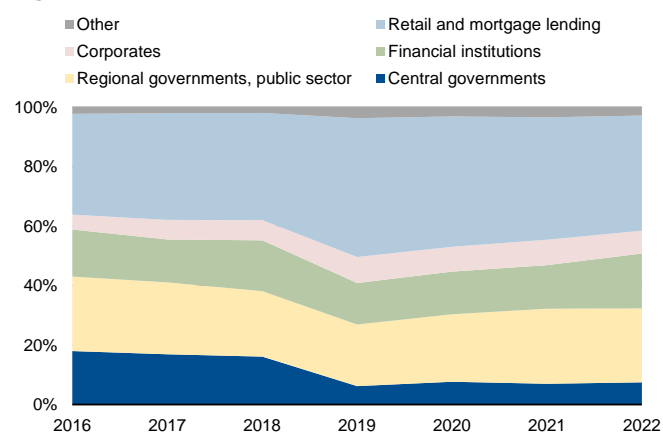
### A relevant source of funding diversification for BPCE S.A.

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, CieFF.

CieFF is an active issuer in France's deep market for covered bonds, with around EUR 4.5bn-5bn of new debt issued in 2021-2022. The outstanding amount of covered bonds, while decreasing, is material. We understand that CFF is actively looking for business development opportunities with other group entities in its core area of expertise, to provide them access to the covered bond market. This is positive for CFF as it strengthens its relevance for the group.

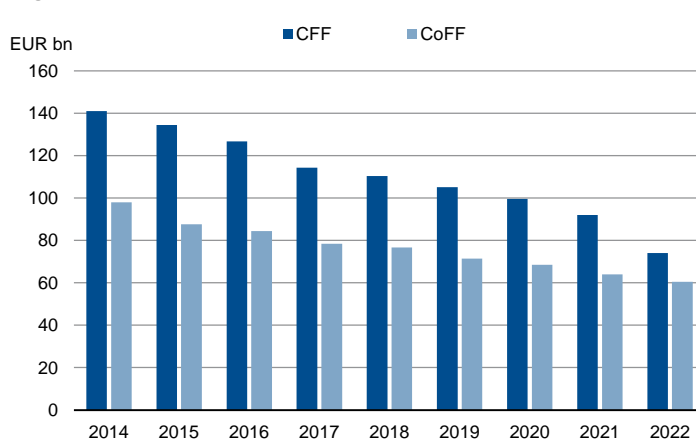
CFF's balance sheet continues to gradually reduce as existing loans roll off, as expected. As a result, CFF and CieFF's balance sheets are converging. The composition of CFF's credit risk exposures remains balanced over the years.

**Figure 2: Development of CFF's credit risk exposures**



Source: company, Scope Ratings

**Figure 3: CFF's and CieFF's total assets, 2014-2022**



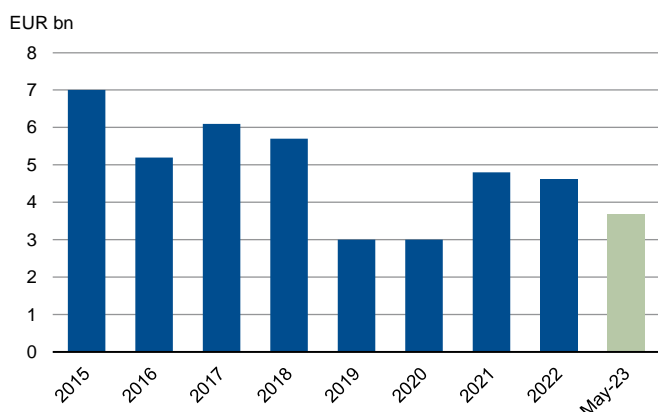
Source: company, Scope Ratings

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 mortgage 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. Meanwhile, Groupe BPCE

decided to retain the CFF brand and legal entity. Since early 2019, CieFF's has focused on refinancing public sector and similar assets generated by Groupe BPCE. Previously, CieFF was refinancing residential mortgages and public sector loans granted by CFF and Groupe BPCE's other networks.

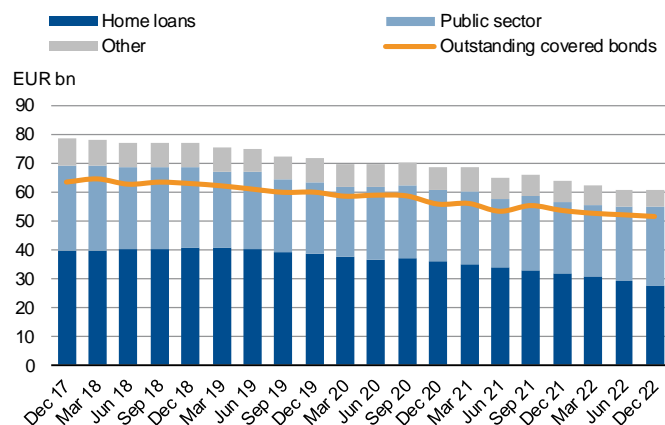
CieFF selects loans over two stages: first, the other party (no longer CFF, but other members of Groupe BPCE) originates the loans and then CieFF applies risk filters to screen the loans added to its balance sheet. CieFF has achieved deep and diversified market access for its covered bond offerings, which we expect to continue.

**Figure 4: CieFF's covered bond issuance**



Source: company, Scope Ratings

**Figure 5: CieFF's balance sheet composition**

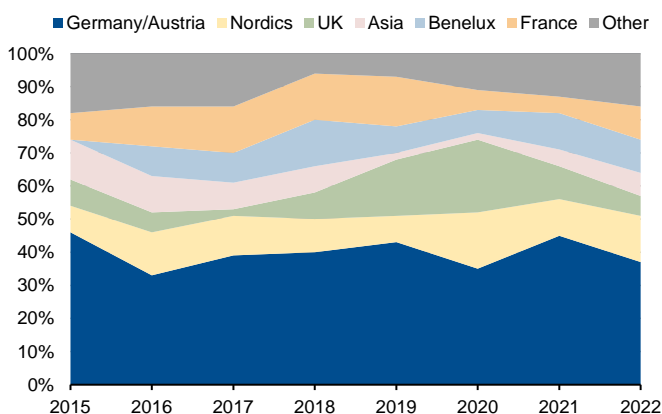


Source: company, Scope Ratings

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

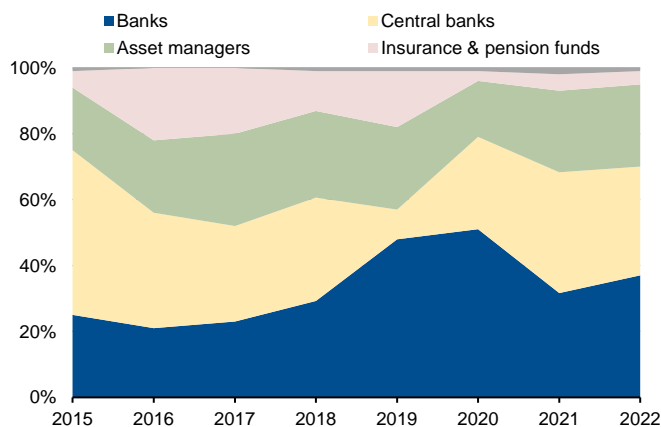
Cover pools for CieFF's issuances have mixed collateral types that have broad investor appeal (public sector and mortgages). CieFF could refinance some retail mortgages from other group entities in the future.

**Figure 6: Covered bond issuances by geography (%)**



Other include Switzerland. Source: company, Scope Ratings

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



Source: company, Scope Ratings

**Risk management strongly aligned with Groupe BPCE S.A.'s framework**

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

While CFF's executive management implements internal controls, BPCE S.A. 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.A.'s standards and have become more integrated since 2012. Members of BPCE S.A.'s general inspection department periodically perform internal audits.

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.

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

**Issuer rating report on BPCE S.A. is available to [ScopeOne](#) subscribers**

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

	2018	2019	2020	2021	2022
<b>Balance sheet summary (EUR m)</b>					
<b>Assets</b>					
Cash and interbank assets	15,558	15,096	14,933	16,922	14,253
Total securities	19,176	20,386	20,163	15,909	6,532
of which, derivatives	8,888	10,492	11,359	7,757	-226
Net loans to customers	71,316	67,748	63,012	57,401	52,209
Other assets	4,307	1,953	1,433	1,690	999
<b>Total assets</b>	<b>110,357</b>	<b>105,183</b>	<b>99,541</b>	<b>91,922</b>	<b>73,993</b>
<b>Liabilities</b>					
Interbank liabilities	28,231	25,040	23,741	23,007	17,329
Senior debt	68,002	66,096	62,553	57,498	48,189
Derivatives	8,045	8,947	8,749	6,864	4,096
Deposits from customers	320	415	246	247	135
Subordinated debt	10	10	10	10	10
Other liabilities	2,241	1,212	757	755	589
<b>Total liabilities</b>	<b>106,849</b>	<b>101,720</b>	<b>96,056</b>	<b>88,381</b>	<b>70,348</b>
Ordinary equity	2,916	2,948	2,970	3,025	3,132
Equity hybrids	527	515	515	516	513
Minority interests	65	0	0	0	0
<b>Total liabilities and equity</b>	<b>110,357</b>	<b>105,183</b>	<b>99,541</b>	<b>91,922</b>	<b>73,993</b>
<i>Core tier 1/ common equity tier 1 capital</i>	2,970	2,944	2,949	2,911	2,838
<b>Income statement summary (EUR m)</b>					
Net interest income	374	334	165	181	88
Net fee & commission income	196	184	165	148	115
Net trading income	-129	-234	-37	15	203
Other income	119	169	26	57	59
<b>Operating income</b>	<b>560</b>	<b>453</b>	<b>319</b>	<b>401</b>	<b>465</b>
Operating expenses	545	397	231	225	175
<b>Pre-provision income</b>	<b>15</b>	<b>56</b>	<b>88</b>	<b>176</b>	<b>290</b>
Credit and other financial impairments	60	19	27	0	-11
Other impairments	13	0	0	0	0
Non-recurring income	0	0	0	0	0
Non-recurring expense	234	-21	0	0	0
<b>Pre-tax profit</b>	<b>-292</b>	<b>58</b>	<b>61</b>	<b>176</b>	<b>301</b>
Income from discontinued operations	0	0	0	0	0
Income tax expense	-100	16	29	57	75
Other after-tax items	0	0	0	0	0
Net profit attributable to minority interests	2	0	0	0	0
<b>Net profit attributable to parent</b>	<b>-194</b>	<b>42</b>	<b>32</b>	<b>119</b>	<b>226</b>

Source: SNL, Scope Ratings

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

	2018	2019	2020	2021	2022
<b>Funding and liquidity</b>					
Liquidity coverage ratio (%)	NA	130%	137%	141%	176%
Net stable funding ratio (%)	NA	NA	NA	104%	103%
<b>Asset mix, quality and growth</b>					
Net loans/ assets (%)	64.6%	64.4%	63.3%	62.4%	70.6%
Problem loans/ gross customer loans (%)	4.5%	4.4%	4.3%	4.4%	3.9%
Loan loss reserves/ problem loans (%)	26.3%	25.4%	27.2%	23.3%	23.5%
Net loan growth (%)	-2.9%	-5.0%	-7.0%	-8.9%	-9.0%
Problem loans/ tangible equity & reserves (%)	74.5%	71.4%	64.6%	61.5%	49.8%
Asset growth (%)	-3.5%	-4.7%	-5.4%	-7.7%	-19.5%
<b>Earnings and profitability</b>					
Net interest margin (%)	0.3%	0.3%	0.2%	0.2%	0.1%
Net interest income/ average RWAs (%)	1.2%	1.2%	0.7%	0.8%	0.5%
Net interest income/ operating income (%)	66.8%	73.7%	51.7%	45.1%	18.9%
Net fees & commissions/ operating income (%)	35.0%	40.6%	51.7%	36.9%	24.7%
Cost/ income ratio (%)	97.3%	87.6%	72.4%	56.1%	37.6%
Operating expenses/ average RWAs (%)	1.8%	1.4%	1.0%	1.1%	1.0%
Pre-impairment operating profit/ average RWAs (%)	0.1%	0.2%	0.4%	0.8%	1.6%
Impairment on financial assets / pre-impairment income (%)	392.2%	33.9%	30.7%	0.0%	-3.8%
Loan loss provision/ average gross loans (%)	NA	0.0%	0.0%	0.0%	0.0%
Pre-tax profit/ average RWAs (%)	-1.0%	0.2%	0.3%	0.8%	1.6%
Return on average assets (%)	-0.2%	0.0%	0.0%	0.1%	0.3%
Return on average RWAs (%)	-0.6%	0.2%	0.1%	0.6%	1.2%
Return on average equity (%)	-5.3%	1.2%	0.9%	3.4%	6.3%
<b>Capital and risk protection</b>					
Common equity tier 1 ratio (% , fully loaded)	9.8%	11.6%	13.1%	14.4%	17.5%
Common equity tier 1 ratio (% , transitional)	9.8%	11.6%	13.1%	14.4%	17.5%
Tier 1 capital ratio (% , transitional)	11.7%	13.8%	15.6%	17.1%	20.9%
Total capital ratio (% , transitional)	11.7%	13.8%	15.6%	17.1%	20.9%
Leverage ratio (%)	3.7%	3.6%	3.8%	4.8%	5.8%
Asset risk intensity (RWAs/ total assets, %)	27.4%	24.1%	22.6%	22.0%	21.9%

Source: SNL, Scope Ratings





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